IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE NON-U.S. PERSONS (AS DEFINED BELOW) LOCATED OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following before continuing. The following applies to the Offering Circular following this page and you are therefore advised to read this page carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any subsequent modifications to them that you receive from the Bank, the Fiduciary or the Placement Agent (each, as defined in the Offering Circular) as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE SUCH AN OFFER IS UNLAWFUL. THE FIDUCIARY NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE FIDUCIARY NOTES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**")) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE ATTACHED OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER AND, IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS RESTRICTION MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE FIDUCIARY NOTES DESCRIBED IN THE ATTACHED PRELIMINARY PROSPECTUS.

Confirmation of your representation: In order to be eligible to view the attached Offering Circular or make an investment decision with respect to the securities being offered, prospective investors must be non-U.S. persons (as defined in Regulation S) located outside the United States. This Offering Circular is being sent to you at your request, and by accessing this Offering Circular you shall be deemed to have represented to the Bank, the Fiduciary and the Placement Agent that (i) you are purchasing the securities being offered in an offshore transaction (within the meaning of Regulation S) and the electronic mail address that you gave us and to which the attached Offering Circular has been delivered is not located in the United States, its territories and possessions, any State of the United States or the District of Columbia and (ii) you consent to delivery of such Offering Circular by electronic transmission.

You are reminded that this Offering Circular has been delivered to you on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located.

The marketing, offering, distribution and sale of the Fiduciary Notes in Lebanon shall comply with all applicable laws and regulations in Lebanon, in particular, Law № 234 dated 10 June 2000 and Central Bank Basic Decision № 7493 dated 24 December 1999, as amended.

The attached Offering Circular may only be distributed to, and is directed only at, qualified investors within the meaning of Article 2.1.j) of the law dated 10 July 2005 on prospectuses for securities (the "**Law on Prospectuses for Securities**") or in any other circumstances, which do not require the publication of a prospectus pursuant to Article 5.2 of the Law on Prospectuses for Securities.

The attached Offering Circular has been sent to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Bank, the Fiduciary or the Placement Agent, any person who controls any of them or any director, officer, employee or agent of them or affiliate of any of them accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version, which will be available to you on request from the Bank or the Placement Agent.

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

Up to U.S.$300,000,000 6.5% Convertible Fiduciary Notes due 2022

issued on a fiduciary basis by The Bank of New York Mellon (Luxembourg) S.A.

(incorporated as a société anonyme under the laws of the Grand Duchy of Luxembourg with its registered office at 2-4, rue Eugène Ruppert, Vertigo Building – Polaris, L-2453 Luxembourg, Grand Duchy of Luxembourg,and registered with the trade and companies register in Luxembourg under number B 67654)

for the sole purpose of financing a Subordinated Loan to Byblos Bank S.A.L.

Issue Price: 100%

Up to U.S.$300,000,000 in aggregate nominal amount (subject to a minimum nominal amount of U.S.$150,000,000) of 6.5% Convertible Fiduciary Notes due 2022 (the "**Fiduciary Notes**") are being issued on a fiduciary basis by The Bank of New York Mellon (Luxembourg) S.A. (the "**Fiduciary**" or the "**Lender**"), incorporated as a *société anonyme* under the laws of the Grand Duchy of Luxembourg ("**Luxembourg**") with its registered office at 2-4, rue Eugène Ruppert, Vertigo Building- Polaris, L-2453 Luxembourg, Grand Duchy of Luxembourg, and registered with the trade and companies register in Luxembourg under number B 67654, in its own name but at the sole risk and for the sole benefit of the holders of the Fiduciary Notes (the "**Holders**"). All references in this offering circular (the "**Offering Circular**") to the Fiduciary Notes being issued by the Fiduciary shall be understood to mean that the Fiduciary Notes are being issued by the Fiduciary on a fiduciary basis. The Fiduciary Notes are being issued for the sole purpose of financing a subordinated loan (the "**Subordinated Loan**") to Byblos Bank S.A.L. (the "**Bank**" or the "**Borrower**"). The Fiduciary Notes together constitute a fiduciary contract (the "**Fiduciary Contract**") governed by the Luxembourg law dated 27 July 2003 relating to trust and fiduciary contracts (the "**Trust and Fiduciary Contracts Law 2003**") between the Holders and the Fiduciary.

In accordance with the Trust and Fiduciary Contracts Law 2003 and the Fiduciary Contract, the Fiduciary will create a separate fiduciary estate (*patrimoine fiduciaire*) with respect to the Fiduciary Notes. Pursuant to the Trust and Fiduciary Contracts Law 2003, the fiduciary assets with respect to the Fiduciary Notes are segregated from all other assets of the Fiduciary (including from all other fiduciary assets it may hold under any other fiduciary contract). The fiduciary assets with respect to the Fiduciary Notes are not available for the satisfaction of the general creditors of the Fiduciary, including in the event of the insolvency of the Fiduciary, but are reserved solely for the benefit of the creditors of the Fiduciary whose rights derive from the Fiduciary Contract, including the Holders. Pursuant to the Fiduciary Contract, the Fiduciary is obliged only to make payment to the Holders when, as, if and to the extent that it receives payment under the Subordinated Loan (subject to certain permitted deductions). The Fiduciary Notes do not constitute direct debt obligations of the Fiduciary. By subscribing for, or acquiring, the Fiduciary Notes, the Holders shall be deemed to have acknowledged and agreed that the Fiduciary's payment obligations under the Fiduciary Notes are conditional upon the due performance by the Bank of its obligations under the Subordinated Loan. The obligations of the Bank in respect of the Subordinated Loan will constitute direct, unsecured and general obligations of the Borrower, subordinated as described herein. See "*Fiduciary Contract and Terms and Conditions of the Fiduciary Notes—1. Fiduciary Contract; Subordination; Limited Recourse*".

It is expected that the Fiduciary Notes will be issued on or around 21 December 2012 (the "**Issue Date**") and will mature and be repaid on the last business day falling on or before the tenth anniversary of the Loan Date (as defined herein) (or such earlier date, if any, on which the Subordinated Loan shall have been fully converted, prepaid or repaid (upon acceleration or otherwise), the "**Maturity Date**") at their nominal amount, together with accrued but unpaid interest, if any, thereon (provided that, in accordance with applicable Central Bank regulations, the Borrower has Sufficient Available Profit for the Relevant Quarter (as defined below) for the purpose) and together with other amounts (if any).

Where any amounts are stated to be payable in respect of the Fiduciary Notes, the obligation of the Fiduciary to pay any such amounts shall constitute an obligation only to account to the Holders, on each date upon which such amounts (if any) are due in respect of the Fiduciary Notes, for an amount equal to all principal, interest and other amounts (if any) actually received or recovered by the Fiduciary pursuant to the Subordinated Loan Agreement (subject to certain permitted deductions). Subject to the above, the Fiduciary Notes will bear interest at the rate of 6.5% per annum, payable quarterly in arrear (i) on the last Business Day of each calendar quarter during the term of the Subordinated Loan, commencing on the last Business Day of the calendar quarter ending on 31 March 2013 and (ii) on the Maturity Date. All payments of nominal amounts, interest and other amounts (if any) in respect of the Fiduciary Notes will be made after deduction or withholding for or on account of applicable taxes by the Fiduciary. The Bank has agreed to pay such Additional Amounts (as defined below) as may be necessary so that payments or recoveries received by the Fiduciary in respect of the Subordinated Loan after withholding or deduction for or on account of Lebanese Taxes (as defined below) equal the respective amounts which would have been otherwise receivable under the Subordinated Loan. The Fiduciary makes no representation, however, as to the collectability of such Additional Amounts.

Each Holder shall have the right to cause the Fiduciary (or its agent) to convert (subject to prior approval by *Banque du Liban*, the Central Bank of Lebanon (the "**Central Bank**")), on any Conversion Date (as defined below), all (but not part) of the nominal amount of the Fiduciary Notes held by such Holder on such Conversion Date (but not amounts representing accrued and unpaid interest, if any, thereon, other than (to the extent provided in the Subordinated Loan Agreement) any unpaid Interest Shortfall (as defined below) relating thereto, and not any other amounts (including any additional amounts) that may be payable in respect thereof), into common shares of the Bank, each with a par value of LBP 1,210 ("**Byblos Bank Shares**"), or global depositary receipts representing Byblos Bank Shares ("**Byblos Bank GDRs**") at an initial conversion price of U.S.$2.50 per Byblos Bank Share (the "**Holder Conversion Right**").

AN INVESTMENT IN THE FIDUCIARY NOTES INVOLVES CERTAIN RISKS. SEE "*RISK FACTORS*" FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE FIDUCIARY NOTES.

The Fiduciary Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), or any state securities law, and may not be offered, sold, transferred or delivered within the United States to, or for the account or benefit of, any U.S. person, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Fiduciary Notes will be offered and sold in offshore transactions outside the United States in reliance on Regulation S under the Securities Act ("**Regulation S**"). See "*Selling Restrictions*".

The Fiduciary Notes will initially be represented by a single global note (the "**Global Note**") in registered form without interest coupons attached, which will be deposited on or around the Issue Date with, and will be registered in the name of a nominee for, a common depositary for Euroclear Bank SA/NV ("**Euroclear**"), and Clearstream Banking, *société anonyme* ("**Clearstream**"; with each of Euroclear and Clearstream being sometimes referred to herein as a "**Clearing System**" and, together, as the "**Clearing Systems**") and their participants, including Midclear S.A.L., Lebanon's central clearing and settlement agency ("**Midclear**"). Fiduciary Notes in definitive registered form without interest coupons attached will be issued only in certain exceptional and limited circumstances. Beneficial interests in the Global Note will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream and their respective participants, including Midclear. The Fiduciary Notes will not be listed on any stock exchange.

The issuance of the Fiduciary Notes is subject to approval by the Extraordinary General Assembly of Shareholders of the Borrower and the Central Bank.

Placement Agent
Byblos Invest Bank S.A.L.

The date of this Offering Circular is 7 December 2012.

IMPORTANT NOTICE

This Offering Circular contains information provided by the Bank in connection with the offering of the Fiduciary Notes. Subject as set forth in the next paragraph, the Bank accepts responsibility for the information contained in this Offering Circular. 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 Offering Circular 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 materially 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 Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Fiduciary accepts responsibility for the information contained in the section entitled "*The Fiduciary*" (the "**Fiduciary Information**") but has not independently verified and, accordingly, does not accept responsibility for, any other information contained in this Offering Circular. To the best of the knowledge of the Fiduciary, having taken all reasonable care that such is the case, the Fiduciary Information 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 Offering Circular, in whole or in part, or disclose any of its contents or use any information herein for any purpose.

No person has been authorized to give any information or make any representation other than as contained in this Offering Circular and, if given or made, such information or representation must not be relied on as having been authorized by the Bank. The publication of this Offering Circular does not, under any circumstances, constitute any representation or create any implication that there has been no change, or any event reasonably likely to involve an adverse change, in the affairs and condition (financial or otherwise) of the Bank or the Fiduciary since, or that the information contained herein is correct at any time subsequent to, the date of this Offering Circular or such earlier date as of which such information is stated to be given. This Offering Circular may only be used for the purpose for which it has been published.

Neither Byblos Invest Bank S.A.L., in its capacity as placement agent ("**Byblos Invest Bank**" or the "**Placement Agent**"), nor the Fiscal Agent nor any of their respective directors, affiliates, advisors or agents has made an independent verification of the information contained in this Offering Circular in connection with the issue and offering of the Fiduciary Notes, and no representation or warranty, expressed or implied, is made by the Placement Agent, the Fiscal Agent or any of their respective directors, affiliates, advisors or agents with respect to the accuracy or completeness of such information.

Nothing contained in this Offering Circular is, is to be construed as, or shall be relied upon as, a promise, warranty or representation, whether relating to the past or the future, by the Placement Agent, the Fiscal Agent or any of their respective directors, affiliates, advisors or agents in any respect. Furthermore, none of the Fiduciary, the Placement Agent, the Fiscal Agent nor any of their respective directors, affiliates, advisors or agents makes any representation or warranty or assumes any responsibility, liability or obligation in respect of the legality, validity or enforceability of the Subordinated Loan, the performance and observance by the Bank of its obligations in respect of the Subordinated Loan or the recoverability of any sums due or to become due from the Bank under the Subordinated Loan.

The distribution of this Offering Circular and the offer or sale of the Fiduciary Notes in certain jurisdictions may be restricted by law. The Bank, the Fiduciary, the Placement Agent and the Fiscal Agent require persons into whose possession this Offering Circular comes to inform themselves about and to observe any such restrictions. This Offering Circular does not constitute an offer of, or an invitation to purchase, Fiduciary Notes in any jurisdiction where restricted or prohibited by law. No one has taken any action that would permit a public offering of the Fiduciary Notes to occur in any such jurisdiction.

This Offering Circular does not constitute a prospectus for the purposes of Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading, as amended (the "**Prospectus Directive**"). This Offering Circular has not been approved by any competent authority, regulator or stock exchange for the purposes of the Prospectus Directive or otherwise.

This Offering Circular may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 (the "**FSMA**") does not apply.

The Fiduciary Notes 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 the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offence in the United States.

Further information with regard to restrictions on offers and sales of the Fiduciary Notes and the distribution of this Offering Circular is set out under "*Selling Restrictions*".

THE CENTRAL BANK HAS NOT PASSED UPON AND TAKES NO RESPONSIBILITY FOR THE INFORMATION CONTAINED IN THIS PROSPECTUS OR FOR THE MERITS OF THE FIDUCIARY NOTES.

The contents of this document are not to be construed as legal, business or tax advice. In making an investment decision regarding the Fiduciary Notes, prospective purchasers of Fiduciary Notes must rely solely on their own independent appraisal of the economic, political and social conditions prevailing in Lebanon and in the Middle East region, the financial condition and results of operation of the Bank and the terms and conditions of the Fiduciary Notes, as well as all such other information and matters as the investor deems appropriate in determining whether to purchase Fiduciary Notes, and each prospective purchaser of Fiduciary Notes is urged to consult its own counsel, accountant or independent financial, business or tax advisor regarding legal, tax and related matters in connection with its purchase, holding and sale of Fiduciary Notes. In particular, an investor should be aware that it may be required to bear the risk of no liquidity, as well as the financial and other risks associated with its investment, for an indefinite period of time.

FORWARD-LOOKING STATEMENTS

Certain statements in this Offering Circular constitute "forward-looking statements". These statements appear in a number of places in this Offering Circular 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 future results of operations, financial condition or economic performance or any strategy or plans regarding its business;
- statements regarding the Bank's competitive position and the effect of such competition on its results of operations;
- statements of the Bank's plans, including those related to new products or services;
- statements of assumptions;
- statements regarding the impact of the recent global financial and market crisis and the ongoing political and military developments in the Middle-East and North Africa ("**MENA**") region;
- 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 Offering Circular, including, without limitation, the information under "*Risk Factors*", "*Overview 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 Offering Circular relates to Byblos Bank S.A.L., a bank incorporated in Lebanon with limited liability, and its consolidated subsidiaries as at 30 June 2012: 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, Byblos Bank RDC S.A.R.L. ("**Byblos Bank RDC**"), Adonis Insurance and Reinsurance Co. (ADIR) S.A.L. ("**ADIR Lebanon**"), Adonis Insurance and Reinsurance (ADIR) Syria ("**ADIR Syria**") and Adonis Brokerage House S.A.L. ("**Adonis Brokerage House**") (collectively, the "**Subsidiaries**"). References to the "**Group**" shall mean, unless otherwise specified, the Bank and its 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**").

Financial information included in this Offering Circular has, unless otherwise indicated, been derived from the Bank's audited consolidated financial statements as at and for the year ended 31 December 2011, which include comparative data as at and for the year ended 31 December 2010, and the Bank's unaudited interim consolidated financial statements as at and for the six-month period ended 30 June 2012, which include comparative data as at and for the six-month period ended 30 June 2011, as well as the Bank's unaudited consolidated financial statements as at and for the nine-month period ended 30 September 2012, which include comparative data as at and for the nine-month period ended 30 September 2011. 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 Subsidiaries. Ernst & Young p.c.c. and Semaan, Gholam & Co., members of the Lebanese Association of Certified Public Accountants, have audited the consolidated financial statements of the Bank as at and for the years ended 31 December 2011 and 2010 and have reviewed the unaudited interim consolidated financial statements of the Bank as at and for the six-month periods ended 30 June 2012 and 2011. As used in this Offering Circular, 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 Offering Circular 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 U.S.$1.00, as, throughout the periods covered by this Offering Circular, 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 U.S.$1.00.

In this Offering Circular:

- references to "**U.S.$**" 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 1 January 1999; and
- references to "**LBP**" or "**Lebanese Pounds**" are to the Lebanese Pound, the lawful currency of Lebanon.

Certain figures included in this Offering Circular 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.

INFORMATION FROM PUBLIC SOURCES

Certain information included in the sections "*Risk Factors—Considerations Relating to Lebanon*", "*Overview 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 the Central Bank and *Bankdata* Financial Services WLL ("***Bankdata***") figures. Throughout this Offering Circular, the Bank has also set forth certain statistics, including market shares, from official sources and other sources it believes to be reliable. 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. All third party information used in this Offering Circular has been derived from official information published by the Government, unless otherwise specified herein.

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* or the Central Bank statistics, as well as the Bank's internal sources. *Bankdata* numbers may differ in certain respects from the Bank's own financial statements.

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SUMMARY

This summary should be read as an introduction only to this Offering Circular and an investment decision regarding the Fiduciary Notes should be based on consideration of this document as a whole by prospective Holders.

Overview 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 June 2012, 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 30 June 2012, the Group had 2,687 employees, approximately 653 thousand active accounts and 103 branches (77 branches in Lebanon, one in Limassol, Cyprus, one in Baghdad, Iraq, one in Erbil, Iraq, one in Basra, Iraq and 22 other international branches owned by the Group's subsidiaries). As at 30 June 2012, Byblos Bank Europe, the Bank's 99.95% owned subsidiary, had its main branch in Brussels, a branch in London and a branch in Paris; Byblos Bank Africa, the Bank's 56.86% owned subsidiary, had two branches in Khartoum and one in Bahri, Sudan; and Byblos Bank Syria, the Bank's 52.37% owned subsidiary, had eleven branches in Syria in Abou Remmaneh, Mazzeh (Damascus), Abbasyin, Aleppo (two branches), Hama, Homs, Hosh Blass, Lattakia, Tartous and Sweda. In September 2007, the Bank acquired 100% of ITB (International Trade Bank) CJSC, a bank incorporated in Armenia, which has its main branch in Yerevan and two other branches in Malatia and Vanadzor. ITB (International Trade Bank) CJSC has been renamed Byblos Bank Armenia CJSC. In June 2008, the EBRD and OFID acquired interests in the capital of Byblos Bank Armenia of 25% and 10%, respectively. Byblos Bank Armenia opened a new branch in Komitas in February 2012. On 27 March 2010, the Bank participated in the capital increase of Solidaire Banque Internationale in DR Congo by investing U.S.$10 million in the share capital of Solidaire Banque Internationale. Following such capital increase, the Bank holds 66.67% of the outstanding share capital of Solidaire Banque Internationale and, as the major shareholder of Solidaire Banque Internationale, exercises management control. Solidaire Banque Internationale has been renamed Byblos Bank RDC S.A.R.L. Byblos Bank RDC S.A.R.L. has a branch in Kinshasa, DR Congo. The Bank has also had a representative office in Abu Dhabi, United Arab Emirates, since 2005, as well as a representative office in Lagos, Nigeria, since 2009.

As at 31 December 2011, according to *Bankdata*, based on audited financial statements of banks operating in Lebanon provided to *Bankdata* by such banks, the Bank ranked third among all banks operating in Lebanon in terms of net profit of LBP 270,937 million (U.S.$179.7 million), total assets of LBP 25,027 billion (U.S.$16,602 million), total shareholders' equity (including revaluation variance of other fixed assets, but excluding other equity instruments and subordinated notes) of LBP 2,470 billion (U.S.$1,638 million) and customer deposits of LBP 19,326 billion (U.S.$12,820 million) and ranked fifth among all banks operating in Lebanon in terms of loans and advances of LBP 6,042 billion (U.S.$4,008 million).

Total assets of the Bank decreased by 0.1% from LBP 25,027 billion (U.S.$16,602 million) as at 31 December 2011 to LBP 25,004 billion (U.S.$16,586 million) as at 30 June 2012, after having increased by 8.6% from LBP 23,047 billion (U.S.$15,288 million) as at 31 December 2010; customers' deposits increased by 3.5% from LBP 19,326 billion (U.S.$12,820 million) as at 31 December 2011 to LBP 20,005 billion (U.S.$13,270 million) as at 30 June 2012, after having increased by 7.5% from LBP 17,980 billion (U.S.$11,927 million) as at 31 December 2010; net customer advances increased by 2.2% from LBP 6,042 billion (U.S.$4,008 million) as at 31 December 2011 to LBP 6,172 billion (U.S.$4,094 million) as at 30 June 2012, after having increased by 6.3% from LBP 5,685 billion (U.S.$3,771 million) as at 31 December 2010; and total equity (excluding subordinated notes) decreased by 5.6% from LBP 2,485 billion (U.S.$1,648 million) as at 31 December 2011 to LBP 2,345 billion (U.S.$1,556 million) as at 30 June 2012, after having increased by 1.2% from LBP 2,456 billion (U.S.$1,629 million) as at 31 December 2010. Net income of the Bank decreased by 0.1% from LBP 121.3 billion (U.S.$80 million) for the six-month period ended 30 June 2011 to LBP 121.2 billion (U.S.$80 million) for the six-month period ended 30 June 2012. Net income of the Bank increased by 1.2% from LBP 267,819 million (U.S.$177.7 million) for the year-ended 31 December 2010 to LBP 270,937 million (U.S.$179.7 million) for the year-ended 31 December 2011.

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 72.5% of total assets as at 30 June 2012. As at 30 June 2012, the Bank's Basel III capital adequacy ratio was 12.97%, its return on average assets (annualized) was 0.97% and its return on average common equity (annualized) was 11.06%.

The Bank's Objectives and Strategy

The Bank's strategy is focused on protecting its depositors and creditors; creating value for its shareholders through continued domestic and regional growth, geographic and product diversification, operational efficiency and cost containment; and optimizing its capital structure. The Bank's related medium- and long-term key strategies are to:

- strengthen its platform and consolidate its leading position in the Lebanese market;
- continue to expand in selected growth markets in the MENA region;
- enhance earnings stability through an improved business mix and risk profile;
- enhance cost efficiency and profitability; and
- diversify further its funding structure.

Risk Factors

The purchase of Fiduciary Notes involves substantial risks and, prior to making any investment decision, prospective purchasers should consider carefully, in light of their own financial circumstances and investment objectives, all of the information set forth herein, including in "*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 economic conditions in Lebanon, regional and international considerations (including events in Syria), the global financial crisis, the Lebanese banking sector, Lebanon's budget deficit and public debt levels, debt ratings, foreign exchange risk and monetary policy and prices and inflation); considerations relating to the Bank and the Lebanese and regional banking industry (such as, risks relating to the Bank's exposure to Lebanese sovereign risk, plans for regional and international expansion, acquisitions and divestitures by the Bank, the Bank's operations in Sudan, Syria and DR Congo, liquidity and maturity mismatching, interest rate sensitivity, ordinary course banking activities, international capital adequacy reform, competition and risks relating to effecting service of process and enforcing liabilities and foreign judgments). In addition, there are a number of considerations relating to the Fiduciary Notes (including, without limitation, risks relating to the nature and scope of the obligations and liabilities of the Fiduciary, the limited recourse for Holders, the subordinated nature of the Subordinated Loan, interest payments on the Fiduciary Notes being subject to the Bank's available profits, the requirements for Central Bank approval, the limited rights of Holders prior to conversion, the delivery of Byblos Bank Shares and Byblos Bank GDRs, future issues or sales of Byblos Bank Shares and Byblos Bank GDRs, price volatility and illiquidity, the suitability of the Fiduciary Notes for investment, legal investment considerations, early prepayment of the Subordinated Loan, credit risk, modification of the Fiduciary Notes and the absence of insurance).

Summary Terms of the Subordinated Loan and the Offering

This summary must be read as an introduction to this Offering Circular and any decision to invest in the Fiduciary Notes should be made based on consideration of this Offering Circular as a whole. Capitalized terms not specifically defined in this summary have the meanings set out in the "Terms and Conditions of the Fiduciary Notes".

The Subordinated Loan

Borrower	Byblos Bank S.A.L.
Lender	The Bank of New York Mellon (Luxembourg) S.A.
Principal Amount	Up to U.S.$300,000,000 (subject to a minimum nominal amount of U.S.$150,000,000).
Loan Date	Expected to be on or around 21 December 2012, as indicated by the Borrower by prior notice to the Lender (the "**Loan Date**"), provided that the Extraordinary General Assembly of Shareholders of the Borrower has first approved the Borrower's entering into the Subordinated Loan and the transactions relating thereto. See "*Conditions Precedent*" below.
Loan Maturity Date	The Loan will mature on the last Business Day (as defined in the Subordinated Loan Agreement) falling on or before the tenth anniversary of the Loan Date (or such earlier date (if any) on which the Subordinated Loan shall have been fully converted, prepaid or repaid (upon acceleration or otherwise), the "**Loan Maturity Date**") and will be repaid on the Loan Maturity Date at its principal amount, together with accrued but unpaid interest thereon (provided the Borrower has Sufficient Available Profit for the Relevant Quarter (as defined and described below)) and all other amounts (including any Additional Amounts), if any, payable by the Borrower in respect thereof.
Interest	Interest will accrue on the principal amount of the Subordinated Loan outstanding from time to time at the rate of 6.5 per cent, from and including the Loan Date to but excluding the Loan Maturity Date, calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days actually elapsed. Subject as provided below, accrued but unpaid interest shall be payable quarterly in arrear not later than 10:00 a.m. (New York City time) on the penultimate Business Day of each calendar quarter during the term of the Subordinated Loan, commencing on the penultimate Business Day of the calendar quarter ending on 31 March 2013 (reflecting a long first interest period from and including the Loan Date to but excluding such penultimate Business Day), and on the Loan Maturity Date (reflecting a short last interest period from and including the most recent date to which interest was theretofore paid to but excluding the Loan Maturity Date) (each, a "**Loan Interest Payment Date**"); provided that, in accordance with Central Bank Decision № 6830 ("**Decision 6830**"), the Borrower has Sufficient Available Profit for the Relevant Quarter for the purpose; and, provided, further, that, in the event that the Borrower does not have Sufficient Available Profit to pay all or any portion of the accrued but unpaid interest due in respect of the Subordinated Loan on any Loan Interest Payment Date, the requirement to pay such interest on such Loan Interest Payment Date, to the extent of the shortfall (if any) between (i) the full amount of accrued and unpaid interest on the Subordinated Loan then due on such Loan Interest Payment Date and (ii) the amount of Sufficient

Available Profit for the Relevant Quarter (the "**Interest Shortfall**"), shall be deferred such that any Interest Shortfall shall become due and payable on the next Loan Interest Payment Date that falls within the same calendar year to the extent that the Borrower then has Sufficient Available Profit for the Relevant Quarter to cover, in addition to the amount of interest due and payable on the Subordinated Loan on such next Loan Interest Payment Date, all or any portion of such Interest Shortfall. Any Interest Shortfall not covered by Sufficient Available Profit for the Relevant Quarter shall remain outstanding until fully paid in accordance herewith; provided that, in the event that the Borrower does not have Sufficient Available Profit for the Relevant Quarter to pay all or any portion of such Interest Shortfall on a Loan Interest Payment Date that falls within the same calendar year in which such Interest Shortfall arose, the Borrower's obligation to pay such Interest Shortfall, in cash, shall be cancelled and, subject as provided under "*—Conversion Rights*" below, such Interest Shortfall shall no longer be due and payable and the Lender shall have no claim against the Borrower or any other Person at any time in respect thereof. In any event, no interest shall accrue on any Interest Shortfall, and neither the Lender nor any Holders shall be entitled to receive any substitute or additional amounts as a result of any non-payment of any Interest Shortfall.

"**Sufficient Available Profit for the Relevant Quarter**" means, with respect to any Loan Interest Payment Date, profit and retained earnings of the Borrower, on a stand-alone basis, in an amount at least equal to the amount of accrued and unpaid interest due and payable on the Subordinated Loan on such Loan Interest Payment Date, as determined by the Borrower based on management accounts of the Bank for the calendar quarter during which such Loan Interest Payment Date occurs.

Status and Subordination .... The obligations of the Borrower in respect of the Subordinated Loan will constitute direct, unsecured and general obligations of the Borrower, subordinated as described below.

In the event of a bankruptcy, suspension of payments, reorganization, dissolution, winding up, liquidation or composition or arrangement with creditors of the Borrower, the claims of the Lender in respect of the Subordinated Loan will rank junior in right of payment to the claims of holders of unsecured and unsubordinated payment obligations of the Borrower, *pari passu* with the claims of holders of all other subordinated indebtedness of the Borrower and in priority to the claims of shareholders of the Borrower (including, without limitation, holders of Preferred Shares (as defined below) of the Borrower), including in respect of cash contributions to capital.

Conversion Rights.. The Lender (if instructed by the Holders) shall have the right (subject to prior approval of the Central Bank, if applicable) to cause the Borrower to convert all or any portion of the principal amount of the Subordinated Loan outstanding (i) on the penultimate Business Day in any calendar year during the term of the Subordinated Loan or (ii) on the Loan Maturity Date (each, a "**Conversion Date**"), together with any unpaid Interest Shortfall relating to such principal amount to the extent accrued in respect of the two-year period ending on such Conversion Date, whether or not the Borrower's obligation to pay such Interest Shortfall (or any portion thereof), in cash, has been cancelled pursuant to the Subordinated Loan Agreement as described above (but not other accrued and unpaid interest, if any, thereon or any other amounts (including any Additional Amounts) that may be payable by the Borrower in respect thereof or otherwise under the Subordinated Loan Agreement), into Byblos Bank Shares or Byblos Bank GDRs, or a combination thereof, and to apply such principal amount that it may elect (upon instruction from the relevant Holder) so to convert, together with the amount of any unpaid Interest Shortfall relating thereto, which is also being converted, in payment of the purchase price for the Byblos Bank Shares or the Byblos Bank GDRs, which are required to be delivered to Holders upon such conversion.

Upon any exercise of such conversion right by the Lender, the Borrower will (subject to the approval of the Central Bank, if applicable) deliver Byblos Bank Shares or cause the delivery of Byblos Bank GDRs to the relevant Holder of the underlying Fiduciary Notes, as directed by the Lender, against the cancellation of the relevant portion of the Subordinated Loan, initially, at a price of U.S.$2.50 per Byblos Bank Share (or, as applicable, U.S.$125.00 per Byblos Bank GDRs, based on the current ratio of 50 Byblos Bank Shares per Byblos Bank GDR), subject to adjustment upon the occurrence of certain events as further described below, under "*—Anti-Dilution Protections*" (such price as it may be adjusted from time to time, the "**Conversion Price**").

In addition, (*without duplication*) upon any conversion of all or any portion of the principal amount of the Subordinated Loan, the Lender shall be entitled to receive, in cash, (i) to the extent that the Borrower has Sufficient Available Profit for the Relevant Quarter for the purpose, all accrued and unpaid interest, if any, on such principal amount (other than any unpaid Interest Shortfall) and (ii) all other amounts (including any Additional Amounts), if any, payable by the Borrower in respect thereof.

On or before the penultimate Business Day falling at least 30 days prior to any Conversion Date, the Lender (upon instruction from the Holders) may send a conversion notice to the Borrower specifying the principal amount of the Subordinated Loan, which it wishes to convert into Byblos Bank Shares or Byblos Bank GDRs, provided that such principal amount to be converted must correspond to a qualifying nominal amount of Fiduciary Notes (*i.e.*, in respect of any particular Holder, the aggregate nominal amount of Fiduciary Notes held by such Holder). Within 30 days after receipt of a conversion notice, the Borrower shall take all steps necessary to issue or transfer (as the case may be), or cause the issuance or transfer (as the case may be) of, such Byblos Bank Shares or Byblos Bank GDRs, subject to approval of the Central Bank, if applicable, it being acknowledged that, while the Borrower will take all reasonable steps for the prompt completion of such issuance or transfer, no assurance or commitment is made by the Borrower that the relevant issue or transfer will be completed within this 30 day period. See "*The Fiduciary Notes—Rights of Holders*".

GDR Program .... Any Byblos Bank GDRs will be issued pursuant to the Borrower's Global Depositary Receipts Program (the "**GDR Program**"), which was established in February 2009 with The Bank of New York Mellon, as Depositary. As at the date of this Offering Circular, each GDR issued under the GDR Program represents 50 Byblos Bank Shares. The Byblos Bank GDRs are listed on the Main Market of the London Stock Exchange.

Cash Settlement.. In the event that, following any proper and valid exercise of the Lender Conversion Right, the Borrower is unable to deliver to the relevant Holders, upon the Lender's direction, all or any portion of the Byblos Bank Shares or Byblos Bank GDRs, which the Borrower shall otherwise be required so to deliver upon such exercise, for any reason (such as the refusal of the Central Bank to approve such conversion or any related capital increase, if applicable), the Borrower shall, subject to the approval of the Central Bank, pay to the Lender an amount equal to the higher of (i) the sum of the principal amount of the Subordinated Loan, which the Lender has elected to convert (upon instruction from the relevant Holder), plus the amount of any unpaid Interest Shortfall relating thereto, and (ii) the weighted average of the closing prices for Byblos Bank Shares during the previous five trading days on the Beirut Stock Exchange multiplied by the aggregate number of Byblos Bank Shares (or, in the event that such Holder had elected to receive Byblos Bank GDRs, multiplied by the number of Byblos Bank Shares represented by the number of Byblos Bank GDRs), which would have otherwise been required to be delivered to Holders absent the circumstances giving rise to the Borrower's failure to effect the requested conversion. The weighted average for each day will be calculated by multiplying the daily volume by the closing price for that day.

In addition, (*without duplication*) the Lender shall be entitled to receive, in cash, all accrued and unpaid interest (other than any unpaid Interest Shortfall except to the extent provided above), if any, on the principal amount of the Subordinated Loan that is the subject of the conversion failure, to the extent that the Borrower has Sufficient Available Profit for the Relevant Quarter for the purpose, and all other amounts (including any Additional Amounts), if any, payable by the Borrower in respect thereof.

Priority Subscription Rights .... The Lender shall benefit from priority rights to subscribe (upon instruction from the Holders) to (i) any capital increase effected by Byblos Bank (other than any such capital increase that results in an adjustment of the Conversion Price in accordance with the terms of the Subordinated Loan) and (ii) any new issue of convertible loans or convertible bonds (other than any Fiduciary Notes issued in additional tranches after the Loan Date).

Anti-dilution Protections...................................... The Conversion Price will be subject to adjustment in certain circumstances, in particular in the event of (i) a stock split, stock dividend or recapitalization by Byblos Bank; (ii) certain discounted share and rights offerings by Byblos Bank; (iii) the payment of certain dividends; and (iv) mergers, combinations, consolidations or similar events involving Byblos Bank.

Events of Default... The terms of the Subordinated Loan will provide for acceleration by the Lender (upon instruction from the requisite majority of Holders) following the occurrence of certain customary events of default, including a cross default in respect of indebtedness of the Borrower and its Material Subsidiaries. A "**Material Subsidiary**" is a subsidiary of the Borrower, which has assets, revenue or net income equal to or exceeding 10% of the total assets, revenue or net income of the Borrower, in each case, as calculated on a consolidated basis.

Taxation .... All payments of principal and interest in respect of the Subordinated Loan by the Borrower will be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of, or by or within any political subdivision of or any authority having power to tax in, the Republic of Lebanon ("**Lebanese Taxes**"). If the Borrower shall be required to make any such deduction or withholding, it shall, subject to certain exceptions, make payment of the amount so deducted or withheld to the appropriate governmental authority and shall forthwith pay to the Lender such additional amounts ("**Additional Amounts**") in respect of Lebanese Taxes as will result in the payment to the Lender of the amounts that would otherwise have been received by it in respect of payments under the Subordinated Loan in the absence of such withholding or deduction.

Optional Prepayment .... Subject to the prior approval of the Central Bank, if applicable, the Subordinated Loan may be prepaid, in whole but not in part, at the option of the Borrower, at any time after the first anniversary of the Issue Date (the "**Optional Prepayment Date**"), in the event that, as a result of any actual change in any law, regulation or ruling of Lebanon or any political subdivision or any authority thereof or therein having the power to tax or any change in the application or official interpretation of such laws or regulations, the Borrower has or will become obligated on the next Loan Interest Payment Date to pay Additional Amounts as provided in *Clause 9* of the Subordinated Loan Agreement in excess of the Additional Amounts that would be payable if (i) Lebanese Taxes were applied to payments of interest on the Subordinated Loan at the rate of 10% or higher, which change or amendment becomes effective after the Loan Date, and (ii) such obligation cannot be avoided by the Borrower taking reasonable measures available to it.

Governing Law .... The Subordinated Loan will be governed by the laws of the State of New York, subject to compliance with mandatory provisions of Lebanese law and regulations applicable to subordinated loans entered into by Lebanese banks, including the Central Bank Decision 6830 dated 6 December 1998.

The Fiduciary Notes

The Fiduciary Notes .... Up to U.S.$300,000,000 in aggregate nominal amount of 6.5% Convertible Fiduciary Notes due 2022 (the "**Fiduciary Notes**") (subject to a minimum nominal amount of U.S.$150,000,000).

Fiduciary .... The Lender or an affiliate of the Lender.

Issue Date .... Expected to be on or around 21 December 2012.

Minimum Issue Size .... The Borrower intends to issue up to U.S.$300,000.000 (subject to a minimum of U.S.$150,000,000) in aggregate nominal amount of Fiduciary Notes shall be issued on the Issue Date.

Issue Price .... 100% of the nominal amount of the Fiduciary Notes.

Maturity Date .... The Fiduciary Notes will mature one business day after the Loan Maturity Date, which is expected to be on or before the last business day falling on or before the Loan Date, subject to the earlier conversion, prepayment or repayment (upon acceleration or otherwise) of the Subordinated Loan (the "**Fiduciary Notes Maturity Date**").

Interest .... Subject as more fully provided under the limited recourse provisions of the Fiduciary Notes as described under "*—Status and Ranking; Limited Recourse*", on the first business day following each date on which interest is received on the Subordinated Loan (expected to be on or before 31 March, 30 June, 30 September and 31 December of each year, commencing on 28 March 2013, through (and including) the Fiduciary Notes Maturity Date), the Fiduciary shall account to the Holders for an amount equivalent to the amount of interest, if any, actually received or recovered by the Fiduciary in respect of the Subordinated Loan (subject to certain permitted deductions), together with any Additional Amounts in respect thereof. See "*—Status and Ranking; Limited Recourse*".

Redemption at Maturity; Early Redemption ....

Subject as more fully provided under the limited recourse provisions of the Fiduciary Notes as described under "*—Status and Ranking; Limited Recourse*", on the Fiduciary Notes Maturity Date, the Fiduciary shall redeem the Fiduciary Notes and account to the Holders for an amount equivalent to the amount of principal, if any, actually received or recovered by the Fiduciary in respect of the Subordinated Loan (subject to certain permitted deductions), which is expected to be equal to 100% of the aggregate nominal amount of the Fiduciary Notes, together with accrued and unpaid interest thereon and any Additional Amounts in respect thereof. See "*—Status and Ranking; Limited Recourse*".

In the event that the Subordinated Loan is prepaid as provided under "*The Subordinated Loan —Optional Prepayment*" above, the Fiduciary will redeem the Fiduciary Notes and account to the Holders for an amount equivalent to amounts of principal and interest (if any), and any Additional Amounts in respect thereof, actually received or recovered by the Fiduciary in respect of the Subordinated Loan (subject to certain permitted deductions) on or around the Optional Prepayment Date.

Certain Rights of Holders .... The Fiduciary Notes will constitute the obligation of the Fiduciary to apply an amount equal to the net proceeds from the issue of the Fiduciary Notes solely for the purpose of financing the Subordinated Loan and the Fiduciary Notes will, in turn, evidence the rights of the Holders thereof (i) to receive amounts actually received or recovered (subject to certain permitted deductions) by the Fiduciary (in its capacity as Lender) from the Borrower, (ii) to cause the Fiduciary to exercise (x) the priority rights granted to it under the Subordinated Loan to subscribe to any capital increase effected by Byblos Bank (other than any such capital increase that results in an adjustment of the Conversion Price in accordance with the terms of the Subordinated Loan) and to subscribe to any new issue of convertible loans or convertible bonds (other than in respect of Fiduciary Notes issued in additional tranches after the Issue Date) and (y) its rights to convert all or a portion of the Subordinated Loan into Byblos Bank Shares or Byblos Bank GDRs, provided that, if a Holder elects to cause the Lender to exercise its conversion right on any Conversion Date, such Holder shall certify to the Lender that the nominal amount of

Fiduciary Notes to be converted represents the aggregate nominal amount of Fiduciary Notes held by such Holder and (iii) to cause the Fiduciary (in its capacity as Lender), upon instruction from the requisite majority of Holders, to accelerate the Subordinated Loan upon the occurrence of certain events of default as provided for in the Subordinated Loan Agreement.

The Fiduciary will undertake to direct the Borrower to deliver the Byblos Bank Shares and Byblos Bank GDRs, which are required to be delivered upon conversion of a portion of the Subordinated Loan to the relevant Holders against the cancellation of the relevant portion of the Subordinated Loan, subject to approval of the Central Bank, if applicable.

Status and Ranking; Limited Recourse.............. The Fiduciary Notes will constitute general and unsecured obligations of the Fiduciary, limited in recourse as described herein. Holders will be entitled only to, and the Fiduciary will be obligated to account to Holders only for amounts (if any) received or recovered by the Lender from the Borrower in respect of principal, interest or other amounts (including any Additional Amounts), if any, in respect of the Subordinated Loan (subject to certain permitted deductions). As more fully described under "*–Certain Rights of Holders*" above, Holders will also be entitled to cause the Fiduciary to exercise certain priority subscription rights and conversion rights.

Rights to Cause the Lender to Convert the Subordinated Loan into Byblos Bank Shares or Byblos Bank GDRs, including Cash Settlement.. Each Holder shall have the right to cause the Fiduciary (in its capacity as Lender under the Subordinated Loan) to convert (subject to prior approval by the Central Bank, if applicable) that portion of the principal amount of the Subordinated Loan corresponding to the nominal amount of Fiduciary Notes held by such Holder, together with any unpaid Interest Shortfall relating to such principal amount to the extent accrued in respect of the two-year period ending on such Conversion Date, whether or not the Borrower's obligation to pay such Interest Shortfall (or any portion thereof), in cash, has been cancelled pursuant to the Subordinated Loan Agreement as described above (but not other accrued and unpaid interest, if any, thereon or any other amounts (including any Additional Amounts) that may be payable by the Borrower in respect thereof or otherwise under the Subordinated Loan Agreement), all to the extent described under "*The Subordinated Loan—Conversion Rights*", into Byblos Bank Shares or Byblos Bank GDRs, or a combination thereof, at an initial conversion price of U.S.$2.50 per Byblos Bank Share (or, as applicable, U.S.$125.00 per Byblos Bank GDR, based on the current ratio of 50 Byblos Bank Shares per Byblos Bank GDR).

The Holder Conversion Right shall be exercisable by each Holder, acting singly in its sole discretion, with respect to the Fiduciary Notes held by such Holder, by delivery of a written notice to the Fiduciary on or before the last business day falling at least 45 days prior to any Conversion Date; provided that a Holder may exercise its Holder Conversion Right only by simultaneously causing the Fiduciary to convert that part of the principal amount of the Subordinated Loan, which corresponds to all (but not part) of the nominal amount of Fiduciary Notes held by such Holder, into Byblos Bank Shares or Byblos Bank GDRs, or a combination thereof, as provided under the Subordinated Loan Agreement.

In the event that, following any proper and valid exercise by a Holder of its Holder Conversion Right and the proper and valid related exercise of the Lender Conversion Right, the Borrower is unable to deliver to the relevant Holder, upon the Lender's direction, all or any portion of the Byblos Bank Shares or Byblos Bank GDRs **to which such Holder shall otherwise be entitled upon such exercise, for any reason,** the Fiduciary will redeem the Fiduciary Notes and account to such Holder for its *pro rata* share of the amount (if any) of principal, interest and other amounts (if any) actually received or recovered by the Fiduciary in respect of the Subordinated Loan (subject to certain permitted deductions) as a result of its cash settlement with the Borrower following such conversion failure in accordance with the terms of the Subordinated Loan.

The Fiduciary Notes are not mandatorily convertible and in no circumstances will a Holder be obliged to convert any Fiduciary Notes held by it.

Meetings of Holders.. The Fiduciary Contract and Terms and Conditions of the Fiduciary Notes contain provisions for convening meetings of Holders to consider matters relating to the Fiduciary Notes. These provisions permit defined majorities to bind all Holders, including Holders who did not attend and vote at the relevant meeting and Holders who voted in a manner contrary to the relevant majority. The application of the provisions of Articles 86 to 98 of the Luxembourg Law of 10 August 1915 on Commercial Companies, as amended, is excluded. See "*Fiduciary Contract and Terms and Conditions of the Fiduciary Notes—14. Actions of Holders*".

Form and Settlement.. The Fiduciary Notes will initially be represented by a single global note, in registered form, without interest coupons, which will be registered in the name of, and be deposited on or around the Issue Date with, a common depositary for Euroclear and Clearstream. Fiduciary Notes in definitive registered form will be issued only in certain exceptional and limited circumstances, as described in the Fiduciary Contract and Terms and Conditions of the Fiduciary Notes. In addition, the Fiduciary will maintain a register in which it will register the Global Note, or, if applicable, the Definitive Notes, and any transfers thereof.

Beneficial interests in Global Notes held by a Clearing System will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream and their participants, including Midclear.

Denominations... Fiduciary Notes will be offered and sold, and may be transferred, only in minimum denominations of U.S.$100,000 and multiples of U.S.$10,000 in excess thereof.

Transfer Restrictions.. The offer and sale of the Fiduciary Notes and of any Byblos Bank Shares or Byblos Bank GDRs into which Fiduciary Notes may be converted have not been, and will not be, registered under U.S. federal or state securities laws, and no action has been or will be taken by any person that would permit a public offering of the Fiduciary Notes or such Byblos Bank Shares or Byblos Bank GDRs in any country or jurisdiction where registration would be required. Accordingly, the Fiduciary Notes and the Byblos Bank Shares and Byblos Bank GDRs, as the case may be, are subject to restrictions on transfer and resale in certain jurisdictions.

No Listing	The Fiduciary Notes will not be listed or traded on any stock exchange or any regulated market. The Byblos Bank Shares are listed on the Beirut Stock Exchange. The Byblos Bank GDRs are listed on the London Stock Exchange.
Governing Law	The Fiduciary Notes, and any non-contractual obligations arising out of, or in connection therewith, will be governed by the law of the Grand Duchy of Luxembourg.
Jurisdiction	Any action arising out of, or relating to, the Fiduciary Notes is subject to the exclusive jurisdiction of the courts of Luxembourg-city (Grand Duchy of Luxembourg).

General

Condition Precedent	The Subordinated Loan will not be disbursed and, accordingly, the Fiduciary Notes will not be issued, unless and until the Borrower's Extraordinary General Assembly shall have first approved the Subordinated Loan and the transactions relating thereto (including, among others, the reservation of the capital increase to be effected by the Bank for purposes of permitting the conversion of the Subordinated Loan as contemplated thereby). Byblos Invest Holding (Luxembourg) S.A. has undertaken to vote the Byblos Bank Shares held by it, and to use its best efforts to cause other holders of Byblos Bank Shares to vote the Byblos Bank Shares held by them, in favor of approving the Subordinated Loan and the transactions relating thereto at the Extraordinary General Assembly of Shareholders of the Borrower, which is expected to be held on 12 December 2012. In addition, the Subordinated Loan will not be disbursed and, accordingly, the Fiduciary Notes will not be issued, unless and until the Central Bank has approved the Subordinated Loan and the transactions relating thereto. Notwithstanding the foregoing, it is understood that further approvals of the Central Bank may be required in connection with the exercise by the Lender of the Lender Conversion Right and the Lender Priority Subscription Right (as defined in the Subordinated Loan Agreement) and further approvals of the Extraordinary General Assembly of Shareholders of the Borrower may be required in connection with the exercise by the Lender of the Lender Priority Subscription Right.
Unwind Fee	In the event that the Extraordinary General Assembly of Shareholders of the Borrower does not approve the Subordinated Loan and the transactions relating thereto, and the Subordinated Loan is accordingly not disbursed and the Fiduciary Notes are not issued, within three months from the date on which definitive agreements setting forth the terms of the Subordinated Loan and the Fiduciary Notes are signed between the parties, each prospective purchaser of Fiduciary Notes, which has submitted a signed Subscription Application, together with its subscription monies, will be entitled to receive, and the Borrower shall pay to each such potential purchaser, together with the refund of its aggregate subscription monies plus accrued interest (if any) thereon, a flat fee in an amount equal to 3.5% of its subscription monies.

SUBSCRIPTION PROCEDURES

Applications for Subscription

Prospective purchasers wishing to subscribe for Fiduciary Notes must submit a signed Subscription Application, substantially in the form of Exhibit A hereto or an earlier version thereof as may have been previously made available to it by the Bank (the "**Subscription Application**"). Copies of this Offering Circular and the form of Subscription Application are also available at the Head Office of the Bank located at the address indicated on the back cover of this Offering Circular and at the Bank's branch offices.

A Subscription Application must be duly completed in full in accordance with the instructions contained therein, signed by the prospective purchaser and submitted to the Bank. A Subscription Application submitted by a corporation must be signed by a duly authorized representative in accordance with the constitutive documents of such corporation. A Subscription Application shall be deemed accepted only upon due completion and execution by the prospective purchaser, payment of the subscription monies relating thereto, which shall equal the aggregate Issue Price for the Fiduciary Notes being subscribed, and acceptance by the Bank, such acceptance to be evidenced by the return of an executed copy of the Subscription Application to the prospective purchaser.

The Placement Agent may, in its sole discretion, reject any Subscription Application in whole or in part and, whether or not any Subscription Application has been accepted, terminate the offering of the Fiduciary Notes at any time and for any reason whatsoever. No person shall have any right to purchase any Fiduciary Notes (or any portion of such Fiduciary Notes to the extent) covered by a rejected Subscription Application or any Fiduciary Notes following the termination of the offering.

Right of Rescission

The form of Subscription Application provides that a prospective purchaser is entitled to rescind its Subscription Application by giving written notice to the Bank within two days following the date on which the Bank shall have delivered an electronic copy of this Offering Circular to such prospective purchaser, if (but only if) (i) the final terms of the Fiduciary Notes as described in this Offering Circular are substantially and adversely different from the terms described in the indicative term sheet made available to such prospective purchaser at the time when such prospective purchaser signed its Subscription Application or (ii) there has been a material adverse change in financial condition of the Bank as described in this Offering Circular as compared to the financial condition of the Bank as at the time when such prospective purchaser signed its Subscription Application.

A prospective purchaser, which has previously submitted a Subscription Application (including an earlier version thereof), together with payment of the aggregate Issue Price for the Fiduciary Notes covered by such Subscription Application, may exercise its rescission right by delivering written notice to the Bank no later than noon (Beirut time) on 11 December 2012 of its election to rescind. If written notice of rescission is not received from a prospective purchaser by the Bank prior to such date, such prospective purchaser will be deemed to have confirmed its offer to purchase as set forth in the relevant Subscription Application.

Payment of Issue Price; Unwind Fee

Upon submission of a Subscription Application, a prospective purchaser is required to transfer immediately available funds, in U.S. Dollars, to the Placement Agent for credit to the Fiduciary Notes subscription account (the "**Fiduciary Notes Subscription Account**"), in an amount equal to the aggregate Issue Price for the Fiduciary Notes covered by such Subscription Application (*i.e.*, the product of the nominal amount of Fiduciary Notes being subscribed times the Issue Price per Note (*i.e.*, 100%)). Bank charges and other related fees, if any, incurred in connection with the payment of such monies will be for the account of the relevant prospective purchaser.

In the event that the offering of the Fiduciary Notes is terminated or if a Subscription Application is rejected, in whole or in part, the funds deposited by the prospective purchaser into the Fiduciary Notes Subscription Account in respect of the Issue Price paid by it for Fiduciary Notes (or a corresponding portion thereof) will be promptly refunded to the relevant prospective purchaser, together with interest, if any, earned thereon.

It is expected that the Placement Agent will invest all funds received by it in respect of the Issue Price for any Fiduciary Notes in overnight U.S. dollar deposits at standard call rates paid by it for such deposits for the benefit of the prospective purchasers to purchase Fiduciary Notes. Each prospective purchaser shall be entitled to receive, promptly following the Issue Date or such earlier date (if any) on which the offering of the Fiduciary Notes is terminated or its Subscription Application is rejected (in whole or in part), its *pro rata* share of the interest, if any, earned on such funds from and including the value date as of which such amount was deposited by the relevant prospective purchaser into the Fiduciary Notes Subscription Account to but excluding the Issue Date (or such earlier date, as the case may be).

In the event that the Extraordinary General Assembly of Shareholders of the Borrower does not approve the Subordinated Loan and the transactions relating thereto, and the Subordinated Loan is accordingly not disbursed and the Fiduciary Notes are not issued, within three months from the date on which definitive agreements setting forth the terms of the Subordinated Loan and the Fiduciary Notes are signed between the parties, each potential purchaser of Fiduciary Notes, which has submitted a signed Subscription Application, together with its subscription monies, will be entitled to receive, and the Borrower shall pay to each such potential purchaser, together with the refund of its aggregate subscription monies plus accrued interest (if any) thereon, a flat fee in an amount equal to 3.5% of its subscription monies.

Allotment

The acceptance by, or on behalf of, the Fiduciary of a Subscription Application does not entitle the prospective purchaser to an allocation of all or part of the Fiduciary Notes for which it has applied and the prospective purchaser might be allocated only part or none of the Fiduciary Notes for which it has applied; moreover, even if a Subscription Application has been accepted, the Fiduciary retains the right to reduce, in its sole discretion, the nominal amount of Fiduciary Notes (if any) allocated to the prospective purchaser on the Issue Date.

If the aggregate nominal amount of Fiduciary Notes subscribed for by all prospective purchasers to purchase Fiduciary Notes exceeds the maximum aggregate nominal amount of Fiduciary Notes being offered, the Fiduciary Notes will be allocated among such prospective purchasers in the sole discretion of the Placement Agent on or prior to the Issue Date.

The Bank will send notices of allotments to prospective purchasers promptly following the end of the subscription period once the final allotments have been made.

Delivery of the Fiduciary Notes

The Fiduciary Notes will be issued in registered form, without interest coupons attached, and will be serially numbered. The Fiduciary Notes will initially be evidenced by a Global Note, which will be deposited on or around the Issue Date with, and registered in the name of a nominee for, a common depository for Euroclear and Clearstream. Definitive Notes may be issued only in certain exceptional and limited circumstances in accordance with Condition 2.4 of the Fiduciary Contract and the Terms and Conditions of the Fiduciary Notes.

Interests in the Fiduciary Notes will be delivered, upon issuance, by deposit to the respective accounts of Holders with Euroclear or Clearstream and their respective participants, including Midclear. In the case of Holders purchasing interests through the Bank, such interests in the Fiduciary Notes will be delivered, upon issuance, by deposit to the account of the Bank currently maintained with Euroclear (Account № 21269), and the Bank will hold the Fiduciary Notes in custody for the benefit of the respective purchaser in accordance with its standard custody arrangements. Neither the Bank, the Placement Agent nor the Fiduciary shall have any responsibility or liability for any aspect of the records relating to or payments made on account of interests in the Fiduciary Notes or for maintaining, supervising or reviewing any records relating to ownership of Fiduciary Notes, except that the Fiduciary shall maintain a register in which it will register the Global Note, or, if applicable, the Definitive Notes, and any transfers thereof. At any time after the Issue Date, a Holder may request that the Bank arrange for the transfer of the custody of the Fiduciary Notes to another participant in Euroclear, Clearstream or Midclear. So long as the Fiduciary Notes are evidenced by a Global Note, interests in the Fiduciary Notes will be shown only on, and transfers thereof will be effected only through, the book-entry system maintained by Euroclear and Clearstream and their respective participants, including Midclear.

Each person who is, for the time being, shown in the records of Euroclear or Clearstream or of such a participant (including Midclear) as being the Holder of a particular nominal amount of Fiduciary Notes shall be treated by the Fiduciary as the Holder of such nominal amount of Fiduciary Notes, provided, however, that the right to receive payments in respect of any Fiduciary Notes shall vest in the registered owner of the Global Note representing such Fiduciary Notes in accordance with and subject to the terms thereof. The securities account records of the Clearing Systems and the participants therein shall, in the absence of manifest error, be conclusive evidence of the identity of the Holders and of the nominal amount of Fiduciary Notes credited to the securities accounts of such Holders.

RISK FACTORS

All of the information set forth in this Prospectus and, in particular, the following risks relating to the Fiduciary Notes should be carefully considered. The Bank believes that the factors described below represent all material risks inherent in investing in Fiduciary Notes; however, the risks and uncertainties described below are not the only ones the Bank faces. Additional risks and uncertainties that the Bank is not aware of or that the Bank currently believes are immaterial may also materially adversely affect the Bank's business, financial condition, results of operations or prospects. If any of the possible events described below, or other events which the Bank cannot foresee, occurs, the Bank's business, financial condition, results of operations or prospects could be materially and adversely affected.

This Offering Circular 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 Offering Circular. See "Forward-Looking Statements".

Risk Factors Relating to Lebanon

Political and Economic Considerations

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

Lebanon has witnessed a series of significant adverse events in recent years, which have affected and may continue to affect the Lebanese economy and the finances of the Government, including the assassination of the former Prime Minister, Rafik Hariri, a campaign of assassinations and attempted assassinations of other political leaders and public figures, the adoption of a series of United Nations Security Council Resolutions, including Resolution 1757, which established the Special Tribunal for Lebanon (the "**STL**") to prosecute persons responsible for the bombing that killed former Prime Minister Hariri, the withdrawal of Syrian army troops from Lebanon, the July 2006 War and its effects on Lebanon's population, economy and infrastructure, the resignation of six ministers; representing the opposition; from the Government, followed by the opposition's sit-in in downtown Beirut, as well as the failure of Parliament to convene during an 18-month period, the Lebanese Security Forces taking over control of Nahr El-Bared camp after clashes with a terrorist organization from May to September 2007, the armed clashes that took place in Beirut, Northern Lebanon, the Bekaa Valley and the Chouf Mountains in May 2008, the six-month vacancy in the office of the President of Lebanon, which ended with the election of General Michel Sleiman as President on 25 May 2008, rising tensions surrounding the filing of an indictment by the then Prosecutor of the STL, in the case of the assassination of former Prime Minister Rafik Hariri and his companions, including speculation surrounding the identity of parties who could be charged, the resignation of the Government headed by Prime Minister Saad Hariri pursuant to Article 69 of the Constitution following the resignations of ten ministers representing the 8 March Coalition, as well as one of the five ministers representing the President of Lebanon, and the delay in the formation of the government.

On 25 January 2011, following mandatory Parliamentary consultations, 68 Members of Parliament nominated Mr. Najib Mikati as President of the Council of Ministers, while 60 Members of Parliament nominated Mr. Saad Hariri. Accordingly, President Suleiman appointed Mr. Mikati to this position.

On 13 June 2011, a new Government, headed by Prime Minister Najib Mikati and comprised of 30 other ministers, was formed, and on 7 July 2011, this Government obtained the vote of confidence from Parliament (with a vote of 68 members in favor, out of a total number of 128 members of Parliament) on the basis of the policy declaration submitted by the Government. The new Government does not include representatives of the 14 March Coalition, who participated in the debate preceding the vote of confidence, but withdrew from the parliamentary session prior to the vote. The opposition of the 14 March Coalition to the Government was centred primarily on the Government's prospective approach to, and dealings with, the STL, as well as the fate of Hizbollah's weapons. On 28 June 2011, the Pre-Trial Judge of the STL confirmed an indictment filed by the then Prosecutor of the STL in the case of the assassination of, among others, former Prime Minister Rafik Hariri. The indictment and accompanying arrest warrants for four individuals, who are reportedly members of Hizbollah, were transmitted to the Lebanese authorities on 30 June 2011. According to STL procedures, the Lebanese authorities were required to inform the President of the STL within 30 days after the confirmation of the indictment of the measures Lebanon had taken to arrest the persons named in the indictment. The Lebanese authorities informed the STL that they were unable to locate or arrest these individuals. On 30 November 2011, the Government transferred U.S.$32 million to cover Lebanon's share of the STL's expenses for 2011. The Association of Lebanese Banks subsequently announced that it transferred funds in the same amount to the Government as an act of support to the Government.

The political effects of the current internal conflict in Syria are escalating the tension among the different Lebanese political parties, which may lead to more clashes between supporters of the Syrian government and supporters of the Syrian opposition. This is becoming more visible as a result of the adverse events that have occurred in Tripoli and other regions of Lebanon.

There were also armed clashes over several days in the spring of 2012 in Tripoli between residents of the Jabal Mohsen neighbourhood, who are thought to be supportive of the Syrian government, and residents of the Bab Al-Tabbaneh neighbourhood, who are thought to be opposed to the Syrian government. The clashes resulted in 18 deaths and more than 70 injuries. There were further armed clashes in August 2012 in Tripoli between residents of the neighbourhoods. The clashes resulted in 12 further deaths and more than 100 injuries. The Lebanese army and internal security forces have largely restored order in the city. All political parties in Tripoli have undertaken to support order and stability in the city.

On 9 August 2012, former minister Michel Samaha was arrested and subsequently indicted for preparing to incite sectarian trouble through terrorist attacks in Lebanon. An arrest warrant was also issued by Lebanese authorities for a high-ranking Syrian official. The investigation is ongoing.

There were further sectarian armed clashes in August 2012 in Tripoli between armed groups in the Jabel Mohsen and the Bab Al-Tabbaneh neighbourhoods. The clashes resulted in 12 deaths and more than 100 injuries. The Lebanese army and internal security forces had largely restored order in the city, but clashes resumed after the death of Brigadier General Wissam al-Hassan. These clashes have since eased.

On 19 October 2012, a car bomb exploded in the Ashrafiyeh district of Beirut, killing Brigadier General Wissam al-Hassan, the head of the Intelligence Bureau of the Internal Security Forces, his assistant and another person and wounding over 100 people. There were protests, sometimes violent, following this assassination by supporters of the 14 March Coalition, which is in opposition. The 14 March Coalition has called for the resignation of the Prime Minister and the Cabinet, and certain parties, including the Future Party and the Lebanese Forces, have also called for a boycott of Parliamentary sessions and other dealings with the Cabinet until the Cabinet resigns. The President is conducting consultations with the major political parties to discuss the possible formation of a cabinet of national unity. In a meeting with the President on 22 October 2012, a senior United Nations official and representatives of the five permanent members of the Security Council condemned the attempts to destabilise Lebanon through political assassination and expressed their determination to support the Government of Lebanon to put an end to impunity.

Any deterioration of the political, social, economic and security environments in Lebanon could materially affect the political, economic and financial climate in Lebanon and, accordingly, would have a material adverse effect on the Bank's business, liquidity, results of operations, financial condition and prospects.

Regional and International Considerations; Events in Syria

Lebanon is located in a region that is and has been subject to ongoing political and security concerns. Political instability in the MENA region has increased since the terrorist attacks of 11 September 2001, the U.S. intervention in Iraq, Iran's reported nuclear programme and the ongoing violence in Syria. Some Middle Eastern and North African countries have experienced in the recent past or are currently experiencing political, social and economic instability, extremism, terrorism, armed conflicts and war, some of which have negatively affected Lebanon and are likely to continue to do so.

Since January 2011, a number of Arab countries have experienced significant political and military upheaval, conflict and revolutions leading to the departure of long-term rulers in Tunisia, Egypt, Yemen and Libya. The continuation of such events or the outbreak of new problems in such regions could negatively affect Lebanon's economy. Syria has recently been experiencing significant civil unrest and internal conflict. Although the stated policy of the Government has been to maintain neutrality with respect to the events in Syria in an attempt to shield Lebanon from any repercussions, these events have had, and are likely to continue to have, an adverse impact on the political and economic situation in Lebanon. These adverse economic consequences include, among others, a disruption to the transit of Lebanese and international goods through Syria, resulting in higher transit fees for Lebanese exporters, a decline in tourism from Syria and other Arab countries, the incursion of violence from Syria into Lebanon and losses incurred by Lebanese companies, including financial institutions, with subsidiaries or affiliates in Syria. There are divisions in Lebanon between supporters of the Syrian government and supporters of the Syrian opposition.

In addition, Lebanon has experienced an inflow of Syrian refugees fleeing the conflict. If this increases, it may have an adverse impact on Lebanon, particularly on Lebanon's natural resources, housing and food.

As a result of the political turmoil and social instability in Lebanon and the surrounding region, especially Syria, 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.

In addition, there is a significant risk of events in the countries bordering Lebanon spilling over into Lebanon. For example, in retaliation for the detention of a member of the Lebanese Al-Meqdad clan in Syria, reportedly by the Free Syrian Army, in August 2012, members of the clan abducted individuals, including two Turkish and a number of Syrian nationals. A number of other kidnappings for ransom took place in Lebanese territory. As a result, Turkey, Saudi Arabia, Qatar and other Gulf countries have issued travel warnings for their citizens about travel to Lebanon. The Lebanese Army and internal security forces rescued a number of detainees and other kidnap victims and arrested some of the perpetrators.

On 17 September 2012, Syrian aircraft fired missiles into Lebanese territory near the border town of Arsal. President Sleiman has ordered an investigation into this event and other border violations.

The social, political and economic conditions behind the unrest in the region are not likely to be resolved in the near future and, accordingly, could continue to materially adversely affect Lebanon's economy. If future disturbances were to occur, they could lead to further political and economic instability, as well as a loss of confidence in business investment in Lebanon, which would have a material adverse effect on the Bank's business, liquidity, results of operations, financial condition and prospects.

Global Financial Crisis

The recent global financial crisis contributed to the failures of a number of financial institutions in the United States and Europe and unprecedented action by governmental authorities, regulators and central banks around the world. Its effects continue to be felt, with some countries, in particular in the European Union (the "**EU**"), experiencing difficulties with refinancing their debt obligations. As a result of market turmoil, there is significant price volatility in the secondary market for instruments similar to the Fiduciary Notes. Moreover, systemic risk within the financial system and the related general deterioration in global economic conditions could result in a decline in the recoverability and value of the market price of the Fiduciary Notes.

It is difficult to predict how long the volatility in the financial sector and capital markets will persist or whether related concerns about further failures of financial and other institutions will exacerbate the prevailing difficulties in the global economy and, accordingly, it is not possible to foresee the specific impacts these conditions may have on the Bank. Although the Bank intends to continue to focus on controlled growth and asset quality, any contraction of its key markets will impact the Bank. If current global market conditions and circumstances deteriorate further, or continue for protracted periods of time, this could lead to a decline in available funding and credit quality and increases in defaults and non-performing debt, which may impact the rating, investments and finances of the Bank. In particular, the global financial crisis and general slowdown in economic activity in Lebanon may have adverse effects on the Bank's assets and profitability.

As a result of all of the foregoing, there is significant price volatility in the secondary market for instruments similar to the Fiduciary Notes and the systemic risks within the financial system and any related general deterioration in global economic conditions could result in a decline in the market price of the Fiduciary Notes.

Lebanese Banking Sector

On 10 February 2011, the U.S. Department of the Treasury designated Lebanese Canadian Bank, s.a.l. ("**LCB**") as "a financial institution of primary money laundering concern" under Section 311 of the U.S. PATRIOT Act. In its finding, the U.S. Department of the Treasury noted that the Lebanese banking sector generally faces certain vulnerabilities. The Central Bank is taking measures to address the concerns raised by the U.S. Department of the Treasury and has arranged for the sale of assets of LCB. In April 2011, the U.S. Ambassador to Lebanon stated that the U.S. government is not targeting the Lebanese banking sector in general and views LCB as an isolated case. The U.S. government has since filed a claim in New York against LCB and other parties seeking to attach certain assets. On 20 August 2012, the U.S. Attorney for the Southern District of New York and the U.S. Drug Enforcement Administration announced the seizure of U.S.$150 million from an account at a U.S. bank maintained by a Lebanese bank other than the Bank or LCB. The U.S. Attorney stated that the seized funds are substitutes for funds held in an escrow account for LCB shareholders maintained at the Lebanese bank and further stated that there were no allegations of wrongdoing against the affected Lebanese bank or the correspondent U.S. bank. Although the Bank is not a party to these proceedings, further claims or actions filed against other participants in the Lebanese banking sector could further damage the sector, including, *inter alia*, to the sector's international reputation, which could, in turn, 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.

United Against Nuclear Iran ("**UANI**"), a New York-based advocacy group that seeks to prevent Iran from obtaining nuclear weapons, has launched a campaign against the Lebanese banking sector, the Central Bank and Lebanon, alleging, *inter alia*, that the Lebanese banking sector and the Central Bank have been engaged in money laundering activities and facilitating the evasion of international sanctions imposed upon Iran. UANI has called on international holders of Lebanese sovereign debt to divest their ownership of such securities. Although Lebanon has stated that it views UANI's allegations as being without merit, if UANI is successful in leading a divestiture of Lebanese sovereign or other securities, it could have a material adverse effect on the banking sector and the Bank's business, liquidity, results of operations, financial condition and prospects, as well as other Lebanese banks.

Budget Deficit and Public Debt

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. Total expenditures increased by approximately 3.2% in 2011, as compared to 2010. Net outstanding public debt as a percentage of estimated GDP increased from approximately 46% in 1992 to approximately 169% as of 31 December 2006 before decreasing to 156% as of 31 December 2007, 140% as of 31 December 2008, 127% as of 31 December 2009, 121% as of 31 December 2010 and 119% as of 31 December 2011. Despite this trend, Lebanon is suffering from a large budget deficit and the debt burden of the Lebanese Government is significant, accounting for the largest part of expenditures in recent years. In 2011, debt service represented approximately 42.9% of total expenditures and 34.3% of total revenues.

The Government has been authorized to incur significant additional expenditures, including under Law № 181, providing for an increase in electricity production capacity and the expenditure of an aggregate of approximately U.S.$1.2 billion over a four-year period commencing in 2011. The Ministry of Finance accounted for the 2011 expenditures under Law № 181 in its current spending plan for the year and for the 2012 expenditures in the draft 2012 budget originally submitted by the Minister of Finance to the Council of Ministers, but which has since been withdrawn. This and other expenditures, such as an expected increase in public sector wages, pursuant to a proposal to be submitted to Parliament by the Government, following an increase in private sector wages (from LBP 500,000 to LBP 675,000), could have a negative effect on budgetary performance if not offset by revenue compensatory measures or a reduction in expenditure.

On 19 September 2012, the Council of Ministers approved a draft law authorising the Government to spend up to LBP 2.4 trillion (equivalent to U.S.$1,592 million) over the next five years for the purposes of equipping the Lebanese army. The draft law has not yet been transmitted to Parliament. If the law is passed, disbursements in 2013 should not exceed U.S.$100 million, although the Council of Ministers' resolution notes that the Government will endeavour to finance most of these expenditures through grants.

The further growth of the Government's debt and the inability of the Government to reduce Government debt could adversely affect the Lebanese economy, which could, in turn, have a material adverse effect on the financial condition, results of operation and profitability of the Bank.

Foreign Exchange Risk; Monetary Policy

Lebanon's economy is highly dollarized. The Central Bank's data indicate that the proportion of foreign currency deposits as a share of total deposits stood at approximately 64% as at 31 December 2009, 63% as at 31 December 2010 and 66% as at 31 December 2011.

The Central Bank's exchange rate policy since October 1992 has been to anchor the Lebanese Pound's 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, although it has come under pressure during periods of political instability. Although the Lebanese authorities have indicated that they expect to continue to gear 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.

Any 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 Lebanon's ability to service its debt, which could have a material adverse effect on the Bank's business, liquidity, results of operations, financial condition and prospects.

Furthermore, any such depreciation could adversely affect the financial condition or results of operations of Lebanese companies generally, including the Bank and its customers located or doing business in Lebanon. As 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.

Prices and Inflation

Depreciation of the Lebanese Pound has created pressure on the domestic price system that generated high rates of inflation, reaching 120% in 1992 prior to the first Hariri Government. Since 2001, estimated inflation has moderated, but has fluctuated considerably. Inflation increased in 2010, with the Central Administration of Statistics ("**CAS**") estimating inflation at 4.6% on an end-of-period basis and 4.0% on a period-average basis, and the International Monetary Fund ("**IMF**") estimating inflation at 4.5% on a period-average basis. Inflation in 2011 was estimated by CAS at 3.1% on an end-of-period basis, and compared to 5.5% according to the IMF's estimate. On a period-average basis, inflation in 2011 increased, with CAS estimating inflation at 5.1%, compared to an IMF estimate of 5.4% The increases in both 2010 and 2011 were principally due to the worldwide increase in energy, food and other commodity prices. The inflation figure published by CAS for September 2012 (as compared to September 2011) was 10.3%, due mainly to increases in the prices of housing and alcoholic beverages and tobacco. The IMF's preliminary inflation projection is 4.0% for 2012 and 3.3% for 2013 on a period-average basis.

There is no assurance that inflation will not rise in the future. An increase in inflation would have a material adverse effect on Lebanon's economy and, in turn, could have a material adverse effect on the Bank's business, liquidity, results of operations, financial condition and prospects.

Risk Factors relating to the Bank and the Lebanese Banking Industry

Exposure to Lebanese Sovereign Risks

In common with other Lebanese banks, a significant portion of the Bank's liquidity in both Lebanese Pounds and foreign currency is invested in 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 30 June 2012, 31 December 2011 and 31 December 2010, with Lebanese treasury bills and bonds and placements with the Central Bank (in both Lebanese Pounds and foreign currency) comprising 49.4% of the Bank's interest-earning assets as at 30 June 2012, as compared to 47.5% as at the end of 2011 and 48.2% as at the end of 2010. In addition, in the six-month period ended 30 June 2012, 48.7% of the Bank's revenues (interest income, commissions received, profit on financial operations and other income) derived from Government securities and Central Bank placements. Government securities and Central Bank placements comprised 51.3% of the Bank's revenues (interest income, commissions received, profit on financial operations and other income) in 2011, as compared to 56.4% in 2010. Such investments are generally considered to be relatively illiquid such 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 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

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

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;
- limitations on foreign ownership of banking or corporate institutions; and
- the incurrence of debt and the assumption of liabilities, including contingent liabilities.

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.

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, Syria and DR Congo

The Bank has banking operations in Sudan and Syria, which respectively accounted for 3.4% and 0.8%, respectively, of the Bank's consolidated net income in the six-month period ended 30 June 2012. Such operations accounted for 3.1% and 1.9%, respectively, of the Bank's consolidated net income in 2011, as compared to 5.1% and 3.0%, respectively, in 2010. In March 2010, the Bank started banking operations in DR Congo, which accounted for (0.03%) of the Bank's consolidated net income for the six-month period ended 30 June 2012. Such operations accounted for 0.7% of the Bank's consolidated net income in 2011, as compared to (1.9)% in 2010. See "*Overview of the Bank—Subsidiaries*". The U.S. Treasury Department Office of Foreign Assets Control ("**OFAC**") administers separate sanctions regimes for each of these countries.

OFAC regulations impose 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. Certain Sudanese individuals and entities have also been placed on the List of Specially Designated Nationals ("**SDNs**"), a listing that is subject to separate OFAC sanctions. 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, 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.

On 12 April 2011, OFAC released guidance regarding the application of the Sudanese Sanctions Regulations to the new state to be formed in July 2011 by the secession of Southern Sudan. OFAC noted that none of the sanctions currently imposed on Sudan and the Sudanese Government will apply to the new Southern Sudan state. However, activities performed in the new state that involve the Sudanese Government will be subject to the pre-existing OFAC sanctions.

OFAC administers sanctions on Syria prohibiting U.S. persons from engaging in certain transactions, including investments, with the Syrian Government. Certain Syrian individuals and entities have also been placed on the List of SDNs.

In 2003, the United States enacted the Syria Accountability and Lebanese Sovereignty Restoration Act of 2003, which authorizes the potential imposition of a number of sanctions on Syria. Some of these sanctions have already been imposed, including a general prohibition of U.S. exports to Syria, except for food and medicine; a prohibition of flights from Syria to the United States; and sanctions against Syria's largest bank, the Commercial Bank of Syria.

In recent years, Syria's relations with the United States have deteriorated further. On 29 April 2011, the President of the United States signed an Executive Order that, among other things, placed certain Syrian individuals and entities on the List of SDNs. In a speech to the United Nations General Assembly in September 2012, the President called for an end to violence and a political transition. If relations between the United States and Syria deteriorate significantly, it is possible that the Bank's operations in Syria may be affected.

OFAC administers sanctions on DR Congo that consist entirely of placing certain persons and entities on the List of SDNs.

OFAC imposes sanctions on SDN property and SDN property interests broadly defined that are in the United States or that come within the possession or control of U.S. persons. The List of SDNs includes but is not limited to those SDNs of Sudan, Syria and DR Congo. SDNs may be located in a variety of jurisdictions and include, among others, persons or entities alleged to be supporting terrorism or drug trafficking.

There can be no assurance regarding OFAC's enforcement policy with regard to Sudan, Syria, DR Congo 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, Syrian or Congolese operations. Dealing in the property, or property interests of SDNs, especially property or property interests that may flow through the U.S. banking system, could pose a risk of disruption to the Bank's operations. The imposition of any OFAC sanctions or designations of individuals or entities within the Bank as SDNs may result in U.S. persons or affiliates associated with the Bank being subject to restrictions and penalties.

All of these OFAC sanctions could have a material adverse effect on the Bank's business, liquidity, results of operations, financial condition and prospects.

Liquidity and Maturity Mismatching

Although the Bank's balance sheet appears to indicate a high level of liquidity, the Bank, along with other Lebanese financial institutions, has utilized a portion of these liquidity levels to invest in longer-term higher-yielding assets, namely Lebanese treasury bills and other financial papers traded in regulated markets. While much of the Bank's investment portfolio is funded by comparatively shorter-term customer deposits, the investments are comprised principally of Lebanese governmental securities, including, in particular, Lebanese treasury bills, which are often, in practice, characterized by limited liquidity. See "—*Exposure to Lebanese Sovereign 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, investors should not assume that the Bank's liquidity, as measured by its balance sheet, will continue to be available, but instead should be aware that the Bank, in common with other banks in Lebanon, may be required to rely on other, more expensive funding sources in order to finance growth in its loan portfolio. Any failure to source funding through less expensive deposits, if at all, would have a material adverse effect on the Bank's business, liquidity, results of operations, financial condition and prospects.

Interest Rate Sensitivity

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

Ordinary Course Banking Risks

In the ordinary course of its business activities, the Bank is exposed, in common with other commercial banks, to a variety of financial, market and operational risks, including credit risk, market risk, currency risk, interest rate risk, prepayment risk, equity price risk, liquidity risk and operational risk. Whilst Management believes that these risk management policies and procedures are appropriate and sufficient to control and mitigate such risks, any failure to adequately control these risks could be greater than anticipated and could, in turn, have a material adverse effect on the Lebanese economy, 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 № 9302 dated 1 April 2006, as amended ("**Decision 9302**"), adopted with respect to the application of the Basel II International Convention regarding Capital Adequacy (the "**Basel II Accord**"), all banks operating in Lebanon must apply the Basel II Accord for the calculation of capital adequacy on a consolidated and non-consolidated basis, where applicable, from 1 January 2008 in accordance with the standards set forth in Decision 9302 and any subsequent decisions adopted in that regard. Since 31 December 2006, Lebanese banks have included 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 Accord 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.

In addition, in order to increase the capital resources of the Lebanese banking sector and to respond to potential and unexpected losses, in December 2011, the Central Bank issued Intermediary Circular № 282 requiring banks to gradually raise their capital adequacy ratios by the end of 2015. Pursuant to the circular, banks are required to have raised their Common Equity Tier 1 ratio to 8 percent (defined as the ratio of common equity Tier 1 capital to total weighted assets), their Tier 1 ratio to 10% (defined as the ratio of Tier 1 capital to total weighted assets) and their total capital ratio to 12% (defined as the ratio of the sum of the Tier 1 ratio and the Tier 2 ratio to total weighted assets) by the end of 2015. The circular also imposes intermediate annual thresholds for such ratios from the end of 2012. The requirements are in line with the Basel III accord.

These requirements 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 Lebanon is competitive. As at 30 September 2012, based on information from the *Association des Banques au Liban*, there were 54 active commercial banks, with 948 operational branches in Lebanon, 52 financial institutions, 17 specialized medium and long-term credit banks and 11 brokerage firms in Lebanon, which has a population of approximately 4.0 million people. These banks include large international financial institutions with access to larger and cheaper sources of funding. Competition to attract depositors and quality borrowers and to provide fee-based services to customers has been particularly intense since the end of the civil war in 1990. Due to the intensity of such competition and the increasing number of institutions offering financial and banking services in Lebanon, in common with other Lebanese banks, the Bank's average cost of deposits and lending margins, have decreased. Depending on the continuing extent and intensity of the competition, in common with other Lebanese banks, the Bank's interest expenses may increase and its revenues may decrease.

Service of Process; Enforcement of Liabilities and Foreign Judgments

Legal recourse against the Bank may be limited. The Bank is a joint-stock company organized under the laws of Lebanon. Moreover, most of the members of the Board of Directors (the "**Board of Directors**" or the "**Board**") and executive officers of the Bank 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 judgments obtained against such parties outside Lebanon. Enforcement of such foreign judgments in Lebanon is subject to the satisfaction of various conditions (including that such judgments 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% 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% of the amount claimed.

Risk Factors Relating to the Fiduciary Notes

Nature and Scope of the Obligations and Liabilities of the Fiduciary

The Fiduciary Notes do not constitute direct debt obligations of the Fiduciary. The Fiduciary's payment obligations in respect of the Fiduciary Notes are conditional upon the due performance by the Bank of its obligations under the Subordinated Loan and, in any event, upon the actual receipt or recovery by the Fiduciary of principal, interest and other amounts (including Additional Amounts), if any, in respect of the Subordinated Loan (subject to certain permitted deductions). In the event that the Bank fails in whole or in part to make payments when due and payable under the Subordinated Loan, the Fiduciary will not be obliged to make good any shortfall from its own funds and will not be obliged to make any payments to the Holders. The Fiduciary assumes no responsibility with regard to the financial condition of the Bank or the legality or enforceability of the Subordinated Loan. The Subordinated Loan is a fiduciary asset *(patrimoine fiduciaire)* of the Fiduciary and is held solely at the risk and for the account of the Holders. Under the terms and conditions of the Fiduciary Notes and the Fiduciary Contract, the Fiduciary has restricted disclosure obligations to the Holders and is liable only in very limited circumstances. The Holders, by accepting any Fiduciary Notes, have agreed to all the provisions of the Fiduciary Contract applicable to it.

The Fiduciary is not required to request, control or demand any information or document issued by, or relating to, the Bank, seek any remedy or take any enforcement action in connection with the Subordinated Loan or exercise its conversion rights thereunder, unless instructed to do so by the Holders and duly indemnified therefor, as more fully explained in the Fiduciary Contract and Terms and Conditions of the Fiduciary Notes.

The liability of the Fiduciary is limited to its wilful misconduct, gross negiligence or bad faith. The Fiduciary is not liable for indirect damage or consequential damage of any kind whatsoever (including lost profit), regardless of whether or not such damage was forseeable. This limitation of liability applies to all claims, regardless of their nature or legal ground. Actions against the Fiduciary may only be brought in the courts of Luxembourg-city (Grand Duchy of Luxembourg).

Limited Recourse

The entitlement of the Holders to receive payments in respect of the Fiduciary Notes is entirely dependent upon the actual receipt or recovery by the Fiduciary of principal, interest or other amounts (including Additional Amounts), if any, under the Subordinated Loan (subject to certain permitted deductions).. Holders do not possess directly enforceable rights, whether by way of a security interest or otherwise, against the Bank. Apart from principal, interest or other amounts (if any) actually received or recovered by the Fiduciary in respect of the Subordinated Loan, none of the other assets or sources of revenue of the Fiduciary or the Bank are available to satisfy payment obligations under the Fiduciary Notes.

Subordination

The obligations of the Bank in respect of the Subordinated Loan will constitute direct, unsecured and general obligations of the Borrower, subordinated to the effect that, in the event of a bankruptcy, suspension of payments, reorganization, dissolution, winding up, liquidation or composition or arrangement with creditors of the Borrower, the claims of the Fiduciary in respect of the Subordinated Loan will rank junior in right of payment to the claims of holders of unsecured and unsubordinated payment obligations of the Bank, *pari passu* with the claims of holders of all other subordinated indebtedness of the Bank and in priority to the claims of shareholders of the Bank (including, without limitation, holders of Preferred Shares of the Bank), including in respect of cash contributions to capital. As such, there can be no assurance that the Fiduciary will receive all monies due to it under the Subordinated Loan and, accordingly, that Holders will receive a return of all or any of their investment.

Interest Payments are Subject to the Bank's Available Profits

The Fiduciary's payment obligations in respect of interest on the Fiduciary Notes are conditional upon the recovery of interest received in respect of the Subordinated Loan. Pursuant to Decision 6830, interest will only be payable on the Subordinated Loan if the Bank has Sufficient Available Profit for the Relevant Quarter for the purpose. To the extent that the Bank does not have Sufficient Available Profit for the Relevant Quarter to pay all or any portion of the accrued but unpaid interest due in respect of the Subordinated Loan on any Loan Interest Payment Date, the requirement to pay the Interest Shortfall shall be deferred such that any Interest Shortfall shall become due and payable on the next Loan Interest Payment Date falling within the same calendar year to the extent that the Borrower then has Sufficient Available Profit for the Relevant Quarter to cover, in addition to the amount of interest due and payable on the Subordinated Loan on such next Loan Interest Payment Date, all or any portion of such Interest Shortfall. Any Interest Shortfall not covered by Sufficient Available Profit for the Relevant Quarter shall remain outstanding until fully paid in accordance herewith; provided that, in the event that the Borrower does not have Sufficient Available Profit for the Relevant Quarter to pay all or any portion of such Interest Shortfall on a Loan Interest Payment Date falling within the same calendar year in which such Interest Shortfall arose, the Borrower's obligation to pay such Interest Shortfall (or any portion thereof), in cash, shall be cancelled and, subject only to the Holder's Conversion Right (as defined below), such Interest Shortfall shall no longer be due and payable and the Lender shall have no claim against the Borrower or any other Person at any time in respect thereof. In any event, no interest shall accrue on any Interest Shortfall, and neither the Lender nor any Holders shall be entitled to receive any substitute or additional amounts as a result of any non-payment of any Interest Shortfall. Accordingly, there can be no assurance that Holders will receive full payment of expected interest on the Fiduciary Notes.

Central Bank Approval for Conversion and Other Matters

The right of the Fiduciary to convert the Subordinated Loan and, accordingly, the right of the Holders to convert Fiduciary Notes, into Byblos Bank Shares or Byblos Bank GDRs, as well as the obligation of the Bank to settle any failure to convert in cash, the obligation of the Bank to deliver Byblos Bank Shares or Byblos Bank GDRs upon conversion, the obligation of the Fiduciary to re-register such Byblos Bank Shares in the name of a Holder and the right of the Lender to exercise the priority subscription rights afforded to it in the Subordinated Loan, may be subject to the prior approval of the Central Bank. There can be no assurance that such approval will be obtained in a timely manner or at all.

Limited Rights of Holders Prior to Conversion

Unless and until they acquire Byblos Bank Shares or Byblos Bank GDRs upon conversion of the Fiduciary Notes, Holders will have no rights with respect to the Byblos Bank Shares, including any voting rights or rights to receive any regular dividends or other distributions with respect to the Byblos Bank Shares. Holders who acquire Byblos Bank Shares or Byblos Bank GDRs upon the exercise of the Holder Conversion Right will be entitled to exercise the rights of holders of Byblos Bank Shares or Byblos Bank GDRs only as to actions for which the applicable record date occurs after the Conversion Date.

Delivery of Byblos Bank Shares and Byblos Bank GDRs

It may take some time after the relevant Conversion Date before the Byblos Bank Shares or Byblos Bank GDRs arising from the conversion of the Fiduciary Notes are delivered and credited to a Holder's securities account. The Bank has undertaken in the Subordinated Loan to take all steps necessary to issue and deliver, or to cause the issuance and delivery of, the Byblos Bank Shares or Byblos Bank GDRs (as the case may be) within 30 days of receipt of a notice of conversion from the Fiduciary, subject to the approval of the Central Bank, if applicable. Byblos Bank Shares to which Holders are entitled will (subject to the approval of the Central Bank, if applicable) be registered in the books maintained by Midclear in the name of the relevant Holder and held in the Midclear account of Byblos Bank S.A.L., subject to standard custody arrangements between such Holder and Byblos Bank S.A.L. (in its capacity as a participant in Midclear), pursuant to which (among other things) distributions (if any) in respect of such Byblos Bank Shares will be made to Byblos Bank S.A.L. (in its capacity as a participant in Midclear) for the benefit of such Holder; it being understood that any Holder may, at any time, request that Byblos Bank S.A.L. arrange for the transfer of the custody of all or a portion of the Byblos Bank Shares owned by such Holder to another participant in Midclear.

Until such time as Byblos Bank Shares or Byblos Bank GDRs are credited to a Holder's securities account, the price of the Byblos Bank Shares or the Byblos Bank GDRs, as the case may be, may fluctuate and this may have an adverse effect on the price that the Holder anticipates to receive upon conversion of its Fiduciary Notes. Moreover, the Byblos Bank Shares or Byblos Bank GDRs, which a Holder becomes entitled to receive upon conversion of its Fiduciary Notes, if newly issued, will have to be listed on the Beirut Stock Exchange and the London Stock Exchange, respectively, before they are tradable on such stock exchanges. There is no assurance that any required approval of the Beirut Stock Exchange or the London Stock Exchange, as applicable, will be obtained in a timely manner, or at all. If there is any delay in obtaining the approval of the Beirut Stock Exchange and the London Stock Exchange to list such Byblos Bank Shares and Byblos Bank GDRs, or such approval is not obtained, the Byblos Bank Shares or Byblos Bank GDRs, as the case may be, received by a Holder upon conversion of its Fiduciary Notes shall not be tradable on the relevant exchange until such listing occurs and, accordingly, will be illiquid.

Future issues or sales of Byblos Bank Shares and Byblos Bank GDRs

Any future issuances of Byblos Bank Shares or Byblos Bank GDRs or the disposal, encumbrance or pledge of a significant block or number of Byblos Bank Shares or Byblos Bank GDRs by an existing holder, or the perception of such issuances, sales, encumbrances or pledge, may significantly affect the trading price of the Byblos Bank Shares and of the Byblos Bank GDRs and, accordingly, of the Fiduciary Notes. The Bank has agreed to certain anti-dilution protections in the Subordinated Loan. Except for such protections, there is no restriction on the Bank's ability to issue Byblos Bank Shares or to arrange for the issuance of Byblos Bank GDRs, and there can be no assurance that the Bank will not do so or that any holder of Byblos Bank Shares or Byblos Bank GDRs will not dispose of, encumber or pledge its Byblos Bank Shares or Byblos Bank GDRs.

No Market and Illiquidity

The Fiduciary Notes are a new issue of securities with no established trading market. The Fiduciary Notes will not be listed or traded on any stock exchange or any other regulated market. The Placement Agent does not intend to make a market in the Notes. Accordingly, the purchase of Fiduciary Notes is suitable only for investors who can bear the risks of no liquidity and the financial and other risks associated with an investment in the Fiduciary Notes and who are willing and able to hold the Fiduciary Notes until conversion or their final maturity.

Suitability of Fiduciary Notes as an Investment

Each prospective purchaser in the Fiduciary Notes must determine the suitability of that investment in light of its own circumstances. In particular, each prospective purchaser should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Fiduciary Notes, the merits and risks of investing in the Fiduciary Notes and the information contained in this Offering Circular or any applicable supplement;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Fiduciary Notes and the impact the Fiduciary Notes will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Fiduciary Notes, including where the currency for the payment of amounts due is different from the investor's currency;

- understand thoroughly the terms of the Fiduciary Notes and be familiar with the financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal Investment Considerations

The investment activities of certain investors are subject to legal investment laws and regulation, or review or regulation by certain authorities. Each prospective purchaser should consult its legal advisers to determine whether and to what extent: (i) the Fiduciary Notes are legal investments for it; (ii) the Fiduciary Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of the Fiduciary Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Fiduciary Notes under any applicable risk-based capital or similar rules.

Early Prepayment

The Subordinated Loan provides for certain optional prepayment rights exercisable by the Bank, including in the event that the Bank is obliged to pay Additional Amounts payable in respect of the Subordinated Loan above a certain level due to any change or amendment to the laws or regulations of Lebanon or any political subdivision of or any authority thereof or therein having power to tax or any change in the application or official interpretation of such laws or regulations. In the event that the Bank prepays the Subordinated Loan, the Fiduciary is obliged to redeem the Notes in accordance with the Conditions. See "*Fiduciary Contract and Terms and Conditions of the Fiduciary Notes—9. Prepayment and Purchase Rights*".

Credit Risk

The Holders will be assuming credit risk in relation to the Bank. Accordingly, the Holders may suffer direct and materially adverse consequences, including, but not limited to, non-payment of principal, interest or other amounts, if any, due and payable by the Bank in respect of the Subordinated Loan, in circumstances where the financial condition of the Bank deteriorates. Moreover, under the terms of the Subordinated Loan, accrued interest on the Subordinated Loan is due and payable on any Loan Interest Payment Date only to the extent that the Bank has Sufficient Available Profits for the Relevant Quarter. In the event that the Bank does not have Sufficient Available Profit for the Relevant Quarter to pay all or any portion of any Interest Shortfall on a Loan Interest Payment Date that falls within the same fiscal year in which such Interest Shortfall arose, the Borrower's obligation to pay such Interest Shortfall in cash shall be cancelled and, subject as otherwise provided in the Subordinated Loan Agreement with respect to the conversion of Interest Shortfall into Byblos Bank Shares or Byblos Bank GDRs, such Interest Shortfall shall no longer be due and payable and Holders shall have no claim against the Bank, the Lender, the Fiduciary or any other Person at any time in respect thereof.

Modification

The terms and conditions of the Fiduciary Notes contain provisions for calling meetings of Holders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Holders, including Holders who did not attend and vote at the relevant meeting and Holders who voted in a manner contrary to the relevant majority. See *"Fiduciary Contract and Terms and Conditions of the Fiduciary Notes—13. Modification and Waiver"*.

No Insurance

The Fiduciary Notes (i) are not guaranteed, insured or otherwise backed, by the credit of any government or any agency or political subdivision thereof, and (ii) are not guaranteed or insured by any private deposit insurance corporation or agency.

USE OF PROCEEDS

The net proceeds of the issue of the Fiduciary Notes will be used by Fiduciary, in its capacity as the Lender under the Subordinated Loan Agreement, to make the Subordinated Loan to the Borrower. The net proceeds of the Subordinated Loan will, in turn, be used by the Bank for general corporate purposes. The Bank has undertaken not to use any of such proceeds in Sudan, Syria or DR Congo.

The expenses incurred in connection with the issue of the Fiduciary Notes and the making of the Subordinated Loan (approximately U.S.$250,000) will be paid by the Bank for, or on behalf of the Fiduciary or the Lender, as the case may be, on or around the Issue Date.

STATEMENT OF CAPITAL AND LONG-TERM LIABILITIES

The following table sets forth the consolidated long-term liabilities and shareholders' equity of the Bank as at the dates indicated:

	As at and for the years ended 31 December				As at and for the six month period ended 30 June 2012	
	2010		2011			
	(U.S.$ thousands)[(1)]	*(LBP millions)*	*(U.S.$ thousands)*[(1)]	*(LBP millions)*	*(U.S.$ thousands)*[(1)]	*(LBP millions)*
	(audited)				*(unaudited)*	
Long-term liabilities						
Banque du Liban	5,847	8,814	5,847	8,814	5,847	8,814
Central Banks	7,052	10,631	4,519	6,812	10,863	16,376
Certificates of deposits[(2)]	141,600	213,462	141,600	213,462	40,450	60,978
Eurobonds	—	—	297,310	448,174	297,189	448,013
Arab Trade Finance Program[(3)]	9,101	13,720	23,491	35,412	13,646	20,572
Proparco[(4)]	7,198	10,851	4,941	7,448	4,144	6,247
OPEC Fund for International Development[(5)]	10,000	15,075	14,000	21,105	14,000	21,105
European Investment Bank[(6)]	168,961	254,708	155,674	234,678	132,686	200,025
Govco Incorporated NY[(7)]	70,357	106,063	64,714	97,557	61,893	93,303
Citibank loan[(7)]	8,667	13,065	6,833	10,301	5,917	8,919
Agence Française de Développement[(8)]	37,614	56,703	41,203	62,114	37,593	56,671
European Bank for Reconstruction and Development	—	—	5,000	7,538	4,286	6,461
The European Fund for Southeast Europe (EFSE)	—	—	—	—	3,095	4,666
Subordinated notes	31,169	46,988	31,169	46,988	—	—
Convertible subordinated notes.	173,000	260,798	173,000	260,798	169,977	256,240
Interest payable	7,438	11,213	8,403	12,667	6,593	9,940
Unamortized front-end fees and cost of issuance.	(5,915)	(8,917)	(3,214)	(4,845)	(1,853)	(2,793)
End of service indemnity	20,512	30,922	24,632	37,133	26,550	40,024
Total long-term-liabilities	**692,601**	**1,044,096**	**999,122**	**1,506,156**	**832,876**	**1,255,561**
Shareholders' equity						
Issued and paid-in capital	457,123	689,113	457,123	689,113	457,123	689,113
Reserves and premiums	853,150	1,286,123	902,866	1,361,071	963,125	1,451,911
Notes issued	9,936	14,979	9,936	14,979	9,936	14,979
Treasury shares	(10,739)	(16,189)	(16,899)	(25,476)	(16,777)	(25,292)
Retained earnings	10,935	16,484	43,260	65,214	48,804	73,572
Net income	169,665	255,770	172,401	259,894	77,611	116,999
Revaluation variance	1,312	1,978	1,312	1,978	1,312	1,978
Fair value changes	35,816	53,993	(13,636)	(20,556)	(16,562)	(24,967)
Foreign currency translation reserve	(6,350)	(9,573)	(20,782)	(31,329)	(57,527)	(86,721)
Minority shareholders	106,155	160,029	110,235	166,179	85,827	129,382
Total shareholders' equity[(9)]	**1,627,003**	**2,452,707**	**1,645,816**	**2,481,067**	**1,552,872**	**2,340,954**
Total capitalization	**2,319,604**	**3,496,803**	**2,644,938**	**3,987,223**	**2,385,748**	**3,596,515**

Notes:

(1) Translated at U.S.$1.00 = LBP 1,507.5, which was the closing exchange rate on each of 31 December 2010, 31 December 2011 and 30 June 2012 as reported by the Central Bank.

(2) Represents U.S.$101.15 million outstanding principal amount of the 6.5% Certificates of Deposit due March 2012, issued by the Bank in March 2009 and bearing interest payable quarterly, and U.S.$40.45 million outstanding principal amount of the 7.25% Certificates of Deposit due March 2014, issued by the Bank in March 2009 and bearing interest payable quarterly.

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

(4) Represents the outstanding principal amount drawn under a loan agreement with *Société de Promotion et de Participation Pour La Cooperation Economique S.A.* (Proparco).

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

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

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

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

(9) Excluding LBP 3,711 million (U.S.$2.46 million) representing revaluation of fixed assets not accepted by the Central Bank as tier II capital for the calculation of certain regulatory ratios.

Except as otherwise described above or elsewhere in this Offering Circular, there has been no material adverse change in the consolidated long-term liabilities and shareholders' equity of the Bank since 31 December 2011.

SELECTED FINANCIAL INFORMATION AND OPERATING DATA

Financial Information as at and for the nine-month periods ended 30 September 2012 and 30 September 2012

The following information as at and for the nine-month periods ended 30 September 2011 and 30 September 2012 has been derived from, should be read in conjunction with, and is qualified in its entirety by reference to, the unaudited consolidated financial statements of the Bank as at and for the nine-month periods ended 30 September 2011 and 30 September 2012:

	For the nine-month periods ended 30 September			
	2011		**2012**	
	(U.S.$ thousands)[1]	*(LBP millions)*	*(U.S.$ thousands)*[1]	*(U.S.$ thousands)*[1]
	(unaudited)			
Income Statement Data				
Net interest income	214,159	322,845	191,246	288,304
Net non-interest income[2]	118,222	178,220	160,767	242,356
Operating expenses	(163,105)	(245,881)	(169,134)	(254,970)
Net income	128,060	193,050	122,635	184,872

Notes:

(1) Income statement data is translated at U.S.$1.00 = LBP 1,507.5, which was the period average exchange rate for the nine-month periods ended of 30 September 2010 and 30 September 2011, as reported by the Central Bank.

(2) Including net fees and commissions income, net trading income, net gain or loss on financial assets, other operating income and net impairment losses on financial investments.

	As at			
	31 December 2011		**30 September 2012**	
	(U.S.$ thousands)[1]	*(LBP millions)*	*(U.S.$ thousands)*[1]	*(LBP millions)*
	(audited)		*(unaudited)*	
Balance Sheet Data				
Net loans and advances to customers	4,008,172	6,042,320	4,136,416	6,235,647
Total assets	16,601,866	25,027,313	16,897,043	25,472,292
Total customer deposits	12,820,171	19,326,408	13,354,206	20,131,466
Total liabilities	14,956,242	22,546,535	15,298,053	23,061,815
Shareholders' equity[2][3]	1,645,815	2,481,067	1,598,990	2,410,477

Notes:

(1) Balance sheet data is translated at U.S.$1.00 = LBP 1,507.5, which was the closing exchange rate as at each of 31 December 2011 and 30 September 2012, as reported by the Central Bank.

(2) Excluding subordinated notes.

(3) Excluding LBP 3,711 million (U.S.$2.46 million) representing revaluation of fixed assets not accepted by the Central Bank as tier II capital for the calculation of certain regulatory ratios.

Financial Information as at and for the years ended 31 December 2010 and 31 December 2011 and as at and for the six-month periods ended 30 June 2011 and 30 June 2012

The following information (other than the financial ratios and statistical data) as at and for the years ended 31 December 2010 and 31 December 2011 has been derived from, should be read in conjunction with, and is qualified in its entirety by reference to, the audited consolidated financial statements of the Bank as at and for the years ended 31 December 2010 and 31 December 2011, including the notes thereto, which appear elsewhere in this Offering Circular. The following information (other than the financial ratios and statistical data) as at and for the six-month periods ended 30 June 2011 and 30 June 2012 has been derived from, should be read in conjunction with, and is qualified in its entirety by reference to, the unaudited consolidated financial statements of the Bank as at and for the six-month periods ended 30 June 2011 and 30 June 2012, including the notes thereto, which appear elsewhere in this Offering Circular.

	For the years ended 31 December				For the six-month periods ended 30 June			
	2010		2011		2011		2012	
	(U.S.$ thousands)(1)	*(LBP millions)*	*(U.S.$ thousands)*(1)	*(LBP millions)*	*(U.S.$ thousands)*(1)	*(LBP millions)*	*(U.S.$ thousands)*(1)	*(LBP millions)*
	(audited)				*(unaudited)*			
Income Statement Data								
Interest income	811,949	1,224,014	838,963	1,264,737	410,902	619,435	417,870	629,939
Interest expense	(528,525)	(796,751)	(557,461)	(840,373)	(265,744)	(400,609)	(292,909)	(441,560)
Net interest income(2)	283,423	427,263	281,502	424,364	145,158	218,826	124,961	188,379
Net provisions for doubtful loans and other provisions	(25,297)	(38,135)	(44,010)	(66,345)	(10,831)	(16,327)	(15,843)	(23,883)
Net non-interest income	170,414	256,899	191,013	287,953	75,867	114,369	107,878	162,627
Operating expenses	(206,659)	(311,538)	(205,007)	(309,047)	(109,183)	(164,594)	(118,825)	(179,129)
Net income before taxes	221,882	334,489	223,499	336,924	101,011	152,274	98,172	147,994
Taxes	(44,225)	(66,670)	(43,773)	(65,987)	(20,579)	(31,023)	(17,760)	(26,774)
Net income(3)	**177,657**	**267,819**	**179,726**	**270,937**	**80,432**	**121,251**	**80,411**	**121,220**

	As at 31 December				As at 30 June	
	2010		2011		2012	
	(U.S.$ thousands)(1)	*(LBP millions)*	*(U.S.$ thousands)*(1)	*(LBP millions)*	*(U.S.$ thousands)*(1)	*(LBP millions)*
	(audited)				*(unaudited)*	
Balance Sheet Data						
Cash and due from banks	7,375,658	11,118,804	9,148,870	13,791,921	9,180,401	13,839,455
Government securities	2,824,210	4,257,496	2,423,486	3,653,405	2,352,786	3,546,825
Loans and advances to customers (net)	3,771,303	5,685,240	4,008,173	6,042,320	4,093,891	6,171,541
Other assets	1,317,315	1,985,852	1,021,337	1,539,667	959,128	1,445,885
Total assets	**15,288,486**	**23,047,392**	**16,601,866**	**25,027,313**	**16,586,206**	**25,003,706**
Due to banks.	1,016,436	1,532,277	1,095,290	1,651,150	908,603	1,369,719
Customers' deposits	11,927,049	17,980,026	12,820,171	19,326,408	13,270,463	20,005,223
Certificates of deposits.	141,626	213,501	141,626	213,501	40,458	60,990
Eurobonds	—	—	297,704	448,789	297,598	448,629
Other liabilities	375,162	565,557	397,436	599,135	346,138	521,804
Total liabilities	**13,460,273**	**20,291,361**	**14,752,227**	**22,238,983**	**14,863,260**	**22,406,365**
Tier I capital	1,596,225	2,406,309	1,665,286	2,510,418	1,609,087	2,425,699
Tier II capital(4)(5)	231,988	349,722	184,353	277,912	113,859	171,642
Total capital	**1,828,213**	**2,756,031**	**1,849,639**	**2,788,330**	**1,722,946**	**2,597,341**

Notes:

(1) Both income statement data and balance sheet data are translated at U.S.$1.00 = LBP 1,507.5, which was the closing exchange rate as at each of 31 December 2010, 30 June 2011, 31 December 2011 and 30 June 2012, as reported by the Central Bank, as well as the period average exchange rate for the years then ended.

(2) Including net fees and commissions income, net trading income, net gain on financial assets, other operating income and impairment losses on other financial assets.

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

(4) Including subordinated notes.

(5) Excluding LBP 3,711 million (U.S.$2.46 million) representing revaluation of fixed assets not accepted by the Central Bank as tier II capital for the calculation of certain regulatory ratios.

	As at 31 December		As at 30 June
	2010	2011	2012
		(%) *(unaudited)*	
Selected Financial Ratios and Statistics[1]			
Growth			
Total assets	12.62	8.59	(0.09)
Customers' deposits	15.95	7.49	3.51
Loans and advances to customers, net	17.97	6.28	2.14
Net income	22.06	1.16	0.00[2]
Profitability			
ROA (Return on average assets)[3][4]	1.23	1.13	0.97
ROCE (Return on average common equity)[3][4][5]	14.04	12.29	11.06
Interest on average earning assets[3]	5.85	5.45	5.20
Funding cost[6]	4.22	4.00	4.01
Net interest differential	1.63	1.45	1.19
Net interest income on average earning assets (net interest margin)	2.04	1.83	1.55
Non-interest income to operating income[7]	37.55	40.42	46.33
Operating expenses to operating income (cost-to-income ratio)[7]	45.54	43.39	51.03
Operating expenses on average customers' deposits	1.86	1.66	1.82
Operating expenses on average assets	1.43	1.29	1.43
Operating income on average assets (assets yield)	3.14	2.96	2.81
Net income on operating income (profit margin)	39.15	38.04	34.54
Earnings per share for Common Shares (in LBP)	399.61	376.60	330.54
Earnings per share for Priority Shares (in LBP)[8]	448.01	—	—
Net book value per share (in LBP)[9]	3,300	3,346	3,094
Net dividend per Common Share (in LBP)	190	190	—
Net dividend per Priority Share (in LBP)[8]	233.93	—	—
Dividend payout ratio	63.97	59.63	—
Capital adequacy			
Leverage multiplier[10]	13.46x	12.79x	13.74x
Capital to asset ratio	11.96	11.14	10.39
Common Equity on RWA[11][12][13]	9.66	9.64	8.99
Tier I capital on RWA[11][12][13]	13.77	13.29	12.71
Tier II capital on RWA[11][12][13]	0.98	0.32	0.26
Capital Adequacy ratio[12][13]	14.75	13.61	12.97
Liquidity			
Net loans to deposits	31.62	31.26	30.85
Customers' deposits to total assets	78.01	77.22	80.01
Liquid assets ratio to total assets	71.83	72.42	72.48
Net liquid assets to customers' deposits.	83.91	85.24	83.75
Interbank assets to interbank liabilities	4.88 x	5.49 x	6.69x
Asset quality ratios			
Loan loss provision to total loans	3.46	4.04	4.37
Non-performing loans to total loans	2.39	3.02	3.90
Non-performing loans (net of provisions) to total loans	0.29	0.67	1.20
Loan loss provision to non-performing loans[14]	88.57	78.79	70.80

Notes:

(1) The selected financial ratios and statistical information appearing above have been prepared by the Bank and have not been submitted to, or reviewed or validated by, third parties or governmental agencies, including the Central Bank.

(2) For the six-month period ended 30 June 2012, as compared to the corresponding period in 2011.

(3) Average assets and average common equity are computed as the average of period-beginning and period-ending balances.

(4) Based on net income.

(5) Excluding subordinated notes, preferred shares and minority interest.

(6) Funding cost is the ratio of interest expenses to interest bearing liabilities.

(7) Non-interest income = net fee and commission income + net gain from financial instruments at fair value through profit or loss + net gain on financial assets + net gain on sale of financial assets at amortized cost + other operating income

(8) On 5 May 2011, all outstanding Priority Shares were automatically converted into Common Shares in accordance with their terms and applicable laws and regulations. Accordingly, no Priority Shares were outstanding as at 31 December 2011 or as at 30 June 2012 or are outstanding as at the date of this Offering Circular.

(9) Net book value = total assets - (liabilities + subordinated notes) - preferred shares.

(10) Leverage multiplier = average assets/average net book value.

(11) RWA = risk weighted assets.

(12) The ratios are determined in accordance with applicable Central Bank regulations, which are based on the guidelines of the Committee on Banking Regulation and Supervisory Practices of the Bank for International Settlement (the Basel Committee).

(13) Pursuant to Banking Control Commission Memorandum № 3/2012 dated 31 March 2012, which has aligned the treatment of minority interests to Basel III requirements, the ratios as at 31 December 2011 have been restated as follows: Common Equity on RWA = 9.01%; Tier I capital on RWA = 12.82%; Tier II capital on RWA = 0.48%; and Capital Adequacy ratio = 13.30%.

(14) Excluding general provisions and collective provisions.

OVERVIEW OF THE BANK

The following summary should be read in conjunction with the consolidated financial statements of the Bank as at and for the years ended 31 December 2010 and 31 December 2011, including the notes thereto, and the unaudited consolidated financial statements of the Bank as at and for the six-month periods ended 30 June 2011 and 30 June 2012, including the notes thereto, each of which appears elsewhere in this Offering Circular. For a discussion of certain matters that should be considered by prospective investors in the Fiduciary Notes, refer to "Risk Factors".

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 June 2012, 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 30 June 2012, the Group had 2,687 employees, approximately 653 thousand active accounts and 103 branches (77 branches in Lebanon, one in Limassol, Cyprus, one in Baghdad, Iraq, one in Erbil, Iraq, one in Basra, Iraq and 22 other international branches owned by the Group's subsidiaries). As at 30 June 2012, Byblos Bank Europe, the Bank's 99.95% owned subsidiary, had its main branch in Brussels, a branch in London and a branch in Paris; Byblos Bank Africa, the Bank's 56.86% owned subsidiary, had two branches in Khartoum and one in Bahri, Sudan; and Byblos Bank Syria, the Bank's 52.37% owned subsidiary, had eleven branches in Syria in Abou Remmaneh, Mazzeh (Damascus), Abbasyin, Aleppo (two branches), Hama, Homs, Hosh Blass, Lattakia, Tartous and Sweda. In September 2007, the Bank acquired 100% of ITB (International Trade Bank) CJSC, a bank incorporated in Armenia, which has its main branch in Yerevan and two other branches in Malatia and Vanadzor. ITB (International Trade Bank) CJSC has been renamed Byblos Bank Armenia CJSC. In June 2008, the EBRD and OFID acquired interests in the capital of Byblos Bank Armenia of 25% and 10%, respectively. Byblos Bank Armenia opened a new branch in Komitas in February 2012. On 27 March 2010, the Bank participated in the capital increase of Solidaire Banque Internationale in DR Congo by investing U.S.$10 million in the share capital of Solidaire Banque Internationale. Following such capital increase, the Bank holds 66.67% of the outstanding share capital of Solidaire Banque Internationale and, as the major shareholder of Solidaire Banque Internationale, exercises management control. Solidaire Banque Internationale has been renamed Byblos Bank RDC S.A.R.L. Byblos Bank RDC S.A.R.L. has a branch in Kinshasa, DR Congo. The Bank has also had a representative office in Abu Dhabi, United Arab Emirates, since 2005, as well as a representative office in Lagos, Nigeria, since 2009.

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

As at 31 December 2011, according to *Bankdata*, based on audited financial statements of banks operating in Lebanon provided to *Bankdata* by such banks, the Bank ranked third among all banks operating in Lebanon in terms of net profit of LBP 270,937 million (U.S.$179.7 million), total assets of LBP 25,027 billion (U.S.$16,602 million), total shareholders' equity (including revaluation variance of other fixed assets, but excluding other equity instruments and subordinated notes) of LBP 2,470 billion (U.S.$1,638 million) and customer deposits of LBP 19,326 billion (U.S.$12,820 million) and ranked fifth among all banks operating in Lebanon in terms of loans and advances of LBP 6,042 billion (U.S.$4,008 million).

Total assets of the Bank decreased by 0.1% from LBP 25,027 billion (U.S.$16,602 million) as at 31 December 2011 to LBP 25,004 billion (U.S.$16,586 million) as at 30 June 2012, after having increased by 8.6% from LBP 23,047 billion (U.S.$15,288 million) as at 31 December 2010; customers' deposits increased by 3.5% from LBP 19,326 billion (U.S.$12,820 million) as at 31 December 2011 to LBP 20,005 billion (U.S.$13,270 million) as at 30 June 2012, after having increased by 7.5% from LBP 17,980 billion (U.S.$11,927 million) as at 31 December 2010; net customer advances increased by 2.2% from LBP 6,042 billion (U.S.$4,008 million) as at 31 December 2011 to LBP 6,172 billion (U.S.$4,094 million) as at 30 June 2012, after having increased by 6.3% from LBP 5,685 billion (U.S.$3,771 million) as at 31 December 2010; and total equity (excluding subordinated notes) decreased by 5.6% from LBP 2,485 billion (U.S.$1,648 million) as at 31 December 2011 to LBP 2,345 billion (U.S.$1,556 million) as at 30 June 2012, after having increased by 1.2% from LBP 2,456 billion (U.S.$1,629 million) as at 31 December 2010. Net income of the Bank decreased by 0.1% from LBP 121.3 billion (U.S.$80 million) for the six-month period ended 30 June 2011 to LBP 121.2 billion (U.S.$80 million) for the six-month period ended 30 June 2012. Net income of the Bank increased by 1.2% from LBP 267,819 million (U.S.$177.7 million) for the year-ended 31 December 2010 to LBP 270,937 million (U.S.$179.7 million) for the year-ended 31 December 2011.

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 72.5% of total assets as at 30 June 2012. As at 30 June 2012, the Bank's Basel III capital adequacy ratio was 12.97%, its return on average assets (annualized) was 0.97% and its return on average common equity (annualized) was 11.06%.

As at the date of this Offering Circular, the Bank's foreign currency deposit and Individual ratings assigned by international rating agencies were as follows:

Rating Agency	Tenor	Rating	Outlook
Moody's Investors Service Ltd.	Long-term	B1	Stable
Fitch Ratings Limited	Long-term	B	Stable
	Short-term (less than one year)	B	

All of the ratings referred to above are non-investment grade and a credit rating is not a recommendation by the rating organization or any other person to buy, sell or hold securities and may be subject to revisions or withdrawal at any time by the assigning rating organization and each should be evaluated independently from the other. The credit ratings included or referred to in this Offering Circular will be treated for purposes of the CRA Regulation as having been issued by Moody's and Fitch, respectively. Each of Moody's and Fitch is established in the European Union and has applied to be registered under the CRA Regulation, although the result of such applications has not yet been determined.

History

The origins of the Bank date to 1950 when Mr. Semaan Melkan Bassil, Mr. Joseph Melkan Bassil, Mr. Victor Ferneiné and Mr. Fouad Ferneiné founded a company in Jbeil (Byblos) under the name "*Société Commerciale et Agricole Byblos Bassil Frères et Co.*", with a paid-up capital of LBP 30,000. The company initially dealt with natural silk and leather tanning and carried out some lending activities related to the agricultural, commercial and transportation sectors. In 1956, this company was converted into a limited partnership, its capital was increased to LBP 500,000, and it obtained a license from the Ministry of Finance to take deposits. The Bank was incorporated on 14 November 1959 as a *société anonyme libanaise* (joint-stock company), pursuant to a presidential decree (№ 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 small and medium-sized enterprises and select corporate clients, while also focusing on servicing both personal and business requirements of the Lebanese expatriate community.

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

On 4 January 1998, the Bank acquired 99.95% of the outstanding share capital of Byblos Bank Europe. The Bank's rationale for the Byblos Bank Europe acquisition was to diversify its activities and enlarge its international presence. Following the Byblos Bank Europe acquisition, the Bank has been able to benefit from economies of scale in staffing and technology costs as it has consolidated and centralized its business and marketing strategy and credit decision making for its global business in its Head Office in Lebanon. See "*—Subsidiaries—Byblos Bank Europe S.A.*".

On 9 May 2001, the Bank sold 34% of ADIR Lebanon, its then wholly-owned insurance company to *Assurances Banque Populaire*, the fifth largest bancassurance group in France (today named Natixis Assurances); as at the date of this Offering Circular, the Bank retains a controlling interest (63.95%) in ADIR Lebanon. See "*—Subsidiaries—Adonis Insurance and Reinsurance Co (ADIR). S.A.L.*".

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

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, totaled U.S.$13.5 million; the fixed assets acquired by the Bank were valued at U.S.$1 million at the time of the acquisition.

On 1 July 2002, the Bank issued U.S.$100 million 9% subordinated participating notes due 2012 (the "**Subordinated Participating Notes**"), which were subscribed by more than 1,000 investors. To the extent it remains outstanding, this issue, which is accounted for as tier II capital, was designed to strengthen the Bank's capital base and allowed it to have access to supplementary financing for potential external growth, both in the local market and abroad, in addition to entering into new banking activities, such as investment banking. In addition to fixed interest, holders of these notes may be entitled to receive contingent interest at a rate, not exceeding 6% per annum, equivalent to 5% of the adjusted annual net income of the Bank. In May 2006, the Bank offered 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% 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; 68.7% of the total principal amount of the Subordinated Participating Notes was redeemed by the Bank in June 2006. See "*—Funding Sources—Subordinated Participating Notes*".

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 U.S.$100 million Series 2003 Preferred Shares, which were fully redeemed in accordance with their terms in May 2009 (the "**Series 2003 Preferred Shares**").

In 2003, building on its presence in the Sudanese market for more than three decades, with a focus on trade financing and international trade and commercial transactions, the Bank obtained a license to operate a bank in Sudan under the name Byblos Bank Africa, which commenced its operations in the beginning of 2004 and, as at the date of this Offering Circular, is 56.86%-owned by the Bank. See "*—Subsidiaries—Byblos Bank Africa Ltd.*".

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

In December 2005, the Bank issued 206,023,723 priority shares, with a par value of LBP 1,200 each, at a price equal to their par value (the "**Priority Shares**"). In May 2011, the Priority Shares were automatically converted into Common Shares in accordance with their terms and applicable laws and regulations. See "*Share Capital and Principal Shareholders— Share Capital*".

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

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

On 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 Syria was established in Damascus, Syria, marking the initial step in the geographical expansion of ADIR Lebanon in the MENA region. The Bank is the main shareholder of ADIR Syria with a 60% stake, followed by ADIR Lebanon with a 16% stake, with the remaining shares held by high-net-worth Syrian investors. See "*—Subsidiaries—Adonis Insurance and Reinsurance (ADIR) Syria*".

In September 2007, the Bank acquired a 100% stake in ITB (International Trade Bank) CJSC, a bank incorporated in Armenia, which was then renamed Byblos Bank Armenia. Following a capital increase by Byblos Bank Armenia, EBRD and OFID also acquired interests in the capital of Byblos Bank Armenia of 25% and 10%, respectively. Management believes that Armenia is a significant potential market for the Bank with high potential for retail and commercial activities and that, accordingly, the expansion into Armenia has helped, and is expected to continue to help, to diversify the Bank's assets and revenues and promote the Bank's overseas expansion. See "*—Subsidiaries—Byblos Bank Armenia CJSC*".

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

In January 2008, a holder of 2007 Fiduciary Notes exercised its right to convert U.S.$27 million in nominal amount of Fiduciary Notes, together with accrued interest thereon, into Common Shares at a conversion price of U.S.$2.25 per Common Share. As a result of this conversion, 12,088,834 new Common Shares were issued increasing the share capital of the Bank by LBP 14,506,600,800 (U.S.$9,622,952) to LBP 508,963,536,000.

In August 2008, the Bank issued its U.S.$200 million Series 2008 Preferred Shares (the "**Series 2008 Preferred Shares**").

In December 2008, the Bank purchased all of the assets and liabilities of Unicredit Banca Di Roma SPA in Lebanon ("**UBDR Lebanon**") for an aggregate amount of U.S.$6.76 million (including legal fees and other expenses). As at the date of the acquisition, UBDR Lebanon had total assets of LBP 37,816 million (U.S.$25.1 million), total customers' deposits of LBP 21,453 million (U.S.$14.2 million), total loans to customers of LBP 13,678 million (U.S.$9.1 million) and total equity of LBP 9,667 million (U.S.$6.4 million).

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

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

In September 2009, the Bank issued its U.S.$192 million Series 2009 Preferred Shares (the "**Series 2009 Preferred Shares**").

Also in 2009, the Bank began its operations in Lagos by setting up its Nigeria representative office.

In January 2010, the Bank's principal shareholder, Byblos Invest Holding S.A. (Luxembourg) ("**Byblos Invest Holding**") entered into a share purchase agreement with the International Finance Corporation ("**IFC**") for the purchase by IFC from Byblos Invest Holding of 47,619,047 Common Shares of the Bank at a price of U.S.$2.10 per Common Share, for an aggregate amount of approximately U.S.$100 million. As at the date of this Offering Circular, IFC owns 8.36% of the Bank's share capital. IFC was granted certain information and shareholder protection rights in connection with its subscription.

On 27 March 2010, the Bank participated in the capital increase of Solidaire Banque Internationale in DR Congo by investing U.S.$10 million in the share capital of Solidaire Banque Internationale. Following such capital increase, the Bank holds 66.67% of the outstanding share capital of Solidaire Banque Internationale and, as the major shareholder of Solidaire Banque Internationale, exercises management control. On 27 March 2010, Solidaire Banque Internationale was renamed Byblos Bank RDC. See "*—Subsidiaries—Byblos Bank RDC*".

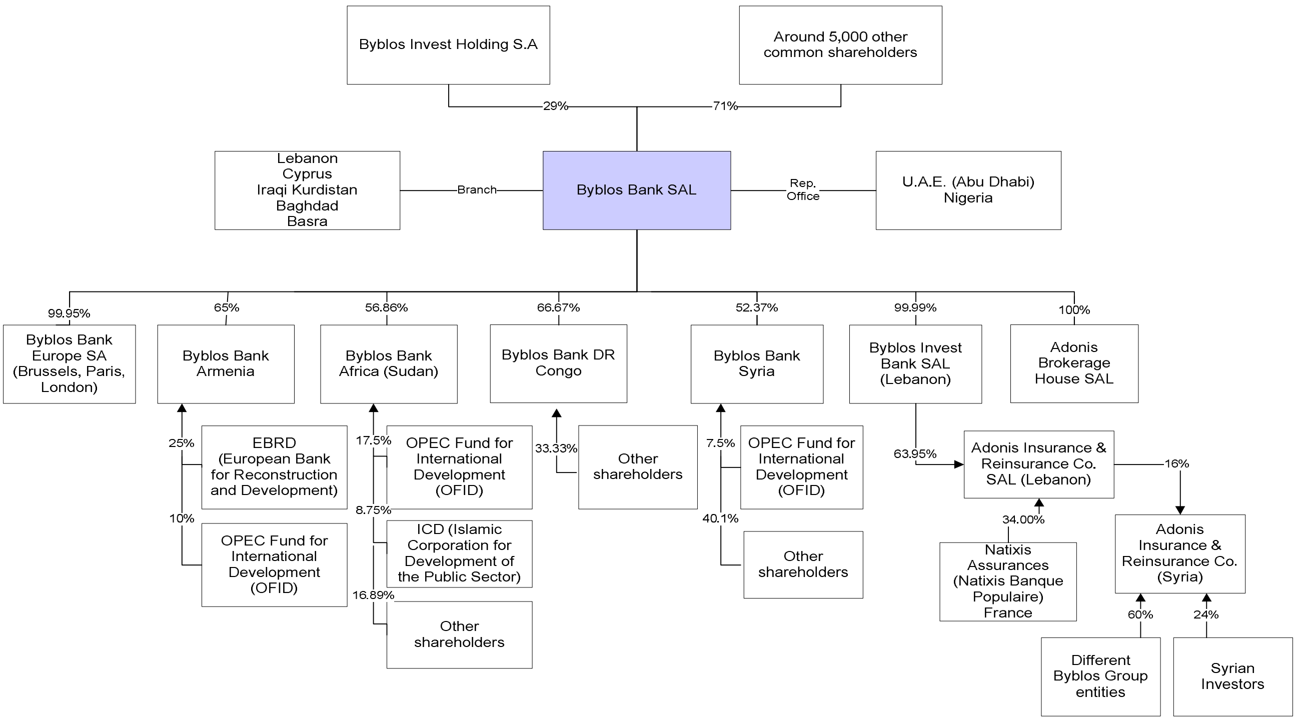
In April 2010, Byblos Invest Holding entered into a share purchase agreement with *Société de Promotion et de Participation Pour La Coopération Economique S.A.* ("**Proparco**") for the purchase by Proparco from Byblos Invest Holding of 13,636,363 Common Shares of the Bank at a price of U.S.$2.2 per Common Share, for an aggregate amount of approximately U.S.$30 million. As at the date of this Offering Circular, Proparco owns 1.2% of the Bank and *Agence Française de Développement* (the majority shareholder of Proparco) owns an additional 1.2% of the Bank.

In June 2010, the Bank completed a U.S.$249.2 million capital increase through the issuance of 142,378,760 Common Shares at an issue price of U.S.$1.75 per Common Share. Such capital increase took place following a rights issue to the Bank's existing shareholders (including holders of then-outstanding Series 2008 Preferred Shares, Series 2009 Preferred Shares and Priority Shares), at a ratio of one new Common Share for three old shares (whether Common Shares, Series 2008 Preferred Shares, Series 2009 Preferred Shares or Priority Shares).

In June 2011, the Bank issued its U.S.$300,000,000 7.0% Notes due 2021, which are listed on the London Stock Exchange.

Corporate Structure

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



The Bank's Objectives and Strategy

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

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

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

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

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

- ***To continue to expand in selected growth markets in the MENA region.*** 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. While bearing in mind security and political developments in the region, the Bank plans to continue to expand internationally through 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 the Lebanese diaspora or significant trade flows with Lebanon and gain a first-mover advantage. 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.

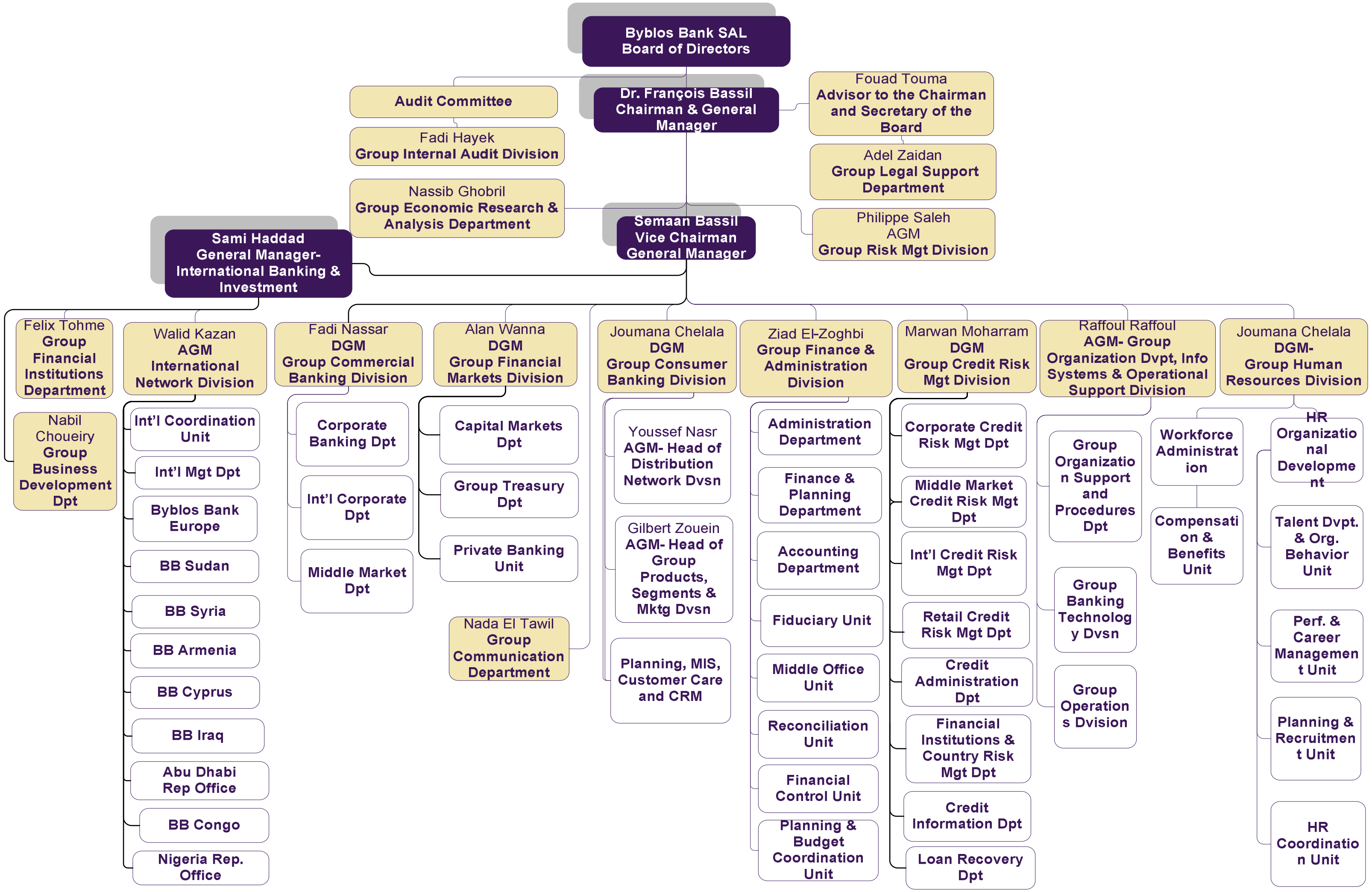
- ***To enhance earnings stability through an improved business mix and risk profile.*** The Bank intends to continue to strive to improve its capital and balance sheet management in order to further enhance profitability and support anticipated asset growth. The Bank will aim to achieve a more balanced 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 and private banking services.

- ***To enhance cost efficiency and profitability.*** Following on the Bank's achievement of a 43.39% cost-to-income ratio in 2011, which was, according to *Bankdata*, based on audited financial statements of banks operating in Lebanon provided to *Bankdata* by such banks, among the lowest in the Lebanese banking sector for the year 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 centralized 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 potential cost savings by further analysing and refining processes based on international best practices across all its operations and markets. At the same time, the Bank aims to enhance income generation as described above.

- ***To diversify further its funding structure.*** The Bank's funding objectives are maturity extension, cost effectiveness, growth and stability. To fulfil these objectives, the Bank is concentrating its efforts on generating a higher volume of small deposits, through its branch network and its specialized savings programs, and is investigating ways in which it may develop new saving schemes to ensure stable and low-cost funding. 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. In addition, the Bank aims to further diversify its funding structure through transactions involving equity and quasi-equity instruments, such as the Subordinated Loan, which also have the benefit of improving the Bank's capital adequacy ratios.

Organizational Structure of the Bank

The following chart shows the Bank's organizational structure as at the date of this Offering Circular:



The organizational structure of the Bank, which has been 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 Group Consumer Banking Division focuses 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 Group's various distribution channels. Under the Group Commercial Banking Division, branches are subdivided into geographic regions with regional centers created to monitor deposit taking and retail and middle market lending at each branch location within the relevant geographical area. The Group Commercial Banking Division, which operates through relationship managers resident in the Bank's Head Office, focuses on the development of commercial lending in two segments: loans to medium and large corporations and transactions in the international markets. The Group Financial Markets Division comprises the Treasury Department, the Capital Markets Department and the Private Banking Unit. The Group Financial Institutions Department is responsible for conducting business development activities with international banks and for maintaining the Group's worldwide correspondent banking relationships. The Group Finance and Administration Division is responsible for analyzing the financial performance of the Bank, planning related strategies and optimizing and controlling operating expenses. The 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 International Network Division was established to supervise and control the business in all of the Bank's overseas subsidiaries, branches and representative offices in line with the Bank's strategy and business plan.

Business Description

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

Retail Banking

The Group Consumer Banking Division manages and supervises the Bank's retail banking activities. 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, as at the date of this Offering Circular, a network of 126 ATMs in Lebanon. As at 30 June 2012, the Bank had approximately 65,000 retail borrowers and 260,000 depositors (or customer information files), many with multiple accounts.

Specific lending programs, such as auto, housing 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 loans for small business and professional loans from Kafalat Company S.A.L., a limited liability company incorporated in Lebanon ("**Kafalat**"). The Bank is also active in providing a comprehensive range of Bancassurance, protection and investment plans in coordination with Adir Lebanon.

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.

One of the Bank's objectives in consumer banking is to continue to develop a relationship management approach with its retail customers. Accordingly, the Bank is focusing 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 offers a wide range of bancassurance products encompassing investment plans (children's education's insurance as well as retirement scheme's insurance) and protection plans (car insurance, income insurance and life insurance) with competitive features and good pricing;

- **Borrowing:** the Bank targets a broad client and segment base and focuses mainly on customer needs and enhancement of procedures, such as simplified application forms and processes and the "Group Offering" approach;

- **Cash flow management**: the Bank focuses on creating account packages, which address customer needs and comply with international banking standards, promoting the use of debit cards and consolidating insurance and banking services; current accounts have been linked to term deposit accounts, enabling clients to better manage their cash flows;

- **Byblos Priority Segment**: to cater to the needs of its VIP customers the Bank has created a special segment "Byblos Priority", through which it offers a wide range of exclusive services, products and privileges, such as, among others, faster banking services, a dedicated personal banker, 24 hour support services, privileged pricing for loans, local and international support, targeted insurance products and solutions, an emergency cash service, a concierge service and a specially designed Visa Priority debit card with purchase protection and extended warranty insurance, to its privileged clients;

- **Investment products**: the Bank offers several deposit-structured products for retail investors, such as five-year step-up deposits marketed to customers through the Bank's branch network;

- **Branch network**: consistent with the Bank's retail and marketing strategy, the Bank has continued to remodel its branch network and centralize many administrative functions with the aim of permitting branches to focus resources and personnel on sales and customer service; and

- **e-channels**: the Bank has developed its ATM, phone banking and Internet banking services giving its clients on-line, real time and 24/7 access to their accounts, as well as to the Bank's banking services, and enabling them to transfer their funds among their different accounts within the Bank, as well as to other clients' accounts within the Bank, in order to offer customers a global view on-line; moreover, the Bank is continuously developing its e-channels services in order to meet its clients expectations.

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 segmented debit cards and credit cards (charge and revolving) in several currencies, including Lebanese Pounds, U.S. Dollars and Euros. Internet and prepaid cards are also available. As at the date of this Offering Circular, all of the Bank's ATMs and debit cards are managed in-house by its own switch system, which is linked to the International Payment Network, the leading ATM network in Lebanon, while it continues to outsource its credit cards. As at 30 June 2012, the Bank had approximately 155,000 payment cards outstanding, including 50,000 Visa and MasterCard credit cards (charge and revolving), as well as 100,000 debit cards and 5,000 Internet and pre-paid youth cards. During April 2012, the Bank entered into a partnership agreement with American Express Middle East to begin distributing American Express Green, Gold, Platinum and Centurion Charge Cards to its customer base.

The Bank's payment cards offerings include the following:

- **Charge cards:** MasterCard charge – Classic, Gold and Platinum (U.S.$), MasterCard charge – Titanium and Platinum (EUR), MasterCard charge -Titanium (LBP), Visa charge – Classic, Gold and Infinite (U.S.$) and American Express – Green, Gold, Platinum and Centurion (U.S.$);

- **Revolving credit cards:** MasterCard revolving – Classic and Gold (U.S.$), MasterCard revolving - Titanium (LBP) and Visa revolving – Classic, Gold and Platinum (U.S.$);

- **Debit card:** Visa Electron, Visa Debit Gold, Visa Platinum and Visa Priority; and

- **Pre-paid cards:** MasterCard Websurfer (U.S.$) and MasterCard Cool pre-paid (U.S.$ and LBP).

The Bank was the first Lebanese bank to launch a credit card denominated in Lebanese Pounds, a military card targeting military personnel, a photo card specifically dedicated to mothers and a fuel credit card. The Bank offers a cards loyalty program, which covers all of its revolving and charge cards, including all of its debit cards, and allows cardholders to accumulate points redeemable for various gifts, including the latest electronic gadgets, travel tickets, tree planting to reforest the country and other rewards. The Bank offers all its cardholders travel tickets to worldwide destinations including, *inter alia*, Paris, Istanbul, the Gulf and other major European and American cities. In 2012, the Bank launched several campaigns, including travel promotions, hotel night promotions and promotions for mobile phones and other electronic devices. The Bank continuously innovates its loyalty programs with the aim of increasing its cardholder usage and satisfaction.

Personal Loans

Personal loans with maturities of up to five years and amounts ranging from U.S.$4,000 to U.S.$20,000 (or more in exceptional cases) are granted to qualifying individuals. As at 30 June 2012, the Bank held outstanding personal loans of U.S.$349 million.

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

As part of the three-year *University Loans Program*, launched in partnership with French state-owned institution *Agence Française de Développement* in 2010, the Bank has granted educational loans to over 900 students from nine Lebanese universities. These loans are denominated in Lebanese Pounds and are granted for terms of up to 18 years from the student's first year of study. The amount of the loans granted may cover up to 75% of a student's tuition fees, subject to a maximum loan amount of LBP 15 million (U.S.$10,000) per year. As at 30 June 2012, approximately 30% of the students granted these educational loans were enrolled on civil engineering and architecture courses, 26% were enrolled on business studies courses and 21% were enrolled on courses for other subjects. Approximately 72% of the students granted these educational loans were in their first year of university as at 31 March 2012.

Residential Mortgage Loans

The Bank offers residential mortgage loans (denominated in U.S.$ or LBP) with maturities of up to 30 years, targeted to Lebanese residents, as well as to expatriates to finance the purchase of a house or apartment in their home country. Residential housing loans are also offered to members of the Lebanese Army with preferential features. In addition to the traditional mortgage loan program, the Bank also offers mortgage loans in Lebanese Pounds, at preferential rates, with maturities ranging from 10 to 15 years and in amounts up to LBP 270 million (U.S.$180,000), under the Public Housing Corporation Loan Project.

As at 30 June 2012, the Bank held outstanding residential mortgage loans of U.S.$530 million, which Management believes constituted amongst the largest housing loan portfolio among Lebanese banks as at that date.

Car Loans

The Bank offers car loans on certain types of eligible models with maturities of up to six years. The borrower is required to pledge the car being financed to the Bank and to obtain a compulsory all-risks insurance policy, as well as a life insurance policy, each issued by ADIR Lebanon, the Bank's insurance subsidiary.

As at 30 June 2012, the Bank held outstanding car loans balance of U.S.$172 million, which the Bank believes ranks amongst the three largest car loan portfolios 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 are mainly used to finance the purchase of equipment or other fixed assets, as well as for working capital needs. Loans may be denominated in Lebanese Pounds or U.S. Dollars, for amounts ranging from the equivalent of U.S.$15,000 up to U.S.$150,000 for overdraft facilities or from the equivalent of U.S.$5,000 up to U.S.$150,000 for loans ("Direct Bills"), with maturities of up to three years for working capital-related loans, five years for equipment-related loans and ten years for premises-related loans.

As at 30 June 2012, the Bank held outstanding small business loans equivalent to U.S.$81 million.

Kafalat

Kafalat loans are a form of subsidized loan granted by the Bank, with the benefit of a guarantee from Kafalat S.A.L. Kafalat loans are granted to customers in the industrial, agricultural, tourism, craftsmen and technological sectors to finance machinery and equipment purchases and working capital needs, in amounts up to LBP 300 million (U.S.$200,000) for Kafalat Basic Program loans and up to LBP 600 million (U.S.$400,000) for Kafalat Plus Program loans, in each case, for terms of up to seven years.

The Bank was a pioneer in launching and marketing Kafalat loans and it currently holds the highest market share in Kafalat loans among Lebanese banks based on Kafalat S.A.L. reports.

As at 30 June 2012, the Bank held outstanding Kafalat loans equivalent to U.S.$116 million.

Insurance and Bancassurance Products

The Bank offers several bancassurance products through ADIR Lebanon, its insurance subsidiary, which is also partially owned by Natixis 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 30 June 2012, the Bank had sold 62,700 outstanding insurance plans.

Commercial Banking

Commercial banking is another core activity of the Bank. The Bank's Commercial Banking Division comprises the Corporate Banking Department, the Middle Market Department (SMEs) and the International Corporate Department.

The Corporate Department, which concentrates on clients with an annual turnover exceeding U.S.$5 million, focuses on the following business lines: trading and manufacturing; real estate and contracting; project finance; and syndications.

The Middle Market Department serves clients with an annual turnover ranging between U.S.$500,000 and U.S.$5 million.

The International Corporate Department serves non-resident Lebanese traders and industrialists whose principal 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 established for each country, taking into account the underlying country risk and subject to approved overall risk acceptance criteria, which are regularly updated.

The Bank continues to consistently grow its commercial loan portfolio, while not compromising its credit principles. Its focus remains on the productive, rather than the speculative, sectors of the economy.

The Bank has pursued a strategy of seeking to match the tenor of the medium-term portion of its commercial portfolio with medium-term funded facilities. In this respect, the Bank ranks among the leading beneficiaries of various trade and industrial programs offered by international banks and agencies, such as the IFC, Proparco, European Investment Bank ("**EIB**") and the Arab Trade Finance Program ("**ATFP**"), and has passed on the benefit of such funding to its customers. See "*—Funding Sources*".

Financial Markets

The Financial Markets Division serves as a platform for the Bank's treasury, capital markets and private banking services. The Financial Markets Division comprises the Treasury Department, the Private Banking Unit and the Capital Markets Department. Whilst the Treasury Department manages the Bank's available liquidity, residual foreign currency and market positions within the guidelines and limits set by the Assets and Liabilities Management Committee ("**ALCO**"), the Private Banking Unit 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 Division 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 Government Eurobonds. Byblos Invest Bank has had a license to hold a seat on the BSE since 2006.

The Bank started its private banking activities in 2003 to attract high-net-worth clients by offering them personalized banking services, financial solutions and investment alternatives. The private banking services offered by the Bank include exposure to the financial markets, asset allocation and portfolio advisory services, as well as traditional branch banking services in a specialized, quiet and confidential environment. Private banking officers act as private money advisors and offer customized solutions, banking and brokerage services covering global markets, through the Group's many subsidiaries and branches around the world. As at 31 December 2011, the Bank had 230 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 Division has developed Financially Yours, a daily capital markets publication.

International Banking and Investment

The International Banking and Investment 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 and Investment Division, the Financial Institutions Department plays a major role in the Bank's fund-raising operations aimed at supporting commercial lending. The Financial Institutions Department is responsible for the Bank's agreements with certain international organizations (such as ATFP, the Islamic Corporation for the Development of the Private Sector and EIB) granting credit lines for purposes of on-lending to specific commercial entities.

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 with (principally) the MENA region, Europe and Asia. 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 international banking 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 Islamic banking.

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

In February 2010, the International Network Division was established to supervise and control the business in all of the Bank's overseas subsidiaries, branches and representative offices in line with the Bank's strategy and business plan.

Subsidiaries

The following table shows the Bank's equity interest in its subsidiaries as at 30 June 2012:

	As at 30 June 2012	
	Equity Interest	**Book Value**
	(%)	*(LBP millions)*
Byblos Bank Europe S.A.	99.95	41,373
Adonis Insurance and Reinsurance Co. (ADIR) S.A.L.	64.00	2,082
Adonis Brokerage House S.A.L.	100.00	30
Adonis Insurance and Reinsurance (ADIR) Syria	76.00	28,837
Byblos Invest Bank S.A.L	99.99	29,998
Byblos Bank Africa Ltd.	56.86	32,268
Byblos Bank Syria S.A.	52.37	100,968
Byblos Bank Armenia CJSC	65.00	26,966
Byblos Bank RDC S.A.R.L.	66.67	15,075

Byblos Invest Bank S.A.L.

Byblos Invest Bank was established in October 2003 as a specialized bank pursuant to Article 1 of Decree Law 50 dated 15 July 1983. Specialized banks are governed by the Code of Money and Credit, by Decree Law № 50/83 dated 15 July 1983 and by Central Bank Decisions № 5996 (dated 7 September 1995), 6101 (dated 8 February 1996), 6156 (dated 10 November 1998), 7739 (dated 21 December 2000) and 7835 (dated 2 June 2001).

Byblos Invest Bank had total assets of LBP 155.2 billion (U.S.$103.0 million) and total shareholders' equity of LBP 64.0 billion (U.S.$42.5 million) as at 30 June 2012 and a net loss of LBP 243 million (U.S.$161 thousand) for the six-month period ended 30 June 2012. Byblos Invest Bank had total assets of LBP 284.1 billion (U.S.$188.4 million) and total shareholders' equity of LBP 64.0 billion (U.S.$42.5 million) as at 31 December 2011 and net profits of LBP 7.8 billion (U.S.$5.2 million) for the year then ended.

Adonis Insurance and 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, Natixis 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.

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 Lebanon and selected Middle Eastern countries

ADIR Lebanon had total assets of LBP 235.5 billion (U.S.$156.2 million) and total shareholders' equity of LBP 37.8 billion (U.S.$25.1 million) as at 30 June 2012 and net profits of LBP 4.2 billion (U.S.$2.8 million) for the six-month period ended 30 June 2012. ADIR Lebanon had total assets of LBP 217.1 billion (U.S.$144.0 million) and total shareholders' equity of LBP 37.4 billion (U.S.$24.8 million) as at 31 December 2011 and net profits of LBP 7.4 billion (U.S.$4.9 million) for the year then ended.

Adonis Insurance and Reinsurance (ADIR) Syria

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

ADIR Syria had total assets of 1.8 billion Syrian pounds (U.S.$26.2 million) and total shareholders' equity of 1.3 billion Syrian Pounds (U.S.$19.6 million) as at 30 June 2012 and net profits of 57.5 million Syrian pounds (U.S.$0.8 million) for the six-month period ended 30 June 2012. ADIR Syria had total assets of 1.9 billion Syrian pounds (U.S.$33.1 million) and total shareholders' equity of 1.4 billion Syrian Pounds (U.S.$24.7 million) as at 31 December 2011 and net profits of 109.2 million Syrian pounds (U.S.$2.3 million) for the year then ended.

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 1.3 billion (U.S.$0.9 million) and total shareholders' equity of LBP 1.1 billion (U.S.$0.7 million) as at 30 June 2012 and net profits of LBP 360 million (U.S.$0.2 million) for the six-month period ended 30 June 2012. Adonis Brokerage House had total assets of LBP 1.6 billion (U.S.$1.0 million) and total shareholders' equity of LBP 768 million (U.S.$0.5 million) as at 31 December 2011 and net profits of LBP 649 million (U.S.$0.4 million) for 2011.

Byblos Bank Europe S.A.

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

Byblos Bank Europe had total assets of €618.7 million (U.S.$778.2 million) and total shareholders' equity (excluding subordinated notes) of €59.7 million (U.S.$75.1 million) as at 30 June 2012 and net profits of €3.7 million (U.S.$4.9 million) for the six-month period ended 30 June 2012. Byblos Bank Europe had total assets of €660.5 million (U.S.$853.7

million) and total shareholders' equity (excluding subordinated notes) of €56.0 million (U.S.$72.4 million) as at 31 December 2011 and net profits of €4.9 million (U.S.$6.8 million) for the year then ended.

Byblos Bank Africa Ltd.

In 2003, after three decades of conducting business in Sudan with local banks and a selective customer base, the Bank established Byblos Bank Africa, a full-fledged Islamic bank, which is headquartered in Khartoum, Sudan and has a branch in Bahri. Byblos Bank Africa operates under Sudanese law and the supervision of the Central Bank of Sudan. The Bank holds a 56.86% stake in Byblos Bank Africa. In addition, the Islamic Corporation for the Development of the Private Sector and OFID also hold stakes of 8.75% and 17.5%, respectively.

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 1.4 billion Sudanese Guineas (U.S.$253.2 million) and total shareholders' equity of 181.9 million Sudanese Guineas (U.S.$33.8 million) as at 30 June 2012 and net profits of 8.5 million Sudanese Guineas (U.S.$2.7 million) for the six-month period ended 30 June 2012. Byblos Bank Africa had total assets of 808.7 million Sudanese Guineas (U.S.$279.6 million) and total shareholders' equity of 182.7 million Sudanese Guineas (U.S.$63.2 million) as at 31 December 2011 and net profits of 16.6 million Sudanese Guineas (U.S.$5.6 million) for the year then ended. Byblos Bank Africa is managed by the Bank pursuant to a management agreement dated 28 December 2011.

Byblos Bank Syria S.A.

Byblos Bank Syria became fully operational in December 2005. The Bank owns a 52.37% stake in Byblos Bank Syria, having increased its ownership share from a stake of 41.5% following a capital increase completed by Byblos Bank Syria in November 2011. The remaining share capital of Byblos Bank Syria is 40.13%-owned by high-net-worth individual Syrian investors, some of whom are permitted by law to own more than 5% of the total share capital, and 7.5%-owned by OFID.

Byblos Bank Syria is the sixth private bank to set up operations in Syria following the adoption of legislation in Syria in 2001 to reform and modernize the banking sector. Byblos Bank Syria provides a wide range of banking services such as retail products and corporate services aimed at addressing the needs of Syrian nationals. Byblos Bank Syria endeavors to become a leading provider of financial services in Syria. Its operations are carried out from its head office in the Abou Remmaneh district (Damascus), as well as ten branches in Abou Remmaneh, Mazzeh (Damascus), Abbasyin, Aleppo (two branches), Hama, Homs, Hosh Blass, Lattakia and Tartous.

Byblos Bank Syria had total assets of 50.0 billion Syrian pounds (U.S.$732.9 million) and total shareholders' equity of 6.6 billion Syrian Pounds (U.S.$96.4 million) as at 30 June 2012 and net profits of 42.6 million Syrian Pounds (U.S.$0.6 million) for the six months then ended. Byblos Bank Syria had total assets of 47.7 billion Syrian pounds (U.S.$855.9 million) and total shareholders' equity of 6.5 billion Syrian Pounds (U.S.$117.4 million) as at 31 December 2011 and net profits of 169.3 million Syrian Pounds (U.S.$3.5 million) for the year then ended.

Byblos Bank Armenia CJSC

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

Byblos Bank Armenia had total assets of 45.2 billion Armenian Drams (U.S.$108.3 million) and total shareholders' equity of 9.0 billion Armenian Drams (U.S.$21.7 million) as at 30 June 2012 and net profits of 152.6 million Armenian Drams (U.S.$0.4 million) for the six months then ended. Byblos Bank Armenia had total assets of 37.8 billion Armenian Drams (U.S.$98.0 million) and total shareholders' equity of 8.9 billion Armenian Drams (U.S.$23.1 million) as at 31 December 2011 and net profits of 293.5 million Armenian Drams (U.S.$0.8 million) for the year then ended.

Byblos Bank RDC S.A.R.L.

On 27 March 2010, the Bank participated (as sole subscriber) in the capital increase of *Solidaire Banque Internationale* in DR Congo by investing U.S.$10 million in the share capital of *Solidaire Banque Internationale*. Following such capital increase, the Bank acquired 66.67% of the outstanding share capital of *Solidaire Banque Internationale* (for a purchase price of U.S.$15 million) and, as a result, became the major shareholder of Solidaire *Banque Internationale* and acquired management control. On 27 March 2010, *Solidaire Banque Internationale* was renamed Byblos Bank RDC. Byblos Bank RDC's main activities consist of basic cash and transfers operations for Congolese companies (mainly owned by Lebanese Nationals).

Byblos Bank RDC S.A.R.L. had total assets of 19.2 billion Congolese Francs (U.S.$20.8 million) and total shareholders' equity of 11.9 billion Congolese Francs (U.S.$12.9 million) as at 30 June 2012 and net loss of 24.9 million Congolese Francs (U.S.$27 thousand) for the six-month period ended 30 June 2012. Byblos Bank RDC S.A.R.L. had total assets of 16.4 billion Congolese Francs (U.S.$17.9 million) and total shareholders' equity of 11.9 billion Congolese Francs (U.S.$13.0 million) as at 31 December 2011 and net profits of 1.2 billion Congolese Francs (U.S.$1.3 million) for the year then ended.

Branch Network

The Bank's headquarters are located in the centre of the Achrafieh business district in Beirut. As at 31 December 2011, according to *Bankdata*, based on unaudited financial statements of banks operating in Lebanon provided to *Bankdata* by such banks, the Bank's domestic network comprised the third largest branch network in Lebanon and represented 8.4% of all Lebanese commercial bank branches.

As at 30 June 2012, the Bank has 77 branches operating in Lebanon organized by regional centers (Beirut, Metn, Kesserwan-Jbeil, North Lebanon, Bekaa and South Lebanon). As at 31 December 2011, the Bank's branches in the Greater Beirut area represented 47.4% of all the Bank's branches (as compared to 53.5% in the Lebanese banking sector), whilst branches located in Mount Lebanon and North Lebanon represented 37.2% of total branches (as compared to 29.0% in the Lebanese banking sector), branches located in the Bekaa Valley represented 5.1% of total branches (as compared to 7.0% in the Lebanese banking sector) and branches located in South Lebanon represented 10.3% of total branches (as compared to 10.5% in the Lebanese banking sector).

As at the date of this Offering Circular, the Bank has a network of 126 ATMs in Lebanon.

Outside Lebanon, the Bank has branches in Limassol, Cyprus, Baghdad, Erbil and Basra, Iraq and representative offices in Abu Dhabi, United Arab Emirates and Lagos, Nigeria, as well as a branch in each of Brussels, London and Paris through its subsidiary, Byblos Bank Europe; branches in Khartoum and Bahri through its subsidiary, Byblos Bank Africa; branches in Abou Remmaneh, Mazzeh (Damascus), Abbasyin, Aleppo (two branches), Hama, Homs, Hosh Blass, Lattakia, Tartous and Sweda through its subsidiary, Byblos Bank Syria; branches in Yerevan, Vanadzor,Malatia and Komitas through its subsidiary, Byblos Bank Armenia; a branch in Kinshasa through its subsidiary, Byblos Bank RDC.

Loan Portfolio

As at 30 June 2012, the Bank's total loan portfolio, excluding acceptances and before deduction of loan loss provisions, was LBP 6,171.5 billion (U.S.$4,093.9 million) and, as a result, the Bank ranked fifth among banks operating in Lebanon in terms of loans and advances according to *Bankdata*, based on audited financial statements of banks operating in Lebanon provided to *Bankdata* by such banks.

Analysis of Loans by Type of Borrower

The following table shows the breakdown of the loan portfolio of the Bank (excluding acceptances and before deduction of loan loss provisions), by type of borrower, as at the dates indicated:

	As at 31 December						**As at 30 June**		
	2010			**2011**			**2012**		
	(U.S.$ thousands)	*(LBP millions)*	*(% of total)*	*(U.S.$ thousands)*	*(LBP millions)*	*(% of total)*	*(U.S.$ thousands)*	*(LBP millions)*	*(% of total)*
	(audited)						*(unaudited)*		
Corporate customers	1,503,904	2,267,135	37.9	1,652,572	2,491,253	39.1	1,756,494	2,647,914	40.5
International customers	1,006,853	1,517,830	25.4	945,676	1,425,607	22.4	824,973	1,243,647	19.0
Middle market customers	228,265	344,109	5.8	245,470	370,046	5.8	244,169	368,084	5.6
Retail customers	1,017,287	1,533,561	25.7	1,198,659	1,806,979	28.4	1,316,310	1,984,337	30.4
Syndication	55,437	83,572	1.4	30,222	45,560	0.7	47,968	72,312	1.1
Others	152,830	230,391	3.8	152,583	230,020	3.6	146,450	220,774	3.4
Total loans	**3,964,576**	**5,976,598**	**100.0**	**4,225,182**	**6,369,465**	**100.0**	**4,336,364**	**6,537,068**	**100.0**

The Bank generally does not make loans to the public sector (excluding the purchase of Lebanese treasury bills). As at 30 June 2012, loans to the public sector represented an insignificant proportion of the Bank's total loans.

The 20 largest groups of borrowers of the Bank accounted for loans outstanding of LBP 854.8 billion (U.S.$567.1 million) as at 30 June 2012, representing approximately 13.1% of total loans outstanding. The Bank's internal lending limit with respect to loans to a single borrower or group of related borrowers is 10% of combined tier I and tier II capital. Large exposures (exceeding the internal lending limits of 10% of tier I capital) are submitted to the full Board of Directors for approval. See "*—Central Credit Committee*".

Analysis of Loans by Geographic Distribution

The following table shows the percentage breakdown of the loan portfolio of the Bank (excluding acceptances and before deduction of loan loss provisions), by geographic area, as at the dates indicated:

	As at 31 December		**As at 30 June**
	2010	**2011**	**2012**
	(% of total)		
	(audited)		*(unaudited)*
Beirut and suburbs	70.5	67.7	60.1
Mount Lebanon	15.4	17.1	19.9
North Lebanon	4.2	4.5	8.9
South Lebanon	4.9	5.5	7.1
Bekaa	5.0	5.1	4.0

As at 30 June 2012, approximately 80% of the Bank's loan portfolio consisted of loans to borrowers in Beirut and Mount Lebanon. This distribution generally mirrors the concentration of economic activity in Lebanon in these two areas.

Analysis of Loans by Maturity

The following table shows the maturity profile of the loan portfolio of the Bank (excluding acceptances and after deduction of loan loss provisions) as at the dates indicated:

	As at 31 December				As at 30 June	
	2010		2011		2012	
	(U.S.$ thousands)	*(LBP millions)*	*(U.S.$ thousands)*	*(LBP millions)*	*(U.S.$ thousands)*	*(LBP millions)*
	(audited)				*(unaudited)*	
1 month or less	1,426,218	2,150,023	1,536,400	2,316,123	1,477,067	2,226,679
1 month through 3 months	327,759	494,096	349,981	527,596	351,803	530,343
3 months through 1 year	687,780	1,036,829	634,332	956,255	615,060	927,203
1 to 5 years	1,029,790	1,552,408	1,065,133	1,605,688	1,156,297	1,743,117
Greater than 5 years	299,757	451,884	422,327	636,658	493,664	744,198
Total	**3,771,304**	**5,685,240**	**4,008,173**	**6,042,320**	**4,093,891**	**6,171,540**

Loans with maturities less than 1 month constituted 36.1% of total loans as at 30 June 2012, as compared to 38.3% as at 31 December 2011 and 37.8% as at 31 December 2010, while loans with maturities between three and twelve months and loans with maturities between one and five years decreased, as a percentage of total loans, to 15.0% and 28.2%, respectively, as at 30 June 2012, as compared to 15.8% and 26.6% as at 31 December 2011 and 18.2% and 27.3% as at 31 December 2010.

Analysis of Loans by Economic Sector

The following table shows the percentage breakdown of the loan portfolio of the Bank (excluding acceptances and before deduction of loan loss provisions), by economic sector, as at the dates indicated:

	As at 31 December				As at 30 June	
	2010		2011		2012	
	(LBP millions)	*(% of total)*	*(LBP millions)*	*(% of total)*	*(LBP millions)*	*(% of total)*
	(audited)				*(unaudited)*	
Commercial	1,683,581	28.2	1,690,753	26.5	1,687,201	25.8
Manufacturing	1,143,544	19.1	1,189,714	18.7	1,105,211	16.9
Agriculture	70,828	1.2	70,056	1.1	78,245	1.2
Services	800,062	13.4	801,021	12.6	771,144	11.8
Construction	618,214	10.3	657,859	10.3	740,672	11.3
Retail	1,533,561	25.7	1,806,979	28.4	1,984,337	30.4
Others	126,806	2.1	153,083	2.4	170,257	2.6
Total	**5,976,596**	**100.0**	**6,369,465**	**100.0**	**6,537,067**	**100.0**

The Bank's loan portfolio is fairly diversified by economic sector. Commercial loans (loans to wholesale and retail trading entities) and retail loans, as well as loans to the manufacturing sector, comprise the largest components. As a percentage of total loans, as at 30 June 2012 loans to the commercial sector accounted for 25.8% of total loans, as compared to 26.5% as at 31 December 2011 and 28.2% as at 31 December 2010. Loans to the manufacturing sector also decreased to16.9% of total loans as at 30 June 2012, as compared to 18.7% as at 31 December 2011 and 19.1% as at 31 December 2010. As at 30 June 2012, loans to the retail sector accounted for 30.4% of total loans, as compared to 28.4% as at 31 December 2011 and 25.7% as at 31 December 2010.

Analysis of Loans by Currency

The following table shows the percentage breakdown of the loan portfolio of the Bank (excluding acceptances and after deduction of loan loss provisions), by currency, as at the dates indicated:

	As at 31 December		As at 30 June
	2010	**2011**	**2012**
		(% of total)	
	(audited)		*(unaudited)*
Loans in LBP	16.3	20.3	20.3
Loans in foreign currencies	83.7	79.7	79.7
Total	**100.0**	**100.0**	**100.0**
Number of clients	102,982	104,805	107,143
Average balance per client (in LBP million)	55.2	57.7	57.6

As at 30 June 2012, the Bank's foreign currency lending accounted for 79.7% of its loan portfolio.

The Bank limits the ratio of its foreign currency loans to deposits to a maximum of 70% in conformity with the limit imposed by the Central Bank. As at 30 June 2012, the Bank's foreign currency loan-to-deposits ratio was 39.0%.

Lending Policies

The Bank has developed a comprehensive set of lending policies and guidelines covering loan approval procedures, collateral requirements, credit limits and credit monitoring, provisioning and write-off policies. As its lending activities have expanded, the Bank has also developed and implemented credit risk policies designed to maintain high asset quality in its loan portfolio.

The Credit Policies and Procedures Manual (the "**CPPM**") covers the full range of the Bank's credit activities and applies to all domestic and international branches and offices, subject to all local laws and regulations.

The objectives of the CPPM are:

- to assist and guide the Bank's risk officers and relationship managers in developing a quality loan portfolio;
- to establish minimum criteria for sound credit practices to ensure quality assets portfolio;
- to define and establish the credit limits for each Committee;
- to establish functions and responsibilities of the Bank's staff, particularly those involved in marketing and credit functions;
- to define, establish and implement a continuous and effective system of credit administration and provide tools and techniques for monitoring the utilization of established facilities; and
- to set policies and procedures for identifying and monitoring classified accounts, creating loan loss provisions and determining write-offs.

Loan Approval Procedures

The Bank conducts its credit approval process through several committees. Each Credit Committee may approve, within specific guidelines, the extension of credit for amounts not exceeding its authorized credit limits. The Central Credit Committee (the "**CCC**") has the authority to approve all extensions of credit for amounts not exceeding 2% of the Bank's tier I capital. Amounts ranging between 2% and 10% of the Bank's tier I capital require the authorization of the Chairman of the Board of Directors. Large exposures (exceeding the internal lending limits of 10% of tier I capital) are submitted to the Board of Directors or any delegated members for approval. See "—*Central Credit Committee*".

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

The principal function of the Board Risk, Compliance, Anti-Money Laundering and Combating the Financing of Terrorism Committee (the "**Board Risk Committee**") is supervision, oversight and monitoring of all risks taken by the Bank. Its mission is to assist the Board of Directors in fulfilling its risk management responsibilities. The Board Risk Committee is comprised of three members, including an independent member of the Board of Directors, who acts as chair, and two other non-executive members of the Board. The Head of Group Risk Management is a permanent non-voting attendee. As at the date of this Offering Circular, the members of the Board Risk Committee are Mr. Abdelhadi A. Shayif (Chairman), Mr. Alain C. Tohmé and Mr. Arthur G. Nazarian.

The objectives of the Board Risk Committee are:

- to review and assess the strategies, policies, structures, systems and procedures in place to govern the understanding, identification, measurement, reporting and mitigation of significant banking risks;
- to review and critically assess (in compliance with Central Bank and Banking Control Commission rules and regulations) the Bank's risk profile with respect to credit risk, market risk, operational risk, interest rate risk, funding and liquidity risk, regulatory and reputation risk, anti-money laundering and compliance risk and capital adequacy risk;
- to consider and provide advice to the Board of Directors, when deemed required or 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; and
- to promote awareness of a risk-based culture and the achievement of a balance between risk minimization and reward for accepted risks.

The Board Risk Committee meets on a quarterly basis and when deemed necessary at the request of its chairman.

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 Head of International Banking and Investment, the Head of the Commercial Division, the Head of the Consumer Banking Division and the Head of the Credit Risk Management Division.

The CCC is entrusted with the following responsibilities:

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

The CCC also operates through two sub-committees, the CCC1 and the CCC2. The CCC1 is authorized to approve loans originating from the Corporate Department, the Financial Institutions Department, the International Corporate Department and the Middle Market Department, as well as overseas branches and subsidiaries. The members of the CCC1 vary according to the business segment. The CCC2 is authorized to approve corporate loans in amounts greater than U.S.$1,000,000 up to U.S.$3,000,000 and has three members (the Head of the Commercial Division, the Head of the Credit Risk Division and the Head of the Corporate Department).

The following table sets forth the members and approval authorities of the CCC1 and the CCC2:

Level	Amount approved (U.S.$ equivalent)	Business Segment	Members
CCC1	Less or equal to U.S.$1,000,000	Corporate	Head of Corporate Department · Delegated Head of Unit · Deputy Head of Credit Risk · Head of Corporate Risk Department
		International Corporate and overseas branches	· Head of Commercial Division · Head of Credit Risk Division · Head of International Corporate Department · Head of International Credit Risk Department
		Overseas Subsidiaries	· Head of Commercial Division · Head of Credit Risk Division · Head of International Credit Risk Department
		Financial Institutions	· Head of Commercial Division · Head of Credit Risk Division · Head of Financial Institutions Department
CCC2	Less or equal to U.S.$3,000,000 and greater than U.S.$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 each meets on an *ad hoc* basis.

Loan Recovery Committee

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

The LRC has the following responsibilities:

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

All decisions of the LRC must be approved by the majority of the members, including the chairman of the LRC or his delegate.

Middle Market Credit Committee

The Middle Market Credit Committee (the "**MMCC**") is comprised of the Head of the Credit Risk Management Division, the Head of the Commercial Division, the Head of the Middle Market Department, the Head of the Middle Market Credit Risk 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 Department. 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:

				Clean or Secured basis (excluding Cash Collateral)
MMCC3			Credit Risk & Commercial Division Heads	< U.S.$1,250,000
	MMCC2		Middle Market Credit Risk Department Head	< U.S.$750,000
		MMCC1	Middle Market Department Head	< U.S.$300,000
			Regional Manager	—

At the lowest level, decisions by the MMCC require the mandatory joint approval of all designated members. 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 Head of the Credit Risk Management Division and the Head of the Commercial Division, 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 4 or below and when there are deviations from prescribed guidelines. See "*—Loan Classifications*".

Retail Credit Committee

The Bank has numerous Retail Credit Committees, with varying authorities to approve proposals relating to different retail loans, within defined limits. The prerogatives of these committees differ depending on the segment of the retail loan, such as, *inter alia*, personal, housing, Kafalat, wedding, travel and credit cards.

Branch Credit Committee

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

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

Lending Limits

Central Bank Decision № 7055 dated 13 August 1998, and subsequent amendments sets the maximum allowable weighted credit limit for loans to a single borrower (or a group of related borrowers) at (i) 20% of a bank's tier I capital with respect to loans extended to any borrowers (or a group of related borrowers), (ii) 20% of a bank's tier I capital 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+ (or Lebanon) and above and (iii) 10% of a bank's tier I capital with respect to loans extended to resident borrowers or non-resident borrowers (or a group of related borrowers) the proceeds of which are to be used in countries with sovereign ratings below A+, provided that (x) the aggregate exposure for countries rated from A to BBB- is not to exceed 200% of the bank's tier I capital and the aggregate exposure to each of these countries is not to exceed 50% of the bank's tier I capital or (y) the aggregate exposure for countries rated below BBB- is not to exceed 100% of the bank's tier I capital and the aggregate exposure to each of these countries is not to exceed 25% of the bank's tier I capital. 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. See "*—Risk Management—Portfolio Management and Credit Risk Analytics (PMCRA)*".

Methodology of Valuation of Collateral

The Bank's method of valuing the collateral supporting any loan made by it 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 necessary, on a semi-annual or more frequent basis.

For collateral consisting of securities, the Bank accepts only securities that are traded on one of the organized exchanges in (i) Lebanon, (ii) countries whose sovereign credit rating is BBB and above provided that the market price of the security is not less than U.S.$5.00, and (iii) countries whose sovereign credit rating is less than BBB provided that the market price of the security is not less than U.S.$5.00 and that the issuer of the security is rated BBB and above. In all cases, lending is capped at 50% of the market value of these securities. The market value of exchange-traded securities is monitored by the Capital Markets Department. In the event of any decrease in market value, the borrower is immediately required to provide additional collateral or reduce the loan outstanding amount.

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

The following table shows a breakdown of the Bank's loan portfolio (excluding acceptances and after deduction of loan loss provisions), by type of collateral, as at the dates indicated:

	As at 31 December		**As at 30 June**
	2010	**2011**	**2012**
		(% of total)	
	(audited)		*(unaudited)*
Unsecured	36.9	34.8	30.8
Secured by financial securities	4.5	3.9	3.6
Secured by real guarantees	13.9	17.7	20.7
Secured by bank guarantees	0.7	0.2	1.1
Secured by cash collateral	10.5	10.2	10.4
Secured by personal guarantees	33.5	33.2	33.4
Total	**100.0**	**100.0**	**100.0**

Article 152 of the Code of Money and Credit and Central Bank Decision № 7776 dated 21 February 2001, as amended from time to time, provide that advances and credit facilities to directors or managers of banks or to companies having common directors with a bank must not exceed in aggregate 2% of the bank's shareholders' equity; such ceiling may reach in aggregate 5% of the bank's shareholders' equity, provided that the loans (i) are covered by a real guarantee or bank guarantee and (ii) were subject to a prior approval of the Board of Directors and General Meeting. The Bank was in compliance with Article 152 of the Code of Money and Credit in all respects, as at 31 December 2011, since it had a net direct and indirect exposure to related parties of LBP 17,592 million (U.S.$11.7 million), representing, in the aggregate, only 0.7% of the Bank's shareholders' equity. Management believes that, as at the date of this Offering Circular, the Bank remains in compliance with Article 152 of the Code of Money and Credit.

Credit Review Procedures for Approval

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

Credit monitoring within the Credit Risk Management Division is carried out through specialized units, which monitor the loan portfolio as a whole and individual loans, granted to small, medium, corporate and international clients. 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 Internal Audit Division. This review is performed on a sampling of credit facilities, taking into account all direct, indirect and contingent outstanding liabilities, across loans booked by the Bank's Head Office or in another unit of the Bank or its subsidiaries. The main objective is to provide an independent appraisal of the loan portfolio and process and ensure compliance with the Bank's Credit Policy and Procedures. Findings and comments that have not been regularized are reported to the Audit Committee through the quarterly report regularly submitted by the Internal Audit Department.

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

Loan Classifications

Central Bank Decision № 7159 issued on 10 November 1998, and its subsequent amendments, requires all banks and financial institutions in Lebanon to classify loans according to six categories of risk: (i) ordinary/regular loans; (ii) watch list loans; (iii) watch list loans for remedial; (iv) less than ordinary/sub-standard loans; (v) doubtful loans; and (vi) bad or loss loans. While the Bank utilizes the regulatory loan classification scheme, as required by Central Bank Decision № 7159, it also applies an internal rating system which incorporates and refines the requirements set out in Central Bank Decision № 7159. The Bank's internal classification criteria are more detailed than those of the Central Bank. 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 Offering Circular, the Bank is in compliance with all related requirements.

Central Bank loan classifications are more fully described as follows:

- ***Classifications 1 and 2*** covers regular loans, as follows:

  (a) Classification 1 covers loans that are fully current and the orderly repayment of which is without a doubt; adequacy of the borrower's internal cash flows ensures regular replenishment of the accounts to serve obligations on time; updated financials are available and collateral (if existing) ensures alternative exits; and

  (b) Classification 2 covers loans that are current, but where credit information or documentation remains to be completed.

  All Classification 1 and 2 loans are considered acceptable risks and no losses are foreseen.

- ***Classification 3 (watch list for remedial action)*** covers loans the principal and interest of which are generally covered by the financial strength of the borrower or by adequate collateral. Such loans, however, are placed on the watch list (rather than being classified as regular 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 recent collateral valuation leading to the lack of information relating to the borrower's or guarantor's (if any) financial means; or (iii) the decreasing profitability or insufficient cash flow of the borrower leading to occasional excesses over approved lines.

  No loss is foreseen in respect of Classification 3 loans, but early attention, including substantive discussions with borrowers, is required to correct deficiencies.

- ***Classification 4 (substandard)*** covers loans the normal repayment of which may be or has been jeopardized by reason of: (i) a substantial deterioration in the borrower's cash-flows during more than two consecutive years; (ii) significant weaknesses in the value of collateral (especially if reimbursement stems from liquidation of submitted guarantees); (iii) recurrent delays (not exceeding 90 days) in settling payments; or (iv) the partial or total use of the proceeds from the credit facility for purposes other than those originally intended.

  Classification 4 loans include loans in which principal 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 5 (doubtful)*** covers loans showing weaknesses for the reasons listed under Classification 4 as well as: (i) the absence of cash flow for the past six months; or (ii) the failure to comply over three consecutive months with the restructuring of the loan.

Non-accrual of interest and commissions is required in respect of classification 5 loans, while partial provision against principal should be reserved.

- ***Classification 6 (loss)*** covers loans that are regarded as uncollectible.

  Classification 6 loans cover credits regarded as uncollectible after it is established that no further repayment or recovery is possible either from borrowers' cash flow or from the liquidation of the collateral. A full provision should be reserved against amounts so classified.

  The frequency of the Bank's review of problem loans is dependent upon the applicable classification. Loans that are classified as Classification 1 are reviewed by the Bank on a yearly basis, whereas loans that are classified as Classification 2 and worse are reviewed on a quarterly basis or more frequently if warranted.

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 the dates indicated:

	As at 31 December				**As at 30 June**	
	2010		**2011**		**2012**	
	(LBP millions)	*(% of total)*	*(LBP millions)*	*(% of total)*	*(LBP millions)*	*(% of total)*
	(audited)				*(unaudited)*	
Gross balances:						
Good loans[(1)]	5,641,632	94.4	5,820,880	91.4	5,964,357	91.2
Watch loans	190,380	3.2	346,205	5.4	304,387	4.7
Substandard loans	2,317	0.04	10,214	0.2	66,220	1.0
Doubtful loans	35,856	0.6	72,525	1.1	69,424	1.1
Bad loans	106,412	1.8	119,641	1.9	132,679	2.0
Total	**5,976,597**	**100.0**	**6,369,465**	**100.0**	**6,537,067**	**100.0**

Note:
(1) Includes classifications 1 and 2

	As at 31 December				**As at 30 June**	
	2010		**2011**		**2012**	
	(LBP millions)	*(% of total)*	*(LBP millions)*	*(% of total)*	*(LBP millions)*	*(% of total)*
	(audited)				*(unaudited)*	
Net balances:						
Good loans[(1)]	5,641,632	96.4	5,820,879	93.6	5,964,382	93.9
Watch loans	190,380	3.3	346,205	5.6	303,476	4.8
Substandard loans	1,640	0.03	8,814	0.1	52,708	0.8
Doubtful loans	16,260	0.3	40,761	0.7	33,451	0.5
Bad loans	—	—	—	—	0	0.0
Total	**5,849,912**	**100.0**	**6,216,659**	**100.0**	**6,354,017**	**100.0**

Note:
(1) Includes classifications 1 and 2

As at 30 June 2012, good and watch loans represented 95.9% of gross loans and 98.7% of net loans, as compared to 96.8% and 99.2% as at 31 December 2011 and 97.6% and 99.7% as at 31 December 2010. The continuing predominant share of good and watch loans to total loans reflects the overall quality of the loan portfolio.

Substandard loans represented 1.0% of gross loans and 0.8% of net loans as at 30 June 2012, as compared to 0.2% and 0.1% as at 31 December 2011 and 0.04% and 0.03% as at 31 December 2010. Doubtful and bad loans represented 3.1% of gross loans and 0.5% of net loans as at 30 June 2012, as compared to 3.0% and 0.7% as at 31 December 2011 and 2.4% and 0.3% as at 31 December 2010.

Pursuant to Banking Control Commission Circular № 240 dated 2 January 2004, banks are required to transfer any bad debt more than two years overdue to off-balance sheet accounts. In compliance with this Circular, the Bank wrote off bad debts (including related provisions and unrealized interest) of LBP 91.6 billion (U.S.$60.8 million) for the year ended 31 December 2011.

Provisions for Loan Losses

The Banking Control Commission retains the right to review periodically the entire loan portfolio of every Lebanese bank and has power to impose provisions relating to loans if it assesses them as impaired (i.e., loans classified as substandard, doubtful and loss). The Banking Control Commission requires specific provisions to be established for identified credit losses. Full or partial provisions must be made in respect of impaired loans in accordance with applicable Central Bank regulations. Furthermore, impaired loans must be put on a non-accrual basis and any interest subsequently received booked on a cash basis, as and when received. Impaired loans are those as to which the Bank has determined that the borrower may be unable to meet principal or interest payment obligations, or performance is otherwise unsatisfactory. The Bank has guidelines for determining provisions against impaired loans prescribed in its Allowance for Loan Losses Policy, as follows: for impaired commercial loans, provisions are determined based on the present value of expected future cash flows and the fair value of any real estate collateral less disposal costs and, for impaired retail loans, provisions are determined based on product type and the relevant delinquency bucket.

The Bank's policy also prescribes a maximum carry period beyond which a full provision must be allocated against any impaired loan regardless of the provided security.

Impaired loans are reviewed on a quarterly basis, or earlier if deemed necessary. Once a commercial loan is classified as substandard, the relationship is transferred from the business line to the Loan Recovery Department ("**LRD**") under the Credit Risk Management Division. Retail loans are transferred to the LRD on a case-by-case basis by reference to the specific circumstances of default or delinquency.

Pursuant to Central Bank Basic Decision № 7129, dated 15 October 1998, Lebanese banks are required to allocate, on a 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.

The Bank's strategy is to maintain a high level of adequate provisions against impaired loans. As a result, the ratio of provisions to bad and doubtful loans was 100.0% as at each of 31 December 2010, 31 December 2011 and 30 June 2012.

The following table shows the level of the Bank's provisioning and coverage ratios as at the dates indicated:

	As at 31 December		As at 30
	2010	**2011**	**June 2012**
		(LBP millions)	
	(audited)		*(unaudited)*
Classification 4 loans (substandard loans)	2,317	10,214	9,264
Classification 5 & 6 loans (non-performing loans)	142,268	192,166	258,413
Total classified loans	**144,585**	**202,380**	**267,677**
Specific provisions for loan losses	67,018	90,206	112,445
General provisions.	79,516	103,728	104,087
Reserved interest (substandard loans)	677	1,400	1,525
Reserved interest (non-performing loans)	58,990	61,199	67,547
Total provisions and cash collateral.	**206,201**	**256,533**	**285,604**
		(%)	
Classified loans (4) / Total loans.	0.0	0.2	0.14
Classified loans (5 & 6) / Total loans.	2.4	3.0	4.0
Total classified / Total loans.	2.4	3.2	4.15
Total provisions / Total loans.	3.5	4.0	4.42
Non-performing loans provisions /Non-performing loans(1)	88.6	78.8	69.65
Total provisions / Total classified loans (4, 5 & 6)(1)	87.6	75.5	67.8

Note:

(1) Including specific provisions and reserved interest, excluding general provisions.

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. Management believes that, as at the date of this Offering Circular, the Bank 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.

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 the dates indicated:

	As at 31 December				**As at 30 June 2012**	
	2010		**2011**			
	(LBP millions)	*(% of total)*	*(LBP millions)*	*(% of total)*	*(LBP millions)*	*(% of total)*
	(audited)				*(unaudited)*	
Lebanese and other governmental treasury bills and bonds						
Lebanese treasury bills in LBP[1]	2,668,930	28.4	1,963,161	21.9	1,793,269	20.4
Lebanese governmental bonds in foreign currency	1,588,567	16.9	1,690,243	18.9	1,753,556	20.0
Bonds and financial assets with fixed income						
Corporate bonds in foreign currency	557,490	6.0	705,314	7.9	751,419	8.5
Corporate certificates of deposit in foreign currency	22,669	0.3	240,084	2.7	103,465	1.1
Central Bank certificates of deposits in LBP and foreign currency[2]	4,448,481	47.4	4,271,039	47.7	4,304,846	49.0
Shares, securities and financial assets with variable income in LBP and foreign currency	**110,771**	**1.1**	**103,571**	1.1	**100,031**	1.1
Collective provisions	**(16,681)**	**(0.1)**	**(25,015)**	**(0.2)**	**(14,100)**	**(0.1)**
Total	**9,380,227**	**100.0**	**8,948,398**	**100.0**	**8,792,486**	**100.0**

Lebanese and other governmental treasury bills and bonds

Lebanese and other governmental treasury bills and bonds (in both LBP and foreign currency) decreased, as a percentage of the Bank's total securities portfolio, to 40.4% as at 30 June 2012, as compared to 40.8% as at 31 December 2011 and 45.3% as at 31 December 2010. Investments in Central Bank certificates of deposits (in both Lebanese Pounds and foreign currency) represented 49.0% of the Bank's portfolio as at 30 June 2012, as compared to 47.7% as at 31 December 2011 and 47.4% as at 31 December 2010.

The following tables show the breakdown of the Bank's portfolio of Lebanese and other governmental securities by maturity as at the dates indicated:

	As at 31 December 2010		
	Amount denominated in LBP	**Amount denominated in foreign currency (equivalent in LBP)**	**Total Amount**
		(LBP millions) *(audited)*	
Maturity			
Up to 1 month	44,758	11,541	56,299
1 to 3 months	490,809	44,691	535,500
3 months to 1 year	887,076	173,089	1,060,165
1 year to 5 years	945,489	682,046	1,627,535
Over 5 years	299,181	678,816	977,997
Total	**2,667,313**	**1,590,183**	**4,257,496**

	As at 31 December 2011		
	Amount denominated in LBP	**Amount denominated in foreign currency (equivalent in LBP)**	**Total Amount**
		(LBP millions) *(audited)*	
Maturity			
Up to 1 month	250,388	5,715	256,103
1 to 3 months	233,386	87,8676	321,252
3 months to 1 year	764,529	92,793	857,322
1 year to 5 years	343,843	734,862	1,078,705
Over 5 years	371,015	769,008	1,140,023
Total	**1,963,161**	**1,690,244**	**3,653,405**

	As at 30 June 2012		
	Amount denominated in LBP	**Amount denominated in foreign currency (equivalent in LBP)**	**Total Amount**
		(LBP millions) *(unaudited)*	
Maturity			
Up to 1 month	227,503	2,740	230,243
1 to 3 months	111,678	16,576	128,254
3 months to 1 year	382,340	141,336	523,676
1 year to 5 years	731,219	725,447	1,456,666
Over 5 years	340,529	867,457	1,207,986
Total	**1,793,269**	**1,753,556**	**3,546,825**

Investments by Classification

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

Trading Investments

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

Non-trading investments and financial assets

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

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

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

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

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

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

In compliance with Banking Control Commission Circular 265 issued on 23 September 2010, the Bank adopted, effective 1 January 2011, Phase I of IFRS 9, as issued in November 2009 and reissued in October 2010, as well as the related amendments to other IFRS standards. The effective application date stipulated by the IFRS 9 in respect of annual periods beginning on or after 1 January 2015. The initial application date of this standard with respect to the Bank is 1 January 2011 in accordance with the relevant transitional provisions.

IFRS 9 introduced new classification and measurement requirements for financial assets and financial liabilities, replacing all previously extant categories under IAS 39, including, inter alia, financial assets held for trading, available for sale financial instruments, financial assets classified as loans and receivables and financial instruments held to maturity.

The Bank did not restate comparative information as permitted by the transitional provisions of IFRS 9 and has recognized the impact of early adoption of IFRS 9 as at 1 January 2011 in the opening retained earnings and other components of equity as of that date.

Management revised the Bank's financial assets and liabilities as at 1 January 2011 for reclassification and measurement purposes according to the requirements of IFRS 9 and its transitional provisions. The schedule below presents all financial assets and liabilities, which did not have an impact on the Group's retained earnings or other components of equity upon reclassification as at 1 January 2011:

	Initial classification under IAS 39	**New classification under IFRS 9**
Financial Assets		
Cash and balances with central banks	Loans and receivables	Amortized cost
Due from banks and financial institutions	Loans and receivables	Amortized cost
Financial assets given as collateral	Loans and receivables	Amortized cost
Derivative financial instruments	Trading	Fair value through profit or loss
Loans and advances to customers	Loans and receivables	Amortized cost
Loans and advances to related parties	Loans and receivables	Amortized cost
Financial Liabilities		
Due to central banks	Loans and receivables	Amortized cost
Due to banks and financial institutions	Loans and receivables	Amortized cost
Derivative financial instruments	Trading	Fair value through profit or loss
Customers' deposits	Loans and receivables	Amortized cost
Related parties' deposits	Loans and receivables	Amortized cost
Debt issued and other borrowed funds	Loans and receivables	Amortized cost
Subordinated notes	Loans and receivables	Amortized cost

The new classifications are as follows:

- *Debt instruments at amortized cost* – debt instruments are measured at amortized cost less any impairment loss (except for debt instruments that are designated at fair value through profit or loss upon initial recognition) if they meet the following two conditions: (i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. See Note 2.4(ii)A(a) to the consolidated financial statements of the Bank as at and for the year ended 31 December 2011;

- *Debt instruments and other financial assets at fair value through profit or loss* – included in this category are debt instruments that do not meet the conditions in above and debt instruments designated at fair value through profit or loss upon initial recognition. These financial assets are recorded in the consolidated statement of financial position at fair value. See Note 2.4(ii)A(a) to the consolidated financial statements of the Bank as at and for the year ended 31 December 2011;

- *Equity instruments at fair value through profit or loss* – investments in equity instruments are classified at fair value through profit or loss, unless the Bank designates at initial recognition an investment that is not held for trading as at fair value through other comprehensive income. These financial assets are recorded in the consolidated statement of financial position at fair value. See Note 2.4(ii)A(a) to the consolidated financial statements of the Bank as at and for the year ended 31 December 2011;

- *Equity instruments at fair value through other comprehensive income* – investments in equity instruments designated at initial recognition as not held for trading are classified at fair value through other comprehensive income. These financial assets are initially measured at fair value plus transaction costs. See Note 2.4(ii)A(a) to the consolidated financial statements of the Bank as at and for the year ended 31 December 2011.

The following tables set forth a breakdown of the Bank's investment securities portfolio, by classification, as at the dates indicated:

	As at 31 December 2010[1]					
	Held for trading	**Held to maturity**	**Available for sale**	**Loans and receivables**	**Accrued interest**	**Total**
			(LBP millions) *(audited)*			
Central banks' certificates of deposit	—	—	—	4,366,501	81,980	4,448,481
Lebanese and other governmental treasury bills and bonds	142,007	385,789	1,433,865	2,203,391	92,445	4,257,497
Bonds and financial assets with fixed income	33,929	42,790	316,422	155,342	9,007	557,490
Shares, securities and financial instruments with variable income	26,447	—	84,324	—	—	110,771
Corporate certificates of deposits..........	—	—	—	22,613	56	22,669
Collective provisions	—	(3,722)	—	(12,959)	—	(16,681)
Total by category	**202,383**	**424,857**	**1,834,611**	**6,734,888**	**183,488**	**9,380,227**

Note:
(1) Calculated in accordance with IAS 39.

	As at 31 December 2011[1]					
	Debt Instruments at amortized cost	**Debt Instruments at fair value through Profit or Loss**	**Equity Instruments at fair value through Profit or Loss**	**Equity Instruments at fair value through other comprehensive income**	**Accrued interest**	**Total**
			(LBP millions) *(audited)*			
Central banks' certificates of deposit	4,176,207	10,916	—	—	83,916	**4,271,039**
Lebanese and other governmental treasury bills and bonds	3,392,929	195,146	—	—	65,330	**3,653,405**
Bonds and financial assets with fixed income	675,105	19,637	—	—	10,572	**705,314**
Shares, securities and financial instruments with variable income.	—	—	26,604	76,967	—	**103,571**
Corporate certificates of deposits.......	239,484	—	—	—	600	**240,084**
Collective provisions	(25,015)	—	—	—	—	**(25,015)**
Total by category	**8,458,710**	**225,699**	**26,604**	**76,967**	**160,418**	**8,948,398**

Note:
(1) Calculated in accordance with IFRS 9.

	As at 30 June 2012[1]					
	Debt Instruments at amortized cost	**Debt Instruments at fair value through Profit or Loss**	**Equity Instruments at fair value through Profit or Loss**	**Equity Instruments at fair value through other comprehensive income**	**Accrued interest**	**Total**
			(LBP millions) *(unaudited)*			
Central banks' certificates of deposit	4,210,439	11,376	—	—	83,031	**4,304,846**
Lebanese and other governmental treasury bills and bonds.................	3,318,206	176,053	—	—	52,566	**3,546,825**
Bonds and financial assets with fixed income.....................................	718,959	22,334	—	—	10,126	**751,419**
Shares, securities and financial instruments with variable income......	—	—	23,012	77,020	—	**100,032**
Corporate certificates of deposits.......	103,301	—	—	—	163	**103,464**
Collective provisions........................	(14,100)	—	—	—	—	**(14,100)**
Total by category	**8,336,805**	**209,763**	**23,012**	**77,020**	**145,886**	**8,792,486**

Note:

(1) Calculated in accordance with IFRS 9.

Funding Sources

The Bank's sources of funds are comprised of Central Bank loans, deposits from banks and financial institutions, customers' deposits, liabilities under financial instruments, subordinated notes and shareholders' equity. See "*Overview of the Bank—The Bank's Objectives and Strategy*".

The primary source of funds for the banking sector in Lebanon is customers' deposits, which represented 85.4% of total funding for the sector and 81.7% of total funding for the Bank, respectively, as at 30 June 2012. See "*—Business Description—Retail Banking*". In addition, the Bank issues certificates of deposit and various 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 the dates indicated for the Bank's LBP-based funds and U.S. Dollar-based funds, respectively:

	As at 31 December		As at 30 June
	2010	**2011**	**2012**
		(LBP millions)	
	(audited)		*(unaudited)*
LBP-Based Funds			
Loans from the Central Bank	8,814	8,814	8,814
Banks and financial institutions	3,891	14,429	13,272
Sight deposits	2,295	3,440	2,680
Time deposits	1,596	10,989	10,592
Accrued interest	48	79	72
Total LBP placements from banks	**12,753**	**23,322**	**22,158**
Customers' deposits			
Sight deposits	307,244	323,904	445,696
Time deposits	6,689,401	6,925,855	6,987,401
Saving deposits	173,538	123,955	124,401
Related party deposits	61,504	57,848	93,325
Accrued interest	41,929	38,802	42,163
Total LBP customers' deposits	**7,273,616**	**7,470,364**	**7,692,986**
Paid up capital	689,113	689,113	689,113
Reserves and premiums	338,564	399,096	475,575
Retained earnings	7,957	10,758	45,628
Net income for the year[(1)]	228,151	220,657	107,821
Revaluation variance accepted a supplementary capital.	1,978	1,978	1,978
Cumulative changes in fair value.	32,037	11,810	11,860
Minority interest	31,040	13,475	13,651
Total LBP capital funds	**1,328,840**	**1,346,887**	**1,345,626**
Total LBP funds	**8,615,209**	**8,840,573**	**9,060,770**

Note:
(1) Before dividend distributions.

	As at 31 December		As at 30 June
	2010	2011	2012
		(U.S.$ thousands)	
	(audited)		*(unaudited)*
U.S. Dollar-based funds			
Loans from Central Banks	7,052	4,517	10,863
Banks and financial institutions	689,759	753,599	600,466
Sight deposits	141,497	209,985	126,644
Time deposits	548,262	543,614	473,822
Accrued interest	1,084	575	1,137
Total foreign currency placements from banks	**697,895**	**758,691**	**612,466**
Customers' deposits			
Sight deposits	1,464,144	1,525,787	1,537,002
Time deposits	5,131,534	5,946,989	6,219,637
Saving deposits	445,722	297,602	303,124
Related party deposits	33,228	61,096	71,530
Accrued interest	27,469	33,231	36,029
Total foreign currency customers' deposits	**7,102,097**	**7,864,705**	**8,167,322**
Certificates of deposit	141,600	141,600	40,450
Arab Trade Finance	9,101	23,491	13,646
Proparco	7,198	4,941	4,144
OPEC Fund for International Development	10,000	14,000	14,000
European Investment bank.	168,961	155,674	132,686
Govco Incorporated New York.	70,357	64,714	61,893
Agence Française de Développement	37,614	41,203	37,593
Citibank.	8,667	6,833	5,917
European Bank for Reconstruction and Development.	—	5,000	4,286
The European Fund for Southeast Europe (EFSE)	—	—	3,095
Eurobonds.	—	297,310	297,189
Unamortized front end fees and cost of issuance	(733)	(644)	(670)
Accrued interest	5,932	6,361	5,282
Total foreign currency debt	**458,697**	**760,483**	**619,511**
Subordinated notes[(1)]	32,072	32,098	—
Convertible subordinated notes[(1)]	169,138	171,724	170,074
Reserves and premiums	628,563	638,126	647,652
Notes issued	9,936	9,936	9,936
Retained earnings	5,656	36,123	18,537
Net income for the year[(2)]	18,321	26,028	6,089
Treasury shares	(10,739)	(16,899)	(16,777)
Foreign currency translation reserve	(6,352)	(20,782)	(57,527)
Cumulative changes in fair value.	14,564	(21,470)	(24,429)
Minority interest	85,565	101,296	76,772
Total foreign currency capital funds[(3)]	**946,724**	**956,181**	**830,327**
Total foreign currency funds	**9,205,413**	**10,340,059**	**10,229,626**

Notes:

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

(2) Before dividend distributions.

(3) Excluding "*Revaluation variance*".

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

Central Bank Soft Loans

During the year ended 31 December 2010, the Bank received three "soft" loans from the Central Bank to finance customers affected by the July 2006 War as follows:

	Principal amount	Interest rate	Maturity
	(LBP millions)	*(%)*	
Loan A	1,899	2.425	2 May 2013
Loan B	5,528	2.9	23 April 2015
Loan C	1,387	2.9	23 April 2016
Total	**8,814**		

Arab Trade Finance Program ("ATFP")

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

In June 2011, the Bank renewed a U.S.$25 million credit line agreement with the ATFP. The line is available to the Bank, on a revolving basis, with numerous drawdowns and settlements being made on a semi-annual basis. Drawdowns can be effected at any time within the agreement's validity (one-year renewable) and bear interest at various LIBOR-based rates (six-month LIBOR at the date of each disbursement). As at the date of this Offering Circular, there is U.S.$20 million outstanding under this credit facility.

Proparco

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

- in December 2000, the Bank drew down U.S.$3,232,000, which bore interest at a rate equal to six-month LIBOR plus 225 basis points and was fully repaid in April 2011;
- in May 2001, the Bank drew down a further amount of U.S.$3,500,000, which also bore interest at the rate equal to six-month LIBOR plus 225 basis points and was fully repaid in April 2011; and
- in December 2001, the Bank drew down a further amount of approximately U.S.$2 million, which bears interest at a fixed rate of 7.43% and was fully repaid in October 2011.

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

- on 9 April 2004, the Bank drew down U.S.$3,600,000, which bears interest at a rate equal to six-month LIBOR plus 2.9% with semi-annual interest (starting 30 April 2004) and capital repayments (from 31 October 2006 through 30 April 2014 of U.S.$225,000 each);
- on 29 September 2004, the Bank drew down a further amount of U.S.$3,000,000, which bears interest at a rate equal to six-month LIBOR plus 2.9% with semi-annual interest (starting 31 October 2004) and capital repayments (from 30 April 2007 through 31 October 2014 of U.S.$187,500 each);
- on 29 December 2004, the Bank drew down a further amount of U.S.$3,150,000, which bears interest at a rate equal to six-month LIBOR plus 2.9% with semi-annual interest (from 30 April 2005) and capital repayments (from 31 October 2007 through 30 April 2015 of U.S.$196,875 each); and

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

Agence Française de Développement

In January 2007, the Bank signed an agreement with the French state-owned institution, *Agence Française de Développement*, pursuant to which the Bank was permitted to borrow up to €25 million to finance general-purpose, working capital and treasury needs of SME's, which suffered from the July 2006 War. The Bank was allowed to draw down the loan through the end of July 2009 in up to five draw-downs, three of which were drawn down by the Bank, as follows:

- in May 2007, the Bank drew down €3,334,000, which bears interest at the rate equal to the EURIBOR minus 25 basis points and is repayable in semi-annual instalments from October 2011 through April 2017;

- in February 2008, the Bank drew down an additional €5,690,175, which also bears interest at the rate equal to EURIBOR minus 25 basis points and is repayable in semi-annual instalments from October 2011 through April 2017; and

- in June 2009, the Bank drew down an additional €14,840,990, which also bears interest at the rate equal to EURIBOR minus 25 basis points and is repayable in semi-annual instalments from October 2011 through April 2017.

OPEC Fund for International Development (OFID)

In July 2010, Byblos Bank Africa signed a *mudaraba* agreement with OFID, pursuant to which OFID was permitted to invest in Byblos Bank Africa U.S.$5 million over five years. The net profit of the investment amount will be shared as follows: 70% of the net profit will be paid over to OFID and 30% of the net profit will be retained by Byblos Bank Africa. The investment is repayable semi-annually from July 2010 through July 2015 and the average net investment return is 8%. As at the date of this Offering Circular, the outstanding amount under this *mudaraba* agreement is U.S.$4.0 million.

In May 2012, Byblos Bank Africa signed a second similar *mudaraba* agreement with OFID for a one year term for U.S.$5.0 million. The average net investment return under this *mudaraba* agreement is 7%. As at the date of this Offering Circular, the outstanding amount under this *mudaraba* agreement is U.S.$5.0 million.

In September 2010, Byblos Bank Armenia signed an agreement with OFID, pursuant to which Byblos Bank Armenia has borrowed U.S.$5 million. The loan is repayable in semi-annual installments from December 2010 through 23 June 2015 and bears an annual interest rate of 8%.

European Investment Bank

In 1998, 1999 and 2007, respectively, EIB granted the Republic of Lebanon three APEX Global loans. The first two loans are in the amount of €30 million each, while the third loan is in the amount of €60 million. These loans were disbursed, respectively, to provide financing for the hotel sector in Lebanon, financing for the expansion, modernization and rehabilitation of the industrial plants and financing for several other sectors of the economy. All APEX Global loans are managed by 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 EIB signed a finance contract, without the need of a state guarantee, in the amount of €50 million for the financing of small and medium-sized private sector projects approved by 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 6.13%, which is payable semi-annually, and is repayable in annual installments of principal from 23 January 2009 through 23 January 2016.

On 27 April 2006, Byblos Bank Syria signed an agreement with EIB and the Unit of Finance Management for Small and Medium Syrian Enterprises FMU for a loan in the amount of €40 million, pursuant to a program submitted by 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). In June 2012, the Bank made three drawdowns under this loan: (i) a drawdown of a principal amount of €11.33 million, which bears interest at an annual rate of 4.32% and matures on 15 December 2014; (ii) a drawdown of a principal amount of €0.58 million, which bears interest at an annual rate of 4.81% and matures on 15 June 2015; and (iii) a drawdown of a principal amount of €1.75 million, which bears interest at an annual rate of 4.82% and matures on 15 June 2015. As at the date of this Offering Circular there was an aggregate amount of €3.7 million outstanding under this loan.

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

On 31 January 2011, Byblos Bank Syria signed a third agreement with EIB and the Unit of Finance Management for Small and Medium Syrian Enterprises FMU for a loan in the amount of €80 million. As at the date of this Offering Circular, Byblos Bank Syria has not made any draw-downs under this third agreement.

Netherlands Finance Development Company ("FMO")

In 2000, the Bank entered into a ten-year loan agreement with FMO, pursuant to which the Bank was permitted to borrow up to U.S.$15 million to finance SMEs. The loan, which bore interest at the rate of six-month LIBOR plus 287.5 basis points, has been fully repaid in accordance with its terms in March 2010.

Citibank Loan Guaranteed by the Overseas Private Investment Corporation ("OPIC")

In January 2007, the Bank signed an agreement with Govco Incorporated and Citibank N.A. ("**Citibank**") for a loan in the amount of U.S.$50 million in two tranches, as follows:

- a U.S.$45 million tranche granted by Govco Incorporated and guaranteed by OPIC, which bears interest at a fixed annual rate of 7.100% and is repayable in 28 consecutive semi-annual installments from 22 July 2008 through 23 January 2022; and
- a U.S.$5 million tranche granted by Citibank and guaranteed by OPIC, which bears interest at a fixed annual rate of 8.525%, and is repayable in 12 consecutive semi-annual installments from 22 July 2008 through 22 January 2014.

The purpose of this loan is to provide financing to SMEs, housing loans in amounts up to U.S.$120,000 and consumer loans.

In July 2009, the Bank signed a second agreement with Govco LLC and Citibank for a loan in the amount of U.S.$40 million in two tranches, as follows:

- a U.S.$34 million tranche granted by Govco LLC and guaranteed by OPIC, which bears an interest at an annual rate of one-month LIBOR plus 1.95% and is repayable in 56 consecutive quarterly installments from 11 October 2010 through on 11 July 2024; and
- a U.S.$6 million tranche granted by Citibank, which bears an interest at an annual rate of one-month LIBOR plus 4% and is repayable in 24 consecutive quarterly installments from on 11 October 2010 through on 11 July 2016.

The funds acquired from this loan were allocated across the Bank's commercial and retail portfolios.

International Finance Corporation (IFC)

In March 2012, Byblos Bank Armenia signed an agreement with the IFC, the private sector arm of the World Bank, for a loan in the amount of U.S.$10 million to encourage local access to housing finance and to support Armenia's first energy-efficient lending package. The loan is intended to help Byblos Bank Armenia to increase its mortgage lending and provide loans to homeowners wanting to make their properties more energy-efficient. Such lending package is expected to help Armenians save power and reduce greenhouse gas emissions. Byblos Bank Armenia will design its energy-efficient products with advisory support from the IFC's Armenia Sustainable Energy Finance Project.

Loans under this agreement will bear interest either at a fixed rate of the base rate (calculated on the basis of weighted average swap rates) plus 5.25% or at a variable rate equal to six-month LIBOR plus 5.25%. Loans disbursed will be repaid in equal semi-annual installments from 15 March 2013 through 15 March 2019. As at the date of this Offering Circular, Byblos Bank Armenia has not made any draw-downs under this agreement.

European Fund for Southeast Europe (EFSE)

In December 2011, Byblos Bank Armenia signed an agreement with the EFSE, a microfinance investment fund, for a loan in the amount of U.S.$5.3 million (of which, U.S.$3.0 million is denominated in U.S. Dollars and the remaining portion is denominated in Armenian Drams (AMD 875 million)) to support lending to low-income households and SMEs in Armenia. Established in 2005, the EFSE is supported by the European Commission and the German Federal Ministry for Economic Cooperation and Development. As at the date of this Offering Circular, there is U.S.$5.3 million outstanding under this agreement. The U.S. Dollar-denominated drawdowns under this loan bear interest at an annual rate of LIBOR plus 4.75% and is repayable, following a two-year grace period, in semi-annual installments from March 2014 through June 2017. The Armenian Drams-denominated drawdown under this loan bears interest at an annual rate of 12.5% (revised from 11.25% in April 2012) and is repayable, following a two-year grace period, in semi-annual installments from December 2013 through December 2014.

Certificates of Deposits

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

Subordinated Participating Notes

In July 2002, the Bank issued Subordinated Participating Notes in an aggregate principal amount of U.S.$100 million. The Subordinated Participating Notes were fully repaid at their final maturity on 30 June 2012. The Subordinated Participating Notes bore fixed interest at a rate of 9% per annum, payable quarterly.

Convertible Subordinated Notes

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

Customers' Deposits

Customers' deposits comprise the substantial majority of the Bank's funding sources, comprising 81.7% of total funding as at 30 June 2012, 79.1% as at 31 December 2011 and 79.9% as at 31 December 2010.

Customers' deposits grew by 3.5% in the six-month period ended 30 June 2012 from LBP 19,326 billion (U.S.$12,820 million) as at 31 December 2011 to LBP 20,005 billion (U.S.$13,270 million) as at 30 June 2012, after having increased by 7.5% from LBP 17,980 billion (U.S.$11,927 million) as at 31 December 2010.

Customers' Deposits by Currency

The following table shows the breakdown of the Bank's deposits by currency, as a percentage of total deposits, as at the dates indicated:

	As at 31 December		As at 30 June
	2010	2011	2012
		(% of total)	
	(audited)		*(unaudited)*
Deposits in LBP	40.4	38.7	38.4
Deposits in foreign currencies	59.6	61.3	61.6
Total	**100.0**	**100.0**	**100.0**

Customers' deposits denominated in foreign currencies constituted 61.6% of total customers' deposits as at 30 June 2012, as compared to 61.3% as at 31 December 2011 and 59.6% as at 31 December 2010.

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

Customers' Deposits by Type of Account

The following table shows the breakdown of the Bank's customers' deposits, by type of account, as at the dates indicated:

	As at 31 December				As at 30 June 2012	
	2010		2011			
	(LBP millions)	*(% of total)*	*(LBP millions)*	*(% of total)*	*(LBP millions)*	*(% of total)*
	(audited)				*(unaudited)*	
Current deposits	3,082,780	17.1	3,196,125	16.5	3,344,087	16.7
Term deposits	13,856,849	77.1	14,989,496	77.6	15,480,688	77.4
Cash margins	845,463	4.7	888,133	4.6	882,815	4.4
Related parties' deposits	112,396	0.6	165,826	0.9	203,394	1.0
Accrued interest	82,538	0.5	86,828	0.4	94,239	0.5
Total	**17,980,026**	**100.0**	**19,326,408**	**100.0**	**20,005,223**	**100.0**

As at 30 June 2012, the Bank's customers' deposits were comprised 81.8% of term deposits and cash margins (*i.e.*, cash collateral in respect of facilities and trade finance activities), as compared to 82.2% as at 31 December 2011 and 81.8% as at 31 December 2010.

Maturity Profile of Customers' Deposits

The following table shows the maturity profile of the Bank's customers' deposits as at the dates indicated:

	As at 31 December				**As at**	
	2010		**2011**		**30 June 2012**	
	(LBP million)	*(% of total)*	*(LBP million)*	*(% of total)*	*(LBP million)*	*(% of total)*
	(audited)				*(unaudited)*	
Less than 1 month	12,547,461	69.8	13,337,311	69.0	13,584,738	67.9
1 month to 3 months	2,205,037	12.2	2,196,807	11.4	2,370,746	11.8
3 months to 1 year	2,642,483	14.7	2,984,528	15.4	2,957,282	14.8
1 year to 5 years	581,580	3.2	797,651	4.1	973,412	4.9
Over 5 years	3,465	0.1	10,111	0.1	119,045	0.6
Total	**17,980,026**	**100.0**	**19,326,408**	**100.0**	**20,005,223**	**100.0**

Almost all of the Bank's customers' deposits are short-term, with deposits having a remaining maturity of less than one year representing 94.5%, 95.8% and 96.7% of total customers' deposits as at 30 June 2012, 31 December 2011 and 31 December 2010, respectively.

Asset and Liability Management

Interest rate risk management and trading activities are managed by the ALCO. See "*Management and Employees—Committees—Risk Management Committee—Assets and Liabilities Management Committee (ALCO)*".

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 Deputy General Manager of the Financial Markets Division.

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

As with many banks in Lebanon, the Bank's Lebanese Pound assets are not matched, in terms of maturities, on the liability side. As at 31 December 2011, the average life of customers' deposits, the Bank's primary source of funding in Lebanese Pounds, was approximately 80 days and the average duration of its Lebanese treasury bill portfolio was 1,260 days. As at the same date, 37.1% of customers' loans, compared to 4.2% of customers' deposits, had maturities of over one year. 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. Moreover, as at 30 June 2012, the ratio of loans to deposits in Lebanese Pounds was 17.7%, while the ratio of loans to deposits in foreign currencies was 39.0%. Interest rate risk on foreign currency loans is insignificant, as virtually all such loans are made at floating rates of interest.

Risk Management

The Group Risk Management function ("**GRM**") at the Bank was established in early 2004 as an independent and dedicated function to handle measurement and management of the risks facing the Bank. The GRM is broadly following the guidelines of the Basel II Accord to measure and assess the risks identified under Pillar 1 (*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's current levels of capital under common equity, tier I capital and total capital are in compliance with the minimum ratios set forth in the Basel III Accords.

The Board Risk Committee has been formed with the principal function of supervision, oversight and monitoring of all risks taken by the Bank. It also assists the Board of Directors in fulfilling its risk management responsibilities by periodically reviewing and assessing the integrity and adequacy of the risk function of the Bank, reviewing the adequacy of the Bank's capital and its efficient allocation to the Bank's business, reviewing risk limits and regular risk reports with recommendations to the Board of Directors and approving major policies related to different risks to which he Bank is exposed. See "*—Lending Policies—Loan Approval Procedures—The Board Risk, Compliance, Anti-Money Laundering and Combating the Financing of Terrorism Committee*".

The Bank has implemented a tool for the calculation and reporting of its capital adequacy ratio in accordance with Basel II Accord, starting with the standardized approach, which is currently applied in the Bank (on a stand-alone basis) and by its wholly-owned subsidiary Byblos Bank Europe. Implementation throughout the Group for both stand-alone reporting at each subsidiary and consolidated reporting is under way and is expected to be completed by the end of 2014.

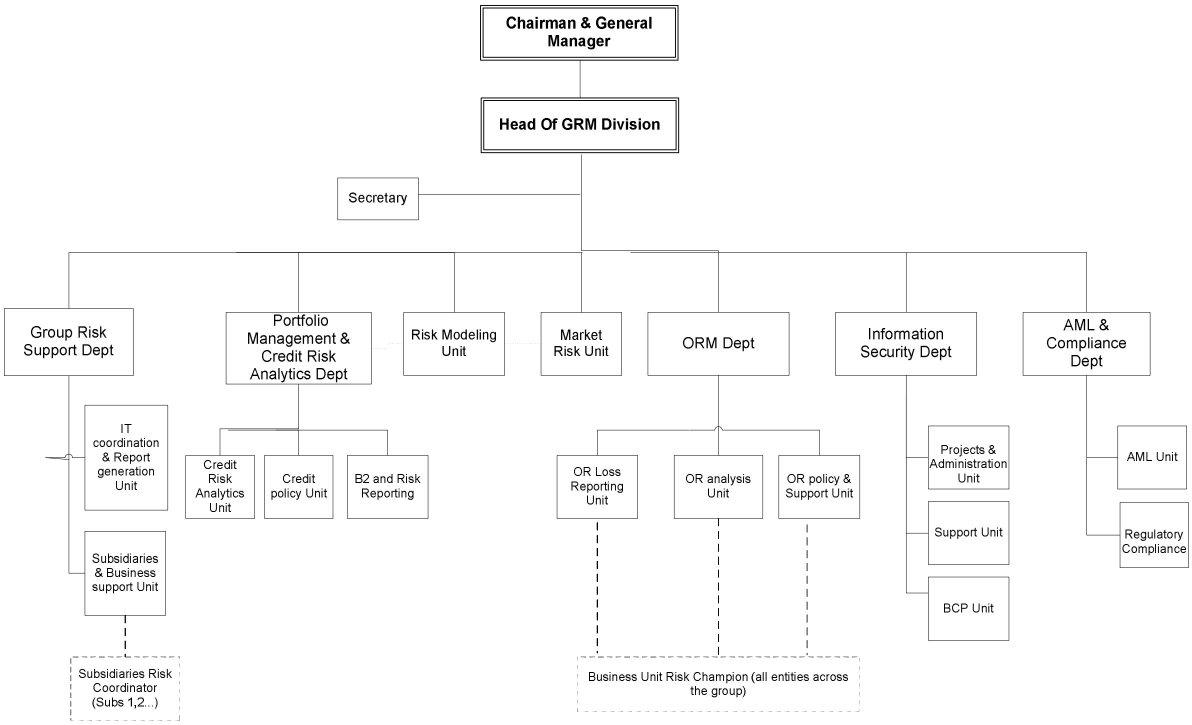
In January 2008, the GRM has established a risk management charter (the "**GRM Charter**"), which sets out the appropriate organization structure to manage the Bank's strategic, operational and financial risks, as well as compliance risks with internal and external laws and regulations. The GRM Charter is evaluated annually and updated, as necessary, by the Board Risk Committee.

The GRM Charter was revised in 2010, particularly to reflect the inclusion of two new entities within the GRM Division with the aim of adequately supporting the Bank's expansion strategy and facing growing risk management requirements, as follows:

- *The Group Risk Support Department*: this Department has an important role in providing technical and business support to ensure proper coordination for the implementation of the Basel II Accord and risk principles overseas. It is also responsible for the implementation of data driven business solutions and the automated generation of the different risk reports aiming to improve the business decisions and processes.

- *The Risk Modeling Unit ("**RMU**")*: this Unit is responsible for developing credit and market portfolio models, advising and directing the technical aspects of portfolio policy, analytics and introducing the latest risk management techniques. The RMU is responsible for assisting the GRM in implementing economic capital models, credit portfolio management, internal rating models and performance measurement methodologies.

The organization chart of the GRM is illustrated below:



Portfolio Management and Credit Risk Analytics (PMCRA)

Since 2003, the Bank has been applying Moody's Risk Analyst – RA™ ("**RA**"), an international platform developed by Moody's Analytics that supports the consistent preparation and presentation of financial information and the risk rating of commercial (non-retail) borrowers across the Group. RA is a judgmental, multi-criteria model formed of 10 grades and a multitude of financial ratios and business criteria where borrower rating is essentially based on a peer ratio comparison complemented by a trend ratio analysis and a qualitative assessment of the company and the business. Using RA, the Bank undertook a ratings customization project that led to the creation of three new models: a corporate model, a middle markets model and a contracting model aiming to better reflect size and industry specific risks within the Lebanese lending culture; these new models have been in use throughout the Bank since 2009. As at 30 September 2010, loans representing over 93% of the Bank's commercial portfolio were assigned an internal rating. The remaining, unrated loans are loans fully secured by cash or marketable securities or loans granted to start-up businesses or individuals considered to be creditworthy persons and backed by cash collateral. The rating process is strictly governed pursuant to specific internal policies and procedures developed with the benefit of the Bank's mature internal ratings culture. In particular, the Bank has developed a set of policies aimed at enabling Management to quantify individual and portfolio credit risks, set ratings-based lending limits and loan loss provisions and assess risk-based borrower profitability.

The Bank is required by the Central Bank to measure capital adequacy ratios according to Basel II and, once implemented, Basel III guidelines. Based on the revised Basel III criteria and Banking Control Commission Memorandum № 3/2012 dated 31 March 2012, which has aligned the treatment of minority interests to the requirements of Basel III, the Group's capital adequacy ratios were 9.01% (common equity (CET1) ratio), 12.82% (Tier 1 ratio) and 13.30% (total capital ratio) as at 31 December 2011 and 8.99% (common equity (CET1) ratio), 12.71% (Tier 1 ratio) and 12.97% (total capital ratio) as at 30 June 2012, which was in compliance with the minimum ratios set by both Basel III and the Central Bank. The minimum ratios set by the Central Bank are 8%, 10% and 12% for common equity (CET1), Tier 1 capital and total capital, respectively (with full compliance required by December 2015), while the minimum ratios set by Basel III itself are 7%, 8.5%, and 10.5%, respectively (with full compliance by January 2019).

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

Interest Rate, Exchange Rate and Liquidity Risk

Interest rate risk, exchange rate risk and liquidity risk are managed by the ALCO. See "*Management and Employees—Committees—Risk Management Committee—Assets and Liabilities Management Committee (ALCO)*".

Operational Risk Management

Operational risk is the risk of loss arising from 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 Bank's approach to operational risk is not designed to eliminate risk but, rather, to contain it within acceptable levels, as determined by senior management, and to ensure that the Bank has sufficient information to make informed decisions about additional controls, adjustments to controls, or other risk responses.

A dedicated, independent Operational Risk Management ("**ORM**") Department was established within the GRM division in 2004, with the main roles and responsibilities to develop ORM policies, assist and facilitate ORM programs and tools, analyse new products, activities and systems from an operational risk perspective and to promote ORM culture across the Group through awareness sessions and coaching. The Head of the Group Risk Management Division is responsible for ensuring the independence, objectivity and effectiveness of the operational risk framework as prepared by the ORM Department.

The practices for managing operational risk are mainly derived from the Basel II requirements, and which the ORM has translated into operational risk policies and procedures that outlined the Bank's operational risk strategy, governance and approaches for identifying, assessing, monitoring and mitigating operational risk.

Given that ORM is a decentralized function involving management at all levels, with business line managers being directly responsible for managing and mitigating operational risks in their areas of responsibility, the Bank has put in place a qualitative operational risk assessment framework that focuses on: (i) spreading the risk culture through regular awareness sessions and continuous enhancements to the practices; (ii) deployment of ORM tools (including, risk mapping, risk and control self-assessment, loss data reporting and action plan tracking); (iii) mitigation and control measures (including, insurance contracts and business continuity planning); and (iv) developing risk/reward analysis for the launching of new products.

Aside from establishing a dedicated core ORM funcition, the Bank has involved senior management and various business units through their participation in an operational risk committee for the evaluation and identification of the various aspects of operational risks embedded in the different activities and processes. ORM coordinators were also assigned to facilitate the management of operational risk within their area of responsibility, assume consistency with ORM policies and tools, and report results and issues.

In order to further progress the ORM function, the Bank is currently considering implementing the Key Risk & Control Indicator (KRCI) tool, which, if implemented, is currently expected to be in place by 31 December 2012. This tool will help to provide early warning signals of increased risk exposure relating to the Bank's activities, will support the business units in their monitoring of operational risk and will trigger measures to lower such risk to an acceptable level in accordance with the Bank's defined risk appetite.

See Note 56 to the consolidated financial statements of the Bank as at and for the year ended 31 December 2011.

Risk Governance

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

Liquidity and Reserves

The Bank believes it has sufficient liquid assets to meet foreseeable liability maturity requirements. As at 30 June 2012, the Bank's total loan portfolio (net of provisions) comprised 24.7% 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 72.5% of total assets. The Bank focuses its liquidity policy on meeting customers' demands to withdraw deposits, servicing debt obligations and providing funds to satisfy the demand for lending.

Short-term liquidity needs are managed by maintaining cash and overnight deposits in the local interbank market. Seasonal liquidity needs are managed by maturing Lebanese treasury bills and short-term deposits with local banks, including 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 placements to meet 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 the dates indicated:

	As at 31 December		**As at 30 June**
	2010	**2011**	**2012**
		(%)	
	(audited)		*(unaudited)*
Cash and banks	50.9	55.2	55.4
Lebanese treasury bills	18.5	14.6	14.2
Fixed income securities	2.4	2.8	3.0
Total	**71.8**	**72.6**	**72.6**

The Central Bank requires banks operating in Lebanon to maintain 15.0% of their term Lebanese Pound customers' 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 customers' 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 Offering Circular, it is in compliance with all of Central Bank's reserve requirements.

Anti-Money Laundering

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

In 2001, the Government issued Law № 318 (fighting money laundering) ("**Law 318**") in which money laundering and terrorism are prohibited. Law 318 established the "Special Investigation Commission" and gave it the right to access and block suspicious accounts and lift banking secrecy; it also describes certain means for the prevention of money laundering and penalties, including imprisonment, fines and the retention of suspicious funds of non-complying institutions and persons.

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 Compliance and Anti-Money Laundering Committee (the "**CAMLC**") with the mission to ensure that the Bank complies with applicable anti-money laundering laws and regulations. See "*Management and Employees—Committees—Compliance and Anti-Money Laundering and Compliance Committee (CAMLC)*".

Inspired by Basel committee consultative document "Customer Due Diligence for Banks", the CAMLC adopted the Bank's "Know Your Customer" ("**KYC**") policy, which has been implemented within the Group. One of its main objectives is to prevent the Group from being used in illegal and criminal operations by persons whose identity appears to be forged. Customers' names are screened against "World-Check" database and local watch lists in this respect. Customers are required to determine the "source of their funds". Their operations are monitored and transactions which are inconsistent with their normal line of business and suspected for hiding illegal activity are disclosed and reported to the Special Investigation Commission (the "**SIC**").

The objectives of the Bank's KYC policy consist, *inter alia*, of:

- determining the true identity of all counterparties requesting the Bank's services by requiring a suite of predetermined identity documents and creating a complete customer profile designed to allow the Bank to understand all facets of a customer's intended relationship with the Bank and thereby determining when transactions are responding to the real needs of the customer or if these may be suspicious or potentially illegal;
- increasing compliance with all applicable anti-money laundering laws and regulations in conformity with international and local industry standards for the purpose of adhering to sound and recognized banking practices;
- decreasing the likelihood of illegal activities being perpetrated against and through 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.

Internal Audit

The Group Internal Audit Division is responsible for providing an independent, objective assurance and consulting services designed to add value to improve the Bank's operations. It assists the Bank in accomplishing its objectives by providing a systematic, disciplined and risk-based approach to evaluate and improve the effectiveness of risk management, control and governance processes. In order to maintain its independence, carry-out its work objectively and render an impartial opinion, the Group Internal Audit Division has no direct or indirect authority or responsibility for any of the activities it audits. The Group Internal Audit Division derives its authority from the Audit Committee of the Board of Directors to which it reports directly. In addition, auditors within the Group Internal Audit Division are granted the right of unrestricted access to all Bank properties, records, information and personnel to the extent deemed necessary to perform their duties.

The Group Internal Audit Division currently consists of five main audit departments: Credit Review, the Audit Department, the Centralized Operations Department, the Branch Audit Department, the Information Technology Department and the Investigations Audit Departments, as well as the Data Mining Unit. The Group Internal Audit Division activities are performed with proficiency and due professional care in line with the International Standards for the Professional Practice of Internal Auditing. The Group Internal Audit Division currently consists of 32 experienced local auditors in addition to nine resident auditors in the Group's subsidiaries.

The Credit Review Audit Department's main function is to provide an independent evaluation of all the credit portfolios, the adequacy of the credit policies and procedures and the quality of credit risk management and reporting, as well as compliance with the relevant supervisory authorities' regulations in the different countries where the Bank has a presence.

The Centralized Operations Audit Department's main function is to provide an independent assessment of the internal controls over all banking activities centralized in the Head Office and subsidiaries, including, corporate governance, trade finance, treasury and capital markets operations, transfers and payments, risk management, compliance, human resources, financial controls, accounting, administration and other back office activities.

The Branch Audit Department's main duty is to undertake an efficient and effective internal audit of the branch network and deliver an independent and objective assessment of the existing controls over branch operations.

The Information Technology Audit Department's main function is 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 acquisition and development of new systems and changes to existing applications and to ensure the security, confidentiality and integrity of all the Bank's information.

The Investigations Audit Department's main function is to prevent, detect and deter internal and external fraud in the Head Office, branches, subsidiaries and representative offices of the Bank. It identifies and analyzes weaknesses and provides recommendations for continuous improvement. The Investigations Department works closely with the Data Mining Unit, which identifies exceptional trends and transactions.

Capital Expenditures

The table below shows the Bank's actual capital expenditures (for all premises) for the years ended 31 December 2010 and 2011.

	For the years ended 31 December	
	2010	**2011**
	(LBP millions) *(audited)*	
Buildings.	21,970	15,794
Fixed assets acquired in settlement of debt	5,389	829
Motor vehicles.	608	65
Furniture and equipment	25,950	38,070
Total	**53,917**	**54,758**

In accordance with the Bank's strategic emphasis on retail banking, capital expenditures were largely applied in 2010 and 2011 to purchase real estate for opening new branches and relocating existing ones. In 2011, the Bank had capital expenditures in respect of these branches of LBP 8.9 billion (U.S.$5.9 million), as compared to LBP 18.8 billion (U.S.$12.5 million) in 2011**,** in each case, exclusive of furniture and fittings.

The tables below show the Bank's estimated capital expenditures requirements for the years ended 31 December 2012 and 2013.

	For the years ended 31 December	
	2012	2013
	(LBP millions) *(unaudited)*	
Premises in use for operations	2,849	4,500
Information technology	22,348	16,500
Machines	363	500
Furniture and equipment	9,789	12,000
Motor vehicles	151	200
Total	**35,500**	**33,700**

Generally, the Bank finances all its capital expenditure requirements from its own funds, and the Bank expects to provide for its capital expenditures in 2012 and 2013 in this manner.

Information Systems and Technology ("IT")

The Bank has historically considered it crucial to maintain up-to-date management information systems to support its growth and has, accordingly, continuously upgraded its information systems. The Bank uses a world-class system, called Temenos 24, throughout the Bank for its domestic and international subsidiaries and affiliates. Temenos 24 covers banking functions ranging from corporate banking and trade finance to retail banking.

The Bank's systems are all run directly from Beirut, a cost-effective measure that requires minimal IT investment in local and overseas branches. To enlarge its client offerings, the Bank has also implemented electronic channels through on-line real-time Siebel Internet banking and a 24/7 Siebel call center, an EMV compliant ATM switch that operates a network of 128 ATMs and over 120,000 Visa debit cards, automated cash deposit service, Genesis IVR systems and SMS banking, which are fully operational and allow customers to conduct operations on a 24/7 basis.

The Bank also uses Peoplesoft HR System, a state-of-the-art competency-based human resources management system that enables the Bank to efficiently manage personnel through recruitment, career planning, training and performance evaluations. On the management level, the Bank has taken advantage of its centralized core banking system and can deliver management reports, to meet requirements set by its Department heads through a convenient centralized Internet-based management information system. The Bank has made significant efforts to achieve full compliance with the Basel II Accord, by implementing FinStudio, a tool for the calculation of the Bank's capital adequacy ratio and other risk monitoring reports. The Bank has implemented FinStudio in the Bank's Head Office and in Byblos Bank Europe and is in the process of implementing this tool in its remaining subsidiaries. The Bank is also in the process of implementing a new financial reporting and ERP system using Oracle Financial Suite.

To promote system functionality with 99.99% high availability, the Bank has established a fully redundant infrastructure both for telecom and hardware, which is managed by a team of IT specialists on a 24/7 basis across the Bank's global network. A disaster recovery site is maintained in Jbeil to preserve business continuity and avoid disruption in the Bank's main operations across branches and key business functions.

Competition

The market for financial and banking services in Lebanon is competitive. As at 30 September 2012, based on information from the *Association des Banques au Liban*, there were 54 active commercial banks, with 948 operational branches in Lebanon, 52 financial institutions, 17 specialized medium and long-term credit banks and 11 brokerage firms in Lebanon. 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 intense since the end of the civil war in 1990. Due to the intensity of such competition and the increasing number of institutions offering financial and banking services in Lebanon, in common with other Lebanese banks, the Bank has experienced a decrease in its lending margins, especially in respect of retail loans. Depending on the continuing extent and intensity of the competition, in common with other Lebanese banks, the Bank's expenses may increase and its revenues may decrease.

As at 31 December 2011, based on audited financial statements of banks operating in Lebanon provided to *Bankdata*, the Bank ranked third among all banks operating in Lebanon with net profit of LBP 270,937 million (U.S.$179.7 million), total assets of LBP 25,027 billion (U.S.$16,602 million), total shareholders' equity (according to *Bankdata* calculation, which includes revaluation variance of other fixed assets but excludes other equity instruments and subordinated notes) of LBP 2,470 billion (U.S.$1,638 million) and customer deposits of LBP 19,326 billion (U.S.$12,820 million) and ranked fifth among all banks operating in Lebanon in terms of loans and advances of LBP 6,042 billion (U.S.$4,008 million). See "*The Banking Sector and Banking Regulation in Lebanon—Banking Sector*".

Property

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

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

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

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

Insurance

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

Legal Proceedings

The Bank is not and has not been involved in any governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Bank is aware) that may have or have had in the 12 months preceding the date of this Offering Circular a significant effect on the financial position or profitability of the Bank.

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 comprised 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; the Board of Directors ordinarily meets once every quarter.

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 law, the Bank's by-laws or external or internal 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, respectively. 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 Lebanese 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 is currently comprised of twelve members, of which nine are non-executive directors and nine are independent. The official business address for each member of the Board of Directors is c/o Byblos Bank S.A.L., Byblos Tower Building, Elias Sarkis Avenue, Achrafieh, P.O. Box 11-5605, Beirut, Lebanon. As at the date of this Offering Circular, the Directors of the Bank, elected to serve until the annual Ordinary General Meeting to be held in 2015 to approve the financial statements of the Bank as at and for the year ended 31 December 2014, 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; Chairman and General Manager of Byblos Invest Holding; Chairman of the Board of Byblos Bank Africa; Member of the Boards of Byblos Bank Syria, Byblos Bank Armenia and Byblos Bank Europe; and acted as President of the Lebanese Bankers' Association (for three mandates). Received a Doctorate in Law from the 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 of the Board of Byblos Bank Syria; Vice-Chairman of Byblos Bank Africa, Member of the Board of ADIR Lebanon; Member of the Board of Byblos Bank Europe and Member of the Board of Byblos Invest Holding. 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. Ahmad T. Tabbarah

Director since 1999; Member of the Board Audit Committee and co-owner of Les Dunes S.A.L. (Lebanon).

Mr. Bassam A. Nassar

Director since 1992; Chairman of the Board Audit Committee; 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; Vice-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. Abdelhadi A. Shayif

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

Mr. Arthur G. Nazarian

Director since 2006; Member of the Board Risk, Anti Money Laundering and Compliance Committee. Businessman, Chairman – General Manager of Bycop S.A.L.; former Minister of Tourism of the Republic (1998).

Mr. Sami F. Haddad

Director since 2009; General Manager- International Banking and Investment, Chairman – General Manager of Byblos Invest Bank, Chairman – General Manager of ADIR Lebanon and member of the Board of Byblos Bank RDC; former Minister of Economy and Trade of Lebanon (2005 - 2008); former director at the IFC.

Mr. Alain C. Tohmé

Director since 2011;. Member of the Board Risk, Anti Money Laundering and Compliance Committee. 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 and was the former Deputy General Manager – Head of Commercial Banking Division. Received an M.B.A. from Boston University (United States).

Baron Guy Quaden

Director since 2012; twelve years Governor of the National Bank of Belgium, the Central Bank of the country (1999 to 2001). During the same period, he was a member of the Governing Council of the ECB (European Central Bank) and Governor of the International Monetary Fund for Belgium. He is currently member of the Board of Directors of the Bank for International Settlements. He holds a degree in economics from the University of Liege, Belgium, a post graduate degree from La Sorbonne, France and a Ph.D from the University of Liege, Belgium.

Proparco represented by Mrs. Marie-Hélène Loison

Director since 2012; PROPARCO is a shareholder of Byblos Bank S.A.L., owning 1.2% of the capital (in addition to the 1.2% owned by *Agence Française de Développement* (AFD), the major shareholder of PROPARCO). PROPARCO is represented by Ms. Marie- Hélène Loison, Deputy CEO in charge of Investments. She oversees the investment process and teams, and the international network of PROPARCO. She graduated from the *Institut d'Etudes Politiques* in Paris and has an MA from the School of Advanced International Studies-Johns Hopkins University in Washington D.C

Dr. Henry T. Azzam

Director since 2012; BA in Mathematics and an MA in Economics from the American University of Beirut and a Ph.D in Economics from the University of Southern California in Los Angeles, USA. CEO of Deutsche Bank MENA region (2007 to 2010) and Chairman of the Board of Directors of Deutsche Bank MENA region since 2010. Has chaired and served on boards of numerous companies in diversified fields and is still serving on boards of various companies.

Compensation and Benefits

In 2011, the Bank paid LBP 4,309 million (U.S.$2.9 million) as compensation and benefits (excluding bonuses) for the Chairman and Board members. As at the date of this Offering Circular, no options for the purchase of any of the Bank's securities were held by any of the Directors.

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

Senior Management

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

Dr. François S. Bassil

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

Mr. Semaan F. Bassil

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

Mr. Sami F. Haddad

General Manager- International Banking and Investment. See "*—Board of Directors—Mr. Sami F. Haddad*"

Mr. Marwan Moharram

Deputy General Manager – Head of Credit Risk Management Division. B.A in Finance from George Washington University (United States). M.B.A from University of Southern California (United States). Between 1993 and 1995 has worked at Bank Audi (Beirut) and BAII Asset Management (London). Has worked at the Bank since 1996.

Mr. Alan F. Wanna, CFA

Deputy General Manager – Head of Financial Markets 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

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

Mr. Raffoul E. Raffoul

Assistant General Manager – Head of Organization, Development, Information Systems and Operational Support Services Division. 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 & Whinney 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 1999.

Mrs. Joumana F. Chelala

Deputy General Manager – Head of Consumer Banking Division and Head of Corporate Human Resources Division. 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.

Mr. Walid J. Kazan

Assistant General Manager – Head of International Network Division. 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.

Mr. Fadi Hayek

Head of Group Internal Audit Division. Qualified as Chartered Accountant from Canada and Certified Public Accountant from the USA. Obtained his Master degree in Accounting from Concordia University (Canada) in 1996. Has around 15 years of experience in external audit, finance and internal audit fields. Governor in the Institute of Internal Auditors in Lebanon. Has worked at the Bank since 2007.

Mr. Ziad Zoghbi

Head of Group Finance and Administration Division. BS in Banking and Finance, MBA from Notre Dame University (Lebanon), and law degree from the Lebanese University. Has around 14 years of banking experience in the finance and planning. Headed the Finance and Planning Department at the Bank from March 2007 to January 2011 and became Head of Group Finance and Administration Division in February 2011.

Compensation

In 2011, the aggregate compensation (excluding bonuses) paid to the Senior Managers of the Bank was LBP 6,959 million (U.S.$4.6 million), which constituted 4.3% 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

As at 30 June 2012, the Group employed a total of 2,687 persons, as compared to 2,716 persons and 2,719 persons as at 31 December 2011 and 31 December 2010, respectively. The Bank values its human resources as an asset with a high return on investment. During 2011, the Bank recruited 211 employees, of which 87 were recruited by the Bank in Lebanon, 22 by the Bank's branches in Baghdad, Erbil and Basra, 16 by Byblos Bank Africa, 32 by Byblos Bank Syria, four by Byblos Bank Europe, 20 by Byblos Bank Armenia, two by Nigeria's representative office, one by UAE's representative office, eight by ADIR Lebanon and 19 by ADIR Syria.

The Bank's turnover rate is low (about 3.7% in 2011) primarily due to its competitive compensation and benefits policies, succession planning, career management and development, as well as its strategy of promoting personnel from the Bank to higher-level positions.

Management of the Bank's human resources is largely centralized at the Bank's Head Office in Beirut. The Human Resources Division 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 labor laws, tax regulations and social security rules.

In 2010, the Bank launched the E-Performance module on PeopleSoft, one of the most advanced human resources system, which coordinates the Bank's strategy and operations and establishes key performance indicators for each function within the Bank.

In 2011, the Human Resources Division launched the internship module on PeopleSoft, whereby al files for the summer trainees, as well as their respective evaluations, are inserted in the system.

In addition, the Bank has been a pioneer in acquiring the Leadership Management International's On-site License in Training and Coaching. LMI International is a 45-year old international leader in the strategic development dedicated to developing training programs and provides its services in 60 countries worldwide. Management believes that, by acquiring this license, the Bank has been able to develop its leaders and raise its human assets competency levels.

In 2011, the Bank completed a culture change program for its entire branch network, entitled "Corporate Image and Business Etiquette". Management believes that this customized program has helped to raise the service level standards for front office personnel to match the Bank's customers' needs, outlooks and expectations, resulting in the development of a competent team able to provide excellence in service and professionalism.

In order to motivate and retain the best candidates, special training programs were offered in 2010, 2011 and to date in 2012, ranging from induction programs to other training programs on new systems and procedures, customer service, leadership and people management, retail lending module and financial statements analysis. The Bank has also established a retail school, "Byblos way" training academy, which focuses on providing training with respect to retail banking products and services.

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 labor 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 that the Bank's relationship with its employees is good. Apart from countrywide and sector-wide strikes, the Bank itself has experienced no strikes.

Board Committees

The Bank has two Board committees, as follows:

- the Board Risk, Anti-Money Laundering and Compliance Committee (the Board Risk Committee); and
- the Audit Committee.

The Board Risk Committee

See "*—Overview of the Bank—Loans Approval Procedures—Board Risk, Compliance, Anti-Money Laundering and Combating the Financing of Terrorism Committee*".

The Audit Committee

The Audit Committee is comprised of not fewer than three directors, each of whom is required to be independent and appointed from amongst the non-executive directors of the Bank and a secretary. Each member of the Audit Committee shall enjoy a good financial, ethical and reputational standing. At least one member shall have accounting or related audit or financial management expertise and at least one member shall have banking or related financial management expertise. Audit Committee members serve for a maximum period of three years. Directors can be reappointed as members of the Audit Committee for an unlimited number of times. No director may serve as a member of the Audit Committee if such director serves on audit committees of other companies unless the latter companies are subsidiaries or affiliated companies. Exceptions to this rule are to be authorized by the Board of Directors. As at the date of this Offering Circular, the members of the Audit Committee are Mr. Bassam A. Nassar (appointed as Chairman of the Audit Committee by the Board), Mr. Ahmad T. Tabbarah, and Mr. Abdelhadi A. Shayif.

The Audit Committee meets at least four times a year. The Audit Committee's function is to oversee the Group Internal Audit function of the Bank but is not, under any circumstances, to replace it.

The mission of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities for the Bank's financial and operational reporting processes, internal control systems and audit processes, as well as the Bank's process for monitoring compliance with laws and regulations and the Bank's code of conduct, which comprises a set of internal regulations related to disciplinary and ethical standards to be followed by the Bank's employees.

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, ADIR Lebanon and Adonis Brokerage House.

The Audit Committee assists the Board of Directors in:

- the oversight of accuracy of the Bank's annual and quarterly financial statements and their compliance with the applicable international accounting standards (IFRS);

- the review with senior management and external auditors of significant accounting, income tax, financial, reporting policies or issues made in connection with the preparation or audit of the Bank's financial statements and other financial or informational reports, including any major issues regarding significant changes in the Bank's selection or application of accounting principles;

- the recommendation for the appointment of the external auditors, confirmation of their independence, evaluation of their competencies, performance and objectivity in performing the audit task and discussion of the important recommendations and remarks raised in their reports;

- the supervision of the Bank's internal audit function, ensuring its independence and reviewing and controlling the quality and scope of their work; and

- the oversight of compliance with the Bank's ethical standards, policies, plans and procedures (including anti-money laundering and anti-terrorism financing procedures) and with applicable laws and regulations and the adequacy of the Bank's management and control systems (including information systems and security).

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

The Audit Committee submits a report on the tasks accomplished to the Board of Directors on a quarterly basis and more frequently as necessary. 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 advisors with relevant experience and expertise if it deems it necessary.

Committees

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

The Management Committee

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

The Management Committee meets weekly at the Head Office of the Bank and has numerous functions and responsibilities with regards to the activities and operations of the Bank, including (among others) reviewing the financial performance of the Bank; overseeing and ensuring proper execution of the Bank's policies and procedures; setting the Bank's objectives, performance goals and annual business and action plans, and presenting these to the Board of Directors; recommending special business development projects (such as mergers, acquisitions, the opening of overseas subsidiaries or branches, entering into partnership agreements and similar significant transactions); proposing capital increases and bond and long-term debt issuances (after approval of the ALCO); and approving any organizational changes, any changes in strategy, upgrades in IT systems and significant capital expenditures.

Internal Audit Management Committee

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

The Internal Audit Management Committee meets at least quarterly, and more frequently as necessary or as so requested by the Chairman. The Internal Audit Management Committee's responsibilities include, *inter alia*, overseeing the development and implementation of the Bank's annual audit plan, reviewing drafts of the Bank's annual and semi-annual audit reports prior to their submission to the Board of Directors, ensuring compliance with the Bank's audit policies and procedures, reviewing and considering auditors' reports and management letters and implementing measures highlighted therein, reviewing and implementing measures highlighted in the Group's internal audit reports and reviewing and implementing measures highlighted in Banking Control Commission memoranda. The Internal Audit Management Committee also has disciplinary authority to address any clear violations of banking procedures.

Human Resources Committee

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

The HRC meets at least quarterly at the Head Office of the Bank. The HRC's mission is to ensure that the Human Resources Division's business plans, policies, procedures and activities are aligned with the Bank's overall mission, objectives and strategy. The HRC follows-up on the implementation of the Human Resources Division's annual plan and budget. 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 comprised of the Head of the Group Organization Development, Information Systems & Operational Support Services (who acts as the chairman of the Banking Technology Committee), the Head of Group Banking Technology Division (who acts as vice-chairman of the Committee), the Vice-Chairman, the Head of the Group Commercial Banking Division, the Head of the Group Finance and Administration Division, the Head of the Group Consumer Banking Division, the Head of the Group Risk Management Division and the Head of the International Network 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. The Banking Technology Committee oversees and approves requests for hardware and software, as well as for systems development, and ensures that they are in support of the Bank's business strategy and objectives. The Banking Technology Committee also establishes project priorities, oversees the overall performance of the banking technology, recommends the allocation of major banking technology capital expenditures and assigns sponsors, project managers and steering committees for technology projects. It examines banking technology's major risks and obstacles and oversees implementation of new processes to ensure that the Bank's objectives are met. It monitors progress and expenditures against major milestones and budgets.

International Committee

The International Committee is comprised of the Head of International Network Division (who acts as chairman of the International Committee), the Vice-Chairman, the Head of Group Organization Development, Information Systems & Operational Support Services, the Head of the Group Commercial Banking Division, the Head of the Group Risk Management Division, the Head of the Group Consumer Banking Division, the Head of Group Banking Technology Division and the Head of Internal Audit Division (as an attendee not a member).

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 efficient 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 Board Risk Committee, the CCC, the MMCC, the Loan Recovery Committee, the Retail Credit Committee, the Small Lending Credit Committee and the Branch Credit Committee.

Risk Management Committees

The Bank currently has five senior management committees dealing with risk related issues: the Risk Committee, the ALCO, the Operational Risk Management Committee, the CAMLC and the Information Security Committee. See "*Overview of the Bank—Lending Policies—Loan Approval Procedures*".

Risk Committee

The Risk Committee is comprised of the Head of the Group Risk Management Division (who acts as chairman of the Risk Committee), the Head of the Group Credit Risk Management Division (who acts as vice-chairman of the Risk Committee), the Vice-Chairman, the Head of the Group Commercial Banking Division and the Head of the Group Internal Audit Division (as an attendee, not a member).

The Risk Committee meets monthly at the Bank's Head Office to review and monitor credit risk strategy and insure that it is aligned with the Bank's overall objectives. The Risk Committee also oversees the implementation of approvals of the business plans and portfolio strategies and fixes accordingly the prudential limits. The Risk Committee oversees the delegation of credit approval authorities by the CCC. It reviews the Bank's credit practices and ensures that credit risk policies are efficient and appropriate and are being complied with. It ensures that the Bank conforms to applicable Basel requirements concerning credit risk measurement and management. It assesses regularly the overall composition of the loans portfolio and the economic environment. It manages and controls risks not covered by the ALCO and the CCC, such as reputation risk.

Assets and Liabilities Management Committee (ALCO)

The ALCO is comprised of the Head of the Group Financial Markets Division (who acts as chairman of the ALCO), the Vice-Chairman, the Chairman-General Manager of Byblos Invest Bank, the Head of the Group Commercial Banking Division, the Head of the Group Consumer Banking Division, the Head of the Group Risk Management Division, the Head of the Group Finance and Administration Division, the Head of the Financial Institutions Department and the Head of International Network Division.

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); guiding the pricing of the Bank's assets and liabilities, taking into consideration objectives as approved in the budget and annual business plan, managing the bank's capital in terms of investment, hedging and its efficient allocation to different products and lines of businesses; and managing the Bank's securities portfolio and capital.

Operational Risk Management Committee

The Operational Risk Management Committee is comprised of the Head of the Group Risk Management Division (who acts as chairman of the Operational Risk Management Committee), the Head of the Group Organization Development, Information Systems & Operational Support Services (who acts as vice-chairman of the Operational Risk Management Committee), the Vice-Chairman, the Head of the Group Consumer Banking Division and the Head of the Group Credit Risk Management 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 any activities proposals involving high operational risks; setting risk tolerance for residual risks; approving the operational risk management framework, policies, standards and methodologies; approving economic capital allocation for operational risk; monitoring the timely implementation of operational risk management initiatives throughout the Bank; and supporting the creation of operational risk awareness culture within the Bank.

Compliance and Anti-Money Laundering and Compliance Committee (CAMLC)

The CAMLC is comprised of the Head of the Group Risk Management Division (who acts as chairman of the CAMLC), the Head of the Group Consumer Banking Division (who acts as vice-chairman of the CAMLC), the Vice-Chairman, the Head of the Group International Network Division, the Head of the Group Operations Division, the Head of the Compliance Department and the Head of Internal Audit Division (as an attendee not a member).

The CAMLC is responsible for ensuring that the Bank is in compliance with anti-money laundering laws (including, in Lebanon, Law 318 dated 20 April 2001 and Central Bank Directive № 1912 dated 18 May 2001) and that the Bank's internal anti-money laundering procedure and "Know Your Customer" (KYC) policy are comprehensive clear and effective and followed by all Bank staff. The CAMLC is also responsible for ensuring that proper and effective controls are applied with the aim of preventing and detecting money laundering operations and that periodic training programs and sessions are held on money laundering prevention and detection. The CAMLC 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. Any unresolved matter is brought to the Management Committee or to the Chairman of the Board of Directors.

The CAMLC meets at least once every four months at the Bank's Head Office or more frequently when any member calls for a meeting concerning a suspicious transaction or customer or as otherwise deemed necessary.

Information Security Committee

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

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 with business strategy for supporting organization objectives; executing appropriate measures to manage and mitigate risks and reduce potential impacts on information resources; measuring, monitoring and reporting information security governance metrics; utilizing information security knowledge and infrastructure efficiently and effectively; and optimizing information security investments in support of organizational objectives.

Corporate Governance

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

THE BANKING SECTOR AND BANKING REGULATION IN LEBANON

Role of the Central Bank

The Central Bank was created by the Law implemented by Decree № 13513 dated 1 August 1963 and 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 dollarized. 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 65.9% as at 31 December 2011.

Banking Sector

As at 30 September 2012, based on information from the *Association des Banques au Liban*, there were 54 active commercial banks, with 948 operational branches in Lebanon, 52 financial institutions, 17 specialized medium and long-term credit banks and 11 brokerage firms 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 organizations, 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 II 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. In December 2011, *the Central Bank* issued Intermediary Decision № 10848 requiring banks to gradually raise their capital adequacy ratios by the end of 2015. Pursuant to the Decision, banks are required to have raised their Common Equity Tier 1 ratio to 8 per cent (defined as the ratio of common equity Tier 1 capital to total weighted assets), their Tier 1 ratio to 10 per cent (defined as the ratio of Tier 1 capital to total weighted assets) and their total capital ratio to 12 per cent (defined as the ratio of the sum of the Tier 1 ratio and the Tier 2 ratio to total weighted assets) by the end of 2015. The Decision also imposes intermediate annual thresholds for such ratios from the end of 2012. For the year ended 31 December 2012, the minimum ratios of Common Equity Tier 1, Tier 1 and total capital must be 5, 8 and 10 per cent, respectively. The requirements are in line with Basel III which is the third installment of the Basel Accords. As at 31 December 2011 (the most recent available), the average capital adequacy ratio of the Lebanese banking sector was 11.64%, 50.0% greater than the target capital ratio required by the Basel II Accord, according to statistics compiled by the Central Bank.

Law № 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 № 675 dated 14 February 2005 published in the *Official Gazette* № 8 dated 24 February 2005, the law facilitating bank mergers was reinstated for an indefinite period. The mechanism and criteria for granting soft loans to banks in accordance with Article 6 of Law № 192 were set out by Decree № 1423 dated 26 February 2009. During the past years, the capital of commercial banks in Lebanon has increased substantially.

In addition, Parliament passed legislation to revitalize specialized banks (for housing, agriculture and industry). The Lebanese Republic's participation in the shareholding of these banks has been reduced to a minority stake. In addition, Parliament passed laws relating to the listing of bank shares on stock exchanges and several banks currently list their eligible shares on the BSE.

The following tables set forth the rankings for selected criteria of the Alpha Group banks in Lebanon as at 31 December 2010 and 2011, respectively:

Ranking by Customers' Deposits[1]

	31 December 2011			31 December 2010		
	(LBP millions)	*(%)*	*(Rank)*	*(LBP millions)*	*(%)*	*(Rank)*
Bank Audi S.A.L. – Audi Saradar Group	37,382,507	20.7	1	37,458,092	23.2	1
BLOM Bank S.A.L.	30,596,319	16.9	2	29,555,895	18.3	2
Byblos Bank S.A.L.	**19,326,407**	**10.7**	**3**	**17,980,027**	**11.2**	**3**
Fransabank S.A.L.	17,698,170	9.8	4	15,198,534	9.4	4
BankMed S.A.L.	14,288,218	7.9	7	13,275,242	8.3	5
Banque Libano-Française S.A.L.	13,195,362	7.3	5	11,165,819	6.9	6
Société Générale de Banque au Liban (SGBL) S.A.L.	12,903,537	7.2	6	6,120,766	3.8	9
Bank of Beirut S.A.L.	11,381,203	6.3	8	8,969,481	5.6	7
Credit Libanais S.A.L.	9,486,202	5.2	9	8,511,969	5.3	8
BBAC S.A.L.	5,762,579	3.2	10	5,488,269	3.4	10
IBL Bank S.A.L.	5,211,867	2.9	11	4,431,746	2.8	11
First National Bank Sal.	3,499,403	1.9	12	3,035,712	1.9	12
Total	**180,731,774**	**100.0**		**161,191,552**	**100.0**	

Source: *Bankdata*.

Notes:

(1) Including related parties.

Ranking by Net Profits

	31 December 2011			31 December 2010		
	(LBP millions)	*(%)*	*(Rank)*	*(LBP millions)*	*(%)*	*(Rank)*
Bank Audi S.A.L. – Audi Saradar Group	550,551	23.6	1	531,012	22.8	1
BLOM Bank S.A.L.	499,810	21.5	2	498,380	21.4	2
Byblos Bank S.A.L.	**270,937**	**11.6**	**3**	**267,819**	**11.5**	**3**
Fransabank S.A.L.	234,145	10.1	4	219,711	9.4	4
BankMed S.A.L.	177,068	7.6	5	159,193	6.8	5
Bank of Beirut S.A.L.	156,061	6.7	6	151,915	6.5	6
Société Générale de Banque au Liban (SGBL) S.A.L.	101,545	4.4	7	128,849	5.5	7
Credit Libanais S.A.L.	97,792	4.2	8	119,268	5.1	9
Banque Libano-Française S.A.L.	94,785	4.1	9	119,638	5.1	8
IBL Bank S.A.L.	62,800	2.7	10	54,022	2.3	11
BBAC S.A.L.	58,061	2.5	11	57,986	2.5	10
First National Bank	24,672	1.1	12	24,617	1.1	12
Total	**2,328,227**	**100.0**		**2,332,410**	**100.0**	

Source: *Bankdata*.

Ranking by Total Assets

	31 December 2011			31 December 2010		
	(LBP millions)	*(%)*	*(Rank)*	*(LBP millions)*	*(%)*	*(Rank)*
Bank Audi S.A.L. – Audi Saradar Group	43,320,686	20.0	1	43,247,175	22.4	1
BLOM Bank S.A.L..	34,921,949	16.2	2	33,683,852	17.5	2
Byblos Bank S.A.L...	**25,027,313**	**11.6**	**3**	**23,047,392**	**11.9**	**3**
Fransabank S.A.L.	21,744,505	10.1	4	18,457,761	9.6	4
BankMed S.A.L..	17,775,392	8.2	5	16,863,640	8.7	5
Société Générale de Banque au Liban (SGBL) S.A.L..	15,967,398	7.4	6	7,726,540	4.0	9
Banque Libano-Française S.A.L................................	15,312,264	7.1	7	13,055,960	6.8	6
Bank of Beirut S.A.L..	14,668,023	6.8	8	12,047,875	6.2	7
Credit Libanais Sal	10,835,660	5.0	9	9,846,904	5.1	8
BBAC S.A.L...	6,537,119	3.0	10	6,216,975	3.2	10
IBL Bank S.A.L..	5,728,242	2.7	11	4,877,192	2.5	11
First National Bank...	4,250,333	2.0	12	3,818,726	2.0	12
Total..	**216,088,884**	**100.0**		**192,889,992**	**100.0**	

Source: *Bankdata*.

Ranking by Shareholders' Equity[(1)]

	31 December 2011			31 December 2010		
	(LBP millions)	*(%)*	*(Rank)*	*(LBP millions)*	*(%)*	*(Rank)*
Bank Audi S.A.L. – Audi Saradar Group	3,553,149	20.0	1	3,648,735	20.9	1
BLOM Bank S.A.L..	2,989,381	16.8	2	2,850,582	16.3	2
Byblos Bank S.A.L...	**2,469,799**	**13.9**	**3**	**2,441,439**	**14.0**	**3**
Fransabank S.A.L.	1,952,976	11.0	4	1,940,983	11.1	4
Bank of Beirut S.A.L.	1,579,164	8.9	5	1,370,144	7.8	6
BankMed S.A.L..	1,489,400	8.4	6	1,664,260	9.5	5
Banque Libano-Française S.A.L.	1,204,504	6.8	7	1,133,713	6.5	7
Credit Libanais S.A.L.	736,759	4.1	8	731,172	4.2	8
Société Générale de Banque au Liban (SGBL) S.A.L.	676,285	3.8	9	611,571	3.5	9
BBAC S.A.L...	481,061	2.7	10	464,994	2.7	10
IBL Bank S.A.L..	400,774	2.3	11	332,940	1.9	11
First National Bank...	269,966	1.5	12	291,553	1.7	12
Total	**17,803,218**	**100.0**		**17,482,086**	**100.0**	

Source: *Bankdata*.

Notes:

(1) The calculation of shareholders' equity used by *Bankdata* includes revaluation variance of other fixed assets but excludes other equity instruments and subordinated notes.

Ranking by Loans and Advances[1]

	31 December 2011			31 December 2010		
	(LBP millions)	*(%)*	*(Rank)*	*(LBP millions)*	*(%)*	*(Rank)*
Bank Audi S.A.L. – Audi Saradar Group	12,955,843	21.0	1	12,885,421	24.8	1
BLOM Bank S.A.L.	8,427,720	13.7	2	7,806,534	15.0	2
Fransabank S.A.L.	6,672,522	10.8	3	4,736,343	9.1	4
BankMed S.A.L	6,271,265	10.2	4	5,308,779	10.2	3
Byblos Bank S.A.L.	**6,042,321**	**9.8**	**5**	**5,685,240**	**10.9**	**5**
Banque Libano-Française S.A.L.	5,102,180	8.3	6	4,363,922	8.4	6
Bank of Beirut S.A.L.	4,961,620	8.1	7	3,507,634	6.8	7
Société Générale de Banque au Liban (SGBL) S.A.L.	4,388,871	7.1	8	2,128,722	4.1	9
Credit Libanais S.A.L.	2,979,232	4.8	9	2,493,187	4.8	8
BBAC S.A.L.	1,622,363	2.6	10	1,308,390	2.5	10
First National Bank	1,174,716	1.9	11	954,523	1.9	11
IBL Bank S.A.L.	955,785	1.6	12	746,978	1.4	12
Total	**61,554,438**	**100.0**		**51,925,673**	**100.0**	

Source: *Bankdata*.

Notes:

(1) Including related parties.

Banking Regulations

Banking activities in Lebanon are governed by the Lebanese 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 № 7776 dated 21 February 2001, as amended, which collectively provide that a transaction with a related party must be formally authorized by a general meeting of the bank's shareholders and approved by the bank's board of directors. Any facilities granted to a related party must be adequately collateralized. Decision № 7776, as amended by Intermediary Decision № 11262 dated 9 November 2012 provides that advances and credit facilities to directors, managers and companies having common directors with a bank may not exceed 2% of shareholders equity, 1% per cent 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. Banks exceeding such limit are granted a phase-in compliance period not exceeding the date of the first meeting of shareholders which will be held for purposes of renewing or approving the authorizations for related party transactions.

Intermediary Decision № 11262 further provides that the value of non-interest bearing cash collaterals guaranteeing advances and credit facilities to related parties bearing interest at prevailing market rates will be deducted from the aggregate value of advances and credit facilities to related parties that are subject to conditions and restrictions specified in the Code of Money and Credit and Decision № 7776.

Decision № 7776 further provides that Lebanese banks are prohibited from extending advances and credit facilities to related parties if they are not in compliance with the solvency and liquidity ratios as per applicable Central Bank regulations. The value of advances and credit facilities to a related party may not exceed (i) 50 per cent of the relevant related party's share in the aggregate value of the transaction or operation being financed or (ii) 40 per cent of the net financial assets of the related party and its guarantors, whichever is lower.

Central Bank Decision № 7156, dated 10 November 1998, provides that net inter-bank deposits and placements among banks and foreign affiliated companies (whether or not financial institutions) may not exceed 25.0% of a bank's Tier I Capital.

Central Bank Intermediary Decision № 10621, dated 30 December 2010, amending Decision № 7776, prohibits lending by commercial banks to "specialized banks" and "Islamic banks" belonging to the same economic group. Deposits made by commercial banks with "specialized banks" and "Islamic banks" belonging to the same economic group are also prohibited. This restriction does not apply to deposits made by "specialized banks" and "Islamic banks" in commercial banks belonging to the same economic group.

Reserve Requirements

Pursuant to Decision № 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 № 7935, as amended, implementing Decision № 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, in addition to 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.

Pursuant to Central Bank Decision № 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 concessions and exemptions as those granted to "specialized banks" governed by Decree Law № 50 dated 15 July 1983. Pursuant to Intermediary Decision № 10987 dated 30 April 2012, amending Decision № 6101, "specialized banks" were required to maintain a compulsory reserve in cash with the Central Bank equal to (i) 15% of the weekly average of the sum of Lebanese Pound-denominated deposits that are not invested (ii) and 15 per cent of the aggregate investment amounts that are not in compliance with the delays prescribed by Decree Law № 50 dated 15 July 1983.

The Central Bank pursuant to recent regulations amending Decision № 7835 established exemptions from compulsory reserves requirements to incentivize banks to extend different types of Lebanese Pound-denominated loans, such as, housing, Kafalat, education and consumer loans for the financing of environment-friendly.

Properties acquired in settlement of debts

Pursuant to Central Bank Decision № 7740, dated 21 December 2000, as amended, banks are required to establish a special reserve for properties acquired in satisfaction of debts and not liquidated within the required delays. The Banking Control Commission Circular № 4/2008 provides that banks must establish such special reserve at the end of the fiscal year during which the acquired property should have been liquidated. This special reserve shall be withheld from the annual profits and shall not be accounted for as an expense in the profit and loss account in accordance with IFRS.

Liquidity

Central Bank Decision № 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, in addition to 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 № 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 equal to or less than one year.

Capital Adequacy

Pursuant to Central Bank Decision № 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.

As at 7 December 2011, Decision № 6939 was amended to define three banks' capital adequacy ratios in order to be adopted by all banks operating in Lebanon progressively as follows: (i) Common Equity Tier I Ratio (5% as at 31 December 2012, 6% as at 31 December 2013, 7% as at 31 December 2014, 8% as at 31 December 2015); (ii) Tier I Ratio (8% as at 31 December 2012, 8.5% as at 31 December 2013, 9.5% as at 31 December 2014, 10% as at 31 December 2015); and (iii) Total Capital ratio (10% as at 31 December 2012, 10.5% as at 31 December 2013, 11.5% as at 31 December 2014, 12% as at 31 December 2015), taking into consideration in the year 2015 a capital conservation buffer of 2.5%.

During the three years ended 31 December 2011, the capital of commercial banks in Lebanon has increased substantially as per Basel II ratio effective 1 January 2008 with a minimum total capital ratio of 8%. As at 31 December 2011 (the most recent available), the average capital adequacy ratio was 11.64%.

Central Bank Decision № 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.

Central Bank Decision № 9302, dated 1 April 2006 ("**Decision 9302**"), provides that Lebanese banks are required to phase in application of the Basel II Accord starting from 1 January 2008 in accordance with the standards set forth in Decision 9302 and any subsequent decisions or implementing regulations. The Central Bank is in the process of issuing regulations for the implementation of the Basel II Accord and the related provisions of Decision 9302. Furthermore, the Central Bank and the Banking Control Commission are currently conducting a follow-up review on the full implementation of the Basel II Accord requirements by all banks operating in Lebanon.

While the follow-up review progresses and until further implementing regulations are issued, Lebanese banks are required to continue to calculate their capital adequacy ratios according to current applicable regulations under the Basel I Accord, as well as to start to calculate their capital adequacy ratios according to the Basel II Accord.

On 24 September 2007, Central Bank Decision № 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 28.0% 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. However, on 15 April 2011, Central Bank Decision № 6938 was amended to cancel this said Tier III Capital.

Pursuant to Decision 9957, 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 the Basel II Accord) 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 № 9382 dated 26 July 2006, as amended, adopted in connection with the 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 № 9956 dated 21 July 2008, the board of directors of each Lebanese bank is required to establish an audit committee composed 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 the Central Bank and the 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 AML procedures and the prevention of terrorism financing procedures, in order to ensure their sufficiency and effectiveness.

Intermediary Decision № 10706 provides that the audit committee shall, *inter alia*, assist the board of directors in carrying out its supervisory duties over the internal audit and control in accordance with the requirements of the applicable Central Bank and Banking Control Commission regulations and recommendations. In addition, Intermediary Decision № 10706 provides that the audit committee shall, *inter alia*: (i) oversee the internal audit unit to ensure its independency from the senior executive management and assess its performance; (ii) review the internal audit report; (iii) review the regulations, policies and procedures relating to the internal control, including approval of the internal audit charter, the audit cycle and the annual audit plan; (iv) review the internal control regulations, policies and procedures, including, those related to anti money laundering and terrorist financing in order to ensure their sufficiency and effectiveness; (v) advise on the auditors prior to their appointment, after ensuring that they have the required expertise to be appointed as auditors in light of the size and complexity of the Bank's operations; (vi) review the audit plan prepared by the auditors in order to ensure that it covers all risks that the bank encounters; (vii) discuss with the senior executive management and the auditors the financial statements to be published; and (viii) meet every six months with the auditors to discuss the result of their actions. The Bank established its Audit Committee on 15 February 2007, being the first among the Lebanese banks to do so.

According to Intermediary Decision № 10706, boards of directors of Lebanese banks are required to establish a risk committee composed of at least three directors. The chairman of such committee must be an independent director with appropriate expertise in the assessment and management of risks in the banking and financial industry. This committee shall oversee the proper implementation of the risk management principals in banks in accordance with the applicable Central Bank and Banking Control Commission regulations and recommendations. The Bank established its Risk Committee on 25 February 2010.

Central Bank Decision № 10224 dated 13 August 2009 requires all Lebanese banks to appoint as of the 2010 financial year two separate external auditors to jointly audit the banks' accounts. The Bank is in compliance with the requirements provided under said decision.

Pursuant to the Central Bank Basic Decision № 10227 dated 21 August 2009; Lebanese banks are required to adopt a business continuity plan for purposes of ensuring the continuity of the banks' operations in the event of the occurrence of any disaster or other event that may affect the continuity of any bank's operation. See "*—Accounting Standards—Business Continuity Plan*".

Credit Limits

Central Bank Decision № 7055 dated 13 August 1998, as amended by Decision 9456, 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. It is important to note that under the said circular, any given exposure to any borrower or group of borrowers cannot exceed 20% of the bank's shareholders' equity. Intermediary Decision 9456 gave non-compliant banks until 31 December 2007 to comply with its provisions

Foreign Exchange Trading

Central Bank Decision № 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 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 № 7159 ("**Decision 7159**"), dated 10 November 1998, as amended, introduces specific rules relating to loan classification. Specifically, it divides loan facilities into six categories: (i) ordinary/regular loans; (ii) loans to be followed-up; (iii) loans to be followed-up and regularized; (iv) sub-standard loans; (v) doubtful loans; and (vi) bad or ailing loans. See "*Overview of the Bank—Loan Classifications*".

Additionally, in Decision 7159, the Central Bank introduced a more expanded Loan Grading System to be applied internally in the alpha banks for the classification of loans suggesting the use of a scale from 1-10 as follows: (1) excellent; (2) strong; (3) good; (4) satisfactory; (5) adequate; (6) marginal; (7) vulnerable; (8) substandard; (9) doubtful; and (10) loss. This scale is expected to be mapped to the above mentioned six categories.

In accordance with the Central Bank's Intermediary Decision № 10711 dated 27 April 2011 all Lebanese banks are required to adopt in addition to the supervisory classification its own loan grading system for purposes of managing its credit risk. All Lebanese banks must equate between the supervisory classification and loan grading system.

Lebanese banks must put in place an action plan for purposes of implementing the requirements of Intermediary Decision № 10711 (including the adoption of their own loan grading system) before 31 December 2012 and to inform the Banking Control Commission of the work progress.

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. See "*Overview of the Bank—Provisioning and Write-Off Policies*".

Reserves for General Banking Risk

Pursuant to Central Bank Decision 7129, banks operating in Lebanon are required to allocate on a yearly basis a general reserve (to be included in Tier I Capital) for unspecified banking risks out of net profits in an amount equal to a minimum of 0.2% and a maximum of 0.3% of risk-weighted assets. The accumulated reserve for unspecified banking risks must be equivalent to 1.25% of risk-weighted assets within 10 years from the Decision's issuance and 2.0% of risk-weighted assets within 20 years from the Decision's issuance, in each case, from 2008, as calculated in accordance with Basel II ratios.

Accounting Standards

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

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

Central Bank Decision № 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% 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".

On 12 November 2009, the IASB issued IFRS 9 Financial Instruments as the first step in its project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting 1 January 2013, with early adoption permitted.

IFRS 9 divides all financial assets that are currently in the scope of IAS 39 into two classifications - those measured at amortized cost and those measured at fair value. Classification is made at the time the financial asset is initially recognized, namely when the entity becomes a party to the contractual provisions of the instrument.

All equity investments in scope of IFRS 9 are to be measured at fair value in the statement of financial position, with value changes recognized in profit or loss, except for those equity investments for which the entity has elected to report value changes in 'other comprehensive income'. If an equity investment is not held for trading, an entity can make an irrevocable election at initial recognition to measure it at fair value through other comprehensive income (FVTOCI) with only dividend income recognized in profit or loss.

International Bank Account Number (IBAN)

Pursuant to Decision № 10120 issued by Central Bank on 14 April 2009, all banks operating in Lebanon must take necessary measures for issuing and verifying the banking identify number (the "**IBAN**"), to be used in the processing of domestic and international bank transfers starting 1 January 2010, which consists of a compound number of twenty-eight digits divided as follows (i) Country Code, (ii) Verification Number, (iii) Bank Identification Number and (iv) Account Number.

Business Continuity Plan

Pursuant to Decision № 10227 issued by the Central Bank on 21 August 2009, all banks operating in Lebanon must prepare a Business Continuity Plan effective 21 August 2010. The plan must include preventive and prudential procedures, detection procedures to determine the occurrence of a disaster, rescue procedures or disaster and post-disaster operation modes and finally procedures for resuming normal operation mode. In addition, banks must adopt general principles based on ISO IEC 27002-2005 Standard including, in particular (i) risk classification, (ii) bank activity classification, (iii) activity selection under disaster and post-disaster operation modes, (iv) resource classification and provision under disaster and post-disaster operation modes, (v) alternate site selection, (vi) selecting implementation staff, and determining their duties and responsibilities, (vii) training staff entrusted with operating the plan, (viii) data transfer and software maintenance, (ix) security procedures, (x) plan implementation procedures, (xi) testing the plan and (xii) updating the plan.

Scientific, technical and ethical qualifications required for performing certain functions in the banking and financial sectors

On 9 March 2006, the Central Bank issued the Decision № 9286, its purpose being to define the framework and the scientific, technical and ethical qualifications required from persons responsible for performing certain functions in the banking and financial sectors in Lebanon, in order to preserve the stability of these sectors and give protection to their clients. Some persons are exempted from taking the examination such as (i) Chairman – General Manager, (ii) persons with at least 15 years of experience in the banking or financial sector, (iii) directors or heads of branches appointed before 15 September 2009 and having at least seven years of experience in the banking and financial sector, acquired during the nine years preceding their assignment to this position and (iv) persons holding diplomas and examinations accepted by the Central Bank.

THE FIDUCIARY

The Fiduciary

The Fiduciary (the issuer of the Fiduciary Notes) is The Bank of New York Mellon (Luxembourg) S.A., which was incorporated on 15 December 1998 before Maître Joseph Elvinger, notary, as a public limited liability company (*société anonyme*) under the laws of the Grand Duchy of Luxembourg as a credit establishment, having its registered office at Vertigo Building – Polaris, 2-4 rue Eugène Ruppert, L-2453 Luxembourg, Grand Duchy of Luxembourg. The Bank of New York Mellon (Luxembourg) S.A. is registered with the Register of Trade and Companies of Luxembourg under number B 67654.

Business Activities

The corporate objects of The Bank of New York Mellon (Luxembourg) S.A., as stated in its Articles of Association, include carrying out banking and financial businesses of all kinds for its own account and for the account of third-parties, intermediating insurance by duly licensed physical persons in Luxembourg and abroad, as well as conducting all types of operations directly or indirectly connected with such businesses. It may participate in other companies domiciled in the Grand Duchy of Luxembourg or abroad and may establish branches.

The Bank of New York Mellon (Luxembourg) S.A. is an indirect wholly-owned subsidiary of The Bank of New York Mellon Corporation. It has a license to carry out business (№ 54/06), which was issued by the *Ministère des Finances* on 19 October 2006, and is authorized to carry out all banking activities, as well as the activities of an administrative agent of the Financial Sector.

The Bank of New York Mellon (Luxembourg) S.A. is a member of the following organizations:

- the Luxembourg Banking and Bankers Association;
- the Luxembourg Guarantee Deposit Scheme;
- the Luxembourg Stock Exchange; and
- the Association of the Luxembourg Fund Industry.

Financial Information

The Bank of New York Mellon (Luxembourg) S.A. publishes its audited accounts on an annual basis. These accounts are available at its head office and on the web site of the Register of Trade and Companies of Luxembourg.

FIDUCIARY CONTRACT AND TERMS AND CONDITIONS OF THE FIDUCIARY NOTES

The following are the terms and conditions of the Fiduciary Notes, which (subject to alteration, completion, amendment and modification from time to time), are an integral part of the Fiduciary Contact and will be attached to the Fiduciary Notes (whether in the form of the Global Note, or Definitive Notes).

By subscribing for or otherwise acquiring Fiduciary Notes, Holders are deemed to have knowledge of all provisions of the Fiduciary Contract, including the terms and conditions of the Fiduciary Notes, as well as all provisions of the Subordinated Loan and the Issuing and Fiscal Agency Agreement, and to expressly accept such provisions.

The U.S.$[300],000,000 6.5% Convertible Fiduciary Notes due 2022 (the "**Fiduciary Notes**") are issued by The Bank of New York Mellon (Luxembourg) S.A., acting on a fiduciary basis under the laws of the Grand Duchy of Luxembourg (the "**Fiduciary**"). As stated below in these Terms and Conditions (the "**Conditions**"), the Fiduciary Notes collectively evidence the existence of a Fiduciary Contract (as defined below) between the Fiduciary and the registered owner thereof and, where such Fiduciary Note is represented by a Global Note (as defined below), the owners of beneficial interests in Fiduciary Notes represented by such Global Note (each, a "**Holder**"). The creation, issue and sale of the Fiduciary Notes have been authorized for the sole purpose of financing the subordinated loan (the "**Subordinated Loan**") in an aggregate nominal amount of U.S.$[300],000,000 to be made by the Fiduciary, in its capacity as Lender (in such capacity the "**Lender**"), to Byblos Bank S.A.L. (the "**Borrower**"). The Fiduciary and the Borrower have recorded the terms of the Subordinated Loan in an agreement (as amended or supplemented from time to time, the "**Subordinated Loan Agreement**") to be dated on or around 21 December 2012 between the Fiduciary (in its capacity as Lender thereunder) and the Borrower. Each Fiduciary Note represents an undivided interest in the aggregate amount payable or to become payable in respect of the Subordinated Loan. An issuing and fiscal agency agreement to be dated on or around 21 December 2012 (the "**Issuing and Fiscal Agency Agreement**") has been entered into in relation to the Fiduciary Notes among the Fiduciary, the Borrower, The Bank of New York Mellon, as fiscal agent paying agent, conversion agent and authentication agent (in such capacities, respectively, the "**Fiscal Agent**", the "**Paying Agent**", the "**Conversion Agent**" and "**Authentication Agent**"), and The Bank of New York Mellon (Luxembourg) S.A., as registrar (the "**Registrar**"). The Issuing and Fiscal Agency Agreement includes the form of Global Note. Copies of the Issuing and Fiscal Agency Agreement are available for inspection at the offices of the Bank during customary business hours on any weekday (public holidays excepted).

1. Fiduciary Contract; Subordination; Limited Recourse

1.1 The Fiduciary Notes together constitute a fiduciary contract (the "**Fiduciary Contract**") between the Fiduciary and the Holders, which is governed by the law of 27 July 2003, as amended (the "**Trust and Fiduciary Law 2003**"), of the Grand Duchy of Luxembourg ("**Luxembourg**"), under which the Fiduciary undertakes to distribute to the Holder thereof its pro rata interest in all principal and interest received or any other amounts (including any Additional Amounts (as defined in the Subordinated Loan Agreement)), if any, recovered by the Fiduciary (in its capacity as Lender) in respect of the Subordinated Loan (subject to certain permitted deductions as provided in Condition 3.2), when, as, if and to the extent received. Each Fiduciary Note represents a fractional interest in the aggregate amount payable or to become payable in respect of the Subordinated Loan relating to the Fiduciary Notes (other than pursuant to Condition 5). Notwithstanding the foregoing, any amounts distributable pursuant to Condition 5 following delivery of a Conversion Failure Notice (as defined in Condition 5) to a particular Holder shall be distributable only to such Holder and no other Holder shall have any claims or rights in respect thereto. The Fiduciary undertakes to exercise, or cause to be exercised, all rights in respect of the Subordinated Loan on behalf of the Holders, and to account to the Holders for all principal and interest received or other amounts (including any Additional Amounts (as defined in the Subordinated Loan Agreement)), if any, recovered in respect of the Subordinated Loan (subject to certain permitted deductions as provided in Condition 3.2), in each case, when, as, if and to the extent received, all in such manner as to give effect to these Conditions.

1.2 The obligations of the Fiduciary under the Fiduciary Notes rank *pari passu* among themselves.

1.3 The Fiduciary Notes do not represent debt obligations of the Fiduciary. Payments in respect of the Fiduciary Notes will only be made in accordance with Condition 3. Each Holder, by its acceptance of any Fiduciary Notes, irrevocably agrees (i) to look solely to the Subordinated Loan for payment of its Fiduciary Notes and (ii) that the Fiduciary is not liable to such Holder for any amount other than as provided in Condition 3.

1.4 Holders should be aware that the obligations of the Borrower in respect of the Subordinated Loan will constitute direct, unsecured and general obligations of the Borrower, subordinated to the effect that, in the event of a bankruptcy, suspension of payments, reorganization, dissolution, winding up, liquidation or composition or arrangement with creditors of the Borrower, the claims of the Fiduciary in respect of the Subordinated Loan will rank junior in right of payment to the claims of holders of unsecured and unsubordinated payment obligations of the Borrower, *pari passu* with the claims of holders of all other subordinated Debt of the Borrower and in priority to the claims of shareholders of the Borrower (including, without limitation, holders of preferred shares of the Borrower), including in respect of cash contributions to capital.

1.5 Amounts distributable in respect of the Fiduciary Notes will be allocated among the Holders Notes in accordance with and to the extent of their respective rights and interests, it being understood that amounts distributable pursuant to Condition 5 will be allocated, subject to the terms of Condition 3.2, 100% to the relevant Holder. Any such allocation shall be conclusive and binding, in the absence of manifest error, on all Holders.

1.6 In accordance with Article 6 of the Trust and Fiduciary Law 2003, the Fiduciary Notes and any moneys received or recovered by the Fiduciary in respect of the Fiduciary Notes before or after the commencement of the bankruptcy or insolvency, and which have not been distributed to the relevant Holders, will not be part of the assets of the Fiduciary available for distribution to its creditors generally or to its shareholders, but will be available for distribution to the Holders.

2. Form, Registration, Transfer and Exchange

2.1 The Fiduciary Notes will initially be represented by a single global note, in registered form without interest coupons attached (the "**Global Note**"), which will be registered in the name of a common depository for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream**" and, together with Euroclear, the "**Clearing Systems**").

2.2 The Fiduciary shall keep a register in which, subject to such reasonable regulation as it may prescribe, the Fiduciary shall provide for the registration of the Global Note and any Definitive Note (as defined below) issued pursuant to Condition 2.4 and of any transfers thereof.

2.3 Upon surrender for registration of transfer of the Global Note or any Definitive Note, the Fiduciary shall execute and deliver, in the name of the designated transferee or transferees, a new Global Note or one or more new Definitive Notes, as the case may be, in any authorized denomination and of a like aggregate nominal amount. No service charge will be made for any registration of transfer or exchange of the Global Note or any Definitive Note, but the Fiduciary (or its agent) may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

2.4 The Global Note shall be exchangeable for definitive notes, in registered form (each, a "**Definitive Note**"), in whole but not in part, following the delivery of notice to the Fiduciary by either of the Clearing Systems or Holders representing 10% or more in nominal amount of the Fiduciary Notes represented thereby to the effect that (i) either of the Clearing Systems is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and, if any remaining Clearing System is open for business, such remaining Clearing System is unwilling to act as the Clearing System in respect of the Global Note; or (ii) the Fiduciary has failed to pass through to the registered owner of the Fiduciary Notes any payment to be made thereunder; or (iii) a material disadvantage to the Fiduciary or the Holders will occur if the Fiduciary Notes are not in definitive form. Upon such notice, the Fiduciary shall, upon presentation and surrender of the Global Note being exchanged, deliver, or procure the delivery of, Definitive Notes, of like tenor and nominal amount as the interests in the Global Note being exchanged, for distribution by the Clearing Systems to all Holders, as shown on the account records of Euroclear and Clearstream, and their participants (including Midclear S.A.L., Lebanon's central clearing and settlement agency ("**Midclear**")), in accordance with the usual operating procedures of the Clearing Systems (and, as the case may be, Midclear). Upon exchange of all such interests in the Global Note for Definitive Notes and surrender of the Global Note, the Fiduciary shall cancel the Global Note and the Global Note shall cease to represent the Fiduciary Notes for any purpose whatsoever. Any exchange pursuant to this Condition 2.4 shall be made free of charge to the affected Holders, except that a Holder receiving Definitive Notes must bear the cost of insurance, postage, transportation and the like incurred in connection with such exchange.

2.5 Fiduciary Notes will be issued in denominations of U.S.$100,000 and integral multiples of U.S.$10,000 in excess thereof, and transfers of interests in the Global Note may be effected only in such denominations.

2.6 So long as the Fiduciary Notes are represented by the Global Note, ownership of interests in the Global Note representing Fiduciary Notes may be acquired, and transfers thereof may be effected, exclusively through the book-entry settlement systems maintained by the Clearing Systems, through an account maintained by each Holder with either of such Clearing Systems or with a participant that maintains an account with either of such Clearing Systems, subject to the usual operating procedures and management regulations established by the respective Clearing System and otherwise subject to the provisions of these Conditions. Each person who is for the time being shown in the records of Euroclear or Clearstream or of such a participant (including Midclear) as being the Holder of a particular nominal amount of Fiduciary Notes shall be treated by the Fiduciary as the Holder of such nominal amount of Fiduciary Notes; provided, however, that the right to receive payments in respect of any Fiduciary Notes shall vest in the registered owner of the Global Note representing such Fiduciary Notes in accordance with and subject to the terms thereof. The securities account records of the Clearing Systems and the participants therein shall, in the absence of manifest error, be conclusive evidence of the identity of the Holders and of the nominal amount of Fiduciary Notes credited to the securities accounts of such Holders. Any statement issued by the Clearing Systems to any Holder relating to a specified Fiduciary Note or Fiduciary Notes credited to the securities account of such Holder and stating the nominal amount of such Fiduciary Note or Fiduciary Notes and certified by the Clearing System to be a true record of such securities account shall in the absence of manifest error be conclusive evidence of the records of the Clearing Systems for the purposes of the next preceding sentence (but without prejudice to any other means of producing such records in evidence). The Fiduciary shall have no responsibility for any aspect of the records relating to or payments made by the Clearing Systems on account of the Fiduciary Notes, or for maintaining, supervising or reviewing any records relating to the Fiduciary Notes.

2.7 Every Fiduciary Note presented or surrendered for registration of transfer or for exchange shall (if so required by the Fiduciary) be duly endorsed, or be accompanied by a written instrument of transfer, in form satisfactory to the Fiduciary, duly executed by the Holder or its attorney duly authorized in writing.

3. Payments

3.1 Payments in respect of Fiduciary Notes will be made only from, and for the avoidance of doubt are limited to, principal and interest actually received or other amounts (including any Additional Amounts), if any, recovered by the Fiduciary (in its capacity as Lender) in respect of the Subordinated Loan when, as, if and to the extent such amounts are received or recovered (subject to certain deductions as provided in Condition 3.2) and, notwithstanding the specification of a currency of payment on the face of any Global Note or Definitive Notes, in the currency in which such amounts are received or recovered.

3.2 The Fiduciary (or its agents) shall distribute to each Holder in accordance with and to the extent of its respective rights and interest, on the first Business Day following receipt thereof, any amount received or recovered in respect of the Subordinated Loan Agreement, as, if, when and to the extent received or recovered. Distributions of all amounts received or recovered shall be made only after deduction by the Fiduciary of all unpaid fees and expenses incurred in respect of the Fiduciary Notes issued, including (i) the fees and expenses payable to any agents of the Fiduciary (or its agents) in connection with the administration of the Subordinated Loan; (ii) the taxes paid in respect of the Fiduciary Notes or the Subordinated Loan; (iii) securities transfer taxes; (iv) the costs and expenses of establishing, placing and administering the Fiduciary Notes; (v) other incidental expenses in connection with the issuance and administration of the Fiduciary Notes or the Subordinated Loan; and (vi) all legal and other expenses incurred by the Fiduciary (or its agent) in connection with any lawsuit, claim or proceeding arising out of such administration or enforcement.

3.3 Except as provided by Condition 3.4 with respect to payments on the Global Note, payments (if any) in respect of Fiduciary Notes will be made to the registered owner or owners of the Fiduciary Notes entitled thereto, in accordance with their respective rights and interests, upon presentation and, in the case of a final payment, surrender of such Fiduciary Notes during normal business hours at the office of the Fiduciary currently located at 2-4 rue Eugene Ruppert, Vertigo Building – Polaris, L-2453 Luxembourg, or such other office as the Fiduciary may from time to time specify to the Holders (the "**Specified Office**"), by cheque or by transfer to a bank account outside U.S. specified by the payee. On a date for distribution of any amount in respect of Fiduciary Notes, each Holder entitled to such distribution, or a pro rata portion thereof, as the case may be, provided that payment has been made by the Borrower in respect of the Subordinated Loan, shall be entitled to receive, in like currency and funds as received or recovered by the Fiduciary (or its agent), after deduction for payment of certain costs, taxes, if any, and expenses that the Fiduciary is authorized by Condition 3.2, its pro rata share of all amounts, if any, actually received or recovered by the Fiduciary (or its agent) in respect of the Fiduciary Notes owned by it, in accordance with and to the extent of its respective rights and interest.

3.4 So long as the Fiduciary Notes are represented by a Global Note, payments (if any) will be made by the Fiduciary (or its agent) upon presentation and, in the case of a final payment, surrender of such Global Note at the Specified Office, by transfer to a bank account specified by the registered owner or owners thereof for further transmittal to the Clearing Systems and distribution by the Clearing Systems, in accordance with the usual operating procedures and management regulations established by the Clearing Systems, to Holders represented by such Global Note entitled thereto. Upon making such payment to, or to the order of, such registered owner or owners, the Fiduciary will be fully discharged of its payment obligations under the Fiduciary Notes. By acquiring an interest in Fiduciary Notes represented by a Global Note, each Holder shall be deemed to agree that it will look solely to Euroclear or Clearstream (or, as the case may be, a participant therein, including Midclear) for the amounts (if any) to be credited to its account with Euroclear or Clearstream, (or, as the case may be with a participant therein, including Midclear), in respect of the Fiduciary Notes held by it.

3.5 Upon distributing all amounts received and payable in respect of the Subordinated Loan in respect of the Fiduciary Notes, the Fiduciary shall be fully discharged of its payment obligations under the Fiduciary Notes.

3.6 Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment.

3.7 If the date for distribution of any amount in respect of the Fiduciary Notes is not a Business Day (as defined below), then such distribution shall not be made until the next following Business Day and no further interest or other payment in respect of such delay will be payable. References herein to "**Business Day**" mean any day other than (a) a Saturday or a Sunday or (b) a day on which banking institutions in New York, New York, Luxembourg, London, Brussels, Belgium or Beirut, Lebanon are closed for business.

4. Conversion

4.1 Each Holder, acting singly in its sole discretion, shall have the right (the "Holder Conversion Right"), exercisable from time to time as described below, to cause the Fiduciary (in its capacity as Lender under the Subordinated Loan Agreement) (or its agent) to convert on any Conversion Date (as defined in the Subordinated Loan Agreement) that portion of the principal amount of the Subordinated Loan corresponding to the aggregate nominal amount of Fiduciary Notes held by such Holder, together with any unpaid Interest Shortfall (as defined in the Subordinated Loan Agreement) relating to such principal amount to the extent accrued in respect of the two-year period ending on such Conversion Date, whether or not the Borrower's obligation to pay such Interest Shortfall (or any portion thereof), in cash, has been cancelled pursuant to the Subordinated Loan Agreement as described above (but not other accrued and unpaid interest, if any, thereon or any other amounts (including any Additional Amounts) that may be payable by the Borrower in respect thereof or otherwise under the Subordinated Loan Agreement), into common shares of Byblos Bank S.A.L., each with a par value of LBP 1,210 ("**Byblos Bank Shares**"), or global depositary receipts representing Byblos Bank Shares (the "Byblos Bank GDRs"), or a combination thereof, and to apply such principal amount (and such amount of Interest Shortfall, if any) in payment of the purchase price for the Byblos Bank Shares or the Byblos Bank GDRs to which it is entitled, all in accordance with the provisions of the Subordinated Loan Agreement (including in respect of the applicable Conversion Price, adjusted as provided therein), all subject to the prior approval of the *Banque du Liban*, the Central Bank of Lebanon (the "**Central Bank**"), if applicable, and any applicable fiscal or other laws and regulations, and in accordance with the provisions of this Condition 4 and the other provisions of these Terms and Conditions.

4.2 To exercise its Holder Conversion Right, a Holder shall deliver to the Fiduciary (or its agent) a duly completed and validly executed conversion notice, in writing, substantially in the form attached hereto as Exhibit A (each, a "**Holder Conversion Exercise Notice**"), not later than the last Business Day falling at least 45 days before the relevant Conversion Date in order to cause the Fiduciary simultaneously to convert that part of the principal amount of the Subordinated Loan, which corresponds to all (but not part) of the nominal amount of Fiduciary Notes held by such Holder, into Byblos Bank Shares or Byblos Bank GDRs, or a combination thereof, as provided under the Subordinated Loan Agreement. Each Holder Conversion Exercise Notice shall be irrevocable and shall specify: (x) the nominal amount of Fiduciary Notes which the relevant Holder wishes to convert into Byblos Bank Shares or Byblos Bank GDRs (which must be the aggregate nominal amount of Fiduciary Notes at the time held by such Holder); (y) whether such Holder wishes to receive Byblos Bank Shares or Byblos Bank GDRs, or a combination thereof, upon conversion of such nominal amount of Fiduciary Notes; and (z) in case it has elected to receive Byblos Bank GDRs, instructions for the delivery of such Byblos Bank GDRs to which such Holder is entitled upon the exercise of its Holder Conversion Right.

4.3 If a Holder validly elects to exercise its Holder Conversion Right, such Holder shall certify to the Fiduciary in the Holder Conversion Notice that the nominal amount of Fiduciary Notes to be converted on the relevant Conversion Date for the benefit of such Holder represents the aggregate nominal amount of Fiduciary Notes then held by such Holder and such nominal amount of Fiduciary Notes shall be blocked in such Holder's account in the relevant Clearing System.

4.4 Each Holder acknowledges that any Byblos Bank Shares to which it is entitled upon exercise of its Holder Conversion Right shall (subject to the approval of the Central Bank, if applicable) be registered in the books maintained by Midclear in the name of the relevant Holder and held in the Midclear account of Byblos Bank S.A.L., subject to standard custody arrangements between such Holder and Byblos Bank S.A.L. (in its capacity as a participant in Midclear), pursuant to which (among other things) distributions (if any) in respect of such Byblos Bank Shares will be made to Byblos Bank S.A.L. (in its capacity as a participant in Midclear) for the benefit of such Holder; it being understood that any Holder may, at any time, request that Byblos Bank S.A.L. arrange for the transfer of the custody of all or a portion of the Byblos Bank Shares owned by such Holder to another participant in Midclear.

4.5 Pursuant to the terms of the Subordinated Loan Agreement, a Conversion Date shall occur on the last Business Day in any calendar year during the term of the Subordinated Loan and on the Loan Maturity Date.

4.6 Pursuant to the terms of the Subordinated Loan Agreement, the Borrower shall notify the Lender and the Fiduciary of the relevant Conversion Price and any adjustment thereof. The Fiduciary hereby agrees to forward such notice to Holders in accordance with the terms of Condition 15.

4.7 Upon a valid exercise by a Holder of its Holder Conversion Right and the delivery to such Holder (or to its order) of the Byblos Bank Shares or Byblos Bank GDRs (as the case may be) to which it is entitled as a result thereof, the Fiduciary will be fully discharged from all obligations vis-à-vis such Holder in respect of the Fiduciary Notes so converted and the nominal amount of Fiduciary Notes represented by the converted Fiduciary Notes shall thereupon be cancelled.

4.8 The Fiduciary Notes are not mandatorily convertible and, in no circumstances, will a Holder be obliged to convert any Fiduciary Notes held by it.

4.9 Each Holder shall certify in the Holder Conversion Exercise Notice that it shall make payment of all applicable stamp, transfer, registration and similar taxes and duties, together with any value added or other tax thereon, arising on or in connection with its exercise of its Holder Conversion Rights and the transfer or delivery of Byblos Bank Shares or Byblos Bank GDRs, if any, to it, or to its order, by the Borrower, the Lender or the Fiduciary and that none of the Borrower, the Lender, the Fiduciary or the Placement Agent shall be responsible for the payment of any such taxes, duties or other costs.

5. Cash Settlement Option

5.1 In the event that, following any proper and valid exercise by a Holder of its Holder Conversion Right, and the proper and valid related exercise of the Lender Conversion Right, the Borrower is unable to deliver to the relevant Holder, upon the Lender's direction, all or any portion of the Byblos Bank Shares or Byblos Bank GDRs to which such Holder shall otherwise be entitled upon such exercise, for any reason, provided that the Fiduciary (in its capacity as Lender under the Subordinated Loan Agreement) has received the relevant amount due to such Holder from the Borrower as provided in the Subordinated Loan Agreement, the Fiduciary (or its agent) shall distribute, subject to Conditions 1 and 3.2, to such Holder an amount, in cash, equal to the higher of (i) the sum of the principal amount of the Subordinated Loan corresponding to the Fiduciary Notes held by such Holder, which was not converted as specified in the relevant Holder Conversion Notice, plus the amount of any unpaid Interest Shortfall relating thereto; and (ii) the Current Market Price (as defined in the Subordinated Loan Agreement) per Byblos Bank Share on the Trading Day (as defined in the Subordinated Loan Agreement) immediately prior to the date of the corresponding Lender Conversion Exercise Notice (as defined in the Subordinated Loan Agreement) multiplied by the aggregate number of Byblos Bank Shares (or, in the event that the Lender had, on behalf of such Holder, elected to receive Byblos Bank GDRs, multiplied by the number of Byblos Bank Shares represented by the number of Byblos Bank GDRs), which such Holder would have otherwise been entitled to receive absent the circumstances giving rise to the Borrower's failure to effect the requested conversion. In addition, (without duplication) such Holder shall be entitled to receive, in cash, an amount equal to all accrued and unpaid interest, if any, actually received or recovered by the Fiduciary in respect of the principal amount of the Subordinated Loan corresponding to the nominal amount of Fiduciary Notes that is the subject of the conversion failure and all other amounts (including any Additional Amounts), if any, in respect thereof.

5.2 Upon receipt of any Conversion Failure Notice (as defined in the Subordinated Loan Agreement) from the Borrower, the Fiduciary (or its agent) shall immediately forward such Conversion Failure Notice to the relevant Holder in accordance with Condition 15 and any amount to be paid over to such Holder in accordance with Condition 5.1 shall be paid as provided in the Issuing and Fiscal Agency Agreement, unless the Holder has provided alternative instructions to the Fiduciary.

6. Priority Subscription Rights

6.1 Each Holder, acting singly, shall have the right to cause the Fiduciary (in its capacity as Lender under the Subordinated Loan Agreement) (or its agent) to exercise, in accordance with the provisions of the Subordinated Loan Agreement, any rights granted to it by the Borrower 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 (as defined in and in accordance with the terms of the Subordinated Loan) or (ii) any new issue of convertible loans or convertible bonds (other than Fiduciary Notes issued in additional tranches after the Issue Date), to the extent necessary to permit such Holder to maintain its pro rata ownership interest in the Borrower, 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 Byblos Bank Shares in accordance with Condition 4.

6.2 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.

6.3 Each Holder agrees that, if it wishes to cause the Fiduciary to exercise any priority subscription rights on behalf of such Holder, it shall be required to complete and furnish to the Fiduciary, as promptly as practicable, all documentation and other information, including any subscription application in the form required by the Borrower, and, if applicable, any information requested by the Central Bank in connection with the acceptance of such Holder as a new shareholder of the Borrower, together with any funds reasonably required by the Fiduciary (or its agent).

7. Taxation

7.1 The Fiduciary (or its agent) may withhold and deduct from the amounts otherwise distributable hereunder the full amount of any present or future taxes, duties, assessments or other governmental charges of whatsoever nature ("Covered Taxes") imposed or levied under any applicable law by, or on behalf of, any jurisdiction or any department, agency or other political subdivision or taxing authority thereof or therein having power to tax, including, without limitation, Covered Taxes imposed or levied on or behalf of Luxembourg, or any other state in which an approved paying agent is located, for which the Fiduciary or any paying agent may be or become liable, as a withholding agent in connection with any payment made in respect of the Fiduciary Notes, and the Fiduciary will have no liability to the Holders for the amount of any such withholding or deduction.

7.2 The Borrower has agreed to pay such Additional Amounts as may be necessary so that every net payment or recovery received by the Fiduciary in respect of the Subordinated Loan, after withholding or deduction for or on account of any taxes imposed in Lebanon ("Lebanese Taxes") (or any other taxing jurisdiction to which the Borrower may become subject), shall equal the respective amounts which would otherwise have been receivable in respect of the Subordinated Loan in the absence of such withholding or deduction. The Fiduciary makes no representation or warranty with regard to the collectability of any such Additional Amount.

8. Rights and Duties of the Fiduciary

8.1 In issuing the Fiduciary Notes, the Fiduciary is acting as a fiduciary pursuant to the Trust and Fiduciary Law 2003 and shall perform its obligations under the terms and conditions of the Fiduciary Notes in accordance with Luxembourg law and the best interests of the Holders.

8.2 Upon the occurrence of an Event of Default (as defined in *Clause 15* of the Subordinated Loan Agreement), the Fiduciary (in its capacity as Lender, upon instruction from the requisite majority of Holders) shall declare all amounts due under the Subordinated Loan Agreement to be immediately due and payable, and shall distribute such amounts (if any) as may be recovered by it to the Holders as provided in Condition 3.2.

8.3 Except as provided in Condition 8.2, neither the Fiduciary nor any agent or other person acting on its behalf shall be obligated to exercise or cause to be exercised any particular right, power, remedy or privilege or otherwise to exercise any discretion with respect to the Subordinated Loan Agreement, unless it has received instructions from the requisite majority of Holders in accordance with Condition 14 and has been indemnified or provided with security to its satisfaction by the Holders. If, for any reason, the Fiduciary receives no instructions from the Holders, the Fiduciary shall have no duty to act.

8.4 Without limiting Condition 8.3, neither the Fiduciary nor any agent or other person acting on its behalf shall be obligated to institute any proceedings against any other person or to take any other action in respect of any failure by the Borrower to make payments thereunder, and Holders will have no recourse against the Fiduciary or any such other person, other than as a result of its willful misconduct or gross negligence.

8.5 Until payment to the registered owner or owners of Fiduciary Notes of any payment received or amount recovered that the Fiduciary is required to distribute hereunder, the Fiduciary shall hold each such payment or amount for the benefit of the Holders.

8.6 No Holder shall have any recourse against, or right to demand payment from, the Borrower in respect of the Subordinated Loan, nor any right to receive any amount from the Fiduciary in respect of the Fiduciary Notes or the Subordinated Loan, except as expressly set forth in and subject to these Conditions, and the Fiduciary shall not at any time be obligated to deliver any interest in the Subordinated Loan or any other assets to any Holder.

8.7 The Fiduciary shall have no responsibility with respect to: (i) the validity and enforceability of the Fiduciary Contract; (ii) the due execution, genuineness, legality, validity, binding effect, enforceability or sufficiency of the Subordinated Loan Agreement; (iii) the financial condition of the Borrower and the performance or observance by it of its obligations regarding the Subordinated Loan Agreement; (iv) any representation, warranty or statement made by the Borrower; (v) the inspection of any of the property, books or records of the Borrower or any other third party; or (vi) the legality and validity of the purchase by, or the sale by any third party to, any Holder.

8.8 The Fiduciary, and its agents and other persons acting on its behalf, may consult with legal counsel, accountants and other experts selected by them in connection with the Subordinated Loan and any action relating thereto, and the Fiduciary shall be entitled to deduct all such costs and expenses, on a pro rata basis, pursuant to and in accordance with Condition 3.2, from the amounts that would otherwise be distributable hereunder in respect of Fiduciary Notes. The Fiduciary shall not be liable for any action taken or omitted to be taken by it or by any agent or other person acting on its behalf, in good faith in accordance with the advice of such counsel, accountants or experts. The Fiduciary's records of any costs and expenses deducted from distributions hereunder as contemplated hereby shall be made available to Holders at the Specified Office and should be valid and binding on all Holders absent manifest error.

8.9 The Fiduciary and its affiliates may at any time purchase Fiduciary Notes in the open market or otherwise. Furthermore, the Fiduciary and its affiliates (including any affiliate that may be a Holder) shall be entitled to lend money to, accept deposits from, and generally engage in any kind of business with, the Borrower or any Holder, as if it were not a fiduciary with respect to the Fiduciary Notes.

8.10 The Fiduciary shall be under no obligation to apply the proceeds of any right of set-off, banker's lien, or counterclaim arising out of other transactions between the Fiduciary and the Borrower to payment of the Fiduciary Notes.

8.11 The Fiduciary waives any right of set-off or lien that it has or may have in relation to the assets held by it in a fiduciary capacity under the Fiduciary Contracts.

8.12 The Fiduciary shall promptly send copies of all notices received from Holders to the Borrower and shall also promptly forward copies of all notices received by it from the Lender or the Borrower to the Holders in accordance with the terms of Condition 15.

9. Prepayment and Purchase Rights

9.1 The Subordinated Loan Agreement provides for certain optional prepayment rights. In the event that the Subordinated Loan is prepaid in accordance with its terms, the Fiduciary will redeem the Fiduciary Notes and account to the Holders, pro rata, for an amount equivalent to amounts of principal and interest (if any) and other amounts (if any) actually received or recovered by the Fiduciary in respect of the Subordinated Loan upon such optional prepayment (subject to certain permitted deductions as provided in Condition 3.2).

9.2 The Borrower or any of its affiliates may, at any time, purchase Fiduciary Notes at any price. Any Fiduciary Notes so purchased shall not entitle the Holder to vote at any meeting of Holders and shall not be deemed to be outstanding for the purpose of determining quorums at meetings of Holders or for any other purpose pursuant to Condition 13 and 14.

9.3 Any Fiduciary Notes purchased pursuant to Condition 9.2 may be presented to the Fiscal Agent for cancellation or held and resold. Any Fiduciary Notes so cancelled may not be reissued.

10. Indemnity

10.1 The Borrower has undertaken to indemnify fully the Fiduciary (and its agents) for all losses, damages, costs and expenses (including all reasonable costs, charges and expenses actually paid or incurred in disputing or defending any of the foregoing) arising in connection with the Fiduciary (or its agents) acting as fiduciary hereunder, except such as may result from the Fiduciary's (or its agents') wilful misconduct, gross negligence or bad faith.

11. Prescription

11.1 Claims against the Fiduciary for the payment of amounts payable in respect of the Fiduciary Notes shall be prescribed unless made within two years from the Relevant Date applicable to the relevant payments. "Relevant Date" means the later of (i) the date on which payment on such Fiduciary Note first becomes due and (ii) if not available on or prior to such due date, the date on which, all moneys then due having become available, notice to that effect is duly given by the Fiduciary to the Holders.

12. Replacement of Fiduciary Notes

12.1 If any Fiduciary Note is lost, stolen, mutilated or destroyed, it may be replaced at the Specified Office, subject to all applicable laws, upon payment by the claimant of all expenses incurred in such replacement and upon such terms as to evidence, security, indemnity and otherwise as the Fiduciary may require. A mutilated Fiduciary Note must be surrendered before a replacement shall be delivered therefor.

13. Modification and Waiver

13.1 These Conditions, the Subordinated Loan Agreement and the Issuing and Fiscal Agency Agreement may be amended without the consent or vote of the Holders for the purpose of curing any ambiguity or of curing, correcting or supplementing any provisions contained herein or therein which may be defective or inconsistent with any other provision herein or therein or in any other manner that the Fiduciary may deem necessary or desirable and that will not adversely affect the interests of the Holders appertaining hereto or thereto, if any. Any such amendments to these Conditions or the Subordinated Loan Agreement will be conclusive and binding on all Holders.

13.2 Modifications of, and amendments to, these Conditions or to the Subordinated Loan Agreement or to the Issuing and Fiscal Agency Agreement may be made by, future compliance therewith or past default by the Fiduciary or the Borrower may be waived by, or an Event of Default may be declared by, the Holders representing at least a majority of the aggregate nominal amount of all Fiduciary Notes outstanding; provided, that no such modification or amendment to these Conditions or to the Subordinated Loan Agreement or to the Issuing and Fiscal Agency Agreement and no such waiver or instructions may, without written consent or affirmative vote of Holders representing 75% of the aggregate nominal amount of Fiduciary Notes outstanding, (i) change the Maturity Date of the Fiduciary Notes or the Subordinated Loan; (ii) reduce the amounts payable in respect of the Fiduciary Notes or the Subordinated Loan; (iii) modify the Holder Conversion Right or the Lender Conversion Right (including, but not limited to, any provisions relating to the Conversion Price or the adjustment thereof); (iv) reduce the percentage of the aggregate nominal amount of Fiduciary Notes the written consent or affirmative vote of the Holders of which is required to modify or amend these Conditions or the Subordinated Loan Agreement or to waive any future compliance therewith or past default thereunder; or (v) reduce the percentage of the aggregate nominal amount of the Fiduciary Notes the written consent or affirmative vote of the Holders of which is required for any written consent or for the Quorum (as defined below) for, or the adoption of any resolution at, any meeting of Holders.

13.3 No such amendments or modifications may, however, lead to a modification of the Fiduciary's duties without the Fiduciary's express written consent.

14. Actions of Holders

14.1 The Holders together form a body, created *inter alia* for the purposes of representation of the common interest of the Holders, unless otherwise provided for herein. The application of the provisions of Articles 86 to 98 of the Luxembourg Law of 10 August 1915 on Commercial Companies, as amended, is excluded.

14.2 Notwithstanding anything to the contrary herein, the Fiduciary shall have no obligation whatsoever to take any steps or measures to organize a meeting of Holders until it has received instructions relating to such organization from Holders representing at least 10% in aggregate nominal amount of the Fiduciary Notes.

14.3 Subject to Condition 13, a meeting of Holders may be called at any time and from time to time to make, give or take any request, demand, authorization, direction, notice, consent, election, waiver or other action provided by these Conditions to be made, given or taken by Holders or to amend these Conditions.

14.4 The Fiduciary may, and on the request of Holders (subject to the Fiduciary being indemnified to its reasonable satisfaction against all costs and expenses thereby occasioned) representing at least 10% in aggregate nominal amount of the Fiduciary Notes outstanding shall, call a meeting of Holders for any purpose specified in Condition 14.3. Any such meeting shall be held at such time and at such place as the Fiduciary shall determine. Notice of every meeting of Holders, setting forth, in general, the time and the place of, and the agenda for, such meeting, shall be given, in the manner provided in Condition 15, not less than 15 nor more than 30 days prior to the date fixed for the meeting.

14.5 In the case of a meeting being held pursuant to a request of Holders, the agenda for such meeting shall be as set forth in such request and the meeting shall be convened within 15 days from the date such request is received by the Fiduciary.

14.6 To be entitled to vote at any meeting of Holders, a person shall be (i) a Holder of one or more Fiduciary Notes or (ii) a person appointed by an instrument in writing as proxy for a Holder or Holders of one or more Fiduciary Notes by such Holder or Holders. The only persons who shall be entitled to be present or to speak at any meeting of Holders shall be the persons entitled to vote at such meeting, and their counsel, and representatives of the Fiduciary and its counsel.

14.7 One or more persons entitled to vote a majority in aggregate nominal amount of the Fiduciary Notes outstanding shall constitute a quorum ("**Quorum**") for a meeting of the Holders. In the absence of a Quorum within 45 minutes of the time appointed for any such meeting, the meeting may be adjourned for a period of not less than five nor more than ten days. At any reconvening of a meeting adjourned for lack of Quorum, one or more persons entitled to vote present in person shall constitute a Quorum. Notice of the reconvening of any adjourned meeting shall be given as provided in Condition 15, except that such notice need only be published not less than three days prior to the date on which the meeting is scheduled to be reconvened. Any Holder who has executed an instrument in writing appointing a person as proxy shall be deemed to be present for the purposes of determining a Quorum and be deemed to have voted; provided that such Holder shall be considered as present or voting only with respect to the matters covered by such instrument in writing (which may include authorization to vote on any other matters as may come before the meeting).

14.8 Except as limited by the provisions of Condition 13, approval of any actions at any meeting of Holders shall require the approval of persons entitled to vote a majority of the nominal amount of the Fiduciary Notes represented and voting at a meeting of the Holders duly called in accordance with the provisions hereof and at which a Quorum is present. Any action approved in accordance with the provisions of Conditions 13 and 14 shall be binding on all the Holders, whether or not present or represented at the meeting.

14.9 Notwithstanding any other provisions of these Conditions, the Fiduciary may, upon receipt of instructions from Holders representing at least 10% in aggregate nominal amount of the Fiduciary Notes, make such reasonable regulations as it may deem advisable for any meeting of Holders in regard to proof of the holding of Fiduciary Notes and of the appointment of proxies and in regard to the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote and such other matters concerning the conduct of the meeting as it shall deem appropriate. Except as otherwise permitted or required by any such regulations, the holding of Fiduciary Notes and the appointment of any proxy shall be proved by having the signature of the person executing the proxy witnessed or guaranteed by any trust company, bank or banker to certify to the holding of Fiduciary Notes. Such regulations may provide that written instruments appointing proxies, regular on their face, may be presumed valid and genuine without the proof specified in or other proof.

14.10 The Fiduciary shall, upon receipt of instructions from Holders representing at least 10% in aggregate nominal amount of the Fiduciary Notes, by an instrument in writing, appoint a temporary chairman of the meeting. A permanent chairman and a secretary of the meeting shall be elected by vote of the persons entitled to vote a majority in nominal amount of the Fiduciary Notes represented at the meeting.

14.11 At any meeting, each Holder or proxy shall be entitled to one vote for each U.S.$10,000 nominal amount of Fiduciary Notes held or represented by it; provided, however, that no vote shall be cast or counted at any meeting in respect of any Fiduciary Note challenged as not outstanding and ruled by the chairman of the meeting to be not outstanding. The chairman of the meeting shall have no right to vote, except as a Holder or as a proxy.

14.12 Any meeting of Holders duly called pursuant to Condition 14 at which a Quorum is present may be adjourned from time to time by persons entitled to vote a majority in nominal amount of the Fiduciary Notes represented at the meeting; and the meeting may be held as so adjourned without further notice.

14.13 The vote upon any resolution submitted to any meeting of Holders shall be by written ballots on which shall be subscribed the signatures of the Holders or of their representatives by proxy and the nominal amounts and serial numbers of the outstanding Fiduciary Notes held or represented by them. The chairman of the meeting shall appoint two inspectors of votes who shall count all votes cast at the meeting for or against any resolution and who shall make and file with the secretary of the meeting their verified written reports in duplicate of all votes cast at the meeting. A record, at least in duplicate, of the proceedings of each meeting of Holders shall be prepared by the secretary of the meeting and there shall be attached to said record the original reports of the inspectors of votes on any vote by ballot taken thereat and affidavits by one or more persons having knowledge of the facts setting forth a copy of the notice of the meeting and showing that said notice was given as provided in Condition 15. Each copy shall be signed and verified by the affidavits of the chairman and secretary of the meeting and one such copy shall be delivered to the Fiduciary to be preserved by the Fiduciary, the latter to have attached thereto the ballots voted at the meeting. Any record so signed and verified shall be conclusive evidence of the matters therein stated.

14.14 Notwithstanding any other provision of Conditions 13 and 14, any action by Holders which may be taken at a meeting of such Holders may be taken without a meeting, without prior notice and without a vote, if a written action of Holders setting forth the action so taken is duly delivered to the Fiduciary by Holders having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which Holders representing all Fiduciary Notes entitled to vote thereon were present and voted. Prompt notice of the taking of the action without a meeting specified in such action of Holders shall be given by the Fiduciary to those Holders who have not consented in writing to such action of Holders.

15. Notices

15.1 So long as the Fiduciary Notes are represented by a Global Note, the Fiduciary (or its agents) shall forward notices (including those received by the Fiduciary) to, and requests for consent by, and other communications to, Holders to the Clearing Systems for further transmittal to the Holders by the Clearing Systems through the internal communication systems of the relevant Clearing System from time to time utilized by such Clearing System for communication with its respective member organizations. Any such notice shall be deemed to have been given on the date of its first delivery as provided above. In the event that a Global Note is exchanged must be for Definitive Notes, such notice shall be given by first class mail (or equivalent) or (if posted to an overseas address) by airmail to them (or in the case of joint Holders, to the first-named in the register kept by the Fiduciary) at their respective addresses as recorded in the register kept by the Fiduciary, and will be deemed to have been validly given on the fourth day after the date of such mailing or, if posted from another country, on the fifth day. If by reason of any cause it shall be impracticable to give notice to the Holders in the manner prescribed herein, then such notification in lieu thereof as shall be made by the Fiduciary (or its agents) shall constitute sufficient provision of such notice, if such notification shall, so far as may be practicable, approximate the terms and conditions of the publication in lieu of which it is given. Neither the failure to give notice nor any defect in any notice to any particular Holder shall affect the sufficiency of any notice with respect to other Holders.

15.2 Each Holder shall give notices and respond to any request for consent by any standard form of telecommunication, including telecopy, telex or telegram, so long as such notice is confirmed in writing executed by the Holder or its agent and delivered promptly by airmail or courier service, to the Fiduciary at the address of its Specified office, or, so long as the Fiduciary Notes are represented by a Global Note, through the aforesaid communication systems of the relevant Clearing System. Euroclear and Clearstream have advised the Fiduciary that they will transmit consents or denials of consent to the Fiduciary with respect to any action relating to the Fiduciary Notes only at the direction of and on behalf of Holders for whose accounts with

Euroclear and/or Clearstream such consents or denials of consent have been received by Euroclear or Clearstream (as the case may be). Each of Euroclear and Clearstream may transmit both consents and denials of consent relating to the same action, so long as it does so in accordance with the directions of the Holders in accordance with their respective interest as contemplated in this provision.

15.3 The costs of any such notification shall be paid for by the Fiduciary, but the Fiduciary shall be entitled to deduct the full amount thereof from the amounts otherwise distributable hereunder as Expenses.

16. Assignment

16.1 The Fiduciary may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of Holders representing 100% of the nominal amount of the Fiduciary Notes outstanding, the Central Bank and the Borrower save as specified in the Issuing and Fiscal Agency Agreement other than to a New Fiduciary (as defined below) in accordance with Condition 18.

17. Deemed Representations of Holders

17.1 By acquiring any Fiduciary Notes, each Holder shall be deemed to represent and agree, for the benefit of the Fiduciary, as follows:

(a) such Holder is aware that Byblos Invest Bank S.A.L. has acted as the placement agent (in such capacity, the "**Placement Agent**") in connection with the issue, offer and sale of the Fiduciary Notes and such Holder acknowledges that none of the Fiduciary, the Placement Agent or the Bank, nor any other person, has acted, or shall at any time act, as an advisor to such Holder in connection with its purchase, holding or disposition of any Fiduciary Notes or has made, or shall make, any recommendation, representation or warranty, express or implied, regarding the Fiduciary Notes or the advisability of an making, maintaining or disposing of an investment therein;

(b) such Holder is a sophisticated and high net worth investor with sufficient knowledge and experience in business and financial matters in general, and regarding the political and economic conditions prevailing in Lebanon in particular, and is capable of independently investigating and evaluating the risks involved in purchasing and owning investments such as the Fiduciary Notes;

(c) such Holder shall be solely responsible for making its own independent appraisal of all such matters that such Holder deems appropriate in determining whether to purchase Fiduciary Notes, and is purchasing Fiduciary Notes on the basis of such independent appraisal of all such matters without relying upon any representation or warranty, express or implied, made to it by the Fiduciary, the Placement Agent (as defined), the Borrower or any other person with respect thereto; and such Holder shall continue to be solely responsible for making its own independent appraisal of all such matters in the future and will not hereafter rely on the Fiduciary, the Placement Agent, the Borrower or any other person to confirm or inquire on its behalf as to the adequacy or completeness of any information or to assess or keep under review on its behalf any such information;

(d) such Holder understands that the Fiduciary Notes do not represent debt obligations of the Fiduciary and that distributions to Holders will be made only from, and to the extent of, principal and interest received or other amounts (including any Additional Amounts) (if any) recovered in respect of the Subordinated Loan; such Holder further understands that the obligations of the Borrower in respect of the Subordinated Loan will constitute direct, unsecured and general obligations of the Borrower, subordinated to the effect that, in the event of a bankruptcy, suspension of payments, reorganization, dissolution, winding up, liquidation or composition or arrangement with creditors of the Borrower, the claims of the Fiduciary, in its capacity as Lender, in respect of the Subordinated Loan will rank junior in right of payment to the claims of holders of unsecured and unsubordinated payment obligations of the Borrower, *pari passu* with the claims of holders of all other subordinated Debt of the Borrower and in priority to the claims of shareholders of the Borrower (including, without limitation, holders of Preferred Shares of the Borrower), including in respect of cash contributions to capital;

(e) such Holder understands that the majority of the Borrower's operations are conducted in Lebanon and that, accordingly, the financial condition and results of operations of the Borrower are greatly affected by the economic and monetary conditions of Lebanon. As a result, the Fiduciary Notes are instruments reflecting general Lebanese sovereign risk, as well as the particular risk of the Borrower. The debt obligations of Lebanon have been assigned non-investment grade ratings by the principal international rating agencies. Such Holder further acknowledges that none of the Fiduciary, the Placement Agent or the Borrower, nor any other person, has made or is making any representation or warranty, express or implied, concerning the (i) political or economic conditions prevailing in Lebanon; (ii) the financial condition of the Borrower and the performance by it of its obligations under and in respect of the Subordinated Loan; (iii) the validity, binding effect, enforceability or sufficiency of the Subordinated Loan; (iv) the inspection of any of the property, books or records of the Borrower or any other third party; or (v) the legality and validity of the purchase by, or the sale by any third party to, any Holder;

(f) such Holder is aware that the Fiduciary Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act), unless the Fiduciary Notes are registered under the Securities Act or an exemption from the registration requirements thereof is available; and that the Fiduciary Notes have not been, and will not be registered under the laws of Luxembourg, the United Kingdom or Lebanon or any other jurisdiction and, accordingly, the offer, sale and delivery of the Fiduciary Notes may be further restricted by law; and such Holder is responsible for informing itself about and observing all such restrictions that are applicable to it;

(g) such Holder is not a U.S. person, as defined in Regulation S under the Securities Act and was outside the United States when it purchased the Fiduciary Notes; and

(h) such Holder's purchase and ownership of Fiduciary Notes shall constitute its authorization and direction to the Clearing Systems and their participants, including Midclear, the Borrower and the Fiduciary, to disclose to the Fiduciary, the Borrower or both, such Holder's ownership of Fiduciary Notes, together with the nominal amount of Fiduciary Notes held by such Holder and such other relevant information concerning such Holder as may be necessary in connection with any exercise by such Holder of any rights it may have under or relating to the Fiduciary Notes, including, without limitation, its Holder Conversion Right.

18. Substitution of Fiduciary

18.1 The Borrower may, at any time, substitute another financial institution (the "**New Fiduciary**") for the Fiduciary, and in the event of a liquidation of the Fiduciary, is obliged to use its best efforts to substitute the Fiduciary with a New Fiduciary, provided however, in each case, that:

(a) the New Fiduciary is qualified to act as a fiduciary under the Trust and Fiduciary Contracts Law 2003 and has obtained all necessary regulatory and other approvals for the substitution;

(b) the rights under the Subordinated Loan do not form part of the New Fiduciary's estate available for the satisfaction of the New Fiduciary's preferred and general creditors under applicable liquidation and insolvency laws and are not available for attachment or otherwise by or for such creditors;

(c) the New Fiduciary assumes all outstanding rights and obligations (if any) of the Fiduciary prior to its substitution under the Fiduciary Contract and Terms and Conditions of the Fiduciary Notes and any and all other agreement to which the Fiduciary is a party in connection therewith;

(d) the substitution does not result in the obligation to pay Additional Amounts pursuant to *Clauses 5, 8, 9, 16, 17.1* or *17.8* of the Subordinated Loan Agreement or otherwise; and

(e) the substitution does not result in any Event of Illegality (as defined in the Subordinated Loan Agreement) or other violation of law.

18.2 The Fiduciary may resign upon giving not less than three months' prior notice in writing to the Borrower. If no New Fiduciary is appointed by the Borrower in accordance with Condition 18.1 above in such three-month period, the Fiduciary will have the right to appoint a New Fiduciary; provided, however, that no resignation will take effect unless a New Fiduciary has been appointed and the New Fiduciary has confirmed to each of the Borrower and the Lender in writing that it assumes all rights and obligations of the Fiduciary hereunder and otherwise meets the criteria set forth in Condition 18.1.

18.3 Notwithstanding any other provision of this Agreement, any corporation or entity into which the Fiduciary shall be merged or with which it shall be consolidated, or any company resulting from any such merger or consolidation, and any corporation or entity to which the Fiduciary or the Lender, as the case may be, transfers at any time after the execution of this Agreement its fiduciary business (or a business division of which the fiduciary business forms part) (each, a "**Successor Entity**") shall be party to these Conditions as a New

Fiduciary and shall succeed to all rights and obligations of the Fiduciary under these Conditions without executing or filing any paper or document other than notifying the substitution of the Fiduciary to the Borrower, without prejudice to any notification or publication requirements which may arise in relation to such substitution, provided in any case that:

(a) the Successor Entity is qualified to act as a fiduciary under Trust and Fiduciary Contracts Law 2003 and has obtained all necessary regulatory and other approvals for the substitution;

(b) the rights under the Subordinated Loan do not form part of the Successor Entity's estate available for the satisfaction of the Successor Entity's preferred and general creditors under applicable liquidation and insolvency laws and are not available for attachment or otherwise by or for such creditors;

(c) the Successor Entity assumes all outstanding rights and obligations (if any) of the Fiduciary prior to its substitution under the Fiduciary Contract and Terms and Conditions of the Fiduciary Notes and any and all other agreement to which the Fiduciary is a party in connection therewith;

(d) the substitution does not result in the obligation to additional amounts pursuant to *Clauses 5, 8, 9, 16, 17.1* or *17.8* of the Subordinated Loan Agreement or otherwise; and

(e) the substitution does not result in any Event of Illegality or other violation of law.

19. Governing Law; Submission to Jurisdiction

19.1 The Fiduciary Notes and the Fiduciary Contracts, as well as any non-contractual obligations arising therefrom, are governed by, and shall be construed in accordance with, the laws of the Grand Duchy of Luxembourg and, in particular, the Trust and Fiduciary Law 2003, as amended, without reference to its choice of law principles. Any action arising out of or relating to the Fiduciary Notes may be brought in the courts of Luxembourg-city (Grand Duchy of Luxembourg), and the Fiduciary hereby irrevocably submits to the exclusive jurisdiction of those courts for purposes of any such action.

Exhibit A

FORM OF HOLDER CONVERSION EXERCISE NOTICE

Re: Holder Conversion Right under the U.S.$[300],000,000 6.5% Convertible Fiduciary Notes due 2022 issued by The Bank of New York Mellon (Luxembourg) S.A. (the "**Fiduciary Notes**")

To: The Bank of New York Mellon (Luxembourg) S.A. (the "**Fiduciary**")
2-4, rue Eugène Ruppert
Vertigo Building – Polaris
L-2453 Luxembourg
Attention: Corporate Trust Services
Fax: +352 24 524 204

The Bank of New York Mellon
One Canada Square
London E14 5AL
Attention: Corporate Trust & Administration
Fax: +44 20 7964 2532

[Euroclear][Clearstream] for communication to the Fiduciary (for Fiduciary Notes represented by a Global Note).

Capitalized terms used but not defined herein have the meanings assigned to them in the Fiduciary Contract and Terms and Conditions of the Fiduciary Notes.

A. Exercise of Conversion Rights

The undersigned hereby elects to convert Fiduciary Notes held by it and described herein (the "**Conversion Notes**") into Byblos Bank Shares or Byblos Bank GDRs.

The Conversion Notes are owned by the undersigned and delivered, subject to the Fiduciary Contract and Terms and Conditions of the Fiduciary Notes, as follows:

U.S. $______nominal amount of Conversion Notes to be converted into Byblos Bank Shares; or

U.S. $______nominal amount of Conversion Notes to be converted into Byblos Bank GDRs

The undersigned understands that, upon receipt of this Holder Conversion Exercise Notice, the Fiduciary, in its capacity as Lender under the Subordinated Loan Agreement, shall, in turn, deliver a Lender Conversion Exercise Notice to the Borrower covering that principal amount of the Subordinated Loan that bears the same proportion to the outstanding aggregate principal amount of the Subordinated Loan as the nominal amount of the Conversion Notes bears to the outstanding aggregate nominal amount of the Fiduciary Notes. The undersigned further understands that, subject to the terms and conditions of the Fiduciary Notes and of the Subordinated Loan Agreement, the undersigned shall be entitled to receive that number of Byblos Bank Shares or Byblos Bank GDRs as shall be determined by dividing (i) the sum of the principal amount of the Subordinated Loan corresponding to the nominal amount of the Conversion Notes, together with any unpaid Interest Shortfall relating to such principal amount to the extent accrued in respect of the two-year period ending on such Conversion Date, whether or not the Borrower's obligation to pay such Interest Shortfall (or any portion thereof), in cash, has been cancelled pursuant to the Subordinated Loan Agreement as described above (but not other accrued and unpaid interest, if any, thereon or any other amounts (including any Additional Amounts) that may be payable by the Borrower in respect thereof or otherwise under the Subordinated Loan Agreement, by (ii) the then applicable Conversion Price (as defined in the Subordinated Loan Agreement) corresponding to Byblos Bank Shares or Byblos Bank GDRs, as the case may be. In addition, the undersigned acknowledges that, upon conversion of the Conversion Notes as requested hereby, the Conversion Notes shall be cancelled and the undersigned shall cease to be entitled to receive any distribution or payment of amounts (whether in respect of principal, interest or other amounts) recovered by the Fiduciary in respect of the Subordinated Loan.

The undersigned undertakes to provide to the Fiduciary or the Borrower all such information concerning it as may be necessary in connection with its exercise of the Holder Conversion Right.

B. Delivery of Conversion Notes

For Fiduciary Notes represented by a Global Note: The undersigned hereby instructs [Euroclear]/[Clearstream], through which the undersigned holds the Conversion Notes, to transfer, subject to the Fiduciary Contract and the Terms and Conditions of the Fiduciary Notes, such Conversion Notes free of payment to the account of The Bank of New York Mellon, acting through its London office, in its capacity as the Fiscal Agent under the Issuing and Fiscal Agency Agreement dated as of [21] December 2012 among the Borrower, the Fiduciary and The Bank of New York Mellon, acting through its London office, as Fiscal Agent.

For Fiduciary Notes represented by Definitive Notes: The undersigned surrenders herewith, subject to the Terms and Conditions of the Fiduciary Notes, the Conversion Notes to the Fiduciary together herewith.

C. Delivery of Byblos Bank Shares or Byblos Bank GDRs

If the undersigned has requested Byblos Bank Shares in exchange for all or a portion of the Conversion Notes, the undersigned hereby acknowledges that any Byblos Bank Shares to which it is entitled upon exercise of its Holder Conversion Right shall (subject to the approval of the Central Bank, if applicable) be registered in the books maintained by Midclear in its name and held in the Midclear account of Byblos Bank S.A.L., subject to standard custody arrangements between the undersigned and Byblos Bank S.A.L. (in its capacity as a participant in Midclear), pursuant to which (among other things) distributions (if any) in respect of such Byblos Bank Shares will be made to Byblos Bank S.A.L. (in its capacity as a participant in Midclear) for its benefit; it being understood that the undersigned may, at any time, request that Byblos Bank S.A.L. arrange for the transfer of the custody of all or a portion of the Byblos Bank Shares owned by the undersigned to another participant in Midclear.

If the undersigned has requested Byblos Bank GDRs in exchange for all or a portion of the Conversion Notes, the undersigned hereby instructs the Fiduciary, in its capacity as depositary, to deliver as soon as practicable the Byblos Bank GDRs to which it is entitled to the account specified below (*undersigned to complete*):

Euroclear Account № _____________

Clearsteam Account № ____________

D. Eligibility

The undersigned certifies that the undersigned is eligible, in accordance with all applicable fiscal or other laws and regulations to hold Byblos Bank Shares or Byblos Bank GDRs, as the case may be, directly. If this Holder Conversion Exercise Notice has been validly delivered in connection with the exercise of the Holder Conversion Right and in accordance with the Fiduciary Contract and Terms and Conditions of the Fiduciary Notes, the undersigned further certifies that the nominal amount of Fiduciary Notes covered by this Holder Conversion Exercise Notice represents the aggregate nominal amount of Fiduciary Notes held by such Holder on the date of this Holder Conversion Exercise Notice.

E. No fractional interests

The undersigned hereby acknowledges that neither fractional Byblos Bank Shares nor fractional Byblos Bank GDRs will be transferred upon any conversion of Fiduciary Notes and that no cash will be paid in lieu thereof.

F. Taxes and costs

The undersigned hereby certifies that it shall make payment of all stamp, transfer, registration and similar taxes and duties and other stock exchange transaction costs (if any), together with any value added or other tax thereon, arising on or in connection with its exercise of its Conversion Rights pursuant to this Holder Conversion Exercise Notice and/or the transfer or delivery of Byblos Bank Shares or Byblos Bank GDRs, if any, to it, or to its order, by the Borrower, the Lender, the Fiduciary or the Placement Agent and that none of the Borrower, the Lender, the Fiduciary or the Placement Agent shall be responsible for the payment of any such taxes, duties or other costs.

Dated: ________ Signature: ________________________

Account № at Clearing System through which the Conversion Notes are held _______.

FORM OF SUBORDINATED LOAN AGREEMENT

This **SUBORDINATED LOAN AGREEMENT** is made on [21] December 2012 between:

BYBLOS BANK S.A.L., a joint stock company incorporated under the laws of Lebanon whose registered office is at Byblos Tower Building, Elias Sarkis Avenue, Achrafieh, Beirut, Lebanon (the "**Borrower**"); and

THE BANK OF NEW YORK MELLON (LUXEMBOURG) S.A., a public limited liability company (société anonyme) incorporated under the laws of the Grand Duchy of Luxembourg, having its registered office at 2-4 rue Eugene Ruppert, Vertigo Building – Polaris, L-2453 Luxembourg and registered with Luxembourg trade and companies register under number B 67654 (the "Lender" and, together with the Borrower, the "**Parties**").

R E C I T A L S

WHEREAS, the Borrower proposes to borrow from the Lender, and the Lender proposes to lend to the Borrower, the Subordinated Loan (as defined below), for the purposes described in, and otherwise in accordance with the terms and subject to the conditions of, this Agreement; and

WHEREAS, it is intended that, concurrently with the disbursement of the Subordinated Loan pursuant to this Agreement, the Lender or one of its Affiliates (acting in a fiduciary capacity) will issue U.S.$[300],000,000 6.5% Convertible Fiduciary Notes due 2022 (the "**Fiduciary Notes**") for the sole purpose of financing the Subordinated Loan.

NOW, **THEREFORE**, in consideration of the foregoing premises and the representations, warranties, covenants and undertakings contained in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties to this Agreement agree as follows:

A G R E E M E N T

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement (including the recitals), the following terms shall have the meanings indicated.

"**Additional Amounts**" has the meaning specified in *Clause 9*.

"**Additional GDRs**" has the meaning specified in *Clause 6.4*.

"**Additional Shares**" has the meaning specified in *Clause 6.4*.

"**Affiliate**" means, as to any Person, any other Person that, directly or indirectly, controls, is controlled by or is under common control with such Person. For purposes of this definition, the term "control" (including the terms "controlling", "controlled by" and "under common control with") of a Person shall mean the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of the Voting Stock of such Person, by contract or otherwise.

"**Agreement**" means this subordinated loan agreement dated as of [21] December 2012 between the Borrower and the Lender, as originally executed or as it may be amended or supplemented from time to time.

"**Authorized Officer**" means, for any Person, a director, a managing director, the chief executive officer, president, chief financial officer, chief accounting officer, treasurer or assistant treasurer or other similar authorized officer of such Person.

"**Borrower**" has the meaning specified in the preamble.

"**Business Day**" means any day other than (i) a Saturday or a Sunday or (ii) a day on which banking institutions in New York; London; Luxembourg; or Beirut, Lebanon are closed for business.

"**Byblos Bank GDRs**" means global depositary receipts representing Byblos Bank Shares issued (or to be issued) pursuant to the Borrower's GDR Program.

"**Byblos Bank Shares**" means common shares of Byblos Bank S.A.L., each with a par value of LBP 1,210.

"**Capital Distribution**" means, in respect of any year, any distribution of assets or out of reserves in excess of Distributable Net Income for the relevant year.

"**Cash Dividend**" means any Dividend or distribution of any kind, for any financial period, which is to be paid or made in cash (in whatever currency).

"**Cash Settlement Option**" has the meaning specified in *Clause 6.9*.

"**Central Bank**" means *Banque du Liban*, the Central Bank of Lebanon.

"**Conversion Date**" means (i) the last Business Day in each calendar year during the term of the Subordinated Loan and (ii) the Loan Maturity Date, provided that, in any case, all required regulatory, corporate or other approvals, including, without limitation, any required further approval of the Central Bank or an Extraordinary General Assembly of Shareholders of the Borrower, shall have been obtained.

"**Conversion Failure Notice**" has the meaning specified in *Clause 6.8*.

"**Conversion Price**" means, as applicable, (i) in respect of any conversion by the Lender of all or a portion of the Subordinated Loan into Byblos Bank Shares, U.S.$2.50 per Byblos Bank Share; and (ii) in respect of any conversion by the Lender of all or a portion of the Subordinated Loan into Byblos Bank GDRs, U.S.$2.50 multiplied by the number of Byblos Bank Shares represented by each Byblos Bank GDR at the time of exercise of the Lender Conversion Right; in each case, subject to adjustment in accordance with the provisions of *Clause 6*.

"**Current Market Price**" means, in respect of a Byblos Bank Share as of a particular date, the average of Quotations for the five consecutive Trading Days ending on the Trading Day immediately preceding such date; provided that, if, at any time during the said five Trading Day period, the Byblos Bank Shares shall have been quoted ex-Dividend or ex- any other entitlement and during some other part of that period the Byblos Bank Shares shall have been quoted cum-Dividend:

(a) if the Byblos Bank Shares to be issued do not rank for the Dividend or other entitlement in question, the Quotations on the dates on which the Byblos Bank Shares shall have been quoted cum-Dividend shall for the purpose of this definition be deemed to be the Fair Market Value thereof reduced by an amount equal to the amount of that Dividend or other entitlement per Byblos Bank Share; and

(b) if the Byblos Bank Shares to be issued do rank for the Dividend or other entitlement in question, the Quotations on the dates on which the Byblos Bank Shares shall have been quoted ex-Dividend shall for the purpose of this definition be deemed to be the amount thereof increased by such similar amount;

and provided further that, if the Byblos Bank Shares on each of the said five Trading Days have been quoted cum-Dividend in respect of a Dividend or entitlement which has been declared or announced but the Byblos Bank Shares to be issued do not rank for that Dividend, the Quotations on each of such dates shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of that Dividend per Byblos Bank Share.

"**Debt**" of any Person means (a) indebtedness of such Person for borrowed money, (b) obligations of such Person evidenced by bonds, debentures, notes, certificates of deposit or other similar instruments, (c) obligations of such Person to pay the deferred purchase price of property or services (excluding, however, trade accounts payable arising in the ordinary course of business and not due within six months), (d) capital lease obligations of such Person (to the extent designated as such in accordance with IFRS), (e) demand deposits, time deposits, certificates of deposit or other similar obligations (including acceptances) accepted or Guaranteed by such Person, (f) Debt of others Guaranteed by such Person, (g) Debt (as described in this paragraph) of others secured by an Encumbrance on the property of such Person, (h) all obligations of such Person to redeem, retire, defease or otherwise make any payment in respect of shares of capital stock of such Person, (i) all obligations, contingent or otherwise, of such Person in respect of letters of credit or acceptances (other than commercial letters of credit in respect of trade accounts payable and not overdue) and (j) the net liability of such Person under hedge agreements.

"**Decision 6830**" means Central Bank Basic Decision № 6830 dated 6 December 1998.

"**Default**" means an Event of Default or an event that, with notice or lapse of time or both, would become an Event of Default.

"**Distributable Net Income**" means, for any year, the Borrower's net income for such year, calculated after deduction of legal reserves, reserves for unspecified banking risks and any other regulatory required reserves, as shown on the Borrower's audited unconsolidated financial statements for such year, as approved by the Borrower's Shareholders at the annual ordinary general meeting of Shareholders (or such other Shareholders' meeting) held to approve the annual accounts of the Bank for such year, less distributions on the Borrower's preferred shares (if any) and interest distributions on the Borrower's priority shares (if any) for such year.

"**Dividend**" means any dividend or distribution to Shareholders whether of cash, assets or other property, and whenever paid or made and however described (and for these purposes a distribution of assets includes without limitation an issue of Byblos Bank Shares or other securities credited as fully or partly paid up (other than an issue of Byblos Bank Shares falling within *Clause 6.3.2* by way of capitalization of profits or reserves)), or any dividend or distribution which is expressed by the Borrower or declared by a Shareholders' meeting of the Borrower to be a capital distribution, extraordinary dividend, extraordinary distribution, special dividend, special distribution or return of value to Shareholders of the Borrower or any analogous or similar term.

"**Dollars**" and "**U.S.$**" mean the lawful currency of the United States of America.

"**Encumbrance**" means a mortgage, charge, pledge, lien, option, restriction, right of first refusal, right of pre emption, third party right or interest, other encumbrance or security interest of any kind, or another type of preferential arrangement (including, without limitation, a title transfer or retention arrangement) having similar effect.

"**Event of Default**" has the meaning specified in *Clause 15*.

"**Event of Illegality**" has the meaning set out in *Clause 8.4*.

"**Fair Market Value**" means, with respect to any property on any date, the Independently Determined fair market value of that property; provided that (i) the "Fair Market Value" of a Cash Dividend paid or to be paid per Byblos Bank Share shall be the amount of such Cash Dividend per Byblos Bank Share determined as of the date of announcement of such Cash Dividend; (ii) where options, warrants or other rights in respect of the Byblos Bank Shares are publicly traded in a market of Independently Determined adequate liquidity, the "Fair Market Value" of such options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights during the period of five Trading Days immediately preceding such date on the relevant market commencing on the first such Trading Day such options, warrants or other rights are publicly traded, or such shorter period as such options, warrants or other rights are publicly traded; and (iii) where options, warrants or other rights are not publicly traded (as aforesaid), the "Fair Market Value" of such options, warrants or other rights in respect of the Byblos Bank Shares will be as Independently Determined on the basis of a commonly accepted market valuation method and taking account of such factors as are Independently Determined to be appropriate, including the market price per Byblos Bank Share, the dividend yield of a Byblos Bank Share, the volatility of such market price, prevailing interest rates and the terms of such options, warrants or other rights, including as to the expiry date and exercise price (if any) thereof.

"**Fiduciary**" means The Bank of New York Mellon (Luxembourg) S.A., acting in a fiduciary capacity.

"**Fiduciary Contract and Terms and Conditions of the Fiduciary Notes**" means the Fiduciary Contract and the terms and conditions of the Fiduciary Notes dated [21] December 2012 among the Fiduciary and the Holders, which will be attached to the Fiduciary Notes.

"**Fiduciary Notes**" has the meaning assigned in the preamble.

"**GDR Program**" means the Borrower's Global Depositary Receipts Program, which was established in February 2009 with The Bank of New York Mellon acting as Depositary. As of the date of this Agreement, each GDR issued under the GDR Program represents 50 Byblos Bank Shares. The Byblos Bank GDRs are listed on the Main Market of the London Stock Exchange.

"**Guarantee**" by any Person means any obligation, contingent or otherwise, of such Person directly or indirectly guaranteeing any Debt of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt (whether arising by virtue of partnership arrangements, by agreement to keep well, to purchase assets, goods, securities or services, to take or pay, or to maintain financial statement conditions or otherwise, other than agreements to purchase goods or services at an arm's length price in the ordinary course of business) or (ii) entered into for the purpose of assuring in any other manner the holder of such Debt of the payment thereof or to protect such holder against loss in respect thereof (in whole or in part); provided, that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning.

"**Holder**" means an owner of a beneficial interest in the Fiduciary Notes.

"**Holder Conversion Exercise Notice**" means a duly completed and validly executed conversion notice by a Holder substantially in the form attached to the Fiduciary Contract and Terms and Conditions of the Fiduciary Notes as Exhibit A thereto.

"**IFRS**" means International Financial Reporting Standards, including International Accounting Standards and Interpretations issued by the International Accounting Standards Board.

"**IFRS Fiscal Period**" means any fiscal period for which the Borrower has produced financial statements in accordance with IFRS which have either been audited or reviewed by independent accountants of recognized international standing.

"**Indemnified Party**" has the meaning set out in *Clause 16*.

"**Independently Determined**" means determined by an independent investment bank of international repute in London or New York selected by the Borrower and reasonably acceptable to the Lender.

"**Instruction to Issue and Borrowing Notice**" means the instruction to issue and notice of borrowing to be delivered by the Borrower to the Lender pursuant to *Clause 2.2*, substantially in the form set forth in Exhibit A hereto, which shall (among other things) (i) instruct the Fiduciary to issue the Fiduciary Notes, (ii) request the Lender to make the Subordinated Loan and (iii) specify the issue date of the Fiduciary Notes and the Loan Date.

"**Interest Shortfall**" means, on any Loan Interest Payment Date, the shortfall (if any) between (i) the full amount of accrued and unpaid interest on the Subordinated Loan due on such Loan Interest Payment Date and (ii) the amount of Sufficient Available Profit for the Relevant Quarter.

"**Issuing and Fiscal Agency Agreement**" means the issuing and fiscal agency agreement dated as of [21] December 2012 among The Bank of New York Mellon (Luxembourg) S.A., Byblos Bank S.A.L. and The Bank of New York Mellon, as originally executed or as it may be amended from time to time.

"**Judgment Currency**" has the meaning set out in *Clause 17.8*.

"**Lebanese Banking Guidelines**" means all applicable circulars, laws, regulations and guidelines issued by the Central Bank or the Banking Control Commission and the Code of Money and Credit of Lebanon.

"**Lebanese Taxes**" means any and all present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature in respect of this Agreement or the Subordinated Loan imposed by Lebanon or by any department, agency or other political subdivision or taxing authority thereof or therein, and all interest, penalties or similar liabilities with respect thereto.

"**Lender**" has the meaning assigned in the preamble and shall be construed so as to include the Lender in its capacity as Fiduciary.

"**Lender Conversion Exercise Notice**" has the meaning specified in *Clause 6.1.1*.

"**Lender Conversion Right**" has the meaning specified in *Clause 6.1*.

"**Lender Priority Subscription Right**" has the meaning specified in *Clause 7*.

"**Loan Date**" means the date on which the Subordinated Loan is disbursed pursuant to *Clause 2*, which date shall be specified in the Instruction to Issue and Borrowing Notice.

"**Loan Interest Payment Date**" means (i) each penultimate Business Day of each calendar quarter during the term of the Subordinated Loan, commencing on the penultimate Business Day of the calendar quarter ending on 31 March 2013 (reflecting a long first interest period from and including the Loan Date to but excluding such penultimate Business Day), and (ii) the Loan Maturity Date (reflecting a short last interest period from and including the most recent date to which interest was theretofore paid to but excluding the Loan Maturity Date).

"**Loan Maturity Date**" means the last Business Day falling on or before the tenth anniversary of the Loan Date or such earlier date (if any) on which the Subordinated Loan shall have been fully converted, prepaid or repaid (upon acceleration or otherwise).

"**Material Adverse Effect**" means a material adverse effect on (i) the business, financial condition, operations, performance or property of the Borrower or of the Borrower and its Material Subsidiaries taken as a whole; or (ii) the legality, validity and enforceability of this Agreement; or (iii) the ability of the Borrower to perform its obligations under this Agreement.

"**Material Subsidiary**" means a subsidiary of the Borrower:

(a) which, for the most recent IFRS Fiscal Period, accounted for more than 10% of the consolidated revenues of the Borrower or more than 10% of the consolidated net income of the Borrower;

(b) which, as of the end of the most recent IFRS Fiscal Period, was the owner of more than 10% of the consolidated assets of the Borrower, all as set forth in the most recent available consolidated financial statements of the Borrower for such IFRS Fiscal Period; or

(c) to which are transferred substantially all of the assets and undertaking of a Subsidiary of the Borrower which immediately prior to such transfer was a Material Subsidiary.

"**Midclear**" means Midclear S.A.L., Lebanon's central clearing and settlement agency.

"**Non-Cash Dividend**" means any Dividend which is not a Cash Dividend.

"**Optional Prepayment Date**" has the meaning specified in *Clause 8.2.1*.

"**Person**" means any individual, corporation, partnership, limited liability company, joint venture, association, joint stock company, trust, unincorporated organization, government, or any agency or political subdivision thereof or any other entity, whether or not having a separate legal personality.

"**Preferred Shares**" means the Series 2008 Preferred Shares of the Borrower with a par value of LBP 1,210 per share, the Series 2009 Preferred Shares of the Borrower with a par value of LBP 1,210 per share and any other preferred shares that may be issued by the Borrower.

"**Quotation**" means, on any Trading Day, the weighted average of the daily quotations for Byblos Bank Shares on the Beirut Stock Exchange, which will be calculated by multiplying the daily volume by the closing price for that Trading Day as published on the website of the Beirut Stock Exchange.

"**Retroactive Adjustment**" has the meaning specified in *Clause 6.4*.

"**Scrip Dividend**" means any issue of Byblos Bank Shares credited as fully paid to the Shareholders as a class (i) in lieu of the whole or any part of a Cash Dividend, which the Shareholders would or could otherwise have received; or (ii) where the Shareholders may elect to receive a Cash Dividend in lieu of such Byblos Bank Shares.

"**Shareholder**" means a holder of Byblos Bank Shares.

"**Specified Office**" means, with respect to the Lender, the office of the Lender specified in *Clause 17.3*, or such other office of the Lender as the Lender may from time to time specify to the Borrower.

"**Subordinated Loan**" means the subordinated loan to be made to the Borrower by the Lender pursuant to *Clause 2*.

"**Subsidiary**" means any Person of which at least a majority of the Voting Stock is at the time directly or indirectly owned or controlled by the Borrower or one or more other Subsidiaries or by the Borrower and one or more other Subsidiaries.

"**Successor Corporation**" has the meaning specified in *Clause 14.3.1*.

"**Sufficient Available Profit for the Relevant Quarter**" means, with respect to any Loan Interest Payment Date, profit and retained earnings of the Borrower, on a stand-alone basis, in an amount at least equal to the amount of accrued and unpaid interest due and payable on the Subordinated Loan on such Loan Interest Payment Date, as determined by the Borrower's management based on the Borrower's management accounts for the calendar quarter during which such Loan Interest Payment Date occurs.

"**Trading Day**" means each day on which the Beirut Stock Exchange, is open for business and Byblos Bank Shares may be dealt in on the Beirut Stock Exchange; provided that if no closing price is reported in respect of the Byblos Bank Shares for one or more consecutive dealing days, such day or days will be disregarded in any relevant calculation and shall be deemed not to have existed when ascertaining any period of Trading Days.

"**Transaction Documents**" means, together, this Agreement and the Issuing and Fiscal Agency Agreement.

"**VAT**" means value added tax as defined by the EU Council Directive 2006/112/EC on the common system of value added tax as implemented in Luxembourg by the law of 12 February 1979 on value added tax;

"**Voting Stock**" means at any time, the outstanding securities of any Person the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of members of the board of directors (or persons performing similar functions) of such Person.

1.2 Interpretation

Unless the context or the express provisions of this Agreement otherwise require, the following shall govern the interpretation of this Agreement:

1.2.1 all references to "*Clause*" are references to a Clause of this Agreement;

1.2.2 the terms "hereof", "herein" and "hereunder" and other words of similar import shall mean this Agreement as a whole and not any particular part hereof;

1.2.3 words importing the singular number include the plural and vice versa;

1.2.4 the headings are for convenience only and shall not affect the construction hereof; and

1.2.5 the "Lender" or the "Borrower" shall be construed so as to include it and any of its subsequent successors, assignees and charges in accordance with their respective interests.

2. LOAN

2.1 Agreement to Lend

Subject to the terms and conditions of this Agreement, the Lender hereby agrees to make the Subordinated Loan to the Borrower, and the Borrower hereby agrees to borrow the Subordinated Loan from the Lender, on the Loan Date in U.S. Dollars in the aggregate principal amount of U.S.$[300],000,000, as more fully specified by the Borrower in its Instruction to Issue and Borrowing Notice.

2.2 Disbursement

The Borrower shall give the Lender notice of the Loan Date by delivering the Instruction to Issue and Borrowing Notice to the Lender on or before the Loan Date. Following the receipt of the Instruction to Issue and Borrowing Notice, on the Loan Date specified therein, the Lender shall, subject to the satisfaction of the conditions set forth in *Clause 12*, make available to the Borrower the Subordinated Loan in the aggregate principal amount of U.S.$[300],000,000 by wire transfer of immediately available funds to the account of the Borrower specified in the Instruction to Issue and Borrowing Notice set forth in Exhibit A hereto.

3. SUBORDINATION OF THE LOAN; NO SET-OFF

3.1 Status

The obligations of the Borrower in respect of the Subordinated Loan will constitute direct, unsecured and general obligations of the Borrower, subordinated as described in *Clause 3.2* below.

3.2 Subordination

In the event of a bankruptcy, suspension of payments, reorganization, dissolution, winding up, liquidation or composition or arrangement with creditors of the Borrower, the claims of the Lender in respect of the Subordinated Loan will rank junior in right of payment to the claims of holders of unsecured and unsubordinated payment obligations of the Borrower, pari passu with the claims of holders of all other subordinated Debt of the Borrower and in priority to the claims of Shareholders of the Borrower and holders of Preferred Shares in the Borrower, including in respect of cash contributions to capital.

3.3 No Set-Off

Neither the Lender nor the Borrower shall be entitled to offset any liabilities of the Borrower under this Agreement against any liabilities owing by the Lender to the Borrower or the Borrower to the Lender, as the case may be.

4. INTEREST

4.1 Accrual and Payment of Interest

Interest shall accrue on the principal amount of the Subordinated Loan outstanding from time to time at the rate of 6.5 per cent, from and including the Loan Date to but excluding the Loan Maturity Date, calculated on the basis of a 360 day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days actually elapsed. Accrued but unpaid interest shall be payable quarterly in arrear not later than 10:00 a.m. (New York City time) on each Loan Interest Payment Date; provided that, in accordance with Decision 6830, the Borrower has Sufficient Available Profit for the Relevant Quarter for the purpose; and, provided, further, that, in the event that the Borrower does not have Sufficient Available Profit for the Relevant Quarter to pay all or any portion of the accrued but unpaid interest due in respect of the Subordinated Loan on any Loan Interest Payment Date, the requirement to pay such interest on such Loan Interest Payment Date, to the extent of the Interest Shortfall (if any), shall be deferred such that any Interest Shortfall shall become due and payable on the next Loan Interest Payment Date falling within the same calendar year to the extent that the Borrower then has Sufficient Available Profit for the Relevant Quarter to cover, in addition to the amount of interest due and payable on the Subordinated Loan on such next Loan Interest Payment Date, all or any portion of such Interest Shortfall. Any Interest Shortfall not covered by Sufficient Available Profit for the Relevant Quarter shall remain outstanding until fully paid in accordance herewith; provided that, in the event that the Borrower does not have Sufficient Available Profit for the Relevant Quarter to pay all or any portion of such Interest Shortfall on a Loan Interest Payment Date falling within the same calendar year in which such Interest Shortfall arose, the Borrower’s obligation to pay such Interest Shortfall, in cash, shall be cancelled and, subject as provided in *Clause 6* below, such Interest Shortfall shall no longer be due and payable and the Lender shall have no claim against the Borrower or any other Person at any time in respect thereof. In any event, no interest shall accrue on any Interest Shortfall, and neither the Lender nor any Holders shall be entitled to receive any substitute or additional amounts as a result of any non-payment of any Interest Shortfall.

4.2 Overdue Interest

If any amount payable under this Agreement is not paid by the Borrower when due (other than any Interest Shortfall), interest shall accrue thereon (to the extent permitted by applicable law, both before and after judgment) from and including the date such amount became due to but excluding the date such amount is paid in full at a rate per annum equal to the rate of interest specified in *Clause 4.1* plus 2.0% per annum (i.e. 8.5% per annum). Interest accruing pursuant to this *Clause 4.2* shall be payable together with the overdue amount (whether principal, interest (other than any Interest Shortfall) or any other amount, to the extent permitted by law) when such amount is paid in full or, if earlier, from time to time upon demand.

Interest accruing pursuant to this *Clause 4.2*, if not paid when due, shall (to the extent permitted by law) itself bear interest as provided in this *Clause 4.2*.

5. INCREASED COSTS AND COMPENSATION

5.1 Increased Costs

If, on or after the Loan Date, the adoption of any requirement of law, or any change in any requirement of law, or any change in the interpretation or administration thereof by any court or other governmental authority charged with the interpretation or administration thereof, or compliance by the Lender with any request or directive (whether or not having the force of law) of any such governmental authority, shall impose, modify or deem applicable any reserve, special deposit, contribution, insurance assessment or similar requirement against assets of, deposits with or for the account of, or credit extended by, the Lender or shall impose on the Lender any other condition affecting the Subordinated Loan, and the result of any of the foregoing is to increase the cost to the Lender of making or maintaining the Subordinated Loan, or to reduce the amount of any sum received or receivable by the Lender under this Agreement, by an amount deemed by the Lender (acting reasonably) to be material (other than Lebanese Taxes, which shall be treated in accordance with *Clause 9* hereof), then, subject as provided in *Clauses 8.3* and *Clause 11*, the Borrower shall pay to the Lender within two Business Days of demand such additional amount or amounts as will compensate the Lender for such increased cost or reduction.

5.2 Increased Capital Requirements

If the Lender determines that compliance with any law or regulation or any guideline or request from any central bank or other governmental authority (whether or not having the force of law) affects or would affect the amount of capital required or expected to be maintained by the Lender and that the amount of such capital is increased by or based upon the existence of the Subordinated Loan, then, subject as provided in *Clauses 8.3* and *Clause 11*, within two Business Days of demand by the Lender, the Borrower shall pay to the Lender, from time to time as specified by the Lender, additional amounts sufficient to compensate the Lender to the extent that the Lender determines (acting reasonably) such increase in capital is allocable to the existence of the Subordinated Loan.

5.3 Notice

The Lender will promptly notify the Borrower as soon as it becomes aware of any event occurring after the date hereof, which would entitle the Lender to compensation pursuant to this *Clause 5*, by delivery of a certificate of the Lender setting forth the additional amount or amounts to be paid to it and describing the event giving rise to such payment. In the event that the Borrower has reasonable cause for contesting such additional amount or amounts, the Borrower shall be entitled at its own expense to have the additional amount or amounts Independently Determined and the amount so Independently Determined shall be binding on the Lender and the Borrower absent manifest error.

6. CONVERSION RIGHTS

6.1 Conversion Rights

6.1.1 The Lender shall have the right (the "**Lender Conversion Right**"), exercisable from time to time (upon instruction from the Holders), to cause the Borrower to convert all or any portion of the principal amount of the Subordinated Loan outstanding on a Conversion Date, together with any unpaid Interest Shortfall relating to such principal amount to the extent accrued in respect of the two-year period ending on such Conversion Date, whether or not the Borrower's obligation to pay such Interest Shortfall (or any portion thereof), in cash, has been cancelled pursuant to *Clause 4.1* (but not other accrued and unpaid interest, if any, thereon or any other amounts (including any Additional Amounts) that may be payable by the Borrower in respect thereof or otherwise under this Agreement), into Byblos Bank Shares or Byblos Bank GDRs, or a combination thereof, and to apply such principal amount that it may elect (upon instruction from the relevant Holder) so to convert, together with the amount of any unpaid Interest Shortfall relating thereto, which is also being converted, in payment of the purchase price for Byblos Bank Shares or Byblos Bank GDRs, which are required to be delivered to Holders upon such conversion, all subject to the prior approval of the Central Bank, if applicable, and any other applicable fiscal or other laws and regulations and in accordance with the provisions of this *Clause 6.1* and the other provisions of this Agreement.

6.1.2 In addition, (without duplication) upon any conversion of all or any portion of the principal amount of the Subordinated Loan, the Lender shall be entitled to receive, in cash, in the manner set forth in *Clause 10*, (i) to the extent that the Borrower has Sufficient Available Profit for the Relevant Quarter for the purpose, all accrued and unpaid interest, if any, on such principal amount (other than any unpaid Interest Shortfall) and (ii) all other amounts (including any Additional Amounts), if any, payable by the Borrower in respect thereof.

6.2 Exercise of Conversion Rights

6.2.1 To exercise the Lender Conversion Right, the Lender (or its agent) (upon instruction from the Holders) shall deliver to the Borrower a duly completed and validly executed conversion notice, in writing, substantially in the form attached hereto as Exhibit B hereto (each, a "**Lender Conversion Exercise Notice**"), not later than the last Business Day falling at least 30 days before the relevant Conversion Date. Each Lender Conversion Exercise Notice shall be irrevocable and shall specify: (x) the principal amount of the Subordinated Loan, which the Lender then wishes to convert under the terms of this Agreement; (y) whether the Lender wishes to receive Byblos Bank Shares or Byblos Bank GDRs, or a combination thereof, upon conversion of such principal amount and, in the event that the Lender wishes to receive a combination of Byblos Bank Shares and Byblos Bank GDRs, the respective principal amounts of the Subordinated Loan to be converted into Byblos Bank Shares and into Byblos Bank GDRs, as the case may be; and (z) in the event that the Lender has elected to receive any Byblos Bank GDRs (upon instruction from the Holders), instructions for the delivery of such Byblos Bank GDRs, which are required to be delivered to Holders upon the exercise of the Lender Conversion Right.

6.2.2 The Lender agrees that, upon receipt of a valid Holder Conversion Exercise Notice from a Holder or the Fiduciary, the Lender (or its agent) shall deliver a Lender Conversion Exercise Notice corresponding to such Holder Conversion Exercise Notice and exercise the Lender Conversion Right on behalf of and for the benefit of such Holder.

6.2.3 The Lender acknowledges that any Byblos Bank Shares, which are required to be delivered to Holders upon exercise of its Lender Conversion Right following receipt of a valid Holder Conversion Exercise Notice from a particular Holder shall (subject to the approval of the Central Bank, if applicable) be registered in the books maintained by Midclear in the name of the relevant Holder and held in the Midclear account of Byblos Bank S.A.L., subject to standard custody arrangements between such Holder and Byblos Bank S.A.L. (in its capacity as a participant in Midclear), pursuant to which (among other things) distributions (if any) in respect of such Byblos Bank Shares will be made to Byblos Bank S.A.L. (in its capacity as a participant in Midclear) for the benefit of such Holder; it being understood that any Holder may, at any time, request that Byblos Bank S.A.L. arrange for the transfer of the custody of all or a portion of the Byblos Bank Shares owned by such Holder to another participant in Midclear.

6.3 Adjustment to Conversion Price

The Conversion Price, as calculated by the Borrower in accordance with the terms of this Agreement, will be subject to adjustment in the following circumstances:

6.3.1 ***Consolidation, Reclassification or Subdivision***: If and whenever there shall be a consolidation, reclassification or subdivision of Byblos Bank Shares, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such consolidation, reclassification or subdivision by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate number of Byblos Bank Shares in issue immediately before such consolidation, reclassification or subdivision, as the case may be; and

B is the aggregate number of Byblos Bank Shares in issue immediately after, including as a result of, such consolidation, reclassification or subdivision, as the case may be.

Such adjustment shall become effective on the date the consolidation, reclassification or subdivision, as the case may be, takes effect.

6.3.2 ***Capitalization of Profits and Reserves***

(a) If and whenever the Borrower shall issue any Byblos Bank Shares credited as fully paid to all or substantially all Shareholders as a class by way of capitalization of profits or reserves (including Byblos Bank Shares paid up out of Distributable Net Income), other than an issue of Byblos Bank Shares constituting a Scrip Dividend or a Capital Distribution, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate number of Byblos Bank Shares in issue immediately before such issue; and

B is the aggregate number of Byblos Bank Shares in issue immediately after, including as a result of, such issue.

(b) If and whenever the Borrower shall issue Byblos Bank Shares by way of a Scrip Dividend (other than a Capital Distribution), where the Current Market Price of such Byblos Bank Shares exceeds 105% of the amount of the Cash Dividend or the part thereof in lieu of which such Scrip Divided is issued, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the issue of such Byblos Bank Shares by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of issued Byblos Bank Shares immediately before such issue;

B is the number of Byblos Bank Shares issued by way of such Scrip Dividend multiplied by a fraction (i) the numerator of which is the amount of the relevant Cash Dividend or part thereof, and (ii) the denominator of which is the aggregate Current Market Price of the Byblos Bank Shares issued by way of such Scrip Dividend in respect of one Byblos Bank Share; and

C is the number of Byblos Bank Shares issued by way of such Scrip Dividend.

Any such adjustment required pursuant to paragraphs (a) or (b) of this *sub-clause 6.3.2* shall become effective on the date of issue of such Byblos Bank Shares or, if a record date is fixed therefore, immediately after such record date.

6.3.3 ***Capital Distributions***: If and whenever the Borrower shall pay or make any Capital Distribution to all or substantially all Shareholders, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such Capital Distribution by the following fraction:

$$\frac{A-B}{A}$$

where:

A is the Current Market Price of one Byblos Bank Share on the last Trading Day immediately preceding the date on which such Capital Distribution is publicly announced; and

B is the Fair Market Value on the date of such announcement of the portion of such Capital Distribution attributable to one Byblos Bank Share.

Such adjustment shall become effective on the date on which such Capital Distribution is made.

6.3.4 ***Rights Issues of Byblos Bank Shares or Options over Byblos Bank Shares***: If and whenever the Borrower shall issue Byblos Bank Shares to all or substantially all Shareholders as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class by way of rights options, warrants or other rights to subscribe for or purchase any Byblos Bank Shares, in each case at less than 95% of the Current Market Price per Byblos Bank Share on the last Trading Day immediately preceding the date of the announcement of the terms of such issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue or grant by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of Byblos Bank Shares in issue immediately before such announcement;

B is the number of Byblos Bank Shares which could be purchased at such Current Market Price per Byblos Bank Share with the aggregate amount (if any) payable for such Byblos Bank Shares issued by way of rights or for such options or warrants or other rights issued by way of rights and for the total number of Byblos Bank Shares comprised therein; and

C is the aggregate number of Byblos Bank Shares issued or, as the case may be, comprised in such issue or grant.

Such adjustment shall become effective on the date of issue of such Byblos Bank Shares or of the issue or grant of such options, warrants or rights (as the case may be).

6.3.5 ***Rights Issues of Other securities***: If and whenever the Borrower shall issue any securities (other than Byblos Bank Shares or options, warrants or other rights to subscribe for or purchase any Byblos Bank Shares) to all or substantially all Shareholders as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class by way of rights any options, warrants or other rights to subscribe for or purchase any securities (other than Byblos Bank Shares or options, warrants or other rights to subscribe for or purchase Byblos Bank Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue or grant by the following fraction:

$$\frac{A-B}{A}$$

where:

A is the Current Market Price of one Byblos Bank Share on the last Trading Day immediately preceding the date on which such issue or grant is publicly announced; and

B is the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Byblos Bank Share.

Such adjustment shall become effective on the date of issue of such securities or of the issue or grant of such rights, options or warrants (as the case may be).

6.3.6 ***Issues at less than Current Market Price***: If and whenever the Borrower shall issue (otherwise than as mentioned in *Clause 6.3.4* above) wholly for cash or for no consideration any Byblos Bank Shares (other than Byblos Bank Shares issued on conversion of the Subordinated Loan or any portion thereof or on the exercise of any other rights of conversion into, or exchange or subscription for or purchase of, Byblos Bank Shares) or issue or grant (otherwise than as mentioned in *Clause 6.3.4* above) wholly for cash or for no consideration options, warrants or other rights to subscribe for or purchase Byblos Bank Shares, in each case, at a price per Byblos Bank Share which is less than 95% of the Current Market Price per Byblos Bank Share on the last Trading Day immediately preceding the date on which the terms of such issue or grant are publicly announced, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue or grant by the following fraction:

$$\frac{A+B}{C}$$

where:

A is the number of Byblos Bank Shares in issue immediately before the issue of such Byblos Bank Shares or the issue or grant of such options, warrants or rights;

B is the number of Byblos Bank Shares which could be purchased at such Current Market Price per Byblos Bank Share with the aggregate consideration (if any) receivable for the issue of such additional Byblos Bank Shares, or as the case may be, the maximum number of Byblos Bank Shares issuable upon exercise of such options, warrants or rights as of the date of the issue or grant thereof; and

C is the number of Byblos Bank Shares in issue immediately after, and including, the issue of such additional Byblos Bank Shares.

Such adjustment shall become effective on the date of issue of such Byblos Bank Shares or the issue or grant of such options, warrants or rights (as the case may be).

6.3.7 ***Other issues at less than Market Price***: Except in the case of an issue of securities arising from a conversion or exchange of other securities in accordance with the terms applicable to such securities, if the Borrower or any Subsidiary of the Borrower (other than as amended in *Clauses 6.3.4, 6.3.5 or 6.3.6* above) or (at the direction or request of or pursuant to any arrangements with the Borrower or any Subsidiary of the Borrower) any other company, person or entity shall offer any securities (other than the Fiduciary Notes) which by their terms of issue carry rights of conversion into, or exchange or subscription for, Byblos Bank Shares to be issued by the Borrower upon conversion, exchange or subscription, in any case, at a consideration per Byblos Bank Share which is less than 95% of the Current Market Price per Byblos Bank Share on the last Trading Day immediately preceding the date on which the terms of issue of such securities are publicly announced, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the making of such offer by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of Byblos Bank Shares in issue immediately before such issue;

B is the number of Byblos Bank Shares which could be purchased at such Current Market Price per Byblos Bank Shares with the aggregate consideration receivable by the Borrower for the Byblos Bank Shares to be issued on conversion or exchange or on exercise of the right of subscription attached to such securities; and

C is the maximum number of Byblos Bank Shares to be issued on conversion or exchange of such securities or on the exercise of such rights of subscription attached thereto at the initial conversion, exchange or subscription price or rate.

Such adjustment shall become effective on the date of issue of such securities.

6.3.8 ***Modification of Rights of Conversion***: If there shall be any modification of the rights of conversion, exchange or subscription attaching to any such securities as mentioned in *Clause 6.3.7* above (other than in ***accordance*** with the terms applicable to such securities) so that the consideration per Byblos Bank Share (for the number of Byblos Bank Shares available on conversion, exchange or subscription following the modification) is less than 95% of the Current Market Price per Byblos Bank Share on the last Trading Day immediately preceding the date on which the proposals for such modification are publicly announced, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such modification by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of Byblos Bank Shares in issue immediately before such modification;

B is the number of Byblos Bank Shares which could be purchased at such Current Market Price per Byblos Bank Share or, if lower, the existing conversion, exchange or subscription price of such securities with the aggregate consideration (if any) receivable by the Borrower for the Byblos Bank Shares to be issued, or otherwise made available, on conversion or exchange or on exercise of the right of subscription attached to such securities, in each case, as modified; and

C is the maximum number of Byblos Bank Shares to be issued, or otherwise made available, on conversion or exchange of such securities or on the exercise of such rights of subscription attached thereto at the modified conversion, exchange or subscription price or rate but giving credit (if at all) in such manner as may be Independently Determined.

Such adjustment shall become effective on the date of modification of the rights of conversion, exchange or subscription attaching to such securities.

6.3.9 ***Other Offers to Shareholders***: If the Borrower or any Subsidiary or (at the direction or request of or pursuant to any arrangements with the Borrower or any Subsidiary) any other company, person or entity issues, sells or distributes any securities in connection with an offer by or on behalf of the Borrower or any Subsidiary or such other company, person or entity pursuant to which offer all or substantially all Shareholders are entitled to participate in arrangements whereby such securities may be acquired by them (except where the Conversion Price falls to be adjusted under *Clauses 6.3.4*, *6.3.5*, *6.3.6* or *6.3.7* above), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A-B}{A}$$

where:

A is the Current Market Price of one Byblos Bank Share on the last Trading Day immediately preceding the date on which such issue is publicly announced; and

B is the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Byblos Bank Share.

Such adjustment shall become effective on the date of issue of the securities.

6.3.10 ***Other Events***: If the Borrower determines that an adjustment should be made to the Conversion Price as a result of one or more circumstances not referred to above in this *Clause 6.3*, the Borrower shall, at its own expense and acting reasonably, request that it be Independently Determined as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof and the date on which such adjustment should take effect and upon such determination such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that an adjustment shall only be made pursuant to this *Clause 6.3* if such Independent Determination is made not more than 21 days after the date on which the relevant circumstance arises and if the adjustment would result in a reduction to the Conversion Price.

6.3.11 Notwithstanding anything herein to the contrary, all references in this *Clause 6.3* to the "Borrower" shall mean and be deemed to include any Successor Corporation and/or any holding company at any time of the Borrower.

6.4 Retroactive Adjustments

If any Conversion Date in relation to the exercise of the Lender Conversion Right shall fall after any consolidation, reclassification or sub-division mentioned in *sub-Clause 6.3.1*, or after the record date or other due date for the establishment of entitlement for any issue, payment, distribution, grant or offer (as the case may be) mentioned in any other sub-Clause of *Clause 6.3*, in any case in circumstances where the relevant Conversion Date falls before the relevant adjustment becomes effective under *Clause 6.3* (such adjustment, a "**Retroactive Adjustment**"), then the Borrower shall (conditional upon the relevant adjustment becoming effective) procure that there shall be issued or delivered to the Lender, in accordance with the instructions contained in the relevant Lender Conversion Notice (subject to any applicable exchange control or other laws or regulations), such additional number of Byblos Bank Shares or Byblos Bank GDRs (as the case may be) (the "**Additional Shares**" or the "**Additional GDRs**", as applicable) as shall, together with the Byblos Bank Shares or Byblos Bank GDRs (as the case may be) issued or delivered or to be issued or delivered on each exercise of the Lender Conversion Right (and together with any fraction of a Byblos Bank Share or Byblos Bank GDR not so issued or delivered), be equal to the number of Byblos Bank Shares or Byblos Bank GDRs which would have been required to be issued or delivered on such exercise if the relevant adjustment (more particularly referred to in the relevant provisions of *Clause 6.3*) to the Conversion Price had in fact been made and become effective immediately prior to the relevant Conversion Date. In such circumstances, the Borrower shall procure that such Additional Shares or Additional GDRs are issued or delivered as directed by the Lender in the relevant Lender Conversion Notice.

6.5 Decision of a Financial Adviser

If any doubt shall arise as to the appropriate adjustment to the Conversion Price or as to whether or not an adjustment to the Conversion Price is required to be made pursuant to a relevant provision of *Clause 6.3* or *Clause 6.4*, a written opinion of a firm of accountants or of an independent investment bank of international repute in London or New York, in either case selected by the Borrower and reasonably acceptable to the Lender, shall be conclusive and binding on all parties, save in the case of manifest error.

6.6 Rounding Down and Notice of Adjustment to the Conversion Price

6.6.1 On any adjustment of the Conversion Price, the resultant Conversion Price, if not an integral multiple of U.S.$0.01, shall be rounded down to the nearest whole multiple of U.S.$0.01; provided, however, that no adjustment shall be made where such adjustment (rounded down, if applicable) would be less than 1.0% of the Conversion Price then in effect. Any adjustment which, in reliance on the preceding sentence, was not made shall be carried forward and taken into account in any subsequent adjustment, and such subsequent adjustment shall be made on the basis that the adjustment not required to be made had been made at the relevant time.

6.6.2 Notice of any adjustment to the Conversion Price shall be given by the Borrower to the Lender as soon as practicable after the determination thereof.

6.7 No Adjustment Below Par Value

Notwithstanding anything herein to the contrary, no adjustment shall be made to the Conversion Price as a result of any provision in *Clauses 6.3*, *6.4* or *6.6* to an amount less than the par value of the Byblos Bank Shares.

6.8 Conversion Failure Notice

In the event that, following any proper and valid exercise of the Lender Conversion Right, the Borrower is unable to deliver to the relevant Holder or Holders, upon the Lender's direction, all or any portion of the Byblos Bank Shares or Byblos Bank GDRs, which the Borrower shall otherwise be required to deliver upon such exercise, for any reason, the Borrower shall, within two Business Days following its determination to such effect, deliver to the Lender a written notice (a "**Conversion Failure Notice**") to such effect specifying the reason therefor.

6.9 Cash Settlement Option

In the event that the Lender shall have received a Conversion Failure Notice, the Borrower shall, subject to the approval of the Central Bank, pay to the Lender an amount, in cash, equal to the higher of (i) the sum of the principal amount of the Subordinated Loan specified in the relevant Lender Conversion Exercise Notice, which the Lender has elected to convert, plus the amount of any unpaid Interest Shortfall relating thereto; and (ii) the Current Market Price per Byblos Bank Share on the Trading Day immediately prior to the date of the corresponding Lender Conversion Exercise Notice multiplied by the aggregate number of Byblos Bank Shares (or, in the event that the Lender had elected to receive Byblos Bank GDRs, multiplied by the number of Byblos Bank Shares represented by the number of Byblos Bank GDRs), which otherwise would have been required to be delivered to Holders absent the circumstances giving rise to the Conversion Failure Notice. In addition, (without duplication) the Lender shall be entitled to receive, in cash, all accrued and unpaid interest (other than any Interest Shortfall except to the extent provided above in this *Clause 6.9*), if any, on the principal amount of the Subordinated Loan that is the subject of the Conversion Failure Notice, to the extent that the Borrower has Sufficient Available Profit for the Relevant Quarter for the purpose, and all other amounts (including any Additional Amounts), if any, payable by the Borrower in respect thereof.

7. PRIORITY SUBSCRIPTION RIGHTS

In the event that the Borrower shall propose to effect (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 this *Agreement*) or (ii) any new issue of convertible loans or convertible bonds (other than any issue of convertible loans or convertible bonds that results in an adjustment of the Conversion Price in accordance with the terms of this Agreement and other than Fiduciary Notes issued in additional tranches after the Loan Date), the Borrower shall use its best efforts to provide the Lender with the right to subscribe to such capital increase or new issue, on a priority basis, subject only to existing pre-emptive rights (if any) of Shareholders and the receipt of all required approvals, including from the Central Bank (the "**Lender Priority Subscription Right**"), to the extent necessary to permit the Lender to maintain its pro rata ownership interest in the Borrower, assuming that the Lender had, at the time of such subscription, previously converted the aggregate outstanding principal amount of the Subordinated Loan into Byblos Bank Shares in accordance with the terms of this Agreement. For the avoidance of doubt, the Lender shall not be entitled to exercise the Lender Priority Subscription Right arising in respect of any capital increase or issue of convertible loan or bonds if the Conversion Price has been adjusted pursuant to *Clause 6.3* as a result of such capital increase or issue.

8. REPAYMENT AND PREPAYMENT

8.1 Repayment

On the Loan Maturity Date, unless the Subordinated Loan has been previously prepaid, converted or accelerated in full, the Borrower shall repay the outstanding principal amount of the Subordinated Loan, together with all accrued and unpaid interest, if any, thereon (other than any unpaid Interest Shortfall to the extent that the Bank's obligation to pay such Interest Shortfall, in cash, has been cancelled pursuant to *Clause 4.1*) provided that the Borrower has Sufficient Available Profit for the Relevant Quarter for the purpose, and all other amounts (including any Additional Amounts), if any, payable by the Borrower in respect thereof or otherwise pursuant to this Agreement, in the manner set forth in *Clause 10*.

8.2 Prepayment for Tax Reasons

8.2.1 Subject to the approval of the Central Bank, the Subordinated Loan may be prepaid, in whole but not in part, at the option of the Borrower on any date, after the first anniversary of the Loan Date (the "**Optional Prepayment Date**"), in the event that, as a result of any actual change in any law, regulation or ruling of Lebanon or by any department, agency or other political subdivision or taxing authority thereof or therein, any change in the application or official interpretation of such laws or regulations, the Borrower has or will become obligated on the next Loan Interest Payment Date to pay Additional Amounts as provided in *Clause 9* in excess of the Additional Amounts that would be payable if (i) Lebanese Taxes were applied to payments of interest on the Subordinated Loan at the rate of 10% or higher, which change or amendment becomes effective after the Loan Date and (ii) such obligation cannot be avoided by the Borrower taking reasonable measures available to it.

8.2.2 In this event, the Borrower may, upon not less than 30 days' written notice to the Lender specifying the date of payment and including a certificate signed by the Borrower certifying that the Borrower would be required to pay such Additional Amounts (such certificate to be supported by an opinion of an independent tax adviser of recognized standing in the relevant tax jurisdiction), prepay the principal amount of the Subordinated Loan in whole (but not in part), together with all accrued and unpaid interest, if any, thereon (including any unpaid Interest Shortfall, except to the extent the Bank's obligation to pay such Interest Shortfall, in cash, has been cancelled pursuant to *Clause 4.1*), provided that the Borrower has Sufficient Available Profit for the Relevant Quarter for the purpose, and all other amounts (including any Additional Amounts), if any, payable by the Borrower in respect thereof or otherwise pursuant to this Agreement, in the manner set forth in *Clause 10*. Any such notice of prepayment given by the Borrower shall be irrevocable and shall oblige the Borrower to make such prepayment on such specified date. No such notice shall be given earlier than 90 calendar days prior to the earliest date on which the Borrower would be obligated to pay such Additional Amounts.

8.3 Prepayment for Increased Costs and Increased Capital Requirements

Notwithstanding any other provision of this Agreement, if the Borrower is or expects to become obligated to pay any additional amounts to the Lender under circumstances contemplated by *Clause 5.1* or *5.2*, then, upon notice by the Borrower to the Lender in writing (setting out in reasonable detail the nature and extent of the relevant circumstances), the Parties shall consult in good faith as to a solution, which eliminates the obligation of the Borrower to pay such additional amounts; provided, however, that neither Party shall be under any obligation to continue such consultation if a solution has not been determined within 30 days of the date on which the Borrower so notified the Lender. If such a solution has not been determined within such 30 days (or on such earlier date as an Authorized Officer of the Borrower shall certify to be necessary to avoid the payment of the relevant additional amounts), then, upon written notice by the Borrower to the Lender, the Borrower may, in its sole discretion, prepay the outstanding principal amount of the Subordinated Loan in full, or in part to the extent necessary to avoid the obligation to pay such additional amounts, together, in either case, with all accrued and unpaid interest, if any, thereon (including any unpaid Interest Shortfall, except to the extent the Bank's obligation to pay such Interest Shortfall, in cash, has been cancelled pursuant to *Clause 4.1*), provided that the Borrower has Sufficient Available Profit for the Relevant Quarter for the purpose, and all other amounts (including any Additional Amounts), if any, payable by the Borrower in respect thereof or otherwise pursuant to this Agreement, on the next Loan Interest Payment Date (or on such earlier date as an Authorized Officer of the Borrower shall certify to be necessary to avoid the payment of the relevant additional amounts), in the manner set forth in *Clause 10*.

8.4 Prepayment for Illegality

Notwithstanding any other provision of this Agreement, if, by reason of the introduction of any change in any applicable law, regulation, regulatory requirement or directive of an agency (having applicable jurisdiction) after the date of this Agreement, either Party reasonably determines that it is, or would be, unlawful or contrary to such applicable law, regulation, regulatory requirement or directive for either Party to allow all or part of the Subordinated Loan to remain outstanding or for either Party to maintain or give effect to any of its obligations in connection with this Agreement or to charge or receive or to be paid interest at the rate then applicable to the Subordinated Loan (each, an "**Event of Illegality**"), then, upon notice by the relevant Party to the other Party in writing (setting out in reasonable detail the nature and extent of the relevant circumstances), the Parties shall consult in good faith as to a solution, which eliminates the application of such Event of Illegality; provided, however, that neither Party shall be under any obligation to continue such consultation if a solution has not been determined within 30 days of the date on which the relevant Party so notified the other Party. If such a solution has not been determined within such 30 days (or on such earlier date as an Authorized Officer of the relevant Party shall certify to be necessary to comply with such regulation, regulatory requirement or directive), then, upon written notice by the relevant Party to the other Party, the Borrower shall repay the outstanding principal amount of the Subordinated Loan in full, together with all accrued and unpaid interest, if any, thereon (including any unpaid Interest Shortfall, except to the extent the Bank's obligation to pay such Interest Shortfall, in cash, has been cancelled pursuant to *Clause 4.1*), provided that the Borrower has Sufficient Available Profit for the Relevant Quarter for the purpose, and all other amounts (including any Additional Amounts), if any, payable by the Borrower in respect thereof or otherwise pursuant to this Agreement, on the next Loan Interest Payment Date (or on such earlier date as an Authorized Officer of the relevant Party shall certify to be necessary to comply with such regulation, regulatory requirement or directive), in the manner set forth in *Clause 10*.

8.5 Purchase and Cancellation of Fiduciary Notes

Pursuant to the terms and conditions of the Fiduciary Notes, the Borrower or any of its affiliates may, at any time, purchase Fiduciary Notes, in the open market or otherwise, at any price. All such Fiduciary Notes may be presented to the Fiscal Agent for cancellation. In such event, the outstanding principal amount of the Subordinated Loan shall be reduced by an amount equal to the outstanding principal amount of the Fiduciary Notes presented for cancellation, and all references to the outstanding principal amount of the Subordinated Loan in this Agreement shall be construed accordingly.

9. TAXES

9.1 All payments by or on behalf of the Borrower of the principal amount of, accrued and unpaid interest (if any) on, and all other amounts (if any) in respect of, the Subordinated Loan shall be made without withholding or deduction for or on account of any Lebanese Taxes, unless such withholding or deduction is required by law. In such event, the Borrower will (i) make the required contribution or deduction; (ii) pay the full amount so withheld or deducted to the relevant governmental authority in accordance with applicable law and, as soon as practicable thereafter, deliver to the Lender the original or a certified copy of a receipt issued by such governmental authority or other evidence reasonably satisfactory to the Lender evidencing such payment; and (iii) pay such additional amounts ("Additional Amounts") as shall be necessary in order that the net amounts received by the Lender after such withholding or deduction shall equal the respective amounts of principal and accrued and unpaid interest which would otherwise have been receivable in respect of the Subordinated Loan in the absence of such withholding or deduction. No such Additional Amounts shall be payable:

9.1.1 to the extent that the Lender is liable for Lebanese Taxes by reason of its having some connection with Lebanon (or any department, agency or other political subdivision or taxing authority thereof or therein) other than the making and maintaining of or otherwise in relation to the Subordinated Loan; or

9.1.2 more than 30 days after the Relevant Date except to the extent that the Lender would have been entitled to such Additional Amount on presenting the same for payment on such 30th day.

As used herein, the "Relevant Date" means, with respect to any payment, the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Lender on or prior to such date, it means the date on which the full amount of such moneys have been so received by the Lender.

If the Borrower becomes subject at any time to any taxing jurisdiction other than Lebanon, references in this *Clause 9* to Lebanon shall be construed as references to Lebanon and/or such other taxing jurisdiction.

9.2 All consideration expressed to be payable under this Agreement by the Borrower shall be deemed to be exclusive of any VAT. Subject to the below, if VAT is chargeable on the payment of any amount (whether fees, costs or expenses) required to be made by the Borrower to the Lender, the Borrower shall pay to the Lender (in addition to and at the same time as paying such amount) an amount equal to the amount of the VAT thereon to the extent that the Lender reasonably determines that it is not entitled to credit or repayment from the relevant tax authority in respect of the VAT and unless the VAT charge is caused by the Lender's option to waive a VAT exemption, and, in any case, concurrently against the issue of an appropriate invoice.

10. PAYMENTS GENERALLY

10.1 The Borrower shall make each payment required to be made by it hereunder (whether of principal, interest or any other amount under *Clause 4, 5, 8, 9, 16* or *19* or otherwise) prior to 10:00 am (New York time) on the Business Day on which such payment is due, in Dollars, by wire transfer of immediately available funds, without set-off or counterclaim. Any amounts received after such time on any date may, in the discretion of the Lender, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made to the Lender at its Specified Office as specified in *Clause 17.3*.

10.2 If any payment hereunder shall be due on a day that is not a Business Day, the date for payment shall be extended to the next succeeding Business Day.

11. MITIGATION

If an event or circumstance occurs that would entitle the Lender to exercise any of the rights or benefits afforded by *Clause 5, 8* or *9*, the Lender, promptly upon becoming aware of the same, shall take all steps as may be reasonably available to eliminate or mitigate the effects of such event or circumstance or, if requested by the Borrower, to comply with any certification, documentation or other requirement in order to obtain an exemption from the relevant requirement to pay, or to agree to a reduced rate or amount of, any applicable increased costs, any costs relating to an Event of Illegality or any Lebanese Taxes (as the case may be), which the Lender may be entitled to receive pursuant to and in accordance with applicable law or under this Agreement; provided, however, that the Lender shall not be under any obligation to take any step that, in its sole discretion, would (i) result in its incurring additional costs or taxes or (ii) otherwise be materially disadvantageous or unduly burdensome to the Lender; provided, however, that, notwithstanding anything herein to the contrary, in no event shall the Borrower become obligated, pursuant to *Clause 5*, to pay any such additional amounts to the Lender in an aggregate amount equal to more than 2.0% of the principal amount of the Subordinated Loan.

12. CONDITIONS PRECEDENT

The obligation of the Lender to make the Subordinated Loan pursuant to this Agreement shall be subject to the fulfilment on or before the Loan Date (unless waived in writing by the Lender) of the following conditions precedent to the reasonable satisfaction of the Lender:

12.1.1 each of the Transaction Documents shall have been executed and delivered by all parties thereto in form and substance reasonably satisfactory to the Lender;

12.1.2 the Fiduciary Notes shall have been issued in form and on terms and conditions reasonably satisfactory to the Lender and funds in respect of the purchase price therefor shall have been received by the Lender;

12.1.3 all consents and approvals, including corporate, governmental and third party consents and approvals required on or before the Loan Date to permit the consummation of the transactions contemplated hereby, including, without limitation, the approval of the Extraordinary General Assembly of Shareholders of the Borrower of (among other things) the reservation of the capital increase to be effected by the Borrower for purposes of permitting the conversion of the Subordinated Loan as contemplated hereby and of the Central Bank in respect of the related transactions, shall have been obtained and remain in full force and effect (without the imposition of any conditions that are not acceptable to the Lender), provided, however, that it is understood that further approvals of the Extraordinary General Assembly of Shareholders of the Borrower may be required in connection with the exercise by the Lender of the Lender Priority Subscription Right, which may only be obtained at the time of such exercise;

12.1.4 the representations and warranties of the Borrower contained in any of the Transaction Documents shall remain true, accurate and correct before and after giving effect to the Subordinated Loan and the application of the proceeds therefrom as though made on and as of the Loan Date and the Borrower shall have performed all of its obligations to be performed under any of the Transaction Documents on or before the Loan Date;

12.1.5 no Default or Event of Default shall have occurred and be continuing or shall result from the disbursement of the Subordinated Loan or from the application of the proceeds therefrom;

12.1.6 since the date of this Agreement, there shall have been no change, nor any development or event involving a prospective change, which is materially adverse to the condition (financial or other), prospects, results of operations or general affairs of the Borrower;

12.1.7 there shall be no pending actions, suits or proceedings against or affecting the Borrower or any of its Material Subsidiaries or any of their properties, which are reasonably likely to be adversely determined and, if adversely determined, could reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect and, to the best of the Borrower's knowledge, no such actions, suits or proceedings shall be threatened or contemplated;

12.1.8 the Lender shall have received a certificate signed by a duly authorized officer of the Borrower certifying to the effects set forth in *Clauses 12.1.4*, *12.1.5*, *12.1.6* and *12.1.7*; and

12.1.9 the Lender shall have received the following additional documents in form and substance reasonably satisfactory to it:

(a) certified copies of (i) the charter and by-laws (or equivalent documents) of the Borrower, (ii) the resolutions of the board of directors of the Borrower authorizing and approving this Agreement and (iii) all documents evidencing other necessary corporate or shareholder action with respect to the transactions contemplated by this Agreement, including the resolution of the Extraordinary General Assembly of Shareholders of the Borrower approving (among other things) the reservation of the capital increase to be effected by the Borrower for purposes of permitting the conversion of the Subordinated Loan as contemplated hereby, in English, or in French or Arabic accompanied by English translations;

(b) a certificate signed by a duly authorized officer of the Borrower certifying the names and true signatures of the officers of the Borrower authorized to sign this Agreement;

(c) a written opinion of Abouhamad, Merheb, Nohra, Chamoun, Chedid, special Lebanese counsel to the Borrower;

(d) a written opinion of Elvinger, Hoss & Prussen, special Luxembourg counsel to the Lender;

(e) a written opinion of Dechert LLP special New York counsel to the Borrower; and

(f) evidence that (i) the Person so specified in *Clause 17.5* of this Agreement as an agent for service of process has for the Borrower in relation to this Agreement been appointed and (ii) such Person has accepted such appointment for a term extending at least one year beyond the scheduled Loan Maturity Date and has agreed to forward forthwith to the Borrower all legal process addressed to it.

13. REPRESENTATIONS AND WARRANTIES

13.1 Borrower's Representations and Warranties

The Borrower hereby represents and warrants to the Lender, and for the benefit of the Fiduciary and the Holders from time to time of the Fiduciary Notes, as follows:

13.1.1 Each of the Borrower and each of its Material Subsidiary is duly organized and validly existing under the laws of the jurisdiction of its organization, has all requisite power and authority to carry on its business as now conducted and is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required.

13.1.2 The execution, delivery and performance by the Borrower of this Agreement is within the Borrower's corporate powers and has been duly authorized by all necessary corporate and shareholder action, provided, however that it is understood that further approvals of the Extraordinary General Assembly of Shareholders of the Borrower may be required in connection with the exercise by the Lender of the Lender Priority Subscription Right, which may only be obtained at the time of such exercise. This Agreement has been duly executed and delivered by the Borrower and, subject to such approval, constitutes a legal, valid and binding obligation of the Borrower, enforceable in accordance with its terms, except as such enforceability may be limited by (i) bankruptcy, insolvency, reorganization, moratorium or similar laws of general applicability affecting the enforcement of creditors' rights and (ii) the application of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

13.1.3 The execution, delivery and performance of this Agreement by the Borrower do not require any consent, clearance, approval, authorization, order, registration or qualification of or with any court, governmental agency or regulatory body or the taking on closing of any other action or thing, other than any such consents and approvals as have already been obtained, taken or done, provided, however that it is understood further approvals of the Central Bank may be required in connection with the exercise by the Lender of the Lender Conversion Right or the Lender Priority Subscription Right.

13.1.4 The Borrower has heretofore furnished to the Lender its audited consolidated balance sheet and consolidated statements of income, stockholders' equity and cash flows as of and for the fiscal year ended 31 December 2011, with the opinion thereon of Ernst & Young pcc and Semaan, Gholam and Co. Such financial statements present fairly the consolidated financial position and consolidated results of operations and cash flows of the Borrower and its consolidated Subsidiaries as of the date and for the period in respect of which they 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 Lebanese Banking Guidelines including (but not limited to) the general accounting plan for banks in Lebanon. Since 31 December 2011, except to the extent otherwise disclosed to the Lender, no event or circumstance has occurred or is reasonably expected to occur that has had or could be reasonably expected to have a Material Adverse Effect.

13.1.5 There are no pending actions, suits or proceedings against or affecting the Borrower or any of its Material Subsidiaries or any of their properties, which are reasonably likely to be adversely determined and, if adversely determined, could reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect and, to the best of the Borrower's knowledge, no such actions, suits or proceedings are threatened or contemplated.

13.1.6 The Borrower and each Material Subsidiary are in compliance with all applicable laws, regulations and orders of any governmental authority, except where the failure to do so, individually or in the aggregate, has not resulted in or could not reasonably be expected to result in a Material Adverse Effect.

13.1.7 The execution, delivery and performance or observance by the Borrower of the terms of, and consummation by the Borrower of the transactions contemplated by, this Agreement do not and will not conflict with or result in a breach or violation of: (i) the charter, by-laws or similar documents of the Borrower; (ii) any material law, rule or regulation applicable to the Borrower or any other ordinance, decree, constitutional provision, regulation or other requirement of any applicable governmental authority (including, without limitation, any restriction on interest that may be paid by the Borrower); (iii) any order, writ, injunction, judgment or decree of any court or other tribunal binding on the Borrower; or (iv) any material agreement or instrument to which the Borrower is a party or to which it or any of its revenues, properties or assets may be subject, or result in the creation or imposition of any Encumbrance upon any of the revenues, properties or assets of the Borrower pursuant to any such agreement or instrument, except, in the case of each of (iii) or (iv), where the failure to do so has not resulted in or could not reasonably be expected to result in a Material Adverse Effect.

13.1.8 Each of the Borrower and each Material Subsidiary has paid its obligations, including tax liabilities, that had such obligations not been paid, could have resulted in a Material Adverse Effect before the same shall have become delinquent or in default, except where (i) the validity or amount thereof is being contested in good faith by appropriate proceedings and (ii) the Borrower or such Material Subsidiary has set aside on its books adequate reserves with respect thereto in accordance with IFRS.

13.2 Lender's Representations and Warranties

The Lender represents and warrants to the Borrower as follows:

13.2.1 The Lender is duly organized and validly existing under the laws of the jurisdiction of its organization, has all requisite power and authority to carry on its business as now conducted and is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required.

13.2.2 The execution, delivery and performance by the Lender of this Agreement is within the Lender's corporate power and has been duly authorized. This Agreement has been duly executed and delivered by the Lender and constitutes a legal, valid and binding obligation of the Lender, enforceable in accordance with its terms, except as such enforceability may be limited by (i) bankruptcy, insolvency, reorganization, moratorium or similar laws of general applicability affecting the enforcement of creditors' rights and (ii) the application of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

13.2.3 The execution, delivery and performance of this Agreement by the Lender do not require any consent, clearance, approval, authorization, order, registration or qualification of or with any court, governmental agency or regulatory body or any other action or thing required to be taken, fulfilled or done in the jurisdiction of its organization, except such as have been obtained.

14. COVENANTS OF THE BORROWER

14.1 Undertaking to Issue Byblos Bank Share and Byblos Bank GDRs

14.1.1 Upon any exercise of the Lender Conversion Right, the Borrower shall take all steps necessary to issue and deliver, or to cause the issuance and delivery of, the Byblos Bank Shares and Byblos Bank GDRs, if any, into which all or any portion of the Subordinated Loan shall be convertible upon such exercise within 30 days after receipt of the relevant Lender Conversion Notice, subject to the approval of the Central Bank, if applicable.

14.1.2 The Borrower hereby undertakes to the Lender that the Byblos Bank Shares (including Byblos Bank Shares underlying any Byblos Bank GDRs) issued by it in connection with any exercise of the Lender Conversion Right will be issued, fully paid-up in cash, free from all Encumbrances and ranking pari passu in all respects with all other Byblos Bank Shares.

14.2 Other Affirmative Covenants

So long as any principal amount of the Subordinated Loan or accrued and unpaid interest thereon remains outstanding, the Borrower covenants and agrees that:

14.2.1 The Borrower will:

(a) do or cause to be done all things necessary to preserve, renew and keep in full force and effect (i) its legal existence and (ii) except where failure to comply could not reasonably be expected to result in a Material Adverse Effect, the rights, licenses, permits, privileges and franchises material to the conduct of its business; and

(b) cause each Material Subsidiary to do or cause to be done all things necessary to preserve, renew and keep in full force and effect (i) its legal existence and (ii) except where the failure to comply could not reasonably be expected to result in a Material Adverse Effect, the rights, licenses, permits, privileges and franchises material to the conduct of its business;

except, in any case, to the extent permitted by *Clause 14.3*.

14.2.2 The Borrower will, and will cause each Material Subsidiary to, pay its obligations, including Tax liabilities, which, if not paid, could result in a Material Adverse Effect before the same shall become delinquent or in default, except where (i) the validity or amount thereof is being contested in good faith by appropriate proceedings and (ii) the Borrower or such Material Subsidiary has set aside on its books adequate reserves with respect thereto in accordance with IFRS.

14.2.3 The Borrower will, and will cause each Material Subsidiary to, comply in all material respects with all applicable laws, statutes, rules, regulations and orders of any governmental authority, including without limitation all applicable tax laws and applicable Lebanese Banking Guidelines.

14.2.4 The Borrower will, and will cause each Material Subsidiary to, keep adequate records and books of account, in which complete entries will be made in accordance with IFRS, and permit representatives of the Lender, upon reasonable prior notice and subject to the Lebanese Banking Secrecy Law of 1956 (as amended and in effect from time to time) and such other applicable banking secrecy/confidentiality laws and regulations as may be relevant to any of the Material Subsidiaries, examine, copy and make extracts from its books and records, to inspect any of its property and to discuss its business and affairs with its officers, all at such reasonable times and as often as reasonably requested by the Lender.

14.2.5 The Borrower will furnish to the Lender:

(a) as soon as available, and in any event by the date after the end of each fiscal year of the Borrower required by Lebanese Banking Guidelines, the consolidated balance sheet of the Borrower and its consolidated Subsidiaries as of the end of such year and the consolidated statements of income and cash flows of the Borrower and its consolidated Subsidiaries for such year, with the unqualified opinion thereon of independent public accountants of recognized standing reasonably acceptable to the Lender;

(b) as soon as available, and in any event by the date after the end of each semi-annual period of the Borrower required by Lebanese Banking Guidelines, consolidated unaudited interim statements of income, retained earnings and cash flow of the Borrower and the consolidated Subsidiaries for such fiscal half and for the portion of the fiscal year ended at the end of such fiscal half, and the related unaudited consolidated balance sheet as of the end of such fiscal half, setting forth in each case in comparative form the corresponding figures for the previous fiscal year;

(c) as soon as possible and in any event within five days after the occurrence of any Default, a statement of the chief financial officer of the Borrower setting forth details of such Default and the action which the Borrower has taken or proposes to take with respect thereto;

(d) prompt notice of all actions, investigations, suits or proceedings by or before any arbitrator or governmental authority now pending or, to the knowledge of the Borrower's Authorized Officers, threatened against the Borrower or any Material Subsidiary (i) that are reasonably likely to be adversely determined and, if adversely determined, could reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect or (ii) that involve this Agreement or the transactions contemplated hereby;

(e) all notices received by it relating to the transactions contemplated hereby; and

(f) such other information respecting the condition (financial or otherwise) or operations of the Borrower as the Lender may from time to time reasonably request, including, without limitation, such documentation or other evidence reasonably required for the Lender to carry out and be satisfied with the "know your customer" and anti-money laundering rules and regulations applicable to it, in all cases subject to the Lebanese Banking Secrecy Law of 1956 (as amended and in effect from time to time) and such other applicable banking secrecy/confidentiality laws and regulations as may be relevant to any of the Material Subsidiaries, to the extent applicable.

14.2.6 The Borrower will maintain, and cause its Material Subsidiaries to maintain, insurance with financially sound and reputable insurance companies, and with respect to property and risks of a character usually maintained by corporations engaged in the same or similar business and similarly situated, against loss, damage and liability of the kinds and in the amounts customarily maintained by such corporations.

14.2.7 The Borrower will perform, and cause its Material Subsidiaries to perform, in all material respects its obligations under all agreements and all other contracts and agreements to which it is a party, the failure of which to perform could reasonably be expected to result in a Material Adverse Effect.

14.2.8 The Borrower will, from time to time, perform any and all acts and execute any and all documents as may be reasonably necessary or as reasonably requested by the Lender in order to effect the purposes of this Agreement and to protect the interests of the Lender.

14.3 Negative Covenants

14.3.1 So long as any principal amount of, accrued and unpaid interest on or any other amounts (including Additional Amounts) in respect of the Subordinated Loan, or any other amounts payable hereunder, remain outstanding, the Borrower covenants and agrees that the Borrower shall not, without the consent of the Lender (which consent will not, in any event, be given without instruction to the Lender from a requisite majority of Holders), consolidate with or merge into any other Person or convey or transfer, in one transaction or a series of transactions, all or substantially all of its properties or assets to any other Person, unless:

(a) the Person formed by such consolidation or into which the Borrower is merged or the Person which acquires by conveyance or transfer all or substantially all of the properties and assets of the Borrower (the "**Successor Corporation**") shall agree in writing to assume the due and punctual payment of the principal of, interest and all other amounts, if any, on the Subordinated Loan;

(b) immediately after giving effect to such transaction, no Default or Event of Default with respect to the Subordinated Loan shall have occurred and be continuing;

(c) the Borrower shall have delivered to the Lender (i) a certificate signed by a duly Authorized Officer of the Borrower stating that such consolidation, merger, conveyance or transfer complies with this *Clause 14.3.1* and that all conditions precedent herein provided for relating to such transaction have been complied with and (ii) an opinion of an independent counsel reasonably approved by the Lender that the Successor Corporation has validly assumed the obligations to be assumed by it pursuant to *Clause 14.3.1* (a) above and that the Subordinated Loan will constitute a legal, valid and binding obligation of the Successor Corporation, enforceable against it in accordance with their terms, except as such enforceability may be limited by (i) bankruptcy, insolvency, reorganization, moratorium or similar laws of general applicability affecting the enforcement of creditors' rights and (ii) the application of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and

(d) the Successor Corporation shall expressly accept and agree to comply with the provisions of *Clause 9* by reference to any taxing jurisdiction to which the Successor Corporation with the same effect as if the Successor Corporation had been named as the borrower herein.

14.3.2 Upon any consolidation, merger, conveyance or transfer in accordance with this *Clause 14*, the Successor Corporation shall succeed to and be substituted for, and may exercise every right and power of, and shall be subject to every obligation of, the Borrower under the Subordinated Loan with the same effect as if the Successor Corporation had been named as the borrower herein.

15. EVENTS OF DEFAULT

If any one or more of the following events of default (each, an "**Event of Default**") shall have occurred and be continuing:

15.1.1 The Borrower fails to pay any amount, whether principal, interest (subject to the provisions of *Clause 4*) or any other amount, due in respect of the Subordinated Loan under this Agreement within five Business Days after such amount becomes due in accordance with the terms hereof, whether at maturity or otherwise; or

15.1.2 The Borrower defaults in the due performance or observance of any other material covenant, provision or agreement contained in this Agreement and such default continues for a period of 30 days after the Borrower has knowledge of such default, through written notice;

15.1.3 The Borrower or any Material Subsidiary defaults (i) in the payment when due (subject to any applicable grace period), whether by acceleration or otherwise, of any obligation in respect of Debt (other than the Subordinated Loan) having an amount, individually or in the aggregate, in excess of U.S.$10,000,000 or the equivalent in any other currency, or (ii) in the performance or observance of any other terms and conditions relating to any such Debt if the effect of such default is to cause such Debt to become due prior to its stated maturity, or to permit the holders of such an aggregate amount of Debt, or any trustee or agent for such holders, to cause such Debt to become due and payable prior to its stated maturity;

15.1.4 The Borrower commences or consents to any case or proceeding seeking to have an order for relief entered on its behalf as debtor or to adjudicate it as bankrupt or insolvent or seeking reorganization, liquidation, dissolution, winding-up, arrangement, composition or readjustment of its Debts or any other relief under any bankruptcy, insolvency, reorganization, liquidation, dissolution, arrangement, composition, readjustment of Debt or other similar act or law of any jurisdiction, domestic or foreign, now or hereafter existing; or the Borrower applies for or consents to the application for a receiver, custodian or trustee (other than any trustee appointed as a mortgagee or secured party in connection with the issuance by the Borrower of any indebtedness) of it or for all or a substantial part of its property; or the Borrower makes a general assignment for the benefit of creditors; or the Borrower takes any corporate action in furtherance of any of the foregoing; or

15.1.5 Any case or proceeding against the Borrower is commenced seeking to have an order for relief entered against it or to adjudicate it as bankrupt or insolvent or seeking reorganization, liquidation, dissolution, winding-up, arrangement, composition or readjustment of its debts or any other relief under any bankruptcy, insolvency, reorganization, liquidation, dissolution, arrangement, composition, readjustment of Debt or other similar act or law of any jurisdiction, domestic or foreign, now or hereafter existing; or a receiver, custodian or trustee of the Borrower or for all or a substantial part of its property is appointed in any such case or proceeding; and such case or proceeding results in the entry of an order for relief or a similar order against the Borrower which shall continue unstayed and in effect for a period of 60 consecutive days;

then the Lender may (upon instruction from the requisite majority of Holders), by written notice to the Borrower identifying the applicable Event(s) of Default, declare the principal amount of the Subordinated Loan, together with all other amounts (including, subject to *Clause 4.1*, any accrued and unpaid interest), if any, then due payable by the Borrower in respect thereof or otherwise pursuant to this Agreement, to be immediately due and payable, whereupon such principal amount and all other amounts, if any, shall become immediately due and payable; provided that, if an Event of Default described in sub-clause (d) or (e) of this *Clause 15* shall occur and be continuing, such principal amount and all other amounts, if any, shall become immediately due and payable, without requirement of any notice to the Borrower or any other act by the Lender. If the Event(s) of Default giving rise to any such declaration of acceleration are cured following any such declaration, the declaration may be rescinded by the Lender (although the Lender has no obligation to do so).

16. INDEMNITY

The Borrower hereby agrees to indemnify the Lender and each of its Affiliates and their respective officers, directors, employees, agents, advisors and representatives (each, an "**Indemnified Party**") from and against any and all claims, damages, losses, liabilities and expenses (including, without limitation, reasonable fees and disbursements of counsel), joint or several, that may be incurred by or asserted or awarded against any Indemnified Party, in each case arising out of or in connection with or relating to any investigation, litigation or proceeding or the preparation of any defense with respect thereto arising out of or in connection with or relating to this Agreement or the transactions contemplated hereby or any use made or proposed to be made with the proceeds of the Subordinated Loan, whether or not such investigation, litigation or proceeding is brought by the Borrower, any of its Shareholders or creditors, an Indemnified Party or any other Person, or an Indemnified Party is otherwise a party thereto, and whether or not any of the conditions precedent set forth in *Clause 12* are satisfied or the other transactions contemplated by this Agreement are consummated, except to the extent such claim, damage, loss, liability or expense is found in a final, non-appealable judgment by a court of competent jurisdiction to have resulted from such Indemnified Party's wilful misconduct, gross negligence or bad faith. The Borrower agrees that, except to the extent that such party is found in a final, non-appealable, judgment by a court of competent jurisdiction to have acted with gross wilful misconduct, gross negligence or bad faith, it shall not assert any claim against the Lender, any of its Affiliates or any of their respective directors, officers, employees, attorneys and agents, and, in any event, the Borrower agrees not to assert any claim against the Lender, any of its Affiliates or any of their respective directors, officers, employees, attorneys and agents on any theory of liability for consequential, indirect, special or punitive damages arising out of or otherwise relating to this Agreement or any of the transactions contemplated hereby or thereby or the actual or proposed use of the proceeds of the Subordinated Loan.

17. MISCELLANEOUS

17.1 Stamp Duties

17.1.1 The Borrower shall pay all stamp, registration and documentary taxes or similar charges (if any) imposed on the Borrower by any Person in Lebanon or Luxembourg which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement or admissibility into evidence of this Agreement or the establishment, maintenance or protection of the rights of the Lender under this Agreement.

17.1.2 The Borrower agrees that, if the Lender incurs a liability to pay any stamp, registration and documentary taxes or similar charges (if any) which may be payable or determined to be payable in any jurisdiction in connection with the execution, delivery, performance, enforcement or admissibility into evidence of this Agreement, the Borrower shall reimburse the Lender on demand an amount equal to such stamp or other documentary taxes or duties and shall indemnify the Lender against any and all costs and expenses properly documented which may be incurred or suffered by the Lender with respect to, or resulting from, any delay or failure by the Borrower to procure the payment of such taxes or similar charges.

17.2 Amendments and Waivers

No amendment or waiver of any provision of this Agreement, nor consent to any departure by either party therefrom, shall in any event be effective unless the same shall be in writing and signed by the Lender and the Borrower, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. This Agreement and the documents referred to herein constitute the entire agreement of the Parties with respect to the subject matter hereof and thereof.

17.3 Notices

17.3.1 Any communication or document to be delivered by one Person to another pursuant to this Agreement shall (unless that other Person has by 15 calendar days written notice specified another address) be made or delivered to that other person, addressed as follows:

(a) if to the Borrower:

Byblos Bank S.A.L.
Byblos Tower Building
Elias Sarkis Avenue
Achrafieh, Beirut
Lebanon

Attention: Alan Wanna

Facsimile: +961 1 339474
Telephone: +961 1 334920
E-mail: wanna@byblosbank.com.lb

(b) if to the Lender:

The Bank of New York Mellon (Luxembourg) S.A.
2-4 rue Eugene Ruppert
Vertigo Building - Polaris
L-2453 Luxembourg

Attention: Corporate Trust Services
Facsimile: +352 24 524 204

17.3.2 Any communication or document made or delivered by one person to another under or in connection with this *Clause 17.3* will only be effective:

(a) if by way of facsimile, when received in legible form;

(b) if by way of letter, when received; or

(c) if by electronic communication, only when actually received in readable form and only if it is addressed in such a manner as specified for such purpose,

in each case *provided* that it is received on a Business Day (failing which it shall be deemed to be received at the start of normal business hours in the place of delivery on the following Business Day).

17.3.3 The Lender further agrees to immediately deliver all notices received from the Borrower pursuant to this *Clause 17.3* to the Fiduciary, addressed as follows:

The Bank of New York Mellon (Luxembourg) S.A.
2-4 rue Eugene Ruppert
Vertigo Building - Polaris
L-2453 Luxembourg

Attention: Corporate Trust Services
Facsimile: + 352 24 524 204

17.4 Assignment

This Agreement shall inure to the benefit of and be binding upon the parties hereto, their respective successors and any permitted assignee or transferee of some or all of such party's rights or obligations under this Agreement. The Borrower may not assign or transfer any of its rights or obligations under this Agreement without the prior written consent of the Lender. The Lender may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of the Central Bank, the Borrower and the Holders, save as provided for by the Issuing and Fiscal Agency Agreement.

17.5 Choice of Law; Jurisdiction

This Agreement and all rights and obligations hereunder shall be governed by and construed in accordance with the laws of the State of New York applicable to contracts made and to be performed entirely within New York, subject to compliance with mandatory provisions of Lebanese law and regulations applicable to subordinated loans entered into by Lebanese banks, including Decision 6830 dated 6 December 1998. The Borrower hereby irrevocably (i) submits to the non-exclusive jurisdiction of any court of the State of New York or the Federal courts of the United States of America located in New York City, the Borough of Manhattan, solely for the purposes of any action, suit or proceeding arising in connection with this Agreement; (ii) waives, in any such action, suit or proceeding brought in a State or Federal court in New York City, to the fullest extent it may effectively do so, the defense of any inconvenient forum to the maintenance of any such action, suit or proceeding arising in connection with this Agreement; and (iii) appoints Law Debenture Corporate Services Inc. with its registered office at 400 Madison Avenue, 4th Floor, New York, New York, 10017, United States of America as its agent for service of process in connection with any such action, suit or proceeding. Nothing contained herein shall preclude the institution of legal proceedings in the courts of any other jurisdiction having or claiming jurisdiction in respect of this Agreement.

17.6 Waiver of Jury Trial

Each of the Borrower and the Lender hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Agreement or the transactions contemplated hereby.

17.7 Waiver of Immunity

To the extent that the Borrower may be or become entitled, in any jurisdiction in which judicial proceedings may at any time be commenced with respect to this Agreement, to claim for itself or its properties or revenues any immunity from suit, court jurisdiction, attachment prior to judgment, attachment in aid of execution of a judgment, execution of a judgment or from any other legal process or remedy relating to its obligations under this Agreement, and to the extent that in any such jurisdiction there may be attributed such an immunity (whether or not claimed), the Borrower hereby irrevocably agrees not to claim and hereby irrevocably waives such immunity to the fullest extent permitted by the laws of such jurisdiction.

17.8 Judgment Currency

This is an international loan transaction in which the specification of Dollars is of the essence, and the obligations of the Borrower under this Agreement to make payment to (or for account of) the Lender in Dollars shall not be discharged or satisfied by any tender or recovery pursuant to any judgment expressed in or converted into any other currency except to the extent that such tender or recovery results in the effective receipt by the Lender of the full amount of Dollars payable to the Lender under this Agreement. If for the purpose of obtaining judgment in any court it is necessary to convert a sum due hereunder in Dollars into another currency (in this *Clause 17.8* called the "**judgment currency**"), the rate of exchange that shall be applied shall be that at which in accordance with normal banking procedures the Lender could purchase such Dollars with the judgment currency on the Business Day immediately preceding the day on which such judgment is rendered. The obligation of the Borrower in respect of any such sum due from it to the Lender hereunder shall, notwithstanding the rate of exchange actually applied in rendering such judgment, be discharged only to the extent that on the Business Day following receipt by the Lender of any sum adjudged to be due hereunder in the judgment currency the Lender may in accordance with normal banking procedures purchase and transfer Dollars with the amount of the judgment currency so adjudged to be due; and the Borrower hereby, as a separate obligation and notwithstanding any such judgment, agrees to indemnify the Lender against, and to pay such Lender on demand, in Dollars, the amount (if any) by which the sum originally due to such Lender in Dollars hereunder exceeds the amount of the Dollars so purchased and transferred.

17.9 Severability

In case any provision in or obligation under this Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

17.10 Counterparts

This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when so executed shall constitute one and the same binding agreement between the parties.

17.11 Survival

The obligations of the Borrower and the Lender pursuant to *Clauses 3.3*, *4*, *5*, *6.9*, *8*, *9*, *16*, *17.1*, *17.3*, *17.5*, *17.6*, *17.7*, *17.8* and *17.9* shall survive the execution and delivery of this Agreement and the repayment of the Subordinated Loan.

17.12 English language

Except as otherwise provided, all documents to be delivered by any Party hereto pursuant to the terms hereof shall be in the English language or, if originally written in another language, shall be accompanied by an accurate English translation which any the Party hereto shall have the right to rely on for all purposes under this Agreement.

<u>Exhibit A</u>

FORM OF INSTRUCTION TO ISSUE AND BORROWING NOTICE

[•] 2012

The Bank of New York Mellon (Luxembourg) S.A.
2-4 rue Eugene Ruppert
Vertigo Building - Polaris
L-2453 Luxembourg
Attention: Corporate Trust Services
Facsimile: +352 24 524 204

Dear Sirs:

Reference is hereby made to that certain Subordinated Loan Agreement dated as of [21] December 2012 between The Bank of New York Mellon (Luxembourg) S.A., as lender (the "**Lender**"), and Byblos Bank S.A.L., a joint stock company incorporated under the laws of Lebanon, as borrower (the "**Borrower**"). Capitalized terms used herein without otherwise being defined shall have the respective meanings assigned thereto in the Subordinated Loan Agreement.

The Borrower confirms that it has satisfied the conditions precedent pursuant to *Clause 12* of the Subordinated Loan Agreement and hereby instructs the Fiduciary to issue the Fiduciary Notes in an aggregate nominal amount of U.S.$[300],000,000 in accordance with the Issuing and Fiscal Agency Agreement dated [21] December 2012 among The Bank of New York Mellon (Luxembourg) S.A., the Borrower and The Bank of New York Mellon. The Fiduciary Notes shall be issued in the form of and shall be evidenced, upon issuance, by a single registered global note and shall have the same terms and conditions, which shall be substantially in the form of and as set forth in the Fiduciary Contract and Terms and Conditions of the Fiduciary Notes.

The Borrower hereby gives notice to the Lender of its intention to borrow a loan (the "**Subordinated Loan**") from the Lender, on the terms and subject to the conditions set forth in the Subordinated Loan Agreement, in the aggregate principal amount, on the Loan Date and with the Loan Maturity Date set forth below.

Principal Amount:	U.S.$[300],000.000
Loan Date:	[21] December 2012
Loan Maturity Date:	The penultimate Business Day falling on or before the tenth anniversary of the Loan Date

Subject to the satisfaction of the conditions set forth in *Clause 12* of the Subordinated Loan Agreement, on the Loan Date, the Lender is hereby requested to make available to the Borrower the Subordinated Loan in the principal amount and with the Loan Maturity Date specified above; it being understood that the Subordinated Loan shall be made available as requested hereby by the application by Byblos Invest Bank s.a.l., in its capacity as Placement Agent for the offering of the Fiduciary Notes, of the subscription monies received by it on behalf of the purchasers of Fiduciary Notes.

The Borrower hereby certifies that, as of the date of this Instruction to Issue and Borrowing Notice, the representations and warranties made by the Borrower in *Clause 13.1* of the Subordinated Loan Agreement are (and, as of the Loan Date specified above, shall be) true and complete.

IN WITNESS WHEREOF, the Borrower has caused this Notice to be executed and delivered by its duly authorized representative as of the date first written above.

BYBLOS BANK S.A.L.

By:____________________________

Name:
Title:

<u>Exhibit B</u>

FORM OF LENDER CONVERSION EXERCISE NOTICE

Re: Lender Conversion Right pursuant to *Clause 6* of the Subordinated Loan Agreement dated as of [21] December 2012 (the "**Subordinated Loan Agreement**") between Byblos Bank S.A.L. (the "**Borrower**") and The Bank of New York Mellon (Luxembourg) S.A. (the "**Lender**") relating to a subordinated loan in an aggregate principal amount of U.S.$[300],000,000 (the "**Subordinated Loan**")

To: Byblos Bank S.A.L.
Attention: Alan Wanna
Facsimile: +961 1 339474

Cc: The Bank of New York Mellon (Luxembourg) S.A. (the "**Fiduciary**")
Attention: Corporate Trust Services
Facsimile: +352 24 524 204

The Bank of New York Mellon
Attention: Corporate Trust Administration
Facsimile: +44 20 7964 2532

Capitalized terms used but not defined herein have the meanings assigned to them in the Subordinated Loan Agreement to which this Lender Conversion Exercise Notice is attached.

A. Exercise of Conversion Rights

The undersigned hereby elects, pursuant to *Clause 6* of the Subordinated Loan Agreement, to convert the principal amount of the Subordinated Loan identified below (together with any unpaid Interest Shortfall relating thereto) into Byblos Bank Shares or Byblos Bank GDRs in the proportions identified below:

U.S.$ principal amount of the Subordinated Loan to be converted into Byblos Bank Shares

U.S.$ principal amount of the Subordinated Loan to be converted into Byblos Bank GDRs

The undersigned further understands that, subject to the terms and conditions of the Subordinated Loan Agreement, the undersigned shall be entitled to receive:

- (to the extent requested) that number of Byblos Bank Shares and that number of Byblos Bank GDRs, as shall be determined by dividing (i) the principal amount of the Subordinated Loan to be converted into Byblos Bank Shares (as specified above) or into Byblos Bank GDRs (as specified above), respectively, together, in each case, with any unpaid Interest Shortfall relating to such principal amount to the extent accrued in respect of the two-year period ending on such Conversion Date, whether or not the Borrower's obligation to pay such Interest Shortfall (or any portion thereof), in cash, has been cancelled pursuant to *Clause 4.1* of the Subordinated Loan Agreement (but not any other accrued and unpaid interest thereon or any other amounts (including any Additional Amounts) payable by the Borrower in respect thereof or otherwise pursuant to the Subordinated Loan Agreement), by (ii) the applicable Conversion Price corresponding to Byblos Bank Shares or Byblos Bank GDRs, as the case may be; and

- (*without duplication*) to the extent that the Borrower has Sufficient Available Profit for the Relevant Quarter for the purpose, an amount, in cash, in the manner set forth in *Clause 10* of the Subordinated Loan Agreement, equal to all accrued and unpaid interest, if any, on the principal amount of the Subordinated Loan to be converted as specified in this Lender Conversion Exercise Notice (other than any unpaid Interest Shortfall in respect of which the Bank's obligation to pay such Interest Shortfall in cash, has been cancelled pursuant to *Clause 4.1*), together with all other amounts (including any Additional Amounts), if any, payable by the Borrower in respect thereof.

In addition, the undersigned acknowledges that, upon conversion of the principal amount of the Subordinated Loan specified in this Lender Conversion Exercise Notice, such principal amount of the Subordinated Loan, together with the amount of any unpaid Interest Shortfall converted therewith, shall be deemed to have been repaid or paid, as the case may be, and, to the extent thereof, all obligations of the Borrower in respect of the Subordinated Loan, including all payment obligations, shall be cancelled.

Except to the extent that the Subordinated Loan is cancelled as expressly provided in this Lender Conversion Exercise Notice, the remaining principal amount of the Subordinated Loan and any accrued but unpaid interest thereon (including, without limitation, subject to *Clause 4* of the Subordinated Loan Agreement, any unpaid Interest Shortfall) and all other amounts (including any Additional Amounts), if any, in respect thereof shall remain outstanding and be due and payable and no rights of the Lender in respect thereof shall be affected.

B. Delivery of Byblos Bank Shares and/or Byblos Bank GDRs

If the undersigned has requested Byblos Bank Shares upon the conversion of all or a portion of the Subordinated Loan, the undersigned hereby acknowledges that the Byblos Bank Shares, which are required to be delivered to Holders under this Lender Conversion Exercise Notice, shall (subject to the approval of the Central Bank, if applicable) be registered in the books maintained by Midclear in the name of the relevant Holder or Holders, which have caused the undersigned to submit this Lender Conversion Exercise Notice, and that such Byblos Bank Shares will be held in the Midclear account of Byblos Bank S.A.L., subject to standard custody arrangements between each such Holder and Byblos Bank S.A.L. (in its capacity as a participant in Midclear), respectively, pursuant to which (among other things) distributions (if any) in respect of such Byblos Bank Shares will be made to Byblos Bank S.A.L. (in its capacity as a participant in Midclear) for the benefit of such Holder; it being understood that any Holder may, at any time, request that Byblos Bank S.A.L. arrange for the transfer of the custody of all or a portion of the Byblos Bank Shares owned by such Holder to another participant in Midclear. The details of each relevant Holder for the purposes of this paragraph are attached hereto. The undersigned confirms that each such Holder has undertaken to provide to it all such further information concerning such Holder as may be necessary in connection with the undersigned's exercise, on such Holder's behalf, of the Lender Conversion Right and the undersigned shall, in turn, provide such information to the Borrower or at its direction.

If the undersigned has requested Byblos Bank GDRs upon the conversion of all or a portion of the Subordinated Loan, the undersigned hereby instructs the Borrower to deliver the Byblos Bank GDRs, which are required to be delivered to Holders under this Lender Conversion Exercise Notice, in such number(s) and to such account(s) with the Clearing Systems as specified below:

Number of Byblos Bank GDRs	Clearing System Account
_________________	[Euroclear] [Clearstream] Account No. _________
_________________	[Euroclear] [Clearstream] Account No. _________
_________________	[Euroclear] [Clearstream] Account No. _________

C. No fractional interests

The undersigned hereby acknowledges that neither fractional Byblos Bank Shares nor fractional Byblos Bank GDRs will be transferred upon any conversion of the Subordinated Loan and that no cash will be paid in lieu thereof.

Dated: Signature:

SHARE CAPITAL AND PRINCIPAL SHAREHOLDERS

Share Capital

As at 30 June 2012, the Bank's share capital was LBP 689,113 million, consisting of (i) of 565,515,040 Common Shares, with a par value LBP 1,210 per share, all of which are fully paid-up; (ii) 2,000,000 Series 2008 Preferred Shares, with a par value of LBP 1,210 per share, which were issued on 29 August 2008 at a price of, and may, subject to certain conditions, be redeemed by the Bank at, U.S.$100.00 per share, all of which are fully paid-up; and (iii) 2,000,000 Series 2009 Preferred Shares, with a par value of LBP 1,210 per share, which were issued on September 4, 2009 at a price of U.S.$96.00 per share, and may, subject to certain conditions, be redeemed by the Bank at a price of U.S.$100.00 per share, all of which are fully paid-up.

All the Bank's Common Shares and preferred shares are listed on the BSE. GDRs, representing 11% of the Common Shares, have been issued under the GDR Program and are admitted to trading on the London Stock Exchange's Regulated Market.

Principal Shareholders

Byblos Invest Holding S.A. (Luxembourg) is the largest shareholder of the Bank, with an ownership interest, as at the date of this Offering Circular, constituting 29.12% 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 25.81% of the share capital of Byblos Invest Holding.

The Bank of New York Mellon, acting as depositary under the GDR Program, holds 11.29% of the outstanding paid-up capital of the Bank.

The table below sets forth the principal shareholders of the Bank as at the date of this Offering Circular, the number of shares held by each and the percentage ownership interests represented thereby. All other shareholders of the Bank, which numbered approximately 5,000 as at the date of this Offering Circular, each owns less than 1.00% of the Bank's total outstanding share capital (including the Common Shares, the Series 2008 Preferred Shares and the Series 2009 Preferred Shares).

Name	**Total Shares**[(1)]	**Percentage Ownership**[(1)]
		(%)
Byblos Invest Holding S.A. (Luxembourg)[(2)]	165,869,128	29.12
The Bank of New York Mellon[(3)]	64,270,800	11.29
International Finance Corporation (IFC)[(4)]	47,619,047	8.36
Anasco Holding Company S.A.[(5)]	26,387,602	4.63
Dr. François Semaan Bassil	20,350,411	3.57
Frabas Corporation[(6)]	16,900,427	2.97
Mr. Rami Rifaat El Nimr	12,874,711	2.26
Vectra Holding S.A.L[(7)]..	9,118,832	1.60
Mr. Ali Hassan Dayekh.	8,739,379	1.53
Société De Promotion Et De Participation Pour La Coopération Economique (Proparco)[(8)]	6,818,182	1.20
Agence Française de Développement[(9)]	6,818,181	1.20
BLOM Invest S.A.L.	5,930,787	1.04

Notes:

(1) Percentage of total share capital consisting of 565,515,040 Common Shares, 2,000,000 Series 2009 Preferred Shares and 2,000,000 Series 2008 Preferred Shares as at the date of this Offering Circular.

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

(3) The Bank of New York Mellon is the depositary bank for the GDR Program.

(4) The International Finance Corporation (IFC) became a shareholder of the Bank in January 2010.

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

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

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

(8) *Société De Promotion Et De Participation Pour La Coopération Economique* (Proparco) became a shareholder of the Bank in April 2010.

(9) *Agence Française de Développement*, the parent company of *Société De Promotion Et De Participation Pour La Coopération Economique* (Proparco), acquired 50% of Proparco's shareholding in the Bank in 2011.

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 holders of Common Shares has voting rights different from any other holders of Common Shares.

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 Lebanese Code of Commerce (see "*Overview of the Bank—Lending Policies—Lending Limits*") and must be authorized by a General Meeting of Shareholders in accordance with Articles 158 and 159 of the Lebanese Code of Commerce, Article 152 of the Code of Money and Credit and Central Bank Decision № 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 № 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% of tier I capital.

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 2010, 31 December 2011 and 30 June 2012:

	As at 31 December		As at 30 June 2012
	2010	**2011**	
		(LBP millions)	
	(audited)		*(unaudited)*
Loans and advances (net of provisions)	10,957	16,603	14,883
Deposits	112,396	165,826	203,394
Other credit balances	764	215	235
Interest income on loans and advances	488	267	291
Interest expense on deposits	8,386	3,242	5,122

As at 30 June 2012, 1,582 employees of the Bank had been granted loans from the Bank, which remained outstanding. All such loans were extended on standard market terms.

LEBANESE LAWS AND REGULATIONS GOVERNING THE ENTRY INTO OF SUBORDINATED LOANS BY COMMERCIAL BANKS

The entry by Lebanese commercial banks into subordinated loans, such as the Subordinated Loan, is governed by Central Bank Decision № 6830 dated 6 December 1998.

Decision № 6830, which governs subordinated loans and bonds entered into, or issued, by Lebanese Banks provides, inter alia, that, in order to be included in the issuing bank's Tier II Capital, which requires, in any event, the prior approval of the Central Bank, (i) subordinated loans or bonds must have a final maturity of at least five years; (ii) the issuing bank must publish semi-annual audited financial statements in accordance with standards set forth by the Banking Control Commission; (iii) any prepayment of principal in respect of subordinated loans or bonds is subject to the prior approval of the Central Bank; (iv) interest accrued in respect of the subordinated loans or bonds must be paid out of available profit; and (iv) the proceeds from the issuance of the subordinated loans or bonds, which may be counted as Tier II Capital, may not exceed a maximum limit of 50% of the issuing bank's Tier I Capital.

The Central Bank is expected to grant its approval to enter into the Subordinated Loan and to account for the proceeds therefrom as Tier II Capital on or around 19 December 2012.

SELLING RESTRICTIONS

The Fiduciary Notes have not been and will not be registered under the laws of any jurisdiction, nor has any other action been taken, nor will any action be taken, by the Fiduciary, the Bank or the Placement Agent, or any other person, that would permit a public offering of the Fiduciary Notes or the possession, circulation or distribution of this Offering Circular, or any amendment or supplement hereto, or any other offering material relating to the Fiduciary, the Bank or the Fiduciary Notes, in any country or jurisdiction where action for any such purpose may be required. This Offering Circular has not been approved by, and will not be submitted for approval to, any competent authority, regulator or stock exchange for the purposes of the Prospectus Directive or otherwise. The offer and sale of Fiduciary Notes, and the delivery of this Offering Circular, are restricted by law in certain jurisdictions and Fiduciary Notes may not be offered or sold, and this Offering Circular may not be distributed, in any jurisdiction under circumstances where such offer, sale or distribution would be prohibited or restricted by law.

Without limiting the foregoing, prospective purchasers of Fiduciary Notes should be aware of the following restrictions:

European Economic Area

In relation to each Member State of the EEA that has implemented the Prospectus Directive (each such Member State, a "**Relevant Member State**"), an offer of the Fiduciary Notes to the public in that Relevant Member State may not be made prior to the publication of a prospectus in relation to the Fiduciary Notes, which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from (and including) the Relevant Implementation Date, make an offer of Fiduciary Notes to the public in that Relevant Member State at any time:

(a) to any legal entity, which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 100, or if the relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Placement Agent; or

(c) in any other circumstances that do not require the publication by the issuer of a prospectus or obtaining any approvals pursuant to Article 3(2) of the Prospectus Directive,

provided that no such offer of the Fiduciary Notes referred to in (i) to (iii) above shall require the Fiduciary, the Bank or the Placement Agent to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression "**an offer of Fiduciary Notes to the public**" in relation to any of the Fiduciary Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Fiduciary Notes to be offered so as to enable an investor to decide to purchase or subscribe the Fiduciary Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

United Kingdom

The Placement Agent has agreed: (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue of any Fiduciary Notes in circumstances in which section 21(1) of the FSMA does not apply to the Bank, and (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Fiduciary Notes in, from or otherwise involving the United Kingdom.

United States of America

The Fiduciary Notes have not been and will not be registered under the Securities Act or any applicable state securities laws and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, any U.S. person, except in accordance with Regulation S under the Securities Act or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Lebanon

The marketing, offering, distribution and sale of the Fiduciary Notes in Lebanon shall comply with all applicable laws and regulations in Lebanon, in particular, Law № 234 dated 10 June 2000 and Central Bank Basic Decision № 7493 dated 24 December 1999, as amended.

Luxembourg

The Fiduciary Notes may not be offered to the public in Luxembourg, except after the date of publication of a prospectus in relation to those international units, which have been approved by the *Commission de Surveillance du Secteur Financier* (*CSSF*) in Luxembourg or, where appropriate, by the competent authority of another relevant European Union Member State and notified to the CSSF, all in accordance with the law dated 10 July 2005 on prospectuses for securities (the "**Law on Prospectuses for Securities**").

The Fiduciary Notes may be offered, at any time, to qualified investors within the meaning of Article 2. 1. j) of the Law on Prospectuses for Securities or in any other circumstances, which do not require the publication of a prospectus pursuant to Article 5.2 of the Law on Prospectuses for Securities.

TAXATION

General Taxation Information

The following information provided below does not purport to be a complete summary of the tax law and practice currently available. Potential purchasers of Fiduciary Notes are advised to consult their own tax advisers as to the tax consequences of transactions involving Fiduciary Notes. Purchasers or sellers of Fiduciary Notes may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of transfer, in addition to the issue price or purchase price (if different) of the Fiduciary Notes.

Transactions involving Fiduciary Notes (including purchases, transfer or redemption), the accrual or receipt of any interest payable on the Fiduciary Notes and the death of a holder of any Note may have tax consequences for potential purchasers which may depend, amongst other things, upon the tax status of the potential purchaser and may relate to stamp duty, stamp duty reserve tax, income tax, corporation tax, capital gains tax and inheritance tax.

Under Condition 3.1, the Fiduciary shall not be liable for or otherwise obliged to pay any tax, duty, withholding or other payment which arises in relation to transactions involving the Fiduciary Notes or any payment due to the Fiduciary under the Subordinated Loan (the "**Fiduciary Assets**"). All payments made by the Fiduciary shall be made subject to any such tax, duty, withholding or other payment. The Fiduciary will not be obliged to make any application for treaty relief or claim a refund of tax in relation to any tax withheld in relation to any income and gains.

Luxembourg Taxation Considerations

The following information is of a general nature only and is based on the laws presently in force in Luxembourg. It does not purport to be a comprehensive description of all tax implications that might be relevant to an investment decision. It is included herein solely for information purposes. It is not intended to be, nor should it construed to be, legal or tax advice. Prospective purchasers of the Fiduciary Notes should consult their professional advisers with respect to particular circumstances and the effects of state, local or foreign laws to which they may be subject. Holders who are in doubt as to their tax positions should consult their professional advisers. However, investors should note that under Luxembourg law the Fiduciary is not regarded as the beneficial owner of the Fiduciary Assets. Therefore it is possible that the Holders' tax treatment will depend on the type of income and gains arising from the Fiduciary Assets and the Holders' proportionate share of such income and gains. The Fiduciary has no obligation to inquire as to tax residence or status of any Holder or the tax treatment of such income and gains in the hands of such Holders. In particular, the Fiduciary will not be obliged to make any application for treaty relief or claim a refund of tax in relation to tax withheld at source in relation to such income and gains.

Please be aware that the residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a tax, duty, levy, impost or other charge or withholding of a similar nature refers to Luxembourg tax law and concepts only. Also, please note that a reference to Luxembourg income tax encompasses corporate income tax (impôt sur le revenu des collectivités), municipal business tax (impôt commercial communal), a solidarity surcharge (impôt de solidarité) as well as personal income tax (impôt sur le revenu) generally. Investors may further be subject to net wealth tax (impôt sur la fortune) as well as other duties, levies or taxes. Corporate income tax, municipal business tax, as well as the solidarity surcharge, invariably apply to most corporate taxpayers resident of Luxembourg for tax purposes. Individual taxpayers are generally subject to personal income tax and the solidarity surcharge. Under certain circumstances, where an individual taxpayer acts in the course of the management of a professional or business undertaking, municipal business tax may apply as well.

Luxembourg tax residency of Holders

A Holder will not become resident, or be deemed to be resident, in Luxembourg by reason only of the holding, exchange or conversion of Fiduciary Notes, or the execution, performance, delivery or enforcement of Fiduciary Notes.

Withholding Tax

For the purposes of this section, the terms "Paying Agent", "Interest" and "Beneficial Owner" shall mean respectively "*agent payeur*", "*intérêt*" and "*bénéficiaire effectif*" as these terms are defined in the Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments (the "**EU Savings Directive**") and in the Luxembourg law of 21 June 2005.

Subject to the exceptions below, as a general rule, there is no withholding tax for Luxembourg residents and non-resident Holders on payments of interest (including accrued but unpaid interest) in respect of the Fiduciary Notes, nor is any

Luxembourg withholding tax payable on payments received upon repayment of the principal or upon an exchange of debt securities.

Non-resident Holders

In certain circumstances, withholding tax may apply to payments of interest pursuant to the EU Savings Directive, *i.e.*, mainly for payments made to individuals. Under the EU Savings Directive, each EU Member State (each, a "**Member State**") generally must provide to the tax authorities of another Member State details of interest payments or similar income paid by a Paying Agent within its jurisdiction to an entity which is not a legal person and whose profits are not taxed under the general arrangements for business taxation and which is not, or has not opted to be treated as, an "Undertaking for Collective Investment in Transferable Securities" recognized in accordance with Directive 85/611/EC (as replaced by Directive 2009/65/EC) (a "**Residual Entity**") or to or for an individual (the "**Beneficial Owner**") established or resident in the other Member State, although certain Member States (including Luxembourg) are entitled to apply a withholding tax system during the transitional period. The transitional period commenced on 1 July 2005 and will terminate at the end of the first full fiscal year after the EU and certain non-EU states reach an agreement on the exchange of such information. The EU Savings Directive was implemented into Luxembourg law by a law of 21 June 2005, which entered into effect as of 1 July 2005. Due to certain bilateral agreements, ratified by a law of 21 June 2005, relevant dependant and associated territories and certain non-EU States also apply similar measures with effect from the same date.

The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

According to the laws of 21 June 2005 and bilateral agreements concluded by Luxembourg with relevant dependant and associated territories and certain non-EU States, during the transitional period, a Luxembourg Paying Agent will be required to withhold taxes on Interest payments to Residual Entities or to, or for the benefit of, Beneficial Owners established or resident in a Member State other than Luxembourg, or in any of the relevant dependant and associated territories at a rate of 35% (applicable since 1 July 2011), unless the Beneficial Owner has opted for an exchange of information or has provided a tax certificate.

No Additional Amounts will be payable with respect to these withholding taxes. See "*Fiduciary Contract and Terms and Conditions of Fiduciary Notes—Taxation*".

Resident Holders

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005 introducing a final withholding on the payment of certain savings income in the form of interest, as amended (the "**December 2005 Law**") mentioned below, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident Holders, nor on accrued but unpaid interest in respect of Fiduciary Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Fiduciary Notes held by Luxembourg resident Holders.

Under the December 2005 Law, payments of interest or similar income made or secured by a paying agent established in Luxembourg to, or for the benefit of, an individual beneficial owner who is resident of, or a Residual Entity established in, Luxembourg will be subject to a withholding tax of 10%. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Fiduciary Notes/Fiduciary Assets coming within the scope of the Law would be subject to withholding tax of 10%.

Income Taxation

Non-resident Holders

A non-resident Holder, not having a permanent establishment or permanent representative in Luxembourg to which such Fiduciary Notes/Fiduciary Assets are attributable, is not subject to Luxembourg income tax on interest accrued or received, redemption premiums or issue discounts, under the Fiduciary Notes/Fiduciary Assets. A gain realized by such non-resident Holder on the sale or disposal, in any form whatsoever, of the Fiduciary Notes/Fiduciary Assets is further not subject to Luxembourg income tax. A non-resident corporate Holder or an individual Holder acting in the course of the management of a professional or business undertaking, who has a permanent establishment or permanent representative in Luxembourg to which such Fiduciary Notes/Fiduciary Assets are attributable, is subject to Luxembourg income tax on interest accrued or received, redemption premiums or issue discounts, under the Fiduciary Notes/Fiduciary Assets and on any gains realized upon the sale or disposal, in any form whatsoever, of the Fiduciary Notes/Fiduciary Assets.

Resident Holders

A corporate Holder must include any interest accrued or received, any redemption premium or issue discount, as well as any gain realized on the sale or disposal, in any form whatsoever, of the Fiduciary Notes/Fiduciary Assets, in its taxable income for Luxembourg income tax assessment purposes. The same inclusion applies to an individual Holder, acting in the course of the management of a professional or business undertaking.

A Holder that is governed by the law of 11 May 2007 on family estate management companies, or by the law of 17 December 2010 on undertakings for collective investment, as amended, or by the law of 13 February 2007 on specialized investment funds, as amended, is neither subject to Luxembourg income tax in respect of interest accrued or received, any redemption premium or issue discount, nor on gains realized on the sale or disposal, in any form whatsoever, of the Fiduciary Notes/Fiduciary Assets.

An individual Holder, acting in the course of the management of his/her private wealth, is subject to Luxembourg income tax in respect of interest received, redemption premiums or issue discounts, under the Fiduciary Notes/Fiduciary Assets, except if (i) withholding tax has been levied on such payments in accordance with the Law, or (ii) the individual Holder has opted for the application of a 10% tax in full discharge of income tax in accordance with the Law, which applies if a payment of interest has been made or ascribed by a paying agent established in a EU Member State (other than Luxembourg), or in a Member State of the European Economic Area (other than a EU Member State), or in a state that has entered into a treaty with Luxembourg relating to the EU Savings Directive. A gain realized by an individual Holder, acting in the course of the management of his/her private wealth, upon the sale or disposal, in any form whatsoever, of Fiduciary Notes/Fiduciary Assets is not subject to Luxembourg income tax, provided this sale or disposal took place more than six months after the Fiduciary Notes/Fiduciary Assets were acquired. However, any portion of such gain corresponding to accrued but unpaid interest income is subject to Luxembourg income tax, except if tax has been levied on such interest in accordance with the December 2005 Law.

Net Wealth Taxation

A corporate Holder, whether it is resident of Luxembourg for tax purposes or, if not, it maintains a permanent establishment or a permanent representative in Luxembourg to which such Fiduciary Notes/Fiduciary Assets are attributable, is subject to Luxembourg wealth tax on such Fiduciary Notes/Fiduciary Assets, except if the Holder is governed or by the law of 11 May 2007 on family estate management companies, or by the laws of 17 December 2010 on undertakings for collective investment, as amended, or by the law of 13 February 2007 on specialized investment funds, as amended, or is a securitization company governed by the law of 22 March 2004 on securitization, as amended, or a capital company governed by the law of 15 June 2004 on venture capital vehicles, as amended.

An individual Holder, whether he/she is resident of Luxembourg or not, is not subject to Luxembourg wealth tax on such Fiduciary Notes/Fiduciary Assets.

Inheritance tax

Where a Holder is a resident of Luxembourg for tax purposes at the time of his death, the Fiduciary Notes/Fiduciary Assets are included in his taxable estate for inheritance tax assessment purposes.

Gift Tax

Gift tax may be due on a gift or donation of Fiduciary Notes/Fiduciary Assets if embodied in a Luxembourg deed or recorded in Luxembourg.

Other taxes

Neither the issuance nor the transfer of Fiduciary Notes will give rise to any Luxembourg stamp duty, value added tax, issuance tax, registration tax, transfer tax or similar taxes or duties.

Conversion of Fiduciary Notes/Fiduciary Assets in exchange for new or existing Byblos Bank Shares or Byblos Bank GDRs

Tax neutrality regime related to the conversion/exchange of Fiduciary Notes/Fiduciary Assets for new or existing Byblos Bank Shares or Byblos Bank GDRs

As a general rule, a conversion or exchange of securities is considered for Luxembourg tax purposes as a sale made at fair market value of the securities, followed by the acquisition of the securities received in exchange or received on conversion.

Capital gains realized upon a conversion or exchange of Fiduciary Notes/Fiduciary Assets for new or existing Byblos Bank Shares or Byblos Bank GDRs by a Luxembourg resident individual Holder acting in the course of the management of their private wealth, are not subject to income tax, unless the Fiduciary Notes/Fiduciary Assets are converted within six months of their acquisition.

The conversion or exchange of the Fiduciary Notes/Fiduciary Assets for Byblos Bank Shares or Byblos Bank GDRs may be performed in tax neutrality by Luxembourg-resident corporate Holders and resident individuals acting in the course of the management of their business activities. The price and acquisition date of the Byblos Bank Shares or Byblos Bank GDRs received upon conversion or exchange of Fiduciary Notes/Fiduciary Assets will, for tax purposes, correspond to the price and acquisition date of the converted or exchanged Fiduciary Notes/Fiduciary Assets.

Renunciation of the tax neutrality regime

The tax neutrality regime is optional and if Holders renounce such tax neutrality, the following tax treatment applies:

Capital gains realized upon the conversion or exchange of Fiduciary Notes/Fiduciary Assets for new or existing Byblos Bank Shares or Byblos Bank GDRs by Luxembourg-resident individual Holders, who act in the course of their business activities are subject to income tax on the difference between the value of Byblos Bank Shares or Byblos Bank GDRs and the lower of the cost or book value of the converted or exchanged Fiduciary Notes/Fiduciary Assets.

Except where the Holder is tax exempt, capital gains realized upon the conversion or exchange of notes for Byblos Bank Shares or Byblos Bank GDRs by Luxembourg corporate Holders or non-resident corporate Holders, which have a permanent establishment in Luxembourg, with which the holding of the Fiduciary Notes/Fiduciary Assets is connected, are subject to corporate tax on the difference between the value of the Byblos Bank Shares or Byblos GDRs and the lower of the cost or book value of the converted or exchanged Fiduciary Notes/Fiduciary Assets.

Taxation of Shareholders

Luxembourg tax residency of the Holders as holders of Byblos Bank Shares or Byblos Bank GDRs

A Holder will not become resident, or be deemed to be resident, in Luxembourg by reason only of the acquisition, holding, sale or disposal of Byblos Bank Shares or Byblos Bank GDRs.

Luxembourg withholding tax on dividends paid on Byblos Bank Shares

Dividends distributed by the Bank will not, in principle, be subject to Luxembourg withholding tax, as long as the Bank is not resident of Luxembourg for tax purposes.

Luxembourg income tax on dividends paid on Byblos Bank Shares or Byblos Bank GDRs and capital gains

Luxembourg resident individual Holders as holders of Byblos Bank Shares or Byblos Bank GDRs

For Luxembourg resident individuals, income in the form of dividends or capital gains derived from the Byblos Bank Shares or Byblos Bank GDRs will normally be subject to individual income tax at the applicable progressive rate (the top marginal tax rate is 39% for the year 2012), plus an unemployment fund contribution levied thereon at the rate of up to 6%. Under the proposed budget for the year 2013, the rate of the unemployment fund contribution is to be increased with effect as of 1 January 2013. Such dividends may benefit from the 50% exemption set forth in Article 115(15a) of the Luxembourg income tax law, subject to fulfillment of the conditions set out therein. Capital gains will only be taxable if they are realized on a sale of Byblos Bank Shares or Byblos Bank GDRs, which takes place before their acquisition or within the first six months following their acquisition, or if the relevant holder has held (together with his or her spouse and underage children) directly or indirectly more than 10% of the capital of the Bank at anytime during the past five years.

Luxembourg-resident corporate Holders as holders of Byblos Bank Shares or Byblos Bank GDRs

For Luxembourg-resident corporate holders, income in the form of dividends or capital gains derived from Byblos Bank Shares or Byblos Bank GDRs will be subject to corporate income tax and municipal business tax. The combined rate for these two taxes (including an unemployment fund contribution of 5%) is 28.80% for the year 2012 in Luxembourg-city. Under the proposed budget for the year 2013, the rate of the unemployment fund contribution is to be increased with effect as of 1 January 2013. Such dividends may benefit either from the 50% exemption set forth in Article 115(15a) of the Luxembourg income tax law or from the full exemption set forth in Article 166 of the Luxembourg income tax law, subject in each case to fulfillment of the respective conditions set out therein. Capital gains realized on the sale of Byblos Bank Shares or Byblos Bank GDRs may benefit from the full exemption provided for by Article 166 of the Luxembourg income tax law and by the Grand Ducal Decree of 21 December 2001, as amended, subject to fulfillment of the conditions set out therein.

Non- resident Holders as holders of Byblos Bank Shares or Byblos GDR

Capital gains arising upon disposal of Byblos Bank Shares or Byblos Bank GDRs by a non-resident individual or corporate Holder would not result in any taxation in Luxembourg, as long as the Bank is not resident of Luxembourg.

Net wealth tax

Luxembourg net wealth tax will not be levied on a holder of Byblos Bank Shares or Byblos Bank GDRs, unless (i) such holder is a Luxembourg fully taxable resident company or (ii) such Byblos Bank Shares or Byblos Bank GDRs are attributable to an enterprise or part thereof which is carried on through a Luxembourg permanent establishment by a non-resident company.

Holders of Byblos Bank Shares or Byblos Bank GDRs may be exempt from net wealth tax subject to the conditions set forth in Article 60 of the Law of 16 October 1934 on the valuation of assets (*Bewertungsgesetz*), as amended.

Other taxes

No registration tax will be payable by a holder of Byblos Bank Shares or Byblos Bank GDRs upon the disposal of Byblos Bank Shares or Byblos Bank GDRs by sale or exchange.

Luxembourg inheritance tax may be levied on the transfer of Byblos Bank Shares or Byblos Bank GDRs upon the death of a Luxembourg-resident Holder.

Luxembourg gift tax will be levied in the event that a gift of Byblos Bank Shares or Byblos Bank GDRs is made pursuant to a notarial deed signed before a Luxembourg notary.

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 Fiduciary Notes. 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 an investment decision regarding the Fiduciary Notes. The following is based on the tax laws of Lebanon as in effect on the date of this Offering Circular. For advice relating to the tax consequences to Holders 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

Under Law № 497 of Lebanon dated 30 January 2003 (the 2003 Budget Law), published in the *Official Gazette* on 31 January 2003, interest paid in respect of loans granted to banks after 31 January 2003 is subject to withholding tax at the rate of 5%.

In principle, this tax is due irrespective of the nationality or domicile of the beneficiary of the distributions under the loans; however, the application of tax treaties aimed at avoiding double taxation between Lebanon and other countries, when applicable, may reduce this tax.

Taxation of Capital Gains

Gains made in connection with the sale of Fiduciary Notes 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 № 5439 dated 20 September 1982 granted an exemption to all contracts for the transfer of shares, notes, bonds or similar debt instruments or treasury bills from the stamp duty imposed by the law promulgated by Decree № 67 dated 5 August 1967. However, such exemption may not apply to the transfer of Fiduciary Notes when such transfer is made between Lebanese residents.

CLEARING AND SETTLEMENT

The Fiduciary Notes will initially be represented by a single Global Note in registered form without interest coupons attached. Fiduciary Notes in definitive registered form without interest coupons attached will be issued only in certain exceptional and limited circumstances.

Beneficial interests in the Global Note will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream and their respective participants, including Midclear.

Interests held through Euroclear or Clearstream

Ownership of interests in Fiduciary Notes 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 (including Midclear), as the case may be (with respect to interests of persons other than Euroclear or Clearstream participants). Transfers of Fiduciary Notes will settle in same day funds.

So long as the Fiduciary Notes clear through Euroclear or Clearstream, the Fiduciary Notes will be evidenced by a Global Note registered in the name of a common depositary for Euroclear or Clearstream and no owner or beneficial owner of an interest in the Fiduciary Notes evidenced by a Global Note will be entitled to receive a Fiduciary Note or be able to transfer that interest except in accordance with applicable procedures of Euroclear or Clearstream.

So long as the Fiduciary Notes are evidenced by a Global Note registered in the name of Euroclear and Clearstream or their nominee, secondary market trading activity in the Fiduciary Notes will be required by Euroclear and Clearstream to settle in immediately available funds. Transfers between accountholders 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 organizations 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, various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks’ trust companies and certain other organizations, including Midclear, the Fiduciary and the Bank. Indirect access to Euroclear or Clearstream is also available to other institutions 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 Euroclear and Clearstream have agreed to the foregoing procedures in order to facilitate the transfer of interests in a Global Note among participants of Euroclear and Clearstream, 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 Placement Agent, the Fiduciary or any of their respective agents will have any responsibility for the performance by Euroclear or Clearstream or their respective participants of their respective obligations under the rules and procedures governing their operations.

Interests held through Midclear

Interests in the Fiduciary Notes held through Midclear’s participant account with the Clearing Systems will be registered in the respective names of the beneficial owners thereof in the 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 sub-participants. Interests in the Fiduciary Notes held through Midclear will be settled though Midclear’s participant accounts with Euroclear and Clearstream. 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 Fiduciary Notes held through Midclear or for maintaining, supervising or reviewing any records relating to ownership of interests in Fiduciary Notes held through Midclear.

ADDITIONAL INFORMATION

1. The Bank is incorporated under the name "Byblos Bank S.A.L." as a joint-stock company incorporated with limited liability 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 the Fiduciary Notes by the Fiduciary is within the Fiduciary's corporate power and has been duly authorized.

3. The entry into of the Subordinated Loan and the transactions related thereto (including, among others, the reservation of the capital increase to be effected by the Bank for purposes of permitting the conversion of the Subordinated Loan as contemplated thereby, subject as provided below) is expected to be authorized by a resolution of the shareholders of the Bank at an Extraordinary General Assembly of the Bank's shareholders to be held on 12 December 2012. The Central Bank is expected to approve the entry into by the Bank of the Subordinated Loan and the other transactions described herein (subject as provided below) on or around 19 December 2012. The Subordinated Loan will not be disbursed and, accordingly, the Fiduciary Notes will not be issued, unless and until the Bank's Extraordinary General Assembly shall have first approved the Subordinated Loan and the transactions related thereto (subject as provided below). Byblos Invest Holding S.A. (Luxembourg) has undertaken to vote the Byblos Bank Shares held by it, and to use its best efforts to cause other holders of Byblos Bank Shares to vote the Byblos Bank Shares held by them, in favor of approving the Subordinated Loan and the transactions relating thereto at the Extraordinary General Assembly of the Bank. In addition, the Subordinated Loan will not be disbursed and, accordingly, the Fiduciary Notes will not be issued, unless and until the Central Bank has approved the Subordinated Loan and the transactions related thereto. Without prejudice to the foregoing, further approvals of the Central Bank may be required in connection with the exercise by the Lender of the Lender Conversion Right and the Lender Priority Subscription Right and further approvals of the Extraordinary General Assembly of Shareholders of the Borrower may be required in connection with the exercise by the Lender of the Lender Priority Subscription Right, which may only be obtained at the time of such exercise.

4. The Fiduciary Notes are in registered, book-entry form. Application has been made to have the Fiduciary Notes accepted for settlement and clearance through Euroclear and Clearstream and the Fiduciary Notes have been assigned ISIN XS0864487425 and Common Code 086448742.

5. Ernst & Young p.c.c. and Semaan, Gholam & Co. have (i) audited the consolidated financial statements of the Bank as at and for the year ended 31 December 2011, which include comparative data as at and for the year ended 31 December 2010; and (ii) reviewed the unaudited interim consolidated financial statements of the Bank as at and for the six-month period ended 30 June 2012, which include comparative data as at and for the six-month period ended 30 June 2011.

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 business day in Lebanon following the date of this Offering Circular:

    (a) the Bank's by-laws,

    (b) the audited consolidated financial statements of the Bank as at and for the year ended 31 December 2011, which include comparative data as at and for the year ended 31 December 2010, 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 interim consolidated financial statements as at and for the six-month period ended 30 June 2012, which include comparative data as at and for the six-month period ended 30 June 2011, together with the review report of Ernst & Young p.c.c. and Semaan, Gholam & Co. in respect of such interim consolidated financial statements;

    (c) the Issuing and Fiscal Agency Agreement; and

    (d) this Offering Circular.

EXHIBIT A: FORM OF SUBSCRIPTION APPLICATION

Up to U.S.$300,000,000 6.5% Convertible Fiduciary Notes due 2022 (subject to a minimum nominal amount of U.S.$150,000,000)

1. **Applicant Information**

Applicant Name: ____(“**Applicant**”)

Address: ____(Street)

(City) ______________________ (Country) ___________________

Telephone Number: ______________________ Fax Number: ______________________

E-mail Address: ______________________

Jurisdiction of Organization/Country of Residence: __________________________________

(If signing on behalf of a corporation or other legal entity) Authorized Signatory:

(Name) ________________________

(Title) ________________________

2. **Application to Purchase Convertible Fiduciary Notes**

2.1 **Acknowledgment**

The Applicant acknowledges that (i) The Bank of New York Mellon (Luxembourg) S.A. (the “**Fiduciary**”) intends to issue up to U.S.$300,000,000 6.5% Convertible Fiduciary Notes due 2022 (the “**Fiduciary Notes**”) (subject to a minimum nominal amount of U.S.$150,000,000) on or around 21 December 2012 (the “**Issue Date**”); and (ii) the creation, issue and sale of the Fiduciary Notes have been authorized for the sole purpose of financing a subordinated loan (the “**Subordinated Loan**”) to be made by the Fiduciary, in its capacity as lender, to Byblos Bank S.A.L. (the “**Borrower**”) in an aggregate principal amount equal to the nominal amount of Fiduciary Notes issued.

The respective terms of both the Fiduciary Notes and the Subordinated Loan are fully set forth in the final term sheet dated [•] 2012; a copy of which is attached hereto (the “**Term Sheet**”). The Applicant acknowledges having received the Term Sheet and hereby represents that it has carefully reviewed and fully understands the contents thereof and accepts them.

The Applicant acknowledges that Byblos Invest Bank S.A.L. has acted as the placement agent (in such capacity, the “**Placement Agent**”) in connection with the issue, offer and sale of the Fiduciary Notes. The Applicant further acknowledges that none of the Fiduciary, the Placement Agent or the Borrower, nor any other person, is acting as an advisor to the Applicant in connection with its application to purchase Fiduciary Notes or has made any recommendation, representation or warranty, express or implied, regarding the Fiduciary Notes or the advisability of an investment therein.

2.2 **Application to Purchase Fiduciary Notes (to be completed by the Applicant)**

Subject to *Clause 2.3* below, and subject to all other terms and conditions set forth herein, the Applicant hereby irrevocably offers to purchase that nominal amount of Fiduciary Notes which may be purchased at the Issue Price (*defined below*) with the aggregate subscription amount (the "**Aggregate Subscription Amount**") indicated below (*Applicant to complete as appropriate*).

Issue Price: 100% of the nominal amount (the "**Issue Price**")

Aggregate Subscription Amount: U.S.$__________ (*insert total amount subscribed*)

Fiduciary Notes will be offered and sold, and may be transferred, only in minimum denominations of U.S.$100,000 and multiples of U.S.$10,000 in excess thereof.

2.3 **Acceptance**, **Termination, Etc.**

The Applicant acknowledges and agrees that:

2.3.1 A Subscription Form that has not been received by [•] 2012 will not be considered or accepted.

2.3.2 This Subscription Form shall be deemed accepted only upon execution by the Applicant, payment of the Aggregate Subscription Amount (as specified in *Clause 2.2* above) and acceptance by or on behalf of the Fiduciary no later than [•] 2012, such acceptance to be evidenced by delivery of a fully-executed copy of this Subscription Form to the Applicant. The Applicant further acknowledges that the acceptance by or on behalf of the Fiduciary of this Subscription Form shall not entitle the Applicant to an allocation of all or part of the Fiduciary Notes for which it has applied and the Applicant hereby accepts that it might be allocated only part or none of the Fiduciary Notes for which it has applied and the Applicant hereby waives any right of discussion or challenge or contest in this respect.

2.3.3 The Placement Agent may, in its sole discretion, reject this Subscription Form in whole or in part and (whether or not this Subscription Form has been previously accepted) terminate the offering of the Fiduciary Notes at any time and for any reason whatsoever, it being understood that the offering will be terminated in the event that the Extraordinary General Assembly of Shareholders of the Borrower does not approve the Subordinated Loan and the transactions relating thereto within three months from the date on which definitive agreements setting forth the terms of the Subordinated Loan and the Fiduciary Notes are signed between the parties (the "**Signing Date**"). In any such event, the Applicant shall have no right to purchase Fiduciary Notes from the Fiduciary at any time. In addition, if this Subscription Form has been accepted in whole or in part, the Fiduciary retains the right to reduce, in its sole discretion, the nominal amount of Fiduciary Notes allocated to the Applicant.

2.3.4 Whether or not this Subscription Form has been accepted by, or on behalf of, the Borrower or the Placement Agent, the Applicant may rescind its agreement to purchase Fiduciary Notes by giving written notice to the Borrower within two days following the date on which the Bank shall have delivered an electronic copy of the offering circular in respect of the Fiduciary Notes (the "**Offering Circular**") to the Applicant if, (but only if) (i) the final terms of the Fiduciary Notes as described in the Offering Circular are substantially and adversely different from the terms described in this Term Sheet or (ii) there has been a material adverse change in financial condition of the Bank as described in the Offering Circular as compared to the financial condition of the Bank as at the date of this Term Sheet. If written notice of rescission is not received from the Applicant by the Bank prior to the date specified above, the Applicant will be deemed to have confirmed its offer to purchase as set forth in this Subscription Form. None of the Borrower, the Placement Agent or the Fiduciary shall bear any responsibility as a result of the Applicant's failure to retrieve or review the Offering Circular.

2.4 **Payment**

The Applicant represents that it has transferred funds to the "Fiduciary Notes Subscription Account" maintained by the Placement Agent for the benefit of the Fiduciary (the "**Fiduciary Notes Subscription Account**"), in an amount equal to the Aggregate Subscription Amount, as specified in *Clause 2.2* above, in accordance with the following instructions:

> Correspondent Bank: Bank of New York - New York
> Swift Code: IRVTUS3N
> Account Name: Byblos Bank SAL (Swift Code: BYBALBBX)
> Account No.: 8033218622
> For further credit to: Byblos Invest Holding S.A. Luxembourg (Account No.: 200-0167609-005)
> Reference: Fiduciary Notes Subscription Account

In the event that the offering of the Fiduciary Notes is terminated for any reason or if this Subscription Form is rejected, in whole or in part, or if the Fiduciary reduces the nominal amount of Fiduciary Notes allocated to the Applicant, the Aggregate Subscription Amount (or corresponding portion thereof) received by or on behalf of the Fiduciary from the Applicant will be refunded to the Applicant, together with interest (if any) earned thereon as detailed below and, if applicable, the Applicant's *pro rata* share of the Unwind Fee (as defined below), by transfer to the account identified below (*Applicant to complete*):

Name of Bank:	______________________________
Swift Code:	______________________________
Account Name:	______________________________
Account No.:	______________________________
For further credit to:	______________________________
Reference:	______________________________

Subject to *Clause 2.3* above and the other terms and conditions set forth herein, the Applicant hereby authorizes the Placement Agent to apply the Aggregate Subscription Amount (or the relevant portion thereof) received by it hereunder, on behalf of the Applicant, to pay the Issue Price for the Fiduciary Notes in respect of which this Subscription Form has been accepted on the Issue Date.

The Applicant shall be entitled to receive interest on the amount of the Aggregate Subscription Amount received from it hereunder, from and including the value date as of which such amount is deposited into the Fiduciary Notes Subscription Account to but excluding the Issue Date (or any earlier date on which all or any portion of such amount is refunded to the Applicant), at the rate of 6.5% per annum, on or promptly following the Issue Date (or such earlier refund date, as the case may be). Moreover, in the event that the Extraordinary General Assembly of Shareholders of the Borrower does not approve the Subordinated Loan and the transactions relating thereto, and the Subordinated Loan is accordingly not disbursed and the Fiduciary Notes are not issued, within three months from the Signing Date, the Applicant will also be entitled to receive, and the Borrower shall pay to the Applicant, together with the refund of its Aggregate Subscription Amount plus accrued interest (if any), a flat fee (the "**Unwind Fee**") in an amount equal to 3.5% of the Aggregate Subscription Amount.

2.5 **Form and Settlement**

The Applicant acknowledges that the Fiduciary Notes will initially be represented by a single global note (the "**Global Note**"), in registered form, without interest coupons, which will be registered in the name of a common depository for Euroclear and Clearstream (together, the "**Clearing Systems**"). Beneficial interests in the Global Note held by the Clearing Systems will be shown on, and transfers thereof, will be effected only through, records maintained by the applicable Clearing System and their participants, including Midclear.

The Applicant hereby requests that Fiduciary Notes allocated to it (if any) be credited to its account with the Clearing Systems as follows (*Applicant to complete*):

- ☐ Euroclear Account No. ____________________
- ☐ Clearstream Account No. ____________________
- ☐ Midclear Account No. ____________________

3. **Representations and Undertakings**

3.1 The Applicant hereby makes the representations and warranties set forth in Annex A hereto to, and for the benefit of, the Fiduciary, the Placement Agent and the Borrower, on the date hereof and on and as of the Issue Date. The Applicant understands that the Fiduciary Notes will be sold to the Applicant in reliance on such representations and warranties.

3.2 The Applicant hereby agrees and undertakes, as promptly as possible after request by the Fiduciary, the Placement Agent or the Borrower, to complete and furnish to the Fiduciary and the Placement Agent and/or the Borrower all information reasonably requested in connection with this Subscription Form and the subscription requested hereby; the Applicant represents, for the benefit of the Fiduciary, the Placement Agent and the Borrower that all such information will be true, accurate and complete.

4. **General**

4.1 **Modification**

This Subscription Form may not be modified, discharged or terminated orally, but only by an instrument in writing, signed by or on behalf of both the Applicant and the Fiduciary.

4.2 **Defined Terms**

Capitalized terms used herein without otherwise being defined shall have the meanings set forth in the Term Sheet.

4.3 **Counterparts**

This Subscription Form may be executed in two counterpart copies, each of which shall be considered an original and both of which shall together constitute one and the same instrument, binding on all parties hereto, notwithstanding that all the parties are not signatories to the same counterpart.

4.4 **Successors and Assigns**

Except as otherwise provided herein, this Subscription Form shall be enforceable by and against the successors and assigns of the parties hereto, and shall inure to the benefit of and be enforceable by the parties hereto and their respective successors and permitted assigns. This Subscription Form is not transferable or assignable by the Applicant.

5. **Applicable Law**

This Subscription Form shall be governed by and construed in accordance with the laws of the Grand Duchy of Luxembourg.

The foregoing Subscription Form is hereby accepted in respect of the nominal amount of Fiduciary Notes indicated below on and as of this _______ day of ________, 2012

By: ____________________

Name: ___________________

Title: ___________________

Nominal amount of Fiduciary Notes in respect of which this Subscription Form is accepted:

U.S.$________________

The undersigned has executed this Subscription Form on this _______ day of __________, 2012.

[This form must be signed in triplicate.

Signed by the Applicant:_____________________

Print Name & Title of Person Signing on behalf of Applicant:
____
____

The provisions of *Clause 2.4* are hereby Acknowledged and Agreed on behalf of Byblos Bank S.A.L. this _______ day of _________, 2012:

By:_______________________________________
Name:
Title:

ANNEX A:
REPRESENTATIONS AND WARRANTIES OF THE APPLICANT

1. The Applicant is a sophisticated and high net worth investor with sufficient knowledge and experience in business and financial matters in general, and regarding the political and economic conditions prevailing in the Republic of Lebanon ("Lebanon") in particular, and is capable of independently investigating and evaluating the risks involved in purchasing and owning investments such as the Fiduciary Notes.

2. The Applicant is solely responsible for making its own independent appraisal of all such matters that the Applicant deems appropriate in determining whether to purchase Fiduciary Notes, and is purchasing Fiduciary Notes on the basis of such independent appraisal of all such matters without relying upon any representation or warranty, express or implied, made to it by the Fiduciary, the Placement Agent, the Borrower or any other person with respect thereto; and the Applicant shall continue to be solely responsible for making its own independent appraisal of all such matters in the future and will not hereafter rely on the Fiduciary, the Placement Agent, the Borrower or any other person to confirm or inquire on its behalf as to the adequacy or completeness of any information or to assess or keep under review on its behalf any such information.

3. The Applicant understands that the Fiduciary Notes do not represent debt obligations of the Fiduciary and that distributions to holders of Fiduciary Notes will be made only from, and when, if, as and to the extent of, principal and interest actually received or additional amounts (if any) recovered in respect of the Subordinated Loan (subject to certain permitted deductions).

4. The Applicant further understands that the obligations of the Borrower in respect of the Subordinated Loan will constitute direct, unsecured and general obligations of the Borrower, subordinated to the effect that, in the event of a bankruptcy, suspension of payments, reorganization, dissolution, winding up, liquidation or composition or arrangement with creditors of the Borrower, the claims of the Fiduciary, in its capacity as lender, in respect of the Subordinated Loan will rank junior in right of payment to the claims of holders of unsecured and unsubordinated payment obligations of the Borrower, pari passu with the claims of holders of all other subordinated debt of the Borrower and in priority to the claims of shareholders of the Borrower (including, without limitation, holders of Preferred Shares of the Borrower), including in respect of cash contributions to capital.

5. The Applicant understands that the majority of the Borrower's operations are conducted in Lebanon and that, accordingly, the financial condition and results of operations of the Borrower are greatly affected by the economic and monetary conditions of Lebanon. As a result, the Fiduciary Notes are instruments reflecting general Lebanese sovereign risk, as well as the particular risk of the Borrower. The debt obligations of the Lebanese Republic have been assigned non-investment grade ratings by the principal international rating agencies. The Applicant further acknowledges that none of the Fiduciary, the Placement Agent or the Borrower, nor any other person, has made or is making any representation or warranty, express or implied, concerning the (i) political or economic conditions prevailing in Lebanon; (ii) the financial condition of the Borrower and the performance by it of its obligations under and in respect of the Subordinated Loan; (iii) the validity, binding effect, enforceability or sufficiency of the Subordinated Loan; (iv) the inspection of any of the property, books or records of the Borrower or any other third party; or (v) the legality and validity of the purchase by, or the sale by any third party to, any holder of any Fiduciary Note.

6. The Fiduciary Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act), unless the Fiduciary Notes are registered under the Securities Act or an exemption from the registration requirements thereof is available; the Fiduciary Notes have not been, and will not be registered under the laws of Luxembourg, the United Kingdom or Lebanon or any other jurisdiction and, accordingly, the offer, sale and delivery of the Fiduciary Notes may be further restricted by law; and the Applicant is responsible for informing itself about and observing all such restrictions that are applicable to the Applicant.

7. The Applicant is not a U.S. person, as defined in Regulation S under the Securities Act and was outside the United States when it purchased any Fiduciary Notes.

8. An Applicant's purchase and ownership of Fiduciary Notes shall constitute its authorization and direction to the Clearing Systems and their participants, including Midclear, the Borrower and the Fiduciary, to disclose to the Fiduciary, the Borrower, or both, its ownership of Fiduciary Notes, together with the nominal amount of Fiduciary Notes held by it and such other relevant information concerning it as may be necessary in connection with any exercise by it of any rights it may have under or relating to the Fiduciary Notes, including, without limitation, its right to cause the Fiduciary to convert the Fiduciary Notes it holds into common shares or global depositary receipts of the Borrower.

INDEX TO FINANCIAL STATEMENTS

BYBLOS BANK SAL

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2011

ERNST & YOUNG

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Kantari, Beirut - Lebanon
Tel : (01) 760800 Fax: (01) 760822/3
beirut@lb.ey.com
C.R. 61

SEMAAN, GHOLAM & CO.

Semaan, Gholam & Co.
P.O.Box: 11-0558, Riad Solh
Beirut - 1107 2050
Gholam Building - Sioufi Street
Beirut - Lebanon
Tel: (01) 323676 Fax: (01) 204142
siman@inco.com.lb
C.R. 90

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 statement of financial position as at 31 December 2011 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 at 31 December 2011, 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.

16 March 2012
Beirut, Lebanon

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	Notes	2011 LL million	2010 LL million
Interest and similar income	5	**1,264,737**	1,224,014
Interest and similar expense	6	**(840,373)**	(796,751)
NET INTEREST INCOME		**424,364**	427,263
Fee and commission income	7	**158,184**	140,221
Fee and commission expense	7	**(13,389)**	(14,563)
NET FEE AND COMMISSION INCOME		**144,795**	125,658
Net gain from financial instruments at fair value through profit or loss	8	**61,601**	-
Net trading income	9	**-**	22,158
Net gain on financial assets	10	**4,200**	100,965
Net gain from sale of financial assets at amortized cost	11	**64,165**	-
Other operating income	12	**13,191**	8,118
TOTAL OPERATING INCOME		**712,316**	684,162
Credit loss expense	13	**(42,770)**	(29,272)
Impairment losses on other financial assets	14	**(23,575)**	(8,863)
NET OPERATING INCOME		**645,971**	646,027
Personnel expenses	15	**(161,286)**	(145,552)
Depreciation and impairment of property and equipment	34	**(31,466)**	(31,014)
Amortisation of intangibles assets	35	**(159)**	(112)
Administrative and other operating expenses	16	**(116,136)**	(134,860)
TOTAL OPERATING EXPENSES		**(309,047)**	(311,538)
PROFIT BEFORE TAX		**336,924**	334,489
Income tax expense	17	**(65,987)**	(66,670)
PROFIT FOR THE YEAR		**270,937**	267,819
Attributable to:			
Equity holders of the parent		**259,894**	255,770
Non controlling interest		**11,043**	12,049
		270,937	267,819
Earnings per share		***LL***	*LL*
Equity shareholders of the parent for the year:			
Basic earnings per share – common shares	18	**376.60**	399.61
Basic earnings per share – priority shares	18	**-**	448.01
Diluted earnings per share – common shares	18	**356.91**	374.78
Diluted earnings per share – priority shares	18	**-**	423.18

The attached notes 1 to 59 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	2011 *LL million*	*2010* *LL million*
Profit for the year	**270,937**	267,819
Elements of other comprehensive income (loss):		
Net unrealized loss from financial instruments at fair value through other comprehensive income	**(3,863)**	-
Net loss on available-for-sale financial assets	**-**	(15,968)
Exchanges differences on translation of foreign operations	**(37,348)**	(36,090)
Income tax effect on components of other comprehensive income	**1,379**	4,225
Other comprehensive loss for the year, net of tax	**(39,832)**	(47,833)
Total comprehensive income for the year, net of tax	**231,105**	219,986
Attributable to:		
Equity holders of the parent	**235,654**	220,770
Non controlling interest	**(4,549)**	(784)
	231,105	219,986

The attached notes 1 to 59 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Notes	2011 LL million	2010 LL million
ASSETS			
Cash and balances with central banks	19	4,282,468	2,748,642
Due from banks and financial institutions	20	4,330,842	3,899,011
Loans to banks and financial institutions and reverse repurchase agreements	21	667,488	-
Financial assets given as collateral	22	8,920	8,918
Derivative financial instruments	23	5,356	1,462
Financial assets held for trading	24	-	205,940
Equity instruments at fair value through profit or loss	25	26,603	-
Debt instruments and other financial assets at fair value through profit or loss	26	228,606	-
Net loans and advances to customers at amortized cost	27	6,028,914	5,673,300
Net loans and advances to related parties at amortized cost	53	13,406	11,940
Debtors by acceptances	28	331,821	291,834
Debt instruments at amortized cost	29	8,607,301	-
Equity instruments at fair value through other comprehensive income	30	76,967	-
Available-for-sale financial instruments	31	-	1,875,811
Other financial assets classified as loans and receivables	32	-	7,490,856
Held to maturity financial instruments	33	-	428,698
Property and equipment	34	301,066	281,303
Intangible assets	35	1,129	1,039
Assets taken in settlement of debt	36	35,452	39,092
Other assets	37	80,974	89,546
TOTAL ASSETS		25,027,313	23,047,392
LIABILITIES AND EQUITY			
Due to central banks	38	15,670	19,492
Due to banks and financial institutions	39	1,635,480	1,512,785
Derivative financial instruments	23	7,347	4,350
Customers' deposits at amortized cost	40	19,174,417	17,867,630
Related parties' deposits at amortized cost	53	151,991	112,396
Debt issued and other borrowed funds	41	662,290	213,501
Engagements by acceptances	28	331,821	291,834
Other liabilities	42	126,267	145,757
Provisions for risks and charges	43	129,989	119,905
Subordinated notes	44	307,263	303,324
TOTAL LIABILITIES		22,542,535	20,590,974
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	45	684,273	434,984
Share capital – priority shares	45	-	249,289
Share capital – preferred shares	45	4,840	4,840
Share premium – common shares	45	229,014	229,014
Share premium – preferred shares	45	583,858	581,456
Non distributable reserves (legal and obligatory)	46	469,072	396,526
Distributable free reserves	47	79,127	79,127
Other equity instruments	48	14,979	14,979
Treasury shares	49	(25,476)	(16,189)
Retained earnings		65,214	16,484
Revaluation reserve of real estate	50	5,689	5,689
Change in fair value of financial instruments at fair value through other comprehensive income	51	(20,556)	53,993
Net results of the financial period – profit		259,894	255,770
Foreign currency translation reserve		(31,329)	(9,573)
		2,318,599	2,296,389
NON-CONTROLLING INTEREST		166,179	160,029
TOTAL EQUITY		2,484,778	2,456,418
TOTAL LIABILITIES AND EQUITY		25,027,313	23,047,392

The consolidated financial statements were authorized for issue in accordance with the resolution of the Board of Directors on 16 March 2012.

Dr Francois Bassil
Chairman/ General Manager

Mr Ziad El-Zoghbi
Financial and Administrative Manager

The attached notes 1 to 59 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Notes	***2011 LL million***	*2010 LL million*
OFF FINANCIAL POSITION ITEMS			
Commitments			
Commitments to banks and financial institutions	56	**552,339**	933,859
Commitments to customers	56	**523,392**	581,876
Undrawn commitments to lend	56	**1,434,194**	1,514,547
Guarantees			
Guarantees given to banks and financial institution	56	**423,451**	401,244
Guarantees received from banks and financial institutions		**47,220**	81,765
Guarantees given to customers	56	**1,036,243**	1,001,197
Guarantees received from customers		**24,458,189**	20,151,969
Foreign currencies forwards	23		
Foreign currencies to receive		**504,188**	282,530
Foreign currencies to deliver		**505,851**	285,418
Claims from legal cases		**41,174**	34,907
Fiduciary assets		**127,866**	127,661
Assets under management		**3,197,425**	3,243,277
Bad debts fully provided for	27	**91,644**	98,700

The attached notes 1 to 59 form part of these consolidated financial statements.

Byblos Bank SAL

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Attributable to equity holders of the parent															Non-controlling interest	Total
	Common shares LL million	Priority shares LL million	Preferred shares LL million	Share premium - common shares LL million	Share premium - preferred shares LL million	Non-distributable reserves (legal and obligatory) LL million	Distributable free reserves LL million	Other equity instruments LL million	Treasury shares LL million	Retained earnings LL million	Revaluation reserve of real estate LL million	Change in fair value of financial instruments at fair value through other comprehensive income LL million	Net results of the financial period - profit LL million	Foreign currency translation reserve LL million	Total LL million	LL million	LL million
Balance at 1 January 2011 before early adoption of IFRS 9	434,984	249,289	4,840	229,014	581,456	396,526	79,127	14,979	(16,189)	16,484	5,689	53,993	255,770	(9,573)	2,296,389	160,029	2,456,418
Effect of IFRS 9 early adoption (note 2)	-	-	-	-	-	-	-	-	-	38,077	-	(72,065)	-	-	(33,988)	(307)	(34,295)
Balance at 1 January 2011 after early adoption of IFRS 9	434,984	249,289	4,840	229,014	581,456	396,526	79,127	14,979	(16,189)	54,561	5,689	(18,072)	255,770	(9,573)	2,262,401	159,722	2,422,123
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	259,894	-	259,894	11,043	270,937
Other comprehensive loss	-	-	-	-	-	-	-	-	-	-	-	(2,484)	-	(21,756)	(24,240)	(15,592)	(39,832)
Total comprehensive income	-	-	-	-	-	-	-	-	-	-	-	(2,484)	259,894	(21,756)	235,654	(4,549)	231,105
Transfer of priority shares (note 45)	249,289	(249,289)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to retained earnings	-	-	-	-	-	-	-	-	-	255,770	-	-	(255,770)	-	-	-	-
Transfer to reserves and premiums	-	-	-	-	2,412	72,266	-	-	-	(74,678)	-	-	-	-	-	-	-
Non-controlling interest share in a capital increase of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	23,473	23,473
Acquisition of non-controlling interest (note 3)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(8,584)	(8,584)
Dividends paid – subsidiaries (note 58)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,883)	(3,883)
Translation difference	-	-	-	-	(10)	-	-	-	-	-	-	-	-	-	(10)	-	(10)
Equity dividends paid (note 58)	-	-	-	-	-	-	-	-	-	(170,439)	-	-	-	-	(170,439)	-	(170,439)
Treasury shares	-	-	-	-	-	280	-	-	(9,287)	-	-	-	-	-	(9,007)	-	(9,007)
Balance at 31 December 2011	**684,273**	**-**	**4,840**	**229,014**	**583,858**	**469,072**	**79,127**	**14,979**	**(25,476)**	**65,214**	**5,689**	**(20,556)**	**259,894**	**(31,329)**	**2,318,599**	**166,179**	**2,484,778**
Balance at 1 January 2010	262,706	249,289	4,840	26,425	579,035	311,946	79,127	-	(176)	24,954	5,689	66,026	206,628	13,394	1,829,883	123,049	1,952,932
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	255,770	-	255,770	12,049	267,819
Other comprehensive loss	-	-	-	-	-	-	-	-	-	-	-	(12,033)	-	(22,967)	(35,000)	(12,833)	(47,833)
Total comprehensive income	-	-	-	-	-	-	-	-	-	-	-	(12,033)	255,770	(22,967)	220,770	(784)	219,986
Transfer to retained earnings	-	-	-	-	-	-	-	-	-	206,628	-	-	(206,628)	-	-	-	-
Transfer to reserves and premiums	-	-	-	-	2,421	84,124	-	-	-	(86,545)	-	-	-	-	-	-	-
Non-controlling interest in a liquidated subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,812)	(1,812)
Non-controlling interest share in capital increase of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	38,037	38,037
Non-controlling interest in an acquired subsidiary (note 3)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,505	7,505
Dividends paid – subsidiaries (note 58)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(5,966)	(5,966)
Increase in capital	172,278	-	-	202,589	-	-	-	-	-	-	-	-	-	-	374,867	-	374,867
Equity dividends paid (note 58)	-	-	-	-	-	-	-	-	-	(128,553)	-	-	-	-	(128,553)	-	(128,553)
Treasury shares	-	-	-	-	-	456	-	-	(16,013)	-	-	-	-	-	(15,557)	-	(15,557)
Other equity instruments issued	-	-	-	-	-	-	-	14,979	-	-	-	-	-	-	14,979	-	14,979
Balance at 31 December 2010	434,984	249,289	4,840	229,014	581,456	396,526	79,127	14,979	(16,189)	16,484	5,689	53,993	255,770	(9,573)	2,296,389	160,029	2,456,418

The attached notes 1 to 59 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	Notes	2011 LL million	2010 LL million
OPERATING ACTIVITIES			
Profit before tax		**336,924**	334,489
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and amortisation	34 & 35	**31,625**	30,115
Provision for loans and advances and direct write offs, net	13	**49,363**	24,543
(Write-back) provision for other doubtful bank accounts, net	13	**(6,593)**	4,729
Impairment losses on other financial assets, net	14	**23,575**	8,863
Loss (gain) on disposal of property and equipment		**88**	(900)
Gain on disposal of assets taken in settlement of debt	12	**(3,877)**	(3,914)
Provisions for risks and charges, net		**14,300**	26,485
Unrealized fair value losses (gains) on financial instruments		**6,339**	(14,482)
Realized gains from financial instruments		**(70,052)**	(102,297)
Derivative financial instruments		**(897)**	13,322
Impairment provision on property and equipment	34	**-**	1,011
Operating profit before working capital changes		**380,795**	321,964
Changes in operating assets and liabilities			
Due from central banks		**(499,978)**	(8,284)
Due from banks and financial institutions		**229,110**	(7,189)
Financial assets given as collateral		**(2)**	(7,725)
Equity instruments at fair value through profit or loss		**(1,713)**	-
Debt instruments and other financial assets at fair value through profit or loss		**(618)**	-
Due to banks and financial institutions		**(153,308)**	(1,971)
Cash collateral on securities lent and repurchase agreements		**-**	(1,193)
Financial assets held for trading		**-**	19,389
Net loans and advances to customers and related parties		**(406,443)**	(887,365)
Other assets		**9,633**	(6,382)
Customers' and related parties' deposits		**1,346,382**	2,444,386
Other liabilities		**(13,437)**	7,674
Cash from operations		**890,421**	1,873,304
Provision for risks and charges paid		**(4,216)**	(1,810)
Taxation paid		**(62,844)**	(73,066)
Net cash from operating activities		**823,361**	1,798,428
INVESTING ACTIVITIES			
Available for sale financial instruments		**-**	(73,091)
Financial assets classified as loans and receivables		**-**	(747,574)
Held to maturity financial instruments		**-**	136,092
Debt instruments at amortized cost		**427,407**	-
Equity instruments at fair value through other comprehensive income		**(143)**	-
Loans to banks and financial institutions and reserve purchase agreements		**(37,491)**	-
Purchase of property and equipment and intangible assets		**(57,381)**	(59,992)
Proceeds from sale of property and equipment		**1,170**	2,552
Assets taken in settlement of debt	36	**(829)**	(5,389)
Proceeds from sale of assets taken in settlement of debt		**8,346**	8,778
Acquisition of subsidiary, net of cash acquired		**-**	(12,557)
Acquisition of additional non-controlling interest	3	**(8,584)**	-
Net cash from (used in) investing activities		**332,495**	(751,181)
FINANCING ACTIVITIES			
Issuance of ordinary common shares		**-**	374,867
Issuance of other equity instruments		**-**	14,979
Due to central banks		**(1,265)**	9,865
Debts issued and other borrowed funds		**448,789**	(77,462)
Subordinated notes		**3,939**	3,690
Treasury shares		**(9,007)**	(15,557)
Dividends paid to equity holders of the parent (net)		**(170,439)**	(128,553)
Dividends paid to non-controlling interest		**(3,883)**	(5,966)
Non-controlling interest share in a capital increase of a subsidiary		**23,473**	38,037
Non-controlling interest in a liquidated subsidiary		**-**	(1,812)
Net cash from financing activities		**291,607**	212,088
Effect of exchange rates:			
Effect of exchange rates on property and equipment		**4,645**	13,591
Foreign currency translation differences		**(37,348)**	(36,090)
Effect of exchange rates on reserves and premiums		**(10)**	-
Net effect of foreign exchange rates		**(32,713)**	(22,499)
INCREASE IN CASH AND CASH EQUIVALENTS		**1,414,750**	1,236,836
Cash and cash equivalents at 1 January		**4,735,368**	3,498,532
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	52	**6,150,118**	4,735,368
Operational cash flows from interest and dividends			
Interest paid		**(834,902)**	(787,332)
Interest received		**1,249,141**	1,207,341
Dividend received		**5,214**	4,987

The attached notes 1 to 59 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 Central Bank of Lebanon. The Bank's head office is located in Ashrafieh, Elias Sarkis Street, Beirut, Lebanon.

The Bank, together with its affiliated banks and subsidiaries (the Group), provides a wide range of banking and insurance services, through its headquarters and branches in Lebanon and 9 locations abroad (Cyprus, Belgium, United Kingdom, France, Syria, Sudan, Iraq, Democratic Republic of Congo and Armenia), (collectively the "Group").

2 ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis except for: a) the restatement of certain tangible real estate properties in Lebanon according to the provisions of law No 282 dated 30 December 1993, and b) the measurement at fair value of the following:

- derivative financial instruments,
- equity instruments at fair value through profit or loss,
- debt instruments and other financial assets at fair value through profit or loss,
- equity instruments at fair value through other comprehensive income,
- financial assets held for trading (applicable prior to 1 January 2011), and
- available-for-sale financial instruments (applicable prior to 1 January 2011).

The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

The consolidated financial statements are presented in Lebanese Lira (LL) and all values are rounded to the nearest LL million except when otherwise indicated.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and the regulations of the Central Bank of Lebanon and the Banking Control Commission ("BCC").

Presentation of financial statements

The Group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within one year after the statement of financial position date (current) and more than one year after the statement of financial position date (non-current) is presented in the risk management note.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense will not be offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2011.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

2 ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Basis of consolidation (continued)

The consolidated financial statements comprise the financial statements of Byblos Bank SAL and the following subsidiaries:

Subsidiary	*Percentage of ownership* 2011 %	2010 %	*Principal Activity*	*Country of incorporation*
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	**64.00**	64.00	Insurance	Lebanon
Adonis Brokerage House SAL	**100.00**	100.00	Insurance brokerage	Lebanon
Byblos Invest Bank SAL	**99.99**	99.99	Investment banking	Lebanon
Byblos Bank Africa	**56.86**	56.86	Commercial Banking	Sudan
Byblos Bank Syria S.A. *	**52.37**	41.50	Commercial Banking	Syria
Byblos Bank Armenia CJSC	**65.00**	65.00	Commercial Banking	Armenia
Adonis Insurance and Reinsurance (ADIR) Syria	**76.00**	76.00	Insurance	Syria
Byblos Bank RDC s.a.r.l. ** (formerly Solidaire Banque International S.B.I. SARL)	**66.67**	66.67	Banking activities	Democratic Republic of Congo

* The Group has control by virtue of agreement with other investors over Byblos Bank Syria S.A. and consequently, the financial statements of Byblos Bank Syria S.A. have been consolidated with those of the Group.

** The above subsidiary was acquired on 31 March 2010 (please refer to note 3).

2.2 Changes in accounting policy and disclosures

Early adoption of IFRS 9

In compliance with Circular 265 of the Lebanese Banking Control Commission issued on 23 September 2010, the Group adopted, effective 1 January 2011, Phase I of IFRS 9 as issued in November 2009 and reissued in October 2010 and related consequential amendments to other International Financial Reporting Standards. The effective application date stipulated by the standard is annual periods beginning on or after 1 January 2015. The initial application date of this standard with respect to the Group is 1 January 2011 in accordance with the transitional provisions of the standard.

Phase I of IFRS 9 addresses the classification and measurement of financial assets and financial liabilities. IAS 39 is still being followed for impairment of financial assets and hedge accounting, as these will be covered through phase 2 and phase 3 of IFRS 9, respectively, which have not yet been completed by the International Accounting Standards Board (IASB). As IASB completes these phases, it will delete the relevant portions of IAS 39 and create chapters in IFRS 9 that would replace the requirements in IAS 39.

IFRS 9 introduced new classification and measurement requirements for financial assets and financial liabilities that are within the scope of IAS 39. It also cancelled all previous categories under IAS 39, namely financial assets held for trading, available for sale financial instruments, financial assets classified as loans and receivables and financial instruments held to maturity (see Note 2.4, Financial Instruments – Classification and Measurement after 1 January 2011).

The Group did not restate comparative information as permitted by the transitional provisions of IFRS 9 and has recognized impact of early adoption of IFRS 9 as at 1 January 2011, in the opening retained earnings and other components of equity as of that date.

Management revised the Group's financial assets and liabilities as at 1 January 2011 for reclassification and measurement purposes according to the requirements of IFRS 9 and its transitional provisions. The schedule below presents all financial assets and liabilities which did not have an impact on the Group's retained earnings or other components of equity upon reclassification as at 1 January 2011:

2 ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policy and disclosures (continued)

Early adoption of IFRS 9 (continued)

Financial assets	*Initial classification under IAS 39*	*New classification under IFRS 9*
Cash and balances with central banks	Loans and receivables	Amortized cost
Due from banks and financial institutions	Loans and receivables	Amortized cost
Financial assets given as collateral	Loans and receivables	Amortized cost
Derivative financial instruments	Trading	Fair value through profit or loss
Loans and advances to customers	Loans and receivables	Amortized cost
Loans and advances to related parties	Loans and receivables	Amortized cost
Financial liabilities		
Due to central banks	Loans and receivables	Amortized cost
Due to banks and financial institutions	Loans and receivables	Amortized cost
Derivative financial instruments	Trading	Fair value through profit or loss
Customers' deposits	Loans and receivables	Amortized cost
Related parties' deposits	Loans and receivables	Amortized cost
Debt issued and other borrowed funds	Loans and receivables	Amortized cost
Subordinated notes	Loans and receivables	Amortized cost

The schedule below summarizes the new classification and amendments to the Group financial instruments as at 1 January 2011 following the early adoption of IFRS 9 which resulted in adjustment to the opening retained earnings and cumulative changes in fair value of financial instruments designated at fair value through other comprehensive income as at 1 January 2011.

	Financial assets held for trading LL million	*Available-for-sale financial instruments LL million*	*Other financial assets classified as loans and receivables LL million*	*Held-to-maturity financial instruments LL million*	*Total LL million*
Carrying value as at 31 December 2010 according to IAS 39	**205,940**	**1,875,811**	**7,490,856**	**428,698**	**10,001,305**
Reclassification following early adoption of IFRS 9:					
Financial instruments reclassified to fair value through profit or loss:					
Debt instruments	150,639	-	72,608	-	223,247
Equity instruments	26,447	3,636	-	-	30,083
Debt instruments reclassified at amortized cost					
Loans to banks and financial institutions	-	-	629,997	-	629,997
Debt instruments	28,270	1,728,447	6,808,703	428,698	8,994,118
Equity instruments reclassified to fair value through other comprehensive income	-	80,687	-	-	80,687
Carrying value as at 1 January 2011 after early adoption of IFRS 9	**205,356**	**1,812,770**	**7,511,308**	**428,698**	**9,958,132**
Effect on opening balance of change in fair value of financial instruments through other comprehensive income	-	(100,168)	18,918	-	(81,250)
out of which: effect of previous amendments to IAS 39 (*)	-	-	*18,918*	-	*18,918*
Less: deferred taxes	-	8,878	-	-	8,878
Effect on opening balance of change in fair value of financial instruments through other comprehensive income, net	-	**(91,290)**	**18,918**	-	**(72,372)**
Attributable to equity holders of the parent	-	(91,046)	18,981	-	(72,065)
Non-controlling interest	-	(244)	(63)	-	(307)
	-	**(91,290)**	**18,918**	-	**(72,372)**
Effect on opening balance of retained earnings	**(584)**	**37,127**	**1,534**	-	**38,077**
Attributable to equity holders of the parent	(584)	37,127	1,534	-	38,077
Non-controlling interest	-	-	-	-	-
	(584)	**37,127**	**1,534**	-	**38,077**

(*) The impact on the opening balance of the change in fair value of financial instruments through other comprehensive income resulted from unrealized losses relating to financial assets that were reclassified during 2008 from "available-for-sale" to "loans and receivables" in accordance with the amendments that occurred at the time on IAS 39 and IFRS 7.

2 ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policy and disclosures (continued)

Other new and amended standards and interpretations
In addition to the above, the accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRCI interpretations effective as of 1 January 2011:

- IAS 24 *Related Party Disclosures (amendment)* effective 1 January 2011;
- IAS 32 *Financial Instruments: Presentation* (amendment) effective 1 February 2010;
- IFRIC 14 *Prepayments of a Minimum Funding Requirement* (amendment) effective 1 January 2011;
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* effective 1 July 2010; and
- Improvements to IFRSs (May 2010) effective either 1 July 2010 or 1 January 2011.

The adoption of the standards or interpretations is described below:

IAS 24 *Related Party Transactions* (Amendment)
The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect the related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 32 *Financial Instruments: Presentation* (Amendment)
The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given *pro rata* to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group.

IFRIC 14 *Prepayments of a Minimum Funding Requirement* (Amendment)
The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as pension asset. The amendment has had no effect on the financial position or performance of the Group.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*
In November 2009, the IASB issued IFRIC 19 *Extinguishing Financial Liabilities with Equity*. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The adoption of this interpretation has had no effect on the financial statements of the Group.

Improvements to IFRSs
In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

The adoption of the following amendments resulted in changes to accounting policies and to the presentation and disclosures but did not impact the financial position or performance of the Group.

IFRS 7 *Financial Instruments – Disclosures*:
The amendment was intended to simplify the disclosures provided, by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

2 ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policy and disclosures (continued)

Other new and amended standards and interpretations (continued)

Improvements to IFRSs (continued)

Other amendments resulting from Improvements to IFRSs to the following standards and interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- IAS 1 Presentation of Financial Statements (Presentation of an analysis of each component of other comprehensive income)
- IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))
- IFRS 3 *Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards)
- IAS 27 *Consolidated and Separate Financial Statements*
- IAS 34 *Interim Financial Statement*
- IFRIC 13 *Customer Loyalty Programmes* (determining the fair value of award credits)

2.3 Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

IAS 1 *Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (OCI)*

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 19 *Employee Benefits* (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 27 *Separate Financial Statements* (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 7 *Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements*

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

2 ACCOUNTING POLICIES (continued)

2.3 Standards issued but not yet effective (continued)

IFRS 10 *Consolidated Financial Statements*
IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidation — Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 *Joint Arrangements*
IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-Controlled Entities — Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 *Disclosure of Involvement with Other Entities*
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 *Fair Value Measurement*
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

2.4 Summary of significant accounting policies

Foreign currency translation
The consolidated financial statements are presented in Lebanese Lira which is the Group's presentation 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.

(i) Transactions and balances
Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the date of the statement of financial position. All differences are taken to "net gain from financial assets at fair value through profit or loss" in the income statement (or "net trading income" applicable prior to 1 January 2011).

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. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss respectively). 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.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Foreign currency translation (continued)

(ii) Group companies
As at the reporting date, the assets and liabilities of subsidiaries are translated into the Group's presentation currency at the rate of exchange as at the statement of financial position 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. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement in 'Other operating expenses' or 'Other operating income'.

Financial instruments –classification and measurement

(i) Date of recognition
All financial assets and liabilities are initially recognized on the trade date, i.e. the date that the Group becomes a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(ii) Classification and measurement of financial instruments

A. Classification and measurement of financial instruments from 1 January 2011

a. Financial assets
The classification of financial assets depends on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs. Assets are subsequently measured at amortised cost or fair value.

An entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. An entity is required to disclose such financial assets separately from those mandatorily measured at fair value.

Debt instruments at amortized cost
Debt instruments are subsequently measured at amortized cost less any impairment loss (except for debt instruments that are designated at fair value through profit or loss upon initial recognition) if they meet the following two conditions:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These financial assets are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributed to the acquisition are also included in the cost of investment. After initial measurement, these financial assets are measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount of premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included in "Interest and similar income" in the income statement. The losses arising from impairment are recognised in the income statement in "Impairment losses on other financial assets".

Although the objective of an entity's business model may be to hold financial assets in order to collect contractual cash flows, the entity need not hold all of those instruments until maturity. Thus an entity's business model can be to hold financial assets to collect contractual cash flows even when sales of financial assets occur. However, if more than an infrequent number of sales are made out of a portfolio, the entity needs to assess whether and how such sales are consistent with an objective of collecting contractual cash flows. If the objective of the entity's business model for managing those financial assets changes, the entity is required to reclassify financial assets.
Gains and losses arising from the derecognition of financial assets measured at amortised cost are reflected under "net gain (loss) from sale of financial assets at amortized cost" in the consolidated income statement.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Financial instruments –classification and measurement (continued)

(ii) Classification and measurement of financial instruments (continued)

A. Classification and measurement of financial instruments from 1 January 2011 (continued)
a. Financial assets (continued)

Debt instruments and other financial assets at fair value through profit or loss
Included in this category are those debt instruments that do not meet the conditions in "*Debt instruments at amortized cost*" above, and debt instruments designated at fair value through profit or loss upon initial recognition.

These financial assets are recorded in the consolidated statement of financial position at fair value. Changes in fair value and interest income are recorded under "net gain (loss) from financial instruments at fair value through profit or loss" in the consolidated income statement showing separately, those related to financial assets designated at fair value upon initial recognition from those mandatorily measured at fair value. Gains and losses arising from the derecognition of debt instruments and other financial assets at fair value through profit or loss are also reflected under "net gain (loss) from financial instruments at fair value through profit or loss" in the consolidated income statement showing separately, those related to financial assets designated at fair value upon initial recognition from those mandatorily measured at fair value.

Equity instruments at fair value through profit or loss
Investments in equity instruments are classified at fair value through profit or loss, unless the Group designates at initial recognition an investment that is not held for trading as at fair value through other comprehensive income.

These financial assets are recorded in the consolidated statement of financial position at fair value. Changes in fair value and dividend income are recorded under "net gain (loss) from financial instruments at fair value through profit or loss" in the consolidated income statement. Gains and losses arising from the derecognition of equity instruments at fair value through profit or loss are also reflected under "net gain (loss) from financial instruments at fair value through profit or loss" in the consolidated income statement.

Equity instruments at fair value through other comprehensive income
Investments in equity instruments designated at initial recognition as not held for trading are classified at fair value through other comprehensive income.

These financial assets are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated under equity. The cumulative gain or loss will not be reclassified to the consolidated income statement on disposal of the investments.

Dividends on these investments are recognized under "net gain on financial assets" in the consolidated income statement when the entity's right to receive payment of dividend is established in accordance with IAS 18: "Revenue", unless the dividends clearly represent a recovery of part of the cost of the investment.

Due from banks and financial institutions, loans to banks and financial institutions and loans and advances to customers and related parties – at amortized cost
After initial measurement, amounts "Due from banks and financial institutions", "Loans to banks and financial institutions" and "Loans and advances to customers and related parties" are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest and similar income' in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement in "Credit loss expense"

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Financial instruments –classification and measurement (continued)

(ii) Classification and measurement of financial instruments (continued)

A. Classification and measurement of financial instruments from 1 January 2011 (continued)

b. Financial liabilities

The Group classifies all financial liabilities as subsequently measured at amortised cost using the effective interest method, except for:

- financial liabilities at fair value through profit or loss (including derivatives);
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
- financial guarantee contracts and commitments to provide a loan at a below-market interest rate which after initial recognition are subsequently measured at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

An entity may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when:

- doing so results in more relevant information, because it either eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

The amount of changes in fair value of a financial liability designated at fair value through profit or loss at initial recognition that is attributable to changes in credit risk of that liability is recognized in other comprehensive income, unless such recognition would create an accounting mismatch in the consolidated income statement. Changes in fair value attributable to changes in credit risk are not reclassified to consolidated income statement. Under IAS 39, the entire amount of the change in fair value of the financial liability designated at fair value through profit or loss was recognised in the income statement.

As at 31 December 2011, there are no financial liabilities designated at fair value through profit or loss by the Group. Financial liabilities consist of due to banks and financial institutions, customers' and related parties' deposits, debt issued and other borrowed funds and subordinated notes.

Debt issued and other borrowed funds and subordinated notes

Financial instruments issued by the Group, which are not designated at fair value through profit or loss, are classified as liabilities under "Debt issued and other borrowed funds" and "Subordinated notes", where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Financial instruments –classification and measurement (continued)

(ii) Classification and measurement of financial instruments (continued)

A. Classification and measurement of financial instruments from 1 January 2011 (continued)

b. Financial liabilities (continued)

Debt issued and other borrowed funds and subordinated notes (continued)
A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on the quoted market prices for similar debt instruments). The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the debt component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component is included in the debt component.

Due to banks and financial institutions, customers' deposits and related parties deposits
After initial measurement, due to banks and financial institutions, customers' and related parties' deposits measured at amortised cost less amounts repaid using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method.

c. ***Derivatives recorded at fair value through profit or loss***
The Group uses derivatives such as interest rate swaps and futures, credit default swaps, cross currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities.

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognised in "net gain from financial instruments at fair value through profit or loss" in the consolidated income statement.

An embedded derivative is separated from the host and accounted for as a derivative if, and only if:
(a) the hybrid contract contains a host that is not an asset within the scope of IFRS 9
(b) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host
(c) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
(d) the hybrid contract is not measured at fair value with changes in fair value recognised in profit or loss

B. Classification and measurement of financial instruments – Before 1 January 2011
The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs except, in the case of financial instruments classified at fair value through profit or loss.

a. Financial assets
Financial assets held for trading
Financial assets held for trading are recorded in the consolidated statement of financial position at fair value. Changes in fair value and dividends are recognised in "Net trading income". Interest income is recorded in "Interest and similar income" according to the terms of the contract, or when the right to the payment has been established. Included in this classification are debt securities and equities which have been acquired principally for the purpose of selling or repurchasing in the near term.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Financial instruments –classification and measurement (continued)

(ii) Classification and measurement of financial instruments (continued)

B. Classification and measurement of financial instruments – Before 1 January 2011 (continued)

a. Financial assets (continued)

Other financial assets classified as loans and receivables
These include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributed to the acquisition are also included in the cost of investment.

After initial measurement, loans and receivables are measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount of premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included in "Interest and similar income" in the income statement. The losses arising from impairment are recognised in the income statement in "Impairment losses on other financial assets". Gains or losses are recognised under "net gain on financial assets" in the income statement when the investments are derecognised or impaired.

Available-for-sale financial instruments
Available-for-sale instruments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial instruments are subsequently measured at fair value. Unrealized gains and losses are recognized directly in shareholders' equity (other comprehensive income) in the "changes in fair value of financial instruments at fair value through profit or loss" reserve. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the consolidated income statement. Where the Group holds more than one investment in the same security they are deemed to be disposed of on a first–in first–out basis. Interest earned whilst holding available-for-sale financial instruments is reported as interest income using the Effective Interest Rate (EIR). Dividends earned whilst holding available-for-sale financial instruments are recognised in the consolidated income statement as when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the consolidated income statement in "Impairment loss on financial instruments" and removed from the "changes in fair value of financial instruments at fair value through profit or loss" reserve.

Held to maturity financial instruments
Held to maturity financial instruments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity. After initial measurement, held to maturity financial instruments are subsequently measured at amortised cost using the effective interest rate, less 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 amortisation is included in "Interest and similar income" in the consolidated income statement. The losses arising from impairment of such investments are recognized in the consolidated income statement as "Impairment loss on other financial assets".

Due from banks and financial institutions, loans to banks and financial institutions and loans and advances to customers and related parties
After initial measurement, amounts "Due from banks and financial institutions", "Loans to banks and financial institutions" and "Loans and advances to customers and related parties" are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest and similar income' in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement in "Credit loss expense"

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Financial instruments –classification and measurement (continued)

(ii) Classification and measurement of financial instruments (continued)

B. Classification and measurement of financial instruments – Before 1 January 2011 (continued)

b. Financial liabilities
There were no changes in the classification and measurement of financial liabilities upon adoption of IFRS 9. IAS 39 requirements in respect of financial liabilities have been carried forward into IFRS 9 except for the fact that under IAS 39, the entire amount of the change in fair value of the financial liability designated at fair value through profit or loss was recognised in the income statement.

c. Derivatives
The Group uses derivatives such as interest rate swaps and futures, credit default swaps, cross currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities.

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognised in "net trading income".

An embedded derivative shall be separated from the host and accounted for as a derivative if, and only if:
(a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host
(b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
(c) the hybrid contract is not measured at fair value with changes in fair value recognised in profit or loss

(iii) Day 1 profit or loss
When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognizes the difference between the transaction price and fair value (a "Day 1" profit or loss) in the consolidated income statement. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated income statement when the inputs become observable, or when the instrument is derecognized.

(iv) Reclassification of financial assets
From 1 January 2011
The Group reclassifies financial assets if the objective of the business model for managing those financial assets changes. Such changes are expected to be very infrequent. Such changes are determined by the Group's senior management as a result of external or internal changes when significant to the Group's operations and demonstrable to external parties.

If financial assets are reclassified, the reclassification is applied prospectively from the reclassification date, which is the first day of the first reporting period following the change in business model that results in the reclassification of financial assets. Any previously recognised gains, losses or interest are not restated.

If a financial asset is reclassified so that it is measured at fair value, its fair value is determined at the reclassification date. Any gain or loss arising from a difference between the previous carrying amount and fair value is recognised in profit or loss. If a financial asset is reclassified so that it is measured at amortised cost, its fair value at the reclassification date becomes its new carrying amount.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Financial instruments –classification and measurement (continued)

(iv) Reclassification of financial assets (continued)

Before 1 January 2011
Effective from 1 July 2008, the Group was permitted to reclassify, in certain circumstances, non-derivative financial assets out of the "Held for trading" category and into the "Available for sale", "Loans and receivables", or "Held to maturity" categories. From this date it was also permitted to reclassify, in certain circumstances, financial instruments out of the "Available for sale" category and into the "Loans and receivables" category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

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

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

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

Derecognition of financial assets and financial liabilities

(i) 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 when:

- The rights to receive cash flows from the asset have expired.
- 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:
  - The Group has transferred substantially all the risks and rewards of the asset, or
  - 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. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Derecognition of financial assets and financial liabilities (continued)

(ii) 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. The difference between the carrying value of the original financial liability and the consideration paid is recognized in the consolidated income statement.

Repurchase and reverse repurchase agreements
Securities sold under agreements to repurchase at a specified future date are not derecognised from the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within "Cash collateral on securities lent and repurchase agreements", reflecting the transaction's economic substances as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the EIR. When the counterparty has the right to sell or repledge the securities, the Group reclassifies those securities in its statement of financial position to "Financial assets at fair value through profit or loss pledged as collateral" (or to "available for sale financial instruments pledged as collateral" applicable perior to 1 January 2011, as appropriate).

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the consolidated statement of financial position. The consideration paid, including accrued interest is recorded in the consolidated statement of financial position within "Cash collateral on securities borrowed and reverse purchase agreements", reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in "Net interest income" and is accrued over the life of the agreement using the EIR.

If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within "Financial liabilities at fair value through profit or loss" and measured at fair value with any gains or losses included in "Net gain from financial instruments at fair value through profit or loss" in the consolidated income statement (or "net trading income" applicable prior to 1 January 2011).

Determination of fair value
The fair value for financial instruments traded in active markets at the statement of financial position 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 traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Group's best estimate of the most appropriate model assumptions.

Impairment of financial assets
The Group assesses at each statement of financial position 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.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)
Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganization default or delinquency in interest or principal payments, and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortised cost
For financial assets carried at amortised cost (such due from banks and financial institutions, loans to banks and financial institutions, debt instruments at amortized cost, loans and advances to customers, (in addition to other financial assets classified as loans and receivables and held to maturity investments, applicable prior to 1 January 2011), the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

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

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Prior to 1 January 2011, if the Group has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR rate determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

(ii) Available for sale financial investments – Before 1 January 2011
For available for sale financial investments, the Group assesses at each statement of financial position date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of debt instruments classified as available for sale, the Group assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of "Interest and similar income". If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to credit event occurring after the impairment loss was recognized in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

In the case of equity investments classified as available for sale, objective evidence would also include a "significant" or "prolonged" decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement is removed from other comprehensive income and recognized in the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in the fair value after impairment are recognized directly in other comprehensive income.

(iii) 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 agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and 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, calculated using the loan's original effective interest rate.

Hedge accounting
The Group makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions and firm commitments. In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%. For situations where that hedged item is a forecast transaction, the Group assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated income statement.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Hedge accounting (continued)

(i) Fair value hedges
For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative is recognised in the consolidated income statement. Meanwhile, the change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in "Net gain from financial instruments at fair value through profit or loss" in the consolidated income statement (or "net trading income" applicable prior to 1 January 2011).

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective interest rate. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

(ii) Cash flow hedges
For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised directly in equity in the "Cash flow hedge" reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the consolidated income statement.

When the hedged cash flow affects the consolidated income statement, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the consolidated income statement. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated income statement.

(iii) Hedge of a net investment
Hedges of net investments in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in the consolidated income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity statement is transferred to the consolidated income statement.

Leasing
The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessee
Leases which do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight line basis over the lease term. Contingent rental payable are recognised as an expense in the period in which they are incurred.

Group as a lessor
Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Recognition of income and expenses
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. The following specific recognition criteria must also be met before revenue is recognised.

(i) Interest and similar income and expense
For all financial instruments measured at amortized cost, (and interest bearing financial assets classified as available for sale: applicable prior to 1 January 2011), interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through 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 and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

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. Before 1 January 2011, for a reclassified financial asset for which the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognized as an adjustment to the effective interest rate from the date of the change in estimate.

Once the recorded value of a financial asset on a group of similar financial assets has been reduced due to an impairment loss, interest income continue to be recognized using the rate of interest used to discount the future cash flows of the purpose of measuring the impairment loss.

(ii) Fee and commission income
The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time
Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

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 recognized as an adjustment to the EIR on the loan. When it is unlikely that a loan be drawn down, the loan commitment fees are recognized over the commitment period on a straight line basis.

Fee income from providing transaction services
Fee arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognized on completion of the underlying transaction. Fee or components of fee that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

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

Net gain on financial instruments at fair value through profit or loss – From 1 January 2011
Results arising from financial instruments at fair value through profit or loss, include all gains and losses from changes in fair value and related income or expense and dividends for financial assets at fair value through profit or loss. This includes any ineffectiveness recorded in hedging transactions

Net trading income – Before 1 January 2011
Results arising from trading activities include all gains and losses from changes in fair value and related income or expense and dividends for financial assets held for trading. This includes any ineffectiveness recorded in hedging transactions.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(ii) Fee and commission income (continued)

Net gain on financial assets – From 1 January 2011

Net gain on financial assets includes gains and losses from sale of financial instruments classified other than fair value through profit or loss and other than at amortized cost, and dividend income on these financial instruments.

Net gain on financial assets – Before 1 January 2011

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

Insurance revenue

For the insurance subsidiaries, net premiums and accessories (gross premiums) are taken to income over the terms of the policies to which they relate using the prorate temporise 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 comprise balances with original maturities of a period of three months or less including: cash and balances with the central banks, deposits with banks and financial institutions, and deposits due to banks and financial institutions.

Property and equipment

Property and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment. When significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the consolidated income statement as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate and treated as changes in accounting estimates.

Depreciation is calculated using the straight line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

Buildings	50 years
Office equipment and furniture	6.66 – 12.5 years
Computer equipment and software	3.33 – 5 years
General installations	5 years
Vehicles	4 years

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in "other operating income" in the year the asset is derecognized.

The asset's residual lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively if applicable.

Non current assets held for sale

Non-current assets held for sale include assets taken in settlement of debt. These are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Gains and losses on disposal are recognized in the consolidated income statement.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Business combinations and goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group measures the non controlling interest in the acquiree at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated income statement.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. 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 that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Intangible assets
An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

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

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

- Key money 10-15 years

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Impairment of non-financial assets
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognized in the consolidated income statement.

Impairment losses relating to goodwill cannot be reversed in future periods.

Provisions for risks ad charges
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the consolidated income statement net of any reimbursement.

Employees' end-of-service benefits
For the Group 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 Group is liable to pay to the NSSF the difference between the subscriptions paid and the final end-of-service benefits due to employees. The Group 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.

Taxes
Taxes are provided for in accordance with regulations and laws that are effective in the countries where the Group operates.

(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 statement of financial position date.

(ii) Deferred tax
Deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Taxes (continued)

(ii) Deferred tax (continued)
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.
- 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.
- 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 statement of financial position 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 statement of financial position 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 statement of financial position date.

Current tax and deferred tax relating to items recognized 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.

Treasury shares
Own equity instruments of the Group which are acquired by it or by any of its subsidiaries (treasury shares) are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase sale, issue or cancellation of the Group's own equity instruments is recognized directly in equity. No gain or loss is recognized in the consolidated income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

When the Group holds own equity instruments on behalf of its clients, those holdings are not included in the Group's consolidated statement of financial position.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Assets under management
The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in trust, under management or in a fiduciary capacity, are not treated as assets of the Group and accordingly are recorded as off balance sheet items.

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 recognised in the financial statements (within "Other liabilities") at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognized less, when appropriate, cumulative amortization recognized in the consolidated income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the consolidated income statement. The premium received is recognised in the consolidated income statement on a straight line basis over the life of the guarantee.

Customers' acceptances
Customers' acceptances represent term 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 statement of financial position for the same amount.

Equity reserves
The reserves recorded in equity (other comprehensive income) on the Group statement of financial position include:

'Change in fair value of financial instruments at fair value through other comprehensive income" reserve which comprises changes in fair value of equity instruments at fair value through other comprehensive income (Before 1 January 2011: available-for-sale financial instruments).

'Foreign currency translation reserve' which is used to record exchange differences arising from the translation of the net investment in foreign operations, net of the effects of hedging.

'Capital reserves' which include transfers from retained earnings in accordance with regulatory requirements and the portions of compound financial liabilities that qualify for treatment as equity (Note 48).

Segment reporting
The Group's segmental reporting is based on the following operating segments: Consumer banking, Corporate banking, treasury and capital markets, insurance and Group functions.

2.5 Significant accounting judgements and estimates

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect in the amounts recognised in the financial statements:

Going concern
The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

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

2 ACCOUNTING POLICIES (continued)

2.5 Significant accounting judgements and estimates (continued)

Impairment losses on loans and advances
The Group reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the consolidated income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilization, loan to collateral ratios etc.), concentrations of risks and economic date (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

Impairment of available-for-sale investments – Before 1 January 2011
The Group reviews its debt securities classified as available-for-sale investments at each statement of financial position date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances.

The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is "significant" or "prolonged" requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and the duration and extent to which the fair value of an investment is less than its cost.

Deferred tax assets
Deferred tax assets are recognized in respect to tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determined the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

Business model – Applicable from 1 January 2011
In making an assessment whether a business model's objective is to hold assets in order to collect contractual cash flows, the Group considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management. However, in some circumstances it may not be clear whether a particular activity involves one business model with some infrequent asset sales or whether the anticipated sales indicate that there are two different business models.

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows the Group considers:

- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focuses on earning contractual interest revenues;
- the degree of frequency of any expected asset sales;
- the reason for any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity.

Contractual cash flows of financial assets – Applicable from 1 January 2011
The Group exercises judgment in determining whether the contractual terms of financial assets it originates or acquires give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding and so may qualify for amortised cost measurement. In making the assessment the Group considers all contractual terms, including any prepayment terms or provisions to extend the maturity of the assets, terms that change the amount and timing of cash flows and whether the contractual terms contain leverage.

3 BUSINESS COMBINATIONS

Acquisition of additional interest in Byblos Bank Syria S.A.

During the fourth quarter of 2011, the Group acquired an additional 10.87% interest in the voting shares of Byblos Bank Syria S.A, increasing its ownership interest to 52.37%. A cash consideration of LL 8,584 million was paid to the non-controlling interest shareholders. The carrying value of the additional interest acquired was equal to the consideration paid.

Acquisitions in 2010

On 31 March 2010, the Group completed the acquisition of 66.67% of the share capital of Solidaire Banque International S.B.I. SARL, unlisted entity specializing in banking activities in Democratic Republic of Congo, for a total consideration of LL 15,075 million (equivalent to US$ (000) 10,000).

Assets acquired and liabilities assumed

The fair value of the identifiable assets and liabilities of Solidaire Banque International S.B.I. SARL as of 31 March 2010 were as follows:

	Fair value recognized on acquisition LL million	*Carrying value LL million*
Assets		
Cash and balances with central bank	**2,518**	**2,518**
Amounts due from Head office	**18,553**	**18,553**
Loans and advances to customers	**7,998**	**7,998**
Deposits with banks and financial institutions	**1,982**	**1,982**
Tangible fixed assets	**1,250**	**1,250**
Other assets	**153**	**153**
Total assets	**32,454**	**32,454**
Liabilities		
Customers' deposits	**8,927**	**8,927**
Other liabilities	**916**	**916**
Total liabilities	**9,843**	**9,843**
Total identifiable net assets at fair value	**22,611**	**22,611**
Non-controlling interest measured at fair value	**(7,505)**	
Excess of Group's interest in the net fair value of identifiable assets and liabilities over cost	**(31)**	
Purchase consideration transferred	**15,075**	

Cash outflow on acquisition was as follows:

	LL million
Cash paid	**15,075**
Net cash acquired with subsidiary	**(2,518)**
Net cash outflow arising on acquisition of the subsidiary	**12,557**

From the date of acquisition, the subsidiary contributed to a loss of LL 5,001 million to the results of the Group.

If the combination had taken place at the beginning of the year, the total net operating income for the year would have been less by LL 83 million.

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

4 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 Group segments its business into Retail Banking, Corporate Banking, Treasury and Capital Markets, and Insurance. Management treats the operations of these segments separately for the purposes of decision making, resource allocation and performance assessment.

Retail Banking
Retail Banking provides a diversified range of products and services to individuals. The range includes housing loans, consumer loans, credit cards, deposits, foreign exchange and other branch related services.

Corporate Banking
Corporate Banking provides a comprehensive product and service offering to business and corporate customers, including lending, deposits, trade finance and foreign exchange operations.

Treasury and capital markets
Treasury and capital markets include treasury, investments and other defined Group activities. It also includes investment products and services to institutional investors and intermediaries. Treasury is also responsible for the liquidity management and market risk.

Insurance
The Group provides insurance services through subsidiaries operating in Lebanon and Syria.

Unallocated
This includes long term investments and other operating income and expenses not allocated to any of the above segments in addition to other miscellaneous activities.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the financial statements. Income taxes are not allocated to operating segments.

Interest income is reported net since the majority of the segments' revenues are from interest. Management primarily relies on net interest revenue as performance measure, not the gross revenue and expense amounts. Transfer prices between operating segments are on an arms' length basis in a manner similar to transactions with third parties.

The following table presents net operating income, profit and total assets information in respect of the Group's operating segments:

	2011					
	Retail banking LL million	*Corporate banking LL million*	*Treasury and capital markets LL million*	*Insurance LL million*	*Unallocated LL million*	*Total LL million*
Net interest income	252,451	135,935	35,347	631	-	424,364
Net fee and commission income	53,533	71,542	4,093	13,510	2,117	144,795
Net gain from financial instruments at fair value through profit or loss	-	-	61,264	337	-	61,601
Net gain on financial assets	-	-	4,200	-	-	4,200
Net gain from sale of financial assets at amortized cost	-	-	64,165	-	-	64,165
Other operating income	-	-	-	87	13,104	13,191
Credit loss expense	(6,909)	(42,454)	6,593	-	-	(42,770)
Impairment losses on other financial assets	-	-	(22,825)	(750)	-	(23,575)
Net operating income	299,075	165,023	152,837	13,815	15,221	645,971
Total assets	1,680,172	4,693,970	18,252,393	110,807	289,971	25,027,313
Total liabilities	17,989,539	1,336,869	2,620,704	192,796	402,627	22,542,535

4 SEGMENTAL INFORMATION (continued)

	2010					
	Retail banking LL million	*Corporate banking LL million*	*Treasury and capital markets LL million*	*Insurance LL million*	*Unallocated LL million*	*Total LL million*
Net interest income	219,668	106,218	100,691	686	-	427,263
Net fee and commission income	41,204	61,637	(2,454)	12,288	12,983	125,658
Net trading income	-	-	19,474	(16)	2,700	22,158
Net gain on financial assets	-	-	98,320	-	2,645	100,965
Other operating income	-	-	-	87	8,031	8,118
Credit loss expense	(12,450)	(12,093)	(4,729)	-	-	(29,272)
Impairment losses on other financial assets	-	-	(8,863)	-	-	(8,863)
Net operating income	248,422	155,762	202,439	13,045	26,359	646,027
Total assets	1,409,368	4,567,705	16,671,807	89,784	308,728	23,047,392
Total liabilities	16,752,227	1,175,452	1,982,013	167,429	513,853	20,590,974

Geographic information

The Group operates in two geographic markets; local and international. The local market represents the Lebanese market and the international market represents markets outside Lebanon. The following table shows the distribution of the Group's external net operating income, total assets and capital expenditure by geographical segment.

	Domestic		*International*		*Total*	
	2011 LL million	*2010 LL million*	***2011 LL million***	*2010 LL million*	***2011 LL million***	*2010 LL million*
Net interest income	**331,537**	349,536	**92,827**	77,727	**424,364**	427,263
Net fee and commission income	**76,175**	58,118	**68,620**	67,540	**144,795**	125,658
Net gain from financial instruments at fair value through profit or loss	**30,159**	-	**31,442**	-	**61,601**	-
Net trading income	**-**	13,623	**-**	8,535	**-**	22,158
Net gain on financial assets	**1,768**	95,897	**2,432**	5,068	**4,200**	100,965
Net gain from sale of financial assets at amortized cost	**65,568**	-	**(1,403)**	-	**64,165**	-
Other operating income	**12,232**	7,794	**959**	324	**13,191**	8,118
Credit loss expense	**(19,562)**	(16,727)	**(23,208)**	(12,545)	**(42,770)**	(29,272)
Impairment losses on other financial assets	**-**	(3,800)	**(23,575)**	(5,063)	**(23,575)**	(8,863)
Net operating income	**497,877**	504,441	**148,094**	141,586	**645,971**	646,027
Total assets	**16,809,490**	14,987,694	**8,217,823**	8,059,698	**25,027,313**	23,047,392
Total liabilities	**17,397,732**	16,055,300	**5,144,803**	4,535,674	**22,542,535**	20,590,974

5 INTEREST AND SIMILAR INCOME

	2011 LL million	2010 LL million
Balances with central banks	**42,518**	15,116
Due from banks and financial institutions	**41,491**	32,491
Loans to banks and financial institutions and reserve repurchase agreements	**16,423**	-
Financial assets given as collateral	**583**	403
Financial assets – held for trading	-	10,809
Financial assets – available-for-sale	-	137,341
Financial assets – held-to-maturity	-	47,166
Financial assets – loans & receivables	-	576,494
Loans and advances to customers at amortized cost	**453,711**	403,624
Loans and advances to related parties at amortized cost	**582**	570
Debt instruments at amortized cost	**709,429**	-
	1,264,737	1,224,014

6 INTEREST AND SIMILAR EXPENSE

	2011 LL million	2010 LL million
Due to central banks	**325**	253
Due to banks and financial institutions	**37,631**	33,515
Customers' deposits	**736,501**	709,785
Related parties' deposits	**6,586**	8,386
Debt issued and other borrowed funds	**30,639**	16,812
Subordinated notes	**27,941**	27,662
Other equity instruments	**750**	338
	840,373	796,751

7 NET FEE AND COMMISSION INCOME

	2011 LL million	2010 LL million
Fee and commission income		
Loans and advances	**21,652**	19,535
Letters of guarantee	**15,588**	14,535
Acceptances	**7,134**	6,037
Letters of credit	**41,052**	42,791
Credit cards	**7,484**	5,414
Domiciled bills	**1,851**	1,738
Checks for collection	**2,783**	2,451
Maintenance of accounts	**8,964**	6,474
Transfers	**9,198**	7,462
Safe rental	**578**	472
Portfolio commission	**3,578**	2,334
Trust and fiduciary activities	**160**	139
Insurance premiums' commission and commission on reinsurance ceded	**18,363**	16,250
Refund of banking services	**13,344**	10,650
Other commissions	**6,455**	3,939
	158,184	140,221

7 NET FEE AND COMMISSION INCOME (continued)

	2011 LL million	2010 LL million
Fee and commission expense		
Commissions paid on financial instruments	**(3,465)**	(4,826)
Other fees	**(9,924)**	(9,737)
	(13,389)	(14,563)
Net fee and commission income	**144,795**	125,658

8 NET GAIN FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2011 LL million	2010 LL million
Interest and similar income from debt instruments and other financial assets at fair value through profit or loss:		
- Lebanese treasury bills and other governmental bills	**13,642**	-
- Bonds and financial assets with fixed income	**709**	-
- Certificates of deposit	**1,876**	-
	16,227	-
Gain from sale of debt instruments and other financial assets at fair value through profit or loss:		
- Lebanese treasury bills and other governmental bills	**2,685**	-
- Bonds and financial assets with fixed income	**1,093**	-
- Certificates of deposit	**2,510**	-
	6,288	-
Unrealized gain (loss) from revaluation of debt instruments and other financial assets at fair value through profit or loss:		
- Lebanese treasury bills and other governmental bills	**178**	-
- Bonds and financial assets with fixed income	**(1,548)**	-
- Certificates of deposit	**(177)**	-
	(1,547)	-
Net gain from debt instruments and other financial assets at fair value through profit or loss	**20,968**	-
Net loss from equity instruments at fair value through profit or loss:		
- Loss from sale	**(401)**	-
- Unrealized loss from revaluation	**(4,792)**	-
- Dividend income	**1,014**	-
	(4,179)	-
Foreign exchange	**44,812**	-
	61,601	-

9 NET TRADING INCOME

	2011 *LL million*	*2010* *LL million*
Treasury bills and other governmental bills	-	(551)
Bonds and financial assets with fixed income	-	1,110
Shares, securities and financial assets with variable income	-	(185)
Dividend income	-	957
Foreign exchange	-	20,827
	-	22,158

"Treasury bills, other governmental bills, bonds and financial assets with fixed income" net income (loss) includes the results of buying and selling and changes in the fair values of debt securities.

"Shares, securities and financial assets with variable income" net income (loss) includes the results of buying and selling and changes in the fair values of equity securities.

"Foreign exchange" net income (loss) includes gains and losses from spot and forward contracts, foreign exchange operations, and other currency derivatives.

10 NET GAIN ON FINANCIAL ASSETS

	2011 *LL million*	*2010* *LL million*
Equity instruments at fair value through other comprehensive income:		
- Dividend income from equity instruments held at year end	**4,200**	-
Financial assets – loans and receivable:		
- Sale of certificates of deposit	-	2,183
- Sale of Lebanese treasury bills and other governmental bills	-	67,892
- Sale of bonds and financial assets with fixed income	-	427
Financial assets – available for sale:		
- Sale of Lebanese treasury bills and other governmental bills	-	25,076
- Dividend income from shares, securities and financial assets with variable income	-	4,030
- Gain on foreign exchange	-	1,357
	4,200	100,965

11 NET GAIN FROM SALE OF FINANCIAL ASSETS AT AMORTIZED COST

Sales of financial assets at amortized cost were made during 2011 due to the following reasons:

- Deterioration of the credit rating below the ceiling allowed in the Group's investment policy
- Liquidity gap and yield management
- Swap of certificates of deposit by BDL
- Currency risk management as a result of change in the currency base of deposits.

11 NET GAIN FROM SALE OF FINANCIAL ASSETS AT AMORTIZED COST (continued)

The schedule below details the gains and losses arising from the derecognition of these financial assets:

	2011		
	Gains *LL million*	*Losses* *LL million*	*Net* *LL million*
Lebanese sovereign and Central Bank of Lebanon:			
- Certificates of deposit	33,130	(488)	32,642
- Treasury bills and bonds	31,248	-	31,248
	64,378	(488)	63,890
Other sovereign:			
- Treasury bills and bonds	-	(1,440)	(1,440)
	-	(1,440)	(1,440)
Private sector:			
- Other debt instruments – Corporate institutions	1,715	-	1,715
	1,715	-	1,715
	66,093	(1,928)	64,165

12 OTHER OPERATING INCOME

	2011 *LL million*	*2010* *LL million*
Net gain from sale of assets taken in settlement of debt	3,877	3,914
Rental income from assets taken in settlement of debt	1,028	1,046
Net gain from sale or disposal of property and equipment	-	900
Write back of provisions for risks and charges (note 43)	2,124	-
Others	6,162	2,258
	13,191	8,118

13 CREDIT LOSS EXPENSE

	2011 *LL million*	*2010* *LL million*
Provisions for commercial loans (note 27)	47,826	26,192
Provisions for consumer loans (note 27)	9,017	14,083
Provisions for doubtful banks (note 20)	-	5,682
Bad debts written off	145	269
	56,988	46,226
Write back of provisions:		
Commercial loans (note 27)	(5,517)	(14,368)
Consumer loans (note 27)	(2,108)	(1,633)
Doubtful banks (note 20)	(6,593)	(953)
	(14,218)	(16,954)
Net credit loss expense	42,770	29,272

14 IMPAIRMENT LOSSES ON OTHER FINANCIAL ASSETS

	2011 LL million	2010 LL million
Debt instruments at amortized cost (note 29):		
- Other governmental bills	**18,166**	-
- Bonds and financial assets with fixed income	**5,409**	-
Financial investments – available-for-sale:		
- Other governmental bills	-	940
Financial investments – loans and receivables (note 32):		
- Bonds and financial assets with fixed income	-	2,212
- Other governmental bills	-	6,898
Write back of provisions:		
Financial instruments – held to maturity (note 33):		
-Bonds and financial assets with fixed income	-	(1,187)
	23,575	8,863

15 PERSONNEL EXPENSES

	2011 LL million	2010 LL million
Salaries and related charges	**136,694**	125,622
Social security contributions	**17,015**	15,474
Provision for end of service benefits (note 43)	**7,577**	4,456
	161,286	145,552

16 ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2011 LL million	2010 LL million
Taxes on interest	**3,143**	2,405
Taxes and duties	**9,421**	10,848
Contribution to deposits guarantee fund	**8,531**	7,520
Rent and related charges	**7,722**	7,662
Professional fees	**6,611**	8,008
Telecommunications and postage expenses	**9,154**	9,585
Board of Directors' attendance fees	**983**	1,182
Maintenance and repairs	**11,746**	12,498
Electricity and fuel	**6,694**	5,148
Travel and entertainment	**4,256**	5,451
Publicity and advertising	**9,998**	9,727
Subscriptions	**3,159**	3,526
Bonuses	**6,260**	23,731
Legal expenses	**4,307**	3,658
Insurance	**1,632**	3,137
Guarding fees	**2,089**	2,118
Printing and stationery	**4,976**	5,043
Provisions for risks and charges	**4,523**	4,974
Other operating expenses	**10,931**	8,639
	116,136	134,860

17 INCOME TAX EXPENSE

The components of income tax expense for the years ended 31 December 2011 and 2010 are as follows:

	2011 ***LL million***	*2010* *LL million*
Current income tax expense reported in the consolidated income statement	**65,987**	66,670

The reconciliation of the Group's income tax for the years ended 31 December 2011 and 2010 is as follows:

	2011 ***LL million***	*2010* *LL million*
Net profit before income tax	**336,924**	327,205
Non-deductible expenses	**82,330**	69,178
Non-taxable revenue	**(53,403)**	(24,490)
Taxable income	**365,851**	371,893
Effective income tax rate	**18%**	18%
Income tax reported in the consolidated income statement	**65,987**	66,670
Less: taxes on interest	**(29,284)**	(28,786)
Less: tax advances	**(5,946)**	(4,068)
Net taxes due	**30,757**	33,816
Current tax liability (note 42)	**32,176**	32,516

18 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Group by the weighted average number of shares (common and priority) outstanding during the year.

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

The following table shows the calculations of the basic earnings per share:

	2011	*2010*
Weighted average number of shares outstanding during the period:		
- Common shares (*)	**561,806,168**	288,838,287
- Priority shares	**-**	205,982,021

18 EARNINGS PER SHARE (continued)

	2011 *LL million*	*2010* *LL million*
Net profit for the year attributable to equity holders of the parent	**259,894**	255,770
(Less): Proposed dividends to preferred shares	**(48,320)**	(48,064)
Net profit attributable to common and priority shareholders	**211,574**	207,706
(Less): Distribution of 4% on nominal value of priority shares (LL 1,210) calculated on the basis of the weighted average number of priority shares outstanding during the year: 0 share (2010: 205,982,021 shares)	-	(9,970)
Net profits attributable to common and priority shareholders	**211,574**	197,736
Of which:		
Net profits attributable to priority shares: 0 share (2010: 205,982,021 shares)	-	82,313
Net profits attributable to common shares: 561,806,168 shares (2010: 288,838,287 shares)	**211,574**	115,423
	211,574	197,736
Basic earnings per share in LL:		
- Common shares	**376.60**	399.61
- Priority shares	-	448.01

(*) The weighted average number of ordinary shares adopted for the computation of basic earnings per share takes into account the weighted average number of treasury shares excluding treasury shares held against other equity instruments (note 49).

Diluted earnings per share

The following table shows the calculations of the diluted earnings per share for the years ended 31 December 2011 and 2010 for common and priority shares:

	2011	*2010*
Weighted average number of common shares for basic earnings per share	**556,286,168**	288,838,287
Effect of dilution:		
Convertible subordinated notes	**80,652,681**	80,652,681
Other equity instruments (note 48)	**5,520,000**	2,601,205
Weighted average number of common shares adjusted for the effect of dilution	**642,458,849**	372,092,173

18 EARNINGS PER SHARE (continued)

	2011 *LL million*	*2010* *LL million*
Net profit attributable to ordinary shares (common and priority) of the parent	**211,574**	207,706
Interest on convertible notes	**20,852**	22,251
Less: income tax	**(3,128)**	(3,338)
Net profit attributable to ordinary shares (common and priority) of the parent adjusted for the effect of convertible instruments	**229,298**	226,619
(Less): Distribution of 4% on nominal value of priority shares (LL 1,210) calculated on the basis of the weighted average number of priority shares outstanding during the year: 0 shares (2010: 205,982,021 shares)	**-**	(9,970)
Net profits attributable to shares (common and priority) after the interest paid to priority shares	**229,298**	216,649
Of which:		
Net profits attributable to priority shares: 0 shares (2010: 205,982,021 shares)	**-**	77,198
Net profits attributable to common shares: 642,458,849 shares (2010: 372,092,173 shares)	**229,298**	139,451
Diluted earnings per common share in LL:		
- Common shares	**356.91**	374.78
- Priority shares	**-**	423.18

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

19 CASH AND BALANCES WITH CENTRAL BANKS

	2011 *LL million*	*2010* *LL million*
Cash on hand	**211,526**	151,145
Balances with the Central Bank of Lebanon:		
- Current accounts	**742,586**	739,580
- Time deposits	**2,866,983**	1,389,915
	3,609,569	2,129,495
Balances with Central Banks in other countries:		
- Current accounts	**423,362**	445,593
- Time deposits	**12,110**	20,774
	435,472	466,367
Accrued interest receivable	**25,901**	1,635
	4,282,468	2,748,642

19 CASH AND BALANCES WITH CENTRAL BANKS (continued)

Obligatory reserves:

- In accordance with the Central Bank of Lebanon's rules and regulations, banks operating in Lebanon are required to deposit with the Central Bank of Lebanon an obligatory reserve calculated on the basis of 25% of sight commitments and 15% of term commitments denominated in Lebanese Lira. This is not applicable for investment banks which are exempt from obligatory reserve requirements on commitments denominated in Lebanese Lira. Additionally, all banks operating in Lebanon are required to deposit with the Central Bank of Lebanon interest-bearing placements representing 15% of total deposits in foreign currencies regardless of nature. Obligatory reserve requirements for banks operating in Lebanon and the related covering time deposits and current accounts amounted to LL 2,141,893 million and LL 2,256,625 million respectively as at 31 December 2011 (2010: LL 1,901,934 million and LL 2,109,788 million respectively).

- Subsidiary banks operating in foreign countries are also subject to obligatory reserve requirements determined based on the banking rules and regulations of the countries in which they operate. As of 31 December 2011, obligatory reserve requirements for banks operating in foreign countries and the related covering time deposits, current accounts and cash on hand amounted to LL 134,708 million (2010: LL 175,551 million).

20 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2011 *LL million*	*2010* *LL million*
Commercial banks:		
- Current accounts	**849,338**	273,324
- Time deposits	**3,467,481**	3,583,500
- Interest receivable	**2,860**	6,343
- Doubtful bank accounts	**4,097**	10,727
- Provision for doubtful bank accounts	**(4,097)**	(10,727)
	4,319,679	3,863,167
Financial institutions:		
- Current accounts	**5,908**	30,958
Registered exchange companies:		
- Current accounts	**3,254**	3,481
- Doubtful exchange companies accounts	**2,259**	2,259
- Provision for doubtful exchange companies accounts	**(2,259)**	(2,259)
	3,254	3,481
Brokerage companies:		
- Current accounts	**2,001**	1,405
	4,330,842	3,899,011

20 DUE FROM BANKS AND FINANCIAL INSTITUTIONS (continued)

Doubtful banks and registered exchange companies

Following is the movement in the provisions for doubtful banks and registered exchange companies during the year:

	2011			2010		
	Banks LL million	Registered exchange companies LL million	Total LL million	Banks LL million	Registered exchange companies LL million	Total LL million
Balance at 1 January	**10,727**	**2,259**	**12,986**	6,183	2,259	8,442
Charge for the year (note 13)	**-**	**-**	**-**	5,682	-	5,682
Write-back (note 13)	**(6,593)**	**-**	**(6,593)**	(953)	-	(953)
Exchange difference	**(37)**	**-**	**(37)**	(185)	-	(185)
Balance at 31 December	**4,097**	**2,259**	**6,356**	10,727	2,259	12,986

21 LOANS TO BANKS AND FINANCIAL INSTITUTIONS AND REVERSE REPURCHASE AGREEMENTS

	2011 LL million	2010 LL million
Loans to banks and financial institutions	**488,714**	-
Accrued interest receivable	**2,820**	-
	491,534	-
Discounted acceptances	**174,231**	-
Interest received in advance	**(1,423)**	-
	172,808	-
Reverse repurchase agreements	**3,141**	-
Accrued interest receivable	**5**	-
	3,146	-
	667,488	-

As a result of the early adoption of IFRS 9 on 1 January 2011, the Group reclassified loans to banks and financial institutions and discounted acceptances amounting to LL 629,997 million from the category "loans and receivables" (note 32) to the category "at amortized cost".

22 FINANCIAL ASSETS GIVEN AS COLLATERAL

	2011 LL million	2010 LL million
Treasury bills mortgaged in favor of the Central Bank of Lebanon, at amortized cost	**8,814**	8,814
Accrued interest receivable	**106**	104
	8,920	8,918

The balance represents treasury bills pledged as collateral for loans obtained from the Central Bank of Lebanon during 2010 (note 38).

23 DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, 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 indicative of neither the market risk nor the credit risk.

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 favourable to the Group.

	2011			2010		
	Assets LL million	Liabilities LL million	Notional amount LL million	Assets LL million	Liabilities LL million	Notional amount LL million
Currency swaps	**891**	**2,201**	**190,831**	129	2,441	117,520
Forward foreign exchange contracts	**4,465**	**5,146**	**313,357**	1,333	1,909	165,010
	5,356	**7,347**	**504,188**	1,462	4,350	282,530

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Group.

Over–the–counter derivatives may expose the Group to the risks associated with the absence of an exchange market on which to close out an open position.

The Group's exposure under derivative contracts is closely monitored as part of the overall management of the Group's market risk.

Forwards
Forwards are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over–the–counter market.

Swaps
Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross–settled.

24 FINANCIAL ASSETS HELD FOR TRADING

	2011 *LL million*	*2010* *LL million*
Lebanese treasury bills and other governmental bills	-	142,007
Bonds and financial assets with fixed income	-	33,929
Shares, securities and financial assets with variable income	-	26,447
Accrued interest receivable on:		
- Lebanese treasury bills and other governmental bills	-	3,278
- Bonds and financial assets with fixed income	-	279
	-	205,940

As a result of the early adoption of IFRS 9 on 1 January 2011, the Group reclassified financial assets held for trading as follows:

	At fair value through profit or loss LL million	***At amortized cost LL million***	***Impact on the opening balance of retained earnings LL million***
Lebanese treasury bills and other governmental bills	**127,743**	**17,399**	**(143)**
Shares, securities and financial assets with variable income	**26,447**	**-**	**-**
Bonds and financial assets with fixed income	**22,896**	**10,871**	**(441)**
	177,086	**28,270**	**(584)**

25 EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2011 ***LL million***	*2010* *LL million*
Quoted shares	**26,383**	-
Unquoted shares	**220**	-
	26,603	-

As a result of the early adoption of IFRS 9 on 1 January 2011, the Group reclassified shares and other equity instruments held for trading and shares and other equity instruments available-for-sale amounting to LL 26,447 million (note 24) and LL 3,636 million (note 31) respectively to the category "at fair value through profit or loss".

26 DEBT INSTRUMENTS AND OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2011	*2010*
	LL million	*LL million*
Lebanese treasury bills and other governmental bills	**195,146**	-
Bonds and financial assets with fixed income	**19,637**	-
Certificates of deposit	**10,916**	-
Accrued interest receivable on:		
- Lebanese treasury bills and other governmental bills	**2,438**	-
- Bonds and financial assets with fixed income	**307**	-
- Certificates of deposit	**162**	-
	228,606	-

As a result of the early adoption of IFRS 9 on 1 January 2011, the Group reclassified debt instruments and other financial assets classified held for trading and classified loans and receivables amounting to LL 150,639 million (note 24) and LL 72,608 million (note 32) respectively to the category "at fair value through profit or loss".

27 NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

	2011	*2010*
	LL million	*LL million*
Commercial loans	**4,555,085**	4,432,715
Consumer loans	**1,730,362**	1,446,786
	6,285,447	5,879,501
Less:		
- Impairment allowances	**(193,934)**	(146,534)
- Unrealized interest	**(62,599)**	(59,667)
	6,028,914	5,673,300

27 NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST (continued)

The loans and advances to customers are classified in accordance with the Central Bank of Lebanon main circular No. 58 as follows:

	2011				*2010*			
	Gross balance LL million	**Unrealized interest LL million**	**Provisions LL million**	**Net balance LL million**	*Gross balance LL million*	*Unrealized interest LL million*	*Provisions LL million*	*Net balance LL million*
- Good loans	**5,807,473**	**-**	**-**	**5,807,473**	5,629,692	-	-	5,629,692
- Watch loans	**346,205**	**-**	**-**	**346,205**	190,380	-	-	190,380
	6,153,678	**-**	**-**	**6,153,678**	5,820,072	-	-	5,820,072
- Substandard loans	**10,214**	**(1,400)**	**-**	**8,814**	2,317	(677)	-	1,640
- Doubtful loans	**72,525**	**(2,169)**	**(29,595)**	**40,761**	35,856	(8,296)	(11,300)	16,260
- Bad loans	**119,641**	**(59,030)**	**(60,611)**	**-**	106,412	(50,694)	(55,718)	-
	6,356,058	**(62,599)**	**(90,206)**	**6,203,253**	5,964,657	(59,667)	(67,018)	5,837,972
Less:								
- Collective provisions	**-**	**-**	**(103,728)**	**(103,728)**	-	-	(79,516)	(79,516)
Accrued interest receivable	**22,234**	**-**	**-**	**22,234**	21,710	-	-	21,710
Less: Interest received in advance	**(92,845)**	**-**	**-**	**(92,845)**	(106,866)	-	-	(106,866)
	6,285,447	**(62,599)**	**(193,934)**	**6,028,914**	5,879,501	(59,667)	(146,534)	5,673,300

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 financial position accounts. The gross balance of these loans amounted to LL 91,644 million as of 31 December 2011 (2010: LL 98,700 million).

27 NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST (continued)

Movement of unrealized interest on substandard, doubtful, and bad loans during the years ended 31 December was as follows:

	2011		
	Commercial loans LL million	Consumer loans LL million	Total LL million
Balance at 1 January	59,329	338	59,667
Add (less):			
- Unrealized interest for the year	9,206	118	9,324
- Amounts transferred from off financial position	1,523	-	1,523
- Recoveries	(4,336)	(11)	(4,347)
- Amounts written off	(3,386)	-	(3,386)
- Difference of exchange	(129)	(53)	(182)
Balance at 31 December	62,207	392	62,599

	2010		
	Commercial loans LL million	Consumer loans LL million	Total LL million
Balance at 1 January	63,598	242	63,840
Add (less):			
- Unrealized interest for the year	10,475	103	10,578
- Amounts transferred from off financial position	3,128	-	3,128
- Recoveries	(10,177)	-	(10,177)
- Amounts written off	(7,657)	-	(7,657)
- Difference of exchange	(38)	(7)	(45)
Balance at 31 December	59,329	338	59,667

Movement of the impairment allowances during the years ended 31 December was as follows:

	2011		
	Commercial loans LL million	Consumer loans LL million	Total LL million
Balance at 1 January	109,513	37,021	146,534
Add (less):			
- Charge for the year (note 13)	47,826	9,017	56,843
- Amounts written off	(990)	(295)	(1,285)
- Recoveries (note 13)	(5,517)	(2,108)	(7,625)
- Transfer from off financial position	637	812	1,449
- Transfer from commercial to consumer	(5,547)	5,547	-
- Difference of exchange	(1,807)	(175)	(1,982)
Balance at 31 December	144,115	49,819	193,934
Individual impairment	68,542	21,664	90,206
Collective impairment	75,573	28,155	103,728
	144,115	49,819	193,934
Gross amount of loans individually determined to be impaired	174,568	27,812	202,380

27 NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST (continued)

	2010		
	Commercial loans LL million	*Consumer loans LL million*	*Total LL million*
Balance at 1 January	97,262	24,855	122,117
Add (less):			
- Charge for the year (note 13)	26,192	14,083	40,275
- Amounts written off	(447)	(728)	(1,175)
- Recoveries (note 13)	(14,368)	(1,633)	(16,001)
- Transfer from off financial position	6,607	-	6,607
- Difference of exchange	(5,733)	444	(5,289)
Balance at 31 December	109,513	37,021	146,534
Individual impairment	51,922	15,096	67,018
Collective impairment	57,591	21,925	79,516
	109,513	37,021	146,534
Gross amount of loans individually determined to be impaired	124,255	20,330	144,585

Collateral repossessed
During the year 2011, the Group took possession of collateral amounting to LL 829 million (2010: LL 5,389 million).

28 BANK ACCEPTANCES

	***2011* LL million**	*2010 LL million*
Letters of credit payable by the Group on behalf of its customers:		
- Acceptances confirmed by the Group without recourse to the beneficiary	**2,983**	7,959
- Other acceptances	**328,838**	283,875
	331,821	291,834

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 statement of financial position for the same amount.

29 DEBT INSTRUMENTS AT AMORTIZED COST

	2011 *LL million*	*2010* *LL million*
Lebanese treasury bills and other governmental bills	**3,401,137**	-
Bonds and financial assets with fixed income	**675,105**	-
Certificates of deposit	**4,415,691**	-
Accrued interest receivable on:		
- Lebanese treasury bills and other governmental bills	**62,786**	-
- Bonds and financial assets with fixed income	**10,265**	-
- Certificates of deposit	**84,353**	-
	8,649,337	-
Less: collective provision for impairment losses	**(25,015)**	-
specific provision for impairment losses	**(17,021)**	-
	8,607,301	-

As a result of the early adoption of IFRS 9 on 1 January 2011, the Group reclassified the following debt instruments to the category "debt instruments at amortized cost":

	Gross amount ***LL million***	***Provision*** ***LL million***	***Net amount*** ***LL million***
Financial assets held for trading (note 24)	**31,283**	**(3,013)**	**28,270**
Available-for-sale financial instruments (note 31)	**1,728,447**	-	**1,728,447**
Other financial assets classified as loans and receivables (note 32)	**6,821,662**	**(12,959)**	**6,808,703**
Held to maturity financial instruments (note 33)	**432,420**	**(3,722)**	**428,698**
	9,013,812	**(19,694)**	**8,994,118**

The movement in the collective provision for impairment losses during the period was as follows:

	2011		
	Other governmental bills ***LL million***	***Bonds and financial assets with fixed income*** ***LL million***	***Total*** ***LL million***
Balance at 1 January	-	-	-
Provision transferred upon early adoption of IFRS 9:			
From other financial assets classified as loans and receivables	**10,747**	**2,212**	**12,959**
From held to maturity financial instruments	**230**	**3,492**	**3,722**
Provision transferred to specific provision for impairment losses	**(7,177)**	-	**(7,177)**
Charge for the year (note 14)	**11,132**	**5,409**	**16,541**
Exchange difference	**(696)**	**(334)**	**(1,030)**
Balance at 31 December	**14,236**	**10,779**	**25,015**

29 DEBT INSTRUMENTS AT AMORTIZED COST (continued)

The movement in the specific provision for impairment losses during the period was as follows:

	2011 Other governmental bills LL million
Balance at 1 January	-
Provision transferred upon early adoption of IFRS 9:	
From financial assets held for trading	**3,013**
Provision transferred from collective provision for impairment losses	**7,177**
Charge for the year (note 14)	**7,034**
Exchange difference	**(203)**
Balance at 31 December	**17,021**
Gross amount of other governmental bills individually determined to be impaired	**23,861**

30 EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2011 LL million	*2010 LL million*
Quoted shares	**39,927**	-
Unquoted shares	**37,040**	-
	76,967	-

As a result of the early adoption of IFRS 9 on 1 January 2011, the Group reclassified equity instruments classified as available-for-sale amounting to LL 80,687 million (note 31) to the category "at fair value through other comprehensive income".

The table below details the equity instruments at fair value through other comprehensive income as at 31 December 2011:

	Carrying amount LL million	***Cumulative fair value changes LL million***	***Dividend income LL million***
Unquoted shares:			
Banque de l'Habitat SAL	**18,979**	**13,790**	**454**
Intra Investment Company SAL	**14,979**	**1,954**	**1,166**
Interbank Payment Network (IPN) SAL	**1,206**	**203**	**104**
Arab Trade Financing Program	**1,492**	-	-
Others	**384**	-	**44**
Quoted shares:			
Jordan Ahli Bank	**39,927**	**(35,361)**	**2,432**
	76,967	**(19,414)**	**4,200**

31 AVAILABLE-FOR-SALE FINANCIAL INSTRUMENTS

	2011 *LL million*	*2010* *LL million*
Lebanese treasury bills and other governmental bills	-	1,433,865
Bonds and financial assets with fixed income	-	316,422
Shares, securities and financial assets with variable income	-	84,324
Accrued interest receivable	-	41,200
	-	1,875,811

As a result of the early adoption of IFRS 9 on 1 January 2011, the Group reclassified financial assets available-for-sale as follows:

	At fair value through other comprehensive income *LL million*	*At amortized cost* *LL million*	*At fair value through profit or loss* *LL million*	*Impact on the opening balance of change in fair value of financial instruments through other comprehensive income* *LL million*	*Impact on the opening balance of deferred taxes* *LL million*	*Impact on the opening balance of retained earnings* *LL million*
Lebanese treasury bills and other governmental bills	-	1,414,471	-	(56,491)	8,075	-
Shares, securities and financial assets with variable income	80,687	-	3,636	(37,127)	(192)	37,127
Bonds and financial assets with fixed income	-	313,976	-	(6,550)	995	-
	80,687	1,728,447	3,636	(100,168)	8,878	37,127

32 OTHER FINANCIAL ASSETS CLASSIFIED AS LOANS AND RECEIVABLES

	2011 *LL million*	*2010* *LL million*
Certificates of deposit	-	4,389,114
Lebanese treasury bills and other governmental bills	-	2,203,391
Bonds and financial assets with fixed income	-	155,342
Loans to banks and financial institutions	-	369,694
Discounted acceptances	-	262,466
Interest received in advance	-	(3,614)
Accrued interest receivable	-	127,422
	-	7,503,815
Less: allowance for impairment losses	-	(12,959)
	-	7,490,856

32 OTHER FINANCIAL ASSETS CLASSIFIED AS LOANS AND RECEIVABLES (continued)

As a result of the early adoption of IFRS 9 on 1 January 2011, the Group reclassified financial assets classified as loans and receivables as follows:

	At fair value through profit or loss LL million	*At amortized cost LL million*	*Impact on the opening balance of change in fair value of financial instruments through other comprehensive income LL million*	*Impact on the opening balance of retained earnings LL million*
Loans to banks and financial institutions	-	371,144	-	-
Discounted acceptances	-	258,853	-	-
Lebanese treasury bills and other governmental bills	72,608	2,191,542	19,025	1,534
Certificates of deposit	-	4,471,044	(107)	-
Bonds and financial assets with fixed income	-	159,076	-	-
Collective provision	-	(12,959)	-	-
	72,608	**7,438,700**	**18,918**	**1,534**

The impact on the opening balance of the change in fair value of financial instruments through other comprehensive income resulted from unrealized losses relating to financial assets that were reclassified during 2008 from "available-for-sale" to "loans and receivables" in accordance with the amendments that occurred at the time on IAS 39 and IFRS 7.

The movement in the allowance for impairment losses during the year ended 31 December 2010 was as follows:

	2010		
	Other governmental bills LL million	*Bonds and financial assets with fixed income LL million*	*Total LL million*
Balance at 1 January	3,849	-	3,849
Charge for the year (note 14)	6,898	2,212	9,110
Balance at 31 December	10,747	2,212	12,959

33 HELD TO MATURITY FINANCIAL INSTRUMENTS

	2011 LL million	2010 LL million
Lebanese treasury bills and other governmental bills	-	376,975
Bonds and financial assets with fixed income	-	42,790
Accrued interest receivable	-	12,655
	-	432,420
Less: allowance for impairment losses	-	(3,722)
	-	428,698

As a result of the early adoption of IFRS 9 on 1 January 2011, the Group reclassified financial assets classified as held to maturity to the category “at amortized cost” (note 29). This reclassification did not have any impact on the Group’s financial position as at 1 January 2011.

The movement of the allowance for impairment losses during the year ended 31 December 2010 was as follows:

	2010		
	Other governmental bills LL million	Bonds and financial assets with fixed income LL million	Total LL million
Balance at 1 January	230	4,679	4,909
Written back during the year (note 14)	-	(1,187)	(1,187)
Balance at 31 December	230	3,492	3,722

34 PROPERTY AND EQUIPMENT

	Buildings LL million	Motor vehicles LL million	Furniture and equipment LL million	Deposits LL million	Advance payments LL million	Total LL million
Cost:						
At 1 January 2011	239,196	3,809	173,227	1,545	24,581	442,358
Additions during the year	17,868	388	21,917	58	16,901	57,132
Transfers	(2,074)	-	16,153	-	(14,079)	-
Disposal of fixed assets	(39)	(524)	(8,871)	(932)	(236)	(10,602)
Foreign exchange difference	(2,435)	(82)	(3,984)	(3)	(44)	(6,548)
At 31 December 2011	252,516	3,591	198,442	668	27,123	482,340
Depreciation:						
At 1 January 2011	40,517	2,469	118,069	-	-	161,055
Depreciation during the year	5,536	681	25,249	-	-	31,466
Transfers	(3,863)	-	3,863	-	-	-
Related to disposals of fixed assets	-	(402)	(8,942)	-	-	(9,344)
Foreign exchange difference	220	(51)	(2,072)	-	-	(1,903)
At 31 December 2011	42,410	2,697	136,167	-	-	181,274
Net carrying value:						
At 31 December 2011	210,106	894	62,275	668	27,123	301,066

34 PROPERTY AND EQUIPMENT (continued)

	Buildings *LL million*	*Motor vehicles* *LL million*	*Furniture and equipment* *LL million*	*Deposits* *LL million*	*Advance payments* *LL million*	*Total* *LL million*
Cost:						
At 1 January 2010	232,009	3,465	150,338	1,453	12,781	400,046
Additions during the year	20,250	535	22,857	106	17,494	61,242
Addition through acquisition of a bank	-	73	1,177	-	-	1,250
Transfers	1,720	-	1,916	-	(3,636)	-
Disposal of fixed assets	(3,272)	(83)	(1,719)	-	(43)	(5,117)
Foreign exchange difference	(11,511)	(181)	(1,342)	(14)	(2,015)	(15,063)
At 31 December 2010	239,196	3,809	173,227	1,545	24,581	442,358
Depreciation:						
At 1 January 2010	34,425	1,905	96,978	-	-	133,308
Depreciation during the year	6,460	694	22,849	-	-	30,003
Impairment of fixed assets	1,011	-	-	-	-	1,011
Related to disposals of fixed assets	(166)	(51)	(1,578)	-	-	(1,795)
Foreign exchange difference	(1,213)	(79)	(180)	-	-	(1,472)
At 31 December 2010	40,517	2,469	118,069	-	-	161,055
Net carrying value:						
At 31 December 2010	198,679	1,340	55,158	1,545	24,581	281,303

The cost of buildings at 31 December 2011 and 2010 include the revaluation differences of properties valued during prior years in accordance with law 282 dated 30 December 1993, and approved by the Central Committee of the Bank of Lebanon.

Revaluation differences on property and equipment reflected as revaluation reserve of real estate in equity amounted to LL 5,689 million as at 31 December 2011 (2010: the same) (note 50).

35 INTANGIBLE ASSETS

	2011 ***LL million***	*2010* *LL million*
Cost:		
At 1 January	**2,054**	1,637
Additions for the year	**249**	417
At 31 December	**2,303**	2,054
Accumulated amortization:		
At 1 January	**1,015**	903
Amortization expense for the year	**159**	112
At 31 December	**1,174**	1,015
Net book value:		
At 31 December	**1,129**	1,039

36 ASSETS TAKEN IN SETTEMENT OF DEBT

	2011 LL million	2010 LL million
Cost		
At 1 January	**44,251**	43,726
Additions during the year	**829**	5,389
Disposal	**(4,469)**	(4,864)
At 31 December	**40,611**	44,251
Impairment		
At 1 January	**(5,159)**	(5,159)
At 31 December	**(5,159)**	(5,159)
Net carrying value		
At 31 December	**35,452**	39,092

Advance payments received in connection with future sale transactions for the above assets amounted to LL 1,428 million as of 31 December 2011 (2010: LL 1,312 million) (note 42).

Rental income from foreclosed properties for the year amounted to LL 1,028 million (2010: LL 1,046 million).

37 OTHER ASSETS

		2011 LL million	2010 LL million
Obligatory financial assets	a	**20,091**	14,718
Other assets	b	**59,822**	74,793
Deferred tax assets		**1,061**	-
Doubtful debtor accounts		**37**	72
		81,011	89,583
Less: Allowance for credit losses	c	**(37)**	(37)
		80,974	89,546

a) Obligatory financial assets consist of deposits at a percentage of the share capital of subsidiary banks that was blocked at incorporation as a guarantee with the authorities. These deposits shall be returned to the subsidiary banks without any interest upon liquidation of their activities.

b) Other assets comprise of the following:

	2011 LL million	2010 LL million
Prepaid rent	**3,768**	5,664
Printings and stationery	**3,213**	2,990
Credit card balances due from customers	**11,248**	9,501
Insurance premiums receivable	**2,945**	5,248
Reinsurers' share of technical reserve of subsidiary insurance companies	**19,974**	16,624
ATM balances	**397**	23,209
Advance payment on participating in capital increase of equity instruments at fair value through other comprehensive income	**5,187**	-
Other debit balances	**13,090**	11,557
	59,822	74,793

38 DUE TO CENTRAL BANKS

	2011 LL million	2010 LL million
Current accounts	**5,925**	9,570
Loan due to the Central Bank of Lebanon	**8,814**	8,814
Loan due to the Central Bank of Armenia	**887**	1,061
Accrued interest payable	**44**	47
	9,745	9,922
	15,670	19,492

During the year ended 31 December 2010, the Group obtained 3 loans from the Central Bank of Lebanon to finance customers affected by July 2006 war as follows:

	Amount LL million	Interest rate	Maturity
First loan	**1,899**	2.425%	2 May 2013
Second loan	**5,528**	2.9%	23 April 2015
Third loan	**1,387**	2.9%	23 April 2016
	8,814		

The above loans are secured by the pledge of Lebanese treasury bills amounting to LL 8,814 million included under financial assets given as collateral as of 31 December 2011 (2010: the same) (note 22).

39 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2011 LL million	2010 LL million
Commercial banks:		
- Current accounts	**312,650**	212,149
- Time deposits	**574,196**	708,139
- Term loans	**246,291**	266,930
- Cash margins	**232,659**	101,355
- Accrued interest payable	**7,186**	8,415
	1,372,982	1,296,988
Financial institutions:		
- Current accounts	**1,999**	2,640
- Term loans	**221,245**	201,238
- Time deposits	**29,019**	6,560
- Accrued interest payable	**2,669**	2,122
	254,932	212,560
Registered exchange companies:		
- Current accounts	**160**	813
- Time deposits	**2,223**	2,424
	2,383	3,237
Brokerage institutions:		
- Current accounts	**3,875**	-
- Time deposits	**1,308**	
	5,183	-
Total	**1,635,480**	1,512,785

40 CUSTOMERS' DEPOSITS AT AMORTIZED COST

	2011 *LL million*	*2010* *LL million*
Current accounts	**3,196,618**	3,082,780
Term deposits	**15,002,062**	13,856,849
Cash margins	**888,878**	845,463
Accrued interest payable	**86,859**	82,538
	19,174,417	17,867,630

Customers' deposits include coded deposit accounts amounting to LL 52,216 million as of 31 December 2011 (2010: LL 42,496 million).

41 DEBT ISSUED AND OTHER BORROWED FUNDS

	Nominal value US$ (000)	*Maturity*	*Interest rate %*	*2011* *LL million*	*2010* *LL million*
Certificates of deposit					
Issue 2009 – First Series	**101,150**	**31/03/2012**	**6.50**	**152,484**	152,484
Issue 2009 – Second Series	**40,450**	**31/03/2014**	**7.25**	**60,978**	60,978
Accrued interest payable				**39**	39
				213,501	213,501
Bonds (*)					
Issue 2011	**297,310**	**24/06/2021**	**7.00**	**448,174**	-
Accrued interest payable				**615**	-
				448,789	-
				662,290	213,501
Interest and similar expense:					
- Certificates of deposit				**14,332**	14,329
- Equity linked notes				-	2,483
- Bonds				**16,307**	-
				30,639	16,812

(*) The Bank has undertaken not to use any of the proceeds of the issue in Sudan, Syria or Democratic Republic of Congo.

The Bank shall pay interest on the bonds without deduction or withholding for taxes.

The bonds are redeemable, in whole or in part, at the option of the Bank at any time after the first anniversary of the issue date, in the event of changes in the Lebanese tax law that will result in taxes on interest on the bonds in excess of the current applicable tax rate of 10%.

42 OTHER LIABILITIES

	2011 LL million	2010 LL million
Accrued expenses	**28,823**	41,961
Fixed assets suppliers	**10,211**	10,032
Unearned commission and interest	**2,010**	2,847
Cash margins related to companies under establishment	**10,104**	2,709
Insurance premiums received in advance	**2,178**	2,170
Partial payments received from customers	**4,512**	5,395
Payables to the National Social Security Fund	**1,692**	1,636
Advance payments linked to assets taken in settlement of debt (note 36)	**1,428**	1,312
Current tax liability (a)	**47,669**	44,526
Deferred tax liability (b)	**2,229**	11,445
Other creditors	**15,411**	21,724
	126,267	145,757

(a) Current tax liability

	2011 LL million	2010 LL million
Income tax due (note 17)	**32,176**	32,516
Withholding tax on salaries	**2,237**	2,632
Withholding tax on interest earned by customers	**7,322**	5,274
Value added tax	**87**	145
Withholding tax on dividends	**2,207**	6
Other taxes	**3,640**	3,953
	47,669	44,526

(b) Deferred tax liability

	2011 LL million	2010 LL million
At 1 January	**11,445**	15,485
Effect of IFRS 9 early adoption	**(8,878)**	-
Deferred tax on financial instruments at fair value through other comprehensive income	**(318)**	(4,225)
Translation differences	**(20)**	185
At 31 December	**2,229**	11,445

43 PROVISIONS FOR RISKS AND CHARGES

	2011 LL million	2010 LL million
Technical reserves of insurance company	**78,693**	75,253
Provision for employees' end of service benefits (a)	**37,133**	30,922
Other provisions (b)	**14,163**	13,730
	129,989	119,905

43 PROVISIONS FOR RISKS AND CHARGES (continued)

(a) Movement in the provision for employees' for end of service benefits during the year was as follows:

	2011 ***LL million***	*2010* *LL million*
Balance at 1 January	**30,922**	28,276
Provision constituted during the year (note 15)	**7,577**	4,456
End of service benefits paid during the year	**(1,366)**	(1,810)
Balance at 31 December	**37,133**	30,922

(b) Movement in other provisions during the year was as follows:

	2011 ***LL million***	*2010* *LL million*
At 1 January	**13,730**	6,383
Charge for the year	**6,187**	7,864
Write back during the year (note 12)	**(2,124)**	-
Payments during the year	**(2,850)**	-
Foreign exchange	**(780)**	(517)
At 31 December	**14,163**	13,730

44 SUBORDINATED NOTES

		2011 ***LL million***	*2010* *LL million*
Convertible subordinated notes	a	**258,875**	254,976
Subordinated notes	b	**48,388**	48,348
		307,263	303,324

a) Convertible subordinated notes

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

Number of notes:	200
Note's issue price:	US$ 1,000,000
Note's nominal value:	US$ 1,000,000
Date of issue:	20 November 2007
Maturity:	30 November 2012, subject to the earlier conversion of these notes, in whole or in part, into Byblos Bank SAL shares or GDR's at a price of US$ 2.25 per share.
Interest rate:	Contractual interest rate of 6.5% payable semi-annually.
Rights of holders:	The noteholder has the right to convert all or portion of the subordinated notes into Byblos Bank SAL shares or GDR's on any quarterly conversion date falling on 31 March, 30 June, 30 September or 31 December in any year during the term of the subordinated loan or on the loan maturity date at a conversion price of US$ 2.25 per share. The conversion price was reduced to US$ 2.145 in accordance with the terms of the subordinated loan agreement and following the capital increase of the Bank in 2009 and 2010.

44 SUBORDINATED NOTES (continued)

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

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

During 2008, convertible notes with a nominal value of US$ (000) 27,000 were converted to Byblos Bank SAL ordinary shares at a price of USD 2.25 per share and as such the nominal value of outstanding convertible notes amounts to US$ (000) 173,000 as of 31 December 2011 (2010: US$ (000) 173,000).

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

	2011		*2010*	
	LL million	***US$ (000)***	*LL million*	*US$ (000)*
Nominal value of the convertible notes	**260,798**	**173,000**	260,798	173,000
Equity component	**(18,040)**	**(11,967)**	(18,040)	(11,967)
Liability component	**242,758**	**161,033**	242,758	161,033
Add:				
- Accrued interest payable	**1,931**	**1,281**	1,931	1,281
- Amortization of discount	**14,186**	**9,411**	10,287	6,824
Amortized cost at 31 December	**258,875**	**171,725**	254,976	169,138

The equity component of the convertible subordinated notes is recorded in equity under "non-distributable reserves (legal and obligatory)" (note 46).

b) Subordinated notes

	2011		*2010*	
	LL million	***US$ (000)***	*LL million*	*US$ (000)*
31,169 notes at US$ 1,000 each maturing on 30 June 2012	**46,988**	**31,169**	46,988	31,169
Less: Issuing cost of US$ (000) 836 to be amortized till maturity	**(20)**	**(13)**	(60)	(40)
Amortized cost	**46,968**	**31,156**	46,928	31,129
Add: yield payable	**1,420**	**942**	1,420	942
	48,388	**32,098**	48,348	32,071

The notes pay an annual yield, not to exceed 15% of the annual amount, detailed as follows:

- an annual yield of 9% compounded and paid quarterly.
- 5% of the Bank's net income, after adding the provision constituted to settle this balance and after deducting taxes.

The subordinated notes' original issue on 1 July 2002 was 100,000 notes at US$ 1,000 each. 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. The subordinated notes were listed on the Luxembourg Stock Exchange.

45 SHARE CAPITAL

	2011			2010		
	No of shares	*Share capital LL million*	*Share premium LL million*	*No of shares*	*Share capital LL million*	*Share premium LL million*
Ordinary shares						
- Common shares	**565,515,040**	**684,273**	**229,014**	359,491,317	434,984	229,014
- Priority shares	**-**	**-**	**-**	206,023,723	249,289	-
	565,515,040	**684,273**	**229,014**	565,515,040	684,273	229,014
Preferred shares						
- Series 2008	**2,000,000**	**2,420**	**295,154**	2,000,000	2,420	295,154
- Series 2009	**2,000,000**	**2,420**	**288,704**	2,000,000	2,420	286,302
	4,000,000	**4,840**	**583,858**	4,000,000	4,840	581,456

The capital of the Bank is divided into 569,515,040 shares of LL 1,210 each fully paid (2010: 569,515,040 shares of LL 1,210 each).

Capital increase in 2010
The extraordinary general assembly convened on 19 February 2010 approved the increase in capital of LL 172,278 million from LL 516,835 million to LL 689,113 million by issuing 142,378,760 common shares with a par value of LL 1,210 each. The issue price was US$ 1.75 per share (LL 2,638.125) and accordingly total share premium amounted to US$ (000) 134,387 (equivalent to LL million 202,589).

Priority shares
On 10 December 2005, the Bank issued 206,023,723 priority shares which have the same rights and obligations as common 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 common shares without any further resolution by the general assembly. Accordingly, the conversion of the priority shares into common shares became effective on the same date of the Annual General Assembly meeting of Shareholders held on 5 May 2011 to approve the accounts of the Bank for the financial year ended 31 December 2010.

Preferred shares

i) Series 2008 Preferred Shares
On 15 August 2008, and based on the decision of the extraordinary general assembly held on 18 July 2008, the Bank issued Series 2008 preferred shares, according to the following terms:

Number of shares:	2,000,000
Share's issue price:	US$ 100
Share's nominal value:	LL 1,200
Issue premium :	US$ (000) 195,790 (equivalent to LL 295,154 million) calculated in US$ as the difference between the total issue of US$ (000) 200,000 and the total par value of the issue amounting to LL 2,400 million and after deducting issuance commission for the issue amounting to US$ (000) 2,618.
Benefits:	Non-cumulative annual dividends of US$ 8.00 per share, subject to the availability of non-consolidated distributable net profits.
Repurchase right:	Redeemable (at a date subsequent to the approval of 2013 accounts by the general assembly) at the Bank's option at the issue price plus any declared but unpaid distributions for all the years preceding the year of the call, with the condition that at least 25% of the original number of the preferred shares are called each time.

In 2009, the par value of series 2008 preferred shares was increased from LL 1,200 to LL 1,210

45 SHARE CAPITAL (continued)

ii) Series 2009 Preferred Shares

On 4 September 2009, and based on the decision of the extraordinary general assembly held on 1 August 2009, the Bank issued Series 2009 preferred shares according to the following terms:

Number of shares:	2,000,000
Share's issue price:	US$ 96
Share's nominal value:	LL 1,210
Issue premium :	US$ (000) 188,313 (equivalent to LL 283,881 million) calculated in US$ as the difference between the total issue of US$(000) 192,000 and the total par value of the issue amounting to LL 2,420 million and after deducting issuance commissions of US$ (000) 2,082.
Benefits:	Non-cumulative annual dividends of US$ 8.00 per share, subject to the availability of non-consolidated distributable net profits.
Repurchase right:	Redeemable (at a date subsequent to the approval of 2014 accounts by the general assembly) at the Bank's option at US$ 100 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.

During 2011, the Bank transferred LL 2,412 million from retained earnings to the share premium on Series-2009 preferred shares (2010: LL 2,421 million) for the difference between the redemption price and the issue price.

Listing of shares

As of 31 December the Bank's common shares were listed as follows:

	Stock exchange	*2011* No of shares	*2010* No of shares
Ordinary shares	Beirut	**500,804,990**	500,707,990
Global depository receipts(*)	London SEAQ and Beirut	**1,294,201**	1,296,141
Preferred shares	Beirut	**4,000,000**	4,000,000

(*) Global Depository Receipts (GDR's) can be issued at a ratio of 50 Common Shares per one GDR.

46 NON DISTRIBUTABLE RESERVES (LEGAL AND OBLIGATORY)

	Legal reserve LL million	*Reserves for capital increase LL million*	*Equity component of convertible subordinated notes LL million*	*Reserve for general banking risks LL million*	*Other reserves LL million*	*Total LL million*
Balance at 1 January 2011	**143,741**	**40,135**	**18,040**	**113,209**	**81,401**	**396,526**
Appropriation from retained earnings	**28,509**	**5,301**	-	**25,400**	**13,056**	**72,266**
Net gain on sale of treasury shares (note 49)	-	**280**	-	-	-	**280**
Balance at 31 December 2011	**172,250**	**45,716**	**18,040**	**138,609**	**94,457**	**469,072**
Balance at 1 January 2010	120,358	29,634	18,040	80,429	63,485	311,946
Appropriation from retained earnings	23,383	10,045	-	32,780	17,916	84,124
Net gain on sale of treasury shares (note 49)	-	456	-	-	-	456
Balance at 31 December 2010	143,741	40,135	18,040	113,209	81,401	396,526

46 NON DISTRIBUTABLE RESERVES (LEGAL AND OBLIGATORY) (continued)

Legal reserve
According to the Lebanese Code of Commerce and to the Money and Credit Act, banks and companies operating in Lebanon have to transfer 10% of their annual net profit to a legal reserve. This reserve cannot be distributed as dividends.

During 2011, the Group appropriated LL 28,509 million from 2010 profits to the legal reserve in accordance with the General Assembly of Shareholders' resolutions (2010: LL 23,383 million).

Reserves for capital increase
This represents regulatory reserves constituted in accordance with circulars issued by the Banking Control Commission. These reserves cannot be distributed as dividends and comprise the following:

	2011 ***LL million***	*2010* *LL million*
Reserve equivalent to realized profit on sale of assets acquired in settlement of debt, in accordance with BCC circular No 173	**17,508**	13,595
Reserve equivalent to provisions recovered, in accordance with BCC circular No 167	**9,737**	9,737
Reserve against assets acquired in settlement of debt in accordance with BDL Circular No 78 and BCC memo 10/2008	**8,346**	6,958
Others	**10,125**	9,845
	45,716	40,135

Reserve for general banking risks
According to the Central 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 statement of financial position items based on rates specified by the Central 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 2011 from the profits of the year 2010 amounted to LL 25,400 million (2010: LL 32,780 million).

Other reserves
Other reserves consist of non-distributable reserves of subsidiaries appropriated from retained earnings as required by the laws applicable in the countries in which they operate. During 2011, the Group transferred an amount of LL 13,056 million from retained earnings to other reserves (2010: LL 17,916 million).

47 DISTRIBUTABLE FREE RESERVES

As of 31 December, distributable free reserves consist of the following:

	2011 ***LL million***	*2010* *LL million*
General reserves	**73,705**	73,705
Other capital reserves	**5,422**	5,422
	79,127	79,127

General reserves
The Group appropriates general reserves from its retained earnings to strengthen its equity.

47 DISTRIBUTABLE FREE RESERVES (continued)

Other capital reserves

	2011 LL million	2010 LL million
Premium on capital increase of Byblos Bank Armenia CJSC	**1,263**	1,263
Premium on capital increase of Byblos Bank Africa	**4,765**	4,765
	6,028	6,028
Less: translation difference	**(606)**	(606)
	5,422	5,422

48 OTHER EQUITY INSTRUMENTS

On 12 July 2010, Byblos Bank SAL issued 3- year notes ("3 Years Byblos Bank Note") for a total amount of US$ 9,936,000 (equivalent to LL 14,979 million) according to the following terms:

Number of notes:	46
Principal of one note:	US$ 216,000
Issuing price:	100%
Total issue:	US$ 9,936,000 (equivalent to LL 14,979 million).
Annual return :	3% per year payable on a monthly basis plus any dividend paid on Byblos Bank common shares during the period preceding the payments of the notes on the basis of 120,000 shares per note.
Maturity:	12 July 2013
Prepayment:	The Bank has the right to redeem the notes before maturity on an annual basis, but only within 30 days following the Annual Ordinary General Meeting of Shareholders. In such case, the Bank shall pay in addition to the principal amount of the Note and the return, a bonus of 6% on the principal of the notes.
Settlement:	At maturity, and at its discretion, the Bank shall either settle 120,000 Byblos Bank common shares per note (calculated on the basis of a strike price of US$ 1.8 per share) or the principal amount of the note in addition to a bonus of 6%.

During 2011, the Group accounted for LL 450 million representing the 3% annual return on the notes (2010: LL 213 million). In addition, the Group accounted for a liability relating to 6% bonus on the principal of the notes in the amount of LL 300 million for the year ended 31 December 2011 (2010: LL 125 million). Dividends paid to the holders of the notes amounted to LL 1,049 million during 2011 (2010: nil).

49 TREASURY SHARES

Movement of treasury shares recognized in the statement of financial position for the years 2011 and 2010 was as follows:

Year ended 31 December 2011

	Common shares		*Priority shares*	
	No. of shares	*Amount LL million*	*No. of shares*	*Amount LL million*
At 1 January 2011	**5,807,785**	**15,887**	**113,401**	**302**
Acquisitions of treasury shares	**3,009,276**	**8,080**	**9,186,412**	**25,501**
Sales of treasury shares	**(828,124)**	**(2,225)**	**(7,953,871)**	**(22,069)**
Conversion of priority shares into common shares	**1,345,942**	**3,734**	**(1,345,942)**	**(3,734)**
At 31 December 2011	**9,334,879**	**25,476**	**-**	**-**
Total treasury shares in LL million				**25,476**

49 TREASURY SHARES (continued)

Year ended 31 December 2010

	Common shares		Priority shares	
	No. of shares	*Amount LL million*	*No. of shares*	*Amount LL million*
At 1 January 2010	141,846	271	60,072	(95)
Acquisitions of treasury shares	10,890,935	29,804	164,942	445
Sales of treasury shares	(5,224,996)	(14,330)	(111,613)	(309)
Adjustments	-	142	-	261
At 31 December 2010	5,807,785	15,887	113,401	302
Total treasury shares (common and priority) in LL million				16,189

As of 31 December 2011, treasury shares include an amount of 5,520,000 common shares (2010: the same) held against other equity instruments (note 48).

During 2011, the Group transferred dividends paid on treasury shares amounting to LL 630 million to retained earnings (2010: LL 141 million). In addition, the Group realised a net gain on disposal of treasury shares amounting to LL 280 million (2010: LL 456 million).

As of 31 December treasury shares include outstanding common shares as follows:

	2011 **No of shares**	*2010* No of shares
Ordinary shares	**8,707,829**	5,662,635
Global depository receipts	**12,541**	2,903

50 REVALUATION RESERVE OF REAL ESTATE

	2011 ***LL million***	*2010* *LL million*
Revaluation reserve accepted in Tier II capital	**1,978**	1,978
Revaluation reserve not accepted in Tier II capital	**3,711**	3,711
	5,689	5,689

51 CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Movement of the change in fair value was as follows:

	2011 ***LL million***	*2010* *LL million*
At 1 January	**53,993**	66,026
Effect of IFRS 9 early adoption	**(72,065)**	-
Balance at 1 January after early adoption of IFRS 9	**(18,072)**	66,026
Realized during the year	-	(25,077)
Net changes in fair values during the year	**(3,718)**	2,998
Amortization of unrealized losses related to securities transferred to the loans and receivables portfolio	-	6,006
Net changes in deferred taxes	**1,379**	4,225
Difference on exchange	**(145)**	(185)
Balance at 31 December	**(20,556)**	53,993

52 CASH AND CASH EQUIVALENTS

	2011 *LL million*	*2010* *LL million*
Cash and balances with central banks	**3,065,906**	2,032,058
Due from banks and financial institutions	**4,233,447**	3,579,099
	7,299,353	5,611,157
Less: Due to banks and financial institutions	**(1,143,305)**	(867,302)
Less: Due to central banks	**(5,930)**	(8,487)
Cash and cash equivalents at 31 December	**6,150,118**	4,735,368

53 RELATED PARTY TRANSACTIONS

The Group enters into transactions, arrangements and agreements involving directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates.

The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial year.

	2011			*2010*		
	Major shareholders LL million	***Other related parties LL million***	***Total LL million***	*Major shareholders LL million*	*Other related parties LL million*	*Total LL million*
Net loans and advances	**10,796**	**2,610**	**13,406**	10,957	983	11,940
Deposits	**151,991**	**-**	**151,991**	112,396	-	112,396
Other credit balances	**215**	**-**	**215**	764	-	764
Interest income on loans and advances	**462**	**120**	**582**	488	82	570
Interest expense on deposits	**6,586**	**-**	**6,586**	8,386	-	8,386

Related parties are granted indirect facilities with an outstanding balance amounting to LL 1,358 million at year end (2010: LL 1,995 million).

Undrawn commitments to lend related parties amounted to LL 7,218 million at year end (2010: LL 7,057 million).

The above related party advances are guaranteed by cash collaterals amounting to LL million 8,687 at year end (2010: LL million 8,344).

Net loans and advances granted to senior management amounted to LL 3,197 million as of 31 December 2011 (2010: LL 2,027 million). The related interest income amounted to LL 143 million for the year ended 31 December 2011 (2010: LL 84 million). These advances are secured by cash collaterals amounting to LL 819 million at 31 December 2011 (2010: LL 991 million).

Compensation of the key management personnel of the Group

	2011			*2010*		
	Chairman & board members LL million	***Senior management LL million***	***Total LL million***	*Chairman & board members LL million*	*Senior management LL million*	*Total LL million*
Salaries and allowances	**3,480**	**6,959**	**10,439**	3,026	6,697	9,723
Bonuses	**8,042**	**2,949**	**10,991**	6,391	3,286	9,677
Attendance fees	**829**	**-**	**829**	787	-	787

54 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

To meet the financial needs of customers, the Group enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group.

Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

Legal claims
Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Group has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, the Group had several unresolved legal claims. Management believes that legal claims will not result in any financial loss to the Group based on information presently available.

Lease arrangements

Operating leases – Group as lessee
The Group has entered into commercial leases on premises. These leases have an average life of between five and ten years.

There are no restrictions placed upon the lessee by entering into these leases.

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

	2011	*2010*
	LL million	*LL million*
Within one year	**3,773**	3,009
After one year but not more than five years	**11,394**	11,922
More than five years	**18,929**	16,091
	34,096	31,022

Other contingencies
The Bank's books and records have been reviewed by Department of Income Tax for the years 2006 and 2007. On 20 February 2012, the Department of Income Tax issued its review report, whereby it charged the Bank with additional taxes and penalties amounting to LL 1.2 billion, which were fully paid during 2012. In addition, the Bank's books and records for the years 2008 to 2011 inclusive have not been reviewed by the Department of Income Tax. The ultimate outcome of any potential review that may take place cannot be presently determined.

The subsidiaries' books and records are subject to review by the tax and social security authorities. The ultimate outcome of any review that might take place cannot be presently determined.

Contingent liabilities
During 2011, Syria, one of the significant credit markets of the Group, witnessed a period of political and civil unrest together with adverse events which can affect the economic environment of future periods. As part of its collective provisioning process, management performed a stress test on the loan portfolio exposed to the Syrian market risks and, as a result, the necessary provisions were booked. The Group's management continues to monitor its loan portfolio and evaluate the impact of these events during 2012.

55 FAIR VALUE OF FINANCIAL INSTRUMENTS

Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable market data, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	2011		
	Level 1 *LL million*	*Level 2* *LL million*	*Total* *LL million*
FINANCIAL ASSETS			
Derivative financial instruments:			
Currency swaps	-	891	891
Forward foreign exchange contracts	-	4,465	4,465
	-	5,356	5,356
Equity instruments at fair value through profit or loss	26,603	-	26,603
Debt instruments and other financial assets at fair value through profit or loss:			
Lebanese treasury bills and other governmental bills	141,874	55,710	197,584
Certificates of deposit	-	11,078	11,078
Bonds and financial assets with fixed income	19,944	-	19,944
Equity instruments at fair value through other comprehensive income	39,927	37,040	76,967
	228,348	103,828	332,176
	228,348	109,184	337,532
FINANCIAL LIABILITIES			
Derivative financial instruments:			
Currency swaps	-	2,201	2,201
Forward foreign exchange contracts	-	5,146	5,146
	-	7,347	7,347

55 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Determination of fair value and fair value hierarchy (continued)

	2010			
	Level 1 *LL million*	*Level 2* *LL million*	*Level 3* *LL million*	*Total* *LL million*
FINANCIAL ASSETS				
Derivative financial instruments:				
Currency swaps	-	129	-	129
Forward foreign exchange contracts	-	1,333	-	1,333
	-	1,462	-	1,462
Financial assets held for trading:				
Lebanese treasury bills and other governmental bills	137,274	8,011	-	145,285
Bonds and financial assets with fixed income	26,313	-	7,895	34,208
Shares, securities and financial assets with variable income	26,447	-	-	26,447
	190,034	8,011	7,895	205,940
Available for sale financial instruments:				
Lebanese treasury bills and other governmental bills	484,008	986,954	-	1,470,962
Bonds and financial assets with fixed income	250,721	69,804	-	320,525
Shares, securities and financial assets with variable income	50,371	33,953	-	84,324
	785,100	1,090,711	-	1,875,811
	975,134	1,100,184	7,895	2,083,213
FINANCIAL LIABILITIES				
Derivative financial instruments:				
Currency swaps	-	2,441	-	2,441
Forward foreign exchange contracts	-	1,909	-	1,909
	-	4,350	-	4,350

Financial instruments recorded at fair value

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivative products valued using a valuation technique with market observable inputs are mainly currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Financial investments – at fair value through other comprehensive income

These assets are valued using models that use both observable and un–observable data. The non–observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

55 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss valued using a valuation technique consists of certain debt securities and asset-backed securities. The Group values the securities using discounted cash flow valuation models which incorporate observable and un-observable data. Observable inputs include assumptions regarding current rates of interest and broker statements. Unobservable inputs include assumptions regarding expected future default rates, prepayment rates and market liquidity discounts.

Movement of level 3 financial instruments measured at fair value:

	Bonds and financial assets with fixed income	
	2011	2010
	LL million	LL million
Balance at 1 January	**7,895**	7,188
Gains and losses recorded in the consolidated income statement	**(395)**	707
Sales	**(7,500)**	-
Balance at 31 December	**-**	7,895

There were no transfers between levels during 2011 (2010: the same).

Set out below is a comparison of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair values of non–financial assets and non–financial liabilities.

	2011		2010	
	Fair value LL million	**Carrying value LL million**	Fair value LL million	Carrying value LL million
FINANCIAL ASSETS				
Cash and balances with central banks	**4,282,468**	**4,282,468**	2,748,642	2,748,642
Due from banks and financial institutions	**4,332,255**	**4,330,842**	3,902,884	3,899,011
Loans to banks and financial institutions and reverse repurchase agreement	**667,496**	**667,488**	-	-
Financial assets given as collateral	**9,100**	**8,920**	9,075	8,918
Net loans and advances to customers and related parties at amortized cost	**6,037,994**	**6,042,320**	5,720,953	5,685,240
Debt instruments at amortized cost	**8,981,685**	**8,607,301**	-	-
Other financial assets classified as loans and receivables	**-**	**-**	7,951,106	7,490,856
Held to maturity financial instruments	**-**	**-**	447,820	428,698
FINANCIAL LIABILITIES				
Due to central banks	**15,670**	**15,670**	19,492	19,492
Due to banks and financial institutions	**1,636,083**	**1,635,480**	1,513,981	1,512,785
Customers' and related parties' deposits at amortized cost	**19,392,562**	**19,326,408**	18,021,648	17,980,026
Debt issued and other borrowed funds	**665,879**	**662,290**	213,501	213,501
Subordinated notes	**313,940**	**307,263**	320,436	303,324

Fair value of financial assets and liabilities not carried at fair value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

Assets and liabilities for which fair value approximates carrying value

For financial assets and financial liabilities that have a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, and savings accounts without a specific maturity.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money–market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are determined based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads. For other variable rate instruments an adjustment is also made to reflect the change in required credit spread since the instrument was first recognised.

56 RISK MANAGEMENT

The Group Risk Management (GRM) Division was established as a function handling the measurement and management of the risks.
The Group's risk management process involves identification, measurement, monitoring and controlling risks to ensure that:

- The individuals who take or manage risks clearly understand it;
- The organization's risk exposure is within the limits established by the Board of Directors;
- Risk taking decisions are in line with the business strategy and objectives set by the Board of Directors;
- The expected payoffs compensate for the risks taken;
- Risk taking decisions are explicit and clear; and
- Sufficient capital is available to act as a buffer for risks taken.

Risk Management- Basel Perspective
The Group risk management is broadly following the guidelines of the Basel II text to measure and assess the risks identified under the pillars I and II, 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.

With regard to Basel II recommendations relating to best practices in risk management and its objective of capital measurement and capital adequacy, the Group adopts a phased approach to take a more sophisticated approach to credit risk and make use of internal ratings based methodology - or 'IRB Approach'- to calculate its capital requirement for credit risk. In addition to the market risk capital charge, an explicit capital charge for operational risk is being accounted for. Through addressing these three risks - credit, market, and operational risks – the Group addresses 'Pillar I' risks.

As for addressing the capital management issue in the context of Basel II, the Group has developed in 2011 a comprehensive Internal Capital Adequacy Assessment Process (ICAAP), disclosing the risk appetite statement and covering all risks to which the Group is or may be exposed, as well as risk factors from the environment in which it operates. The considered key aspects of the ICAAP are qualitative (Board oversight, policies, identification of material risk, etc.) and quantitative (Capital Adequacy Ratio, Stress Testing, Economic Capital, etc.).

Group risk management structure
Risk management lies at the core of the Group's organization structure. It interfaces with all the different businesses within the Group, as well as all supporting functions. The Risk Management is structured in three layers:

Strategic or Supervisory level, which consists of an oversight by the Board of Directors through a Board Risk and Compliance Committee, and committees of the senior management. It includes defining the institution's risk appetite, formulating strategy and policies for managing risks and establishing adequate systems and controls to ensure that aggregate risk remain within acceptable level and the rewards compensate for the risk taken.

Analytical level, which consists of the GRM Division, with the over-arching responsibility to translate the directions of the various risk committees into policies and procedures of the Group and to identify, measure, monitor and report the risks taken by the Group in a consistent manner across all business lines and operational units.

Tactical level, which consists of the management of the risk at the source of origination of the risks, in the businesses, in treasury and banking operations divisions. It is the responsibility of these units to decide on which risks to take and which risks to mitigate within the policies and procedures set by the GRM Division.

The GRM Division has a direct reporting line to the Chairman/ Board of Directors and is independent from the business units that generate risks. The Board of Directors carries the ultimate responsibility for being aware of and understanding the risks run by the Group's business activities, ensuring that they are properly managed, approving the risk principles and determining the risk appetite. The Board plays a pivotal role in ensuring a culture and an environment of sound risk management. In this respect, it is assisted by the "Board Risk, Anti – Money Laundering and Compliance" Committee, which is responsible for implementing the risk principles, including approval of core credit policies and for managing the risk profile of the Group.

56 RISK MANAGEMENT (continued)

Group risk management structure (continued)

Risk Governance
The Group has currently four senior management committees dealing with risk related issues - Risk Management Committee (RMC), Assets & Liabilities Management Committee (ALCO), Operational Risk and Information Security Committee (ORISC), and the Anti-Money Laundering Committee (AML). 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 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 ORISC is entrusted with the responsibility of managing the operational risks of the Group and alignment of the security program with organizational objectives. The AML ensures that the Group is in compliance with anti-money laundering laws, internal and regulatory requirements.

CREDIT RISK
Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating, subject to regular revision. The credit quality review process aims to allow the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action. The classification system includes six grades, of which three grades relate to the performing portfolio (regular credit facilities: risk ratings "1" and "2" and special mention – watch list: risk rating "3"), one grade relates to substandard loans (risk rating "4") and two grades relate to doubtful and bad loans (respective risk ratings "5" and "6").

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 Group uses Moody's Risk Analyst (RA^{TM}) to classify its commercial loan portfolio according to credit risks. RA^{TM} 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.

In measuring credit risk at a counterparty level the Group reflects three components – the "probability of default" (PD) by the client or counterparty on its contractual obligations; the Group's current exposure to the counterparty and its likely future development, from which the Group derives the "exposure at default" (EAD); and the likely recovery ratio on the defaulted obligations to give the "loss given default" (LGD). These components are also important parameters in determining portfolio risk, not only for internal credit risk measures but also for future regulatory capital calculations, since they are the basis of the Basel II Advanced Internal Rating Based approach, which the Group intends to adopt.

56 RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Derivative financial instruments
Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded on the statement of financial position

With gross–settled derivatives, the Group is also exposed to a settlement risk, being the risk that the Group honours its obligation but the counterparty fails to deliver the counter–value.

Credit–related commitments risks
The Group makes available to its customers guarantees which may require that the Group makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to similar risks to loans and are mitigated by the same control processes and policies.

Risk concentrations: maximum exposure to credit risk without taking account of any collateral and other credit enhancements
The Group's concentrations of risk are managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2011 was LL 197,603 million (2010: LL 197,975 million) before taking account of collateral or other credit enhancements and LL 8,722 million (2010: nil) net of such protection.

The following table shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives, by geography of counterparty and by industry before the effect of mitigation through the use of master netting and collateral agreements. Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Geographic analysis

	2011		
	Lebanon LL million	*Other countries LL million*	*Total LL million*
Balances with central banks	3,635,462	435,480	4,070,942
Due from banks and financial institutions	242,047	4,088,795	4,330,842
Loans to banks and financial institutions and reverse repurchase agreements	82,523	584,965	667,488
Financial assets given as collateral	8,920	-	8,920
Derivative financial instruments	2,521	2,835	5,356
Debt instruments and other financial assets at fair value through profit or loss:			
Lebanese treasury bills and other governmental bills	197,584	-	197,584
Certificates of deposit	11,078	-	11,078
Bonds and financial assets with fixed income	153	19,791	19,944
Net loans and advances to customers and related parties at amortized cost	4,430,156	1,612,164	6,042,320
Debtors by acceptances	179,815	152,006	331,821
Debt instruments at amortized cost:			
Lebanese treasury bills and other governmental bills	3,262,691	169,975	3,432,666
Certificates of deposit	4,267,294	232,750	4,500,044
Bonds and financial assets with fixed income	118,551	556,040	674,591
	16,438,795	7,854,801	24,293,596

56 RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Geographic analysis (continued)

	2010		
	Lebanon *LL million*	*Other countries* *LL million*	*Total* *LL million*
Balances with central banks	2,130,818	466,679	2,597,497
Due from banks and financial institutions	60,507	3,838,504	3,899,011
Financial assets given as collateral	8,918	-	8,918
Derivative financial instruments	1,056	406	1,462
Financial assets held for trading:			
Lebanese treasury bills and other governmental bills	127,743	17,542	145,285
Bonds and financial assets with fixed income	2,532	31,676	34,208
Net loans and advances to customers and related parties at amortized cost	3,848,263	1,836,977	5,685,240
Debtors by acceptances	156,072	135,762	291,834
Available-for-sale financial instruments:			
Lebanese treasury bills and other governmental bills	1,362,277	108,685	1,470,962
Bonds and financial assets with fixed income	8,317	312,208	320,525
Other financial assets classified as loans and receivables:			
Lebanese treasury bills and other governmental bills	2,232,844	-	2,232,844
Certificates of deposit	4,448,481	22,670	4,471,151
Bonds and financial assets with fixed income	118,269	38,596	156,865
Loans to banks and financial institutions	9,952	361,192	371,144
Discounted acceptances	17,492	241,360	258,852
Held to maturity financial instruments:			
Lebanese treasury bills and other governmental bills	309,938	78,571	388,509
Bonds and financial assets with fixed income	469	39,720	40,189
	14,843,948	7,530,548	22,374,496

56 RISK MANAGEMENT (continued)

CREDIT RISK (continued)

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

	2011									
	Commercial LL million	*Industrial LL million*	*Agriculture LL million*	*Services LL million*	*Banks and other financial institutions LL million*	*Construction LL million*	*Retail LL million*	*Government LL million*	*Other LL million*	*Total LL million*
Balances with central banks	-	-	-	-	-	-	-	4,070,942	-	4,070,942
Due from banks and financial institutions	-	-	-	-	4,330,842	-	-	-	-	4,330,842
Loans to banks and financial institutions and reverse repurchase Agreements	-	-	-	-	612,960	-	-	54,528	-	667,488
Financial assets given as collateral	-	-	-	-	-	-	-	8,920	-	8,920
Derivative financial instruments	-	-	-	-	5,356	-	-	-	-	5,356
Debt instruments and other financial assets at fair value through profit or loss:										
Lebanese treasury bills and other governmental bills	-	-	-	-	-	-	-	197,584	-	197,584
Certificates of deposit	-	-	-	-	-	-	-	11,078	-	11,078
Bonds and financial assets with fixed income	-	-	-	-	19,944	-	-	-	-	19,944
Net loans and advances to customers and related parties at amortized cost:	1,494,426	1,145,027	97,413	887,240	-	624,890	1,674,918	-	118,406	6,042,320
Debtors by acceptances	331,821	-	-	-	-	-	-	-	-	331,821
Debt instruments at amortized cost:										
Lebanese treasury bills and other governmental bills	-	-	-	-	-	-	-	3,432,666	-	3,432,666
Certificates of deposit	-	-	-	-	240,084	-	-	4,259,960	-	4,500,044
Bonds and financial assets with fixed income	-	-	-	-	674,591	-	-	-	-	674,591
	1,826,247	1,145,027	97,413	887,240	5,883,777	624,890	1,674,918	12,035,678	118,406	24,293,596

56 RISK MANAGEMENT (continued)

CREDIT RISK (continued)

	2010									
	Commercial LL million	*Industrial LL million*	*Agriculture LL million*	*Services LL million*	*Banks and other financial institutions LL million*	*Construction LL million*	*Retail LL million*	*Government LL million*	*Other LL million*	*Total LL million*
Balances with central banks	-	-	-	-	-	-	-	2,597,497	-	2,597,497
Due from banks and financial institutions	-	-	-	-	3,899,011	-	-	-	-	3,899,011
Financial assets given as collateral	-	-	-	-	-	-	-	8,918	-	8,918
Derivative financial instruments	-	-	-	-	1,462	-	-	-	-	1,462
Financial assets held for trading:										
Lebanese treasury bills and other governmental bills	-	-	-	-	-	-	-	145,285	-	145,285
Bonds and financial assets with fixed income	-	-	-	-	34,208	-	-	-	-	34,208
Net loans and advances to customers and related parties at amortized cost:	1,622,004	1,101,532	70,039	791,379	-	577,582	1,408,749	-	113,955	5,685,240
Debtors by acceptances	291,834	-	-	-	-	-	-	-	-	291,834
Available-for-sale financial instruments:									-	
Lebanese treasury bills and other governmental bills	-	-	-	-	-	-	-	1,470,962	-	1,470,962
Bonds and financial assets with fixed income	-	-	-	-	320,525	-	-	-	-	320,525
Other financial assets classified as loans and receivables:										
Lebanese treasury bills and other governmental bills	-	-	-	-	-	-	-	2,232,844	-	2,232,844
Certificates of deposit	-	-	-	-	22,669	-	-	4,448,482	-	4,471,151
Bonds and financial assets with fixed income	-	-	-	-	156,865	-	-	-	-	156,865
Loans to banks and financial institutions	-	-	-	-	371,144	-	-	-	-	371,144
Discounted acceptances	-	-	-	-	258,852	-	-	-	-	258,852
Held to maturity financial instruments:										
Lebanese treasury bills and other governmental bills	-	-	-	-	-	-	-	388,509	-	388,509
Bonds and financial assets with fixed income	-	-	-	-	40,189	-	-	-	-	40,189
	1,913,838	1,101,532	70,039	791,379	5,104,925	577,582	1,408,749	11,292,497	113,955	22,374,496

56 RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Collateral and other credit enhancements
The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities
- For commercial lending, charges over real estate properties, inventory and trade receivables
- For retail lending, mortgages over residential properties

The Group also obtains guarantees from parent companies for loans to their subsidiaries and personal guarantees for loans to companies owned by individuals.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

Credit quality per class of financial assets
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 all financial assets exposed to credit risk, based on the Group's internal credit rating system. The amount presented are gross of impairment allowances.

	2011				
	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*
Balances with central banks	4,070,748	194	-	-	4,070,942
Due from banks and financial institutions	3,715,619	615,223	-	6,356	4,337,198
Loans to banks and financial institutions and reverse repurchase agreements	69,721	597,767	-	-	667,488
Financial assets given as collateral	8,920	-	-	-	8,920
Derivative financial instruments	5,356	-	-	-	5,356
Debt instruments and other financial assets at fair value through profit or loss:					
Lebanese treasury bills and other governmental bills	197,584	-	-	-	197,584
Certificates of deposit	11,078	-	-	-	11,078
Bonds and financial assets with fixed income	9,138	10,806	-	-	19,944
Net loans and advances to customers at amortized cost:					
Commercial loans	3,321,783	958,636	100,098	174,568	4,555,085
Consumer loans	1,551,015	22,281	129,254	27,812	1,730,362
Net loans and advances to related parties at amortized cost	13,406	-	-	-	13,406
Debtors by acceptances	331,821	-	-	-	331,821
Debt instruments at amortized cost:					
Lebanese treasury bills and other governmental bills	3,384,317	55,745	-	23,861	3,463,923
Certificates of deposit	4,487,572	12,472	-	-	4,500,044
Bonds and financial assets with fixed income	596,797	88,573	-	-	685,370
	21,774,875	2,361,697	229,352	232,597	24,598,521

56 RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Credit quality per class of financial assets (continued)

	2010				
	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*
Balances with central banks	2,545,441	52,056	-	-	2,597,497
Due from banks and financial institutions	3,508,376	390,635	-	12,986	3,911,997
Financial assets given as collateral	8,918	-	-	-	8,918
Derivative financial instruments	1,462	-	-	-	1,462
Financial assets held for trading:					
Lebanese treasury bills and other governmental bills	129,322	3,145	-	12,818	145,285
Bonds and financial assets with fixed income	24,706	9,502	-	-	34,208
Net loans and advances to customers at amortized cost:					
Commercial loans	4,086,119	164,107	58,234	124,255	4,432,715
Consumer loans	1,306,200	6,063	114,193	20,330	1,446,786
Net loans and advances to related parties at amortized cost	11,940	-	-	-	11,940
Debtors by acceptances	291,834	-	-	-	291,834
Available-for-sale financial instruments:					
Lebanese treasury bills and other governmental bills	1,414,593	56,369	-	-	1,470,962
Bonds and financial assets with fixed income	280,831	39,694	-	-	320,525
Other financial assets classified as loans and receivables:					
Lebanese treasury bills and other governmental bills	2,243,591	-	-	-	2,243,591
Certificates of deposit	4,471,151	-	-	-	4,471,151
Bonds and financial assets with fixed income	121,778	37,299	-	-	159,077
Loans to banks and financial institutions	10,740	360,404	-	-	371,144
Discounted acceptances	9,636	249,216	-	-	258,852
Held to maturity financial instruments:					
Lebanese treasury bills and other governmental bills	388,739	-	-	-	388,739
Bonds and financial assets with fixed income	14,901	28,780	-	-	43,681
	20,870,278	1,397,270	172,427	170,389	22,610,364

Standards & Poors agency rated the Lebanese Government risks B as at 31 December 2011 (2010: "B").

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

	2011			
	Less than 90 days LL million	***91 to 180 days LL million***	***More than 181 days LL million***	***Total LL million***
Loans and advances to customers at amortized cost:				
- Commercial loans	**72,782**	**21,450**	**5,866**	**100,098**
- Consumer loans	**113,973**	**4,096**	**11,185**	**129,254**
	186,755	**25,546**	**17,051**	**229,352**

	2010			
	Less than 90 days LL million	*91 to 180 days LL million*	*More than 181 days LL million*	*Total LL million*
Loans and advances to customers at amortized cost:				
- Commercial loans	28,714	18,172	11,348	58,234
- Consumer loans	89,374	9,638	15,181	114,193
	118,088	27,810	26,529	172,427

At 31 December 2011 the fair value of collateral that the Group holds relating to loans individually determined to be impaired amounts to LL 73,365 million (2010: LL 62,457 million). The collateral consists of cash, securities, letters of guarantee and properties.

See Note 27 for more detailed information on the allowance for impairment losses on loans and advances to customers.

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

	2011 LL million	*2010 LL million*
Loans and advances to customers	**2,495**	4,893

Collateral repossessed
During the year, the Group took possession of real-estate properties with a carrying value of LL 829 million at the statement of financial position date, which the Group is in the process of selling (2010: LL 5,389 million).

56 RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Impairment assessment
For accounting purposes, the Group uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognised when objective evidence of a specific loss event has been observed. Triggering events include the following:

- Significant financial difficulty of the customer.
- A breach of contract such as a default of payment.
- Where the Group grants the customer a concession due to the customer experiencing financial difficulty.
- It becomes probable that the customer will enter bankruptcy or other financial reorganisation.
- Observable data that suggests that there is a decrease in the estimated future cash flows from the loans.

This approach differs from the expected loss model used for regulatory capital purposes in accordance with Basel II.

Individually assessed allowances
The Group determines the allowances appropriate for each individually significant loan or advance on an individual basis, include any overdue payments of interests, credit rating downgrades, or infringement of the original terms of the contract. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realisable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances
Allowances are assessed collectively for losses on loans and advances and for debt instruments at amortized cost that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances and debt instruments at amortized cost that have been assessed individually and found not to be impaired.

The Group generally bases its analyses on historical experience. However, when there are significant market developments, regional and/or global, the Group would include macroeconomic factors within its assessments. These factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, current levels of bad debts, changes in laws, changes in regulations, bankruptcy trends, and other consumer data. The Group may use the aforementioned factors as appropriate to adjust the impairment allowances.

Allowances are evaluated separately at each reporting date with each portfolio. The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilisation, loan to collateral ratios and expected receipts and recoveries once impaired). The approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Group overall policy.

Financial guarantees and letters of credit are assessed and provisions are made in a similar manner as for loans.

57 RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Commitments and guarantees
To meet the financial needs of customers, the Group enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group.

The table below shows the Group maximum credit risk exposure for commitments and guarantees. The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Group could have to pay if the guarantee is called upon. The maximum exposure to credit risk relating to a loan commitment is the full amount of the commitment. In both cases, the maximum risk exposure is significantly greater than the amount recognised as a liability in the statement of financial position.

	2011 ***LL million***	*2010* *LL million*
Financing commitments given to banks and financial institutions	**552,339**	933,859
Financing commitments given to customers	**523,392**	581,876
Guarantees given to banks and financial institutions	**423,451**	401,244
Guarantees given to customers	**1,036,243**	1,001,197
Undrawn commitments to lend	**1,434,194**	1,514,547
	3,969,619	4,432,723

LIQUIDITY RISK AND FUNDING MANAGEMENT
Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Group might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis. The Group has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Group maintains statutory deposits with Central Banks. As per Lebanese banking regulations, the Bank must retain obligatory reserves with the Central Bank of Lebanon calculated on the basis of 25% of the sight deposits and 15% of term deposits denominated in Lebanese Pounds, in addition to interest bearing placements equivalent to 15% of all deposits in foreign currencies regardless of their nature.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. The Group maintains a solid ratio of highly liquid net assets in foreign currencies to deposits and commitments in foreign currencies taking market conditions into consideration. In accordance with the Central Bank of Lebanon circulars, the ratio of net liquid assets to deposits and commitments in foreign currencies and Lebanese Pounds should not be less than 10% and 40%, respectively. The highly liquid net assets consist of cash and balances with central banks, deposits with banks and financial institutions less deposits from banks and financial institutions and deposits that mature within one year.

56 RISK MANAGEMENT (continued)

LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial assets and liabilities at 31 December 2011 and 2010 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay. The table does not reflect the expected cash flows that are in line with the Group's deposit retention history.

	2011					
	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*	*Over 5 years LL million*	*Total LL million*
Financial assets						
Cash and balances with central banks	**2,387,747**	**726,117**	**33,671**	**971,161**	**645,638**	**4,764,334**
Due from banks and financial institutions	**4,182,441**	**55,452**	**81,724**	**17,866**	**203**	**4,337,686**
Loans to banks and financial institutions and reverse repurchase agreements	**165,088**	**238,320**	**264,046**	**6,868**	**833**	**675,155**
Financial assets given as collateral	-	-	**704**	**9,766**	-	**10,470**
Derivative financial instruments	**2,758**	**2,158**	**440**	-	-	**5,356**
Equity instruments at fair value through profit or loss	-	-	-	-	**26,603**	**26,603**
Debt instruments and other financial assets at fair value through profit or loss	**14**	**3,755**	**33,342**	**119,909**	**164,536**	**321,556**
Net loans and advances to customers and related parties at amortized cost	**2,313,060**	**548,778**	**1,021,977**	**1,731,471**	**655,723**	**6,271,009**
Debtors by acceptances	**170,370**	**106,615**	**54,836**	-	-	**331,821**
Debt instruments at amortized cost	**489,782**	**531,041**	**1,386,646**	**5,887,306**	**2,182,437**	**10,477,212**
Equity instruments at fair value through other comprehensive income	-	-	-	-	**76,967**	**76,967**
Total undiscounted financial assets	9,711,260	2,212,236	2,877,386	8,744,347	3,752,940	27,298,169
Financial liabilities						
Due to central banks	**5,943**	**1**	**669**	**9,881**	-	**16,494**
Due to banks and financial institutions	**1,042,837**	**106,718**	**128,955**	**293,621**	**145,595**	**1,717,726**
Derivative financial instruments	**4,333**	**2,624**	**390**	-	-	**7,347**
Customers' and related parties' deposits at amortized cost	**13,361,332**	**2,219,087**	**3,103,704**	**859,811**	**17,295**	**19,561,229**
Debt issued and other borrowed funds	**616**	**156,075**	**34,988**	**193,119**	**594,709**	**979,507**
Engagements by acceptances	**170,370**	**106,615**	**54,836**	-	-	**331,821**
Subordinated notes	**1,410**	**1,069**	**323,839**	-	-	**326,318**
Total undiscounted financial liabilities	**14,586,841**	**2,592,189**	**3,647,381**	**1,356,432**	757,599	**22,940,442**
Net undiscounted financial assets / (liabilities)	**(4,875,581)**	**(379,953)**	**(769,995)**	**7,387,915**	**2,995,341**	**4,357,727**

	2010					
	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*	*Over 5 years LL million*	*Total LL million*
Financial assets						
Cash and balances with central banks	2,032,669	-	6,410	726,221	12,989	2,778,289
Due from banks and financial institutions and reverse repurchase agreements	3,214,661	364,934	273,997	49,905	165	3,903,662
Financial assets given as collateral	-	-	702	10,362	-	11,064
Derivative financial instruments	938	363	161	-	-	1,462
Financial assets held for trading	12,889	9,108	13,494	136,396	83,614	255,501
Net loans and advances to customers and related parties at amortized cost	2,159,496	521,794	1,122,429	1,706,860	471,991	5,982,570
Debtors by acceptances	96,867	104,320	80,656	9,991	-	291,834
Available-for-sale financial instruments	23,075	311,960	733,627	693,050	332,459	2,094,171
Held to maturity financial instruments	8,004	192,780	70,718	90,407	174,133	536,042
Other financial assets classified as loans and receivables	162,976	400,406	1,318,267	5,425,185	2,243,749	9,550,583
Total undiscounted financial assets	7,711,575	1,905,665	3,620,461	8,848,377	3,319,100	25,405,178
Financial liabilities						
Due to central banks	8,486	99	1,152	9,279	1,601	20,617
Due to banks and financial institutions	822,884	120,623	152,270	277,587	228,585	1,601,949
Derivative financial instruments	3,717	448	185	-	-	4,350
Customers' and related parties' deposits at amortized cost	12,570,333	2,228,393	2,704,442	657,333	19,126	18,179,627
Debt issued and other borrowed funds	-	3,622	10,749	225,887	-	240,258
Engagements by acceptances	96,867	104,320	80,656	9,991	-	291,834
Subordinated notes	-	12	11,428	306,269	-	317,709
Total undiscounted financial liabilities	13,502,287	2,457,517	2,960,882	1,486,346	249,312	20,656,344
Net undiscounted financial assets / (liabilities)	(5,790,712)	(551,852)	659,579	7,362,031	3,069,788	4,748,834

56 RISK MANAGEMENT (continued)

LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

Analysis of financial assets and liabilities by remaining contractual maturities (continued)

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

	2011					
	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***
Financing commitments and guarantees	**123,450**	**552,582**	**1,333,864**	**369,133**	**156,396**	**2,535,425**
Undrawn commitments to lend	**1,434,194**	**-**	**-**	**-**	**-**	**1,434,194**
	1,557,644	**552,582**	**1,333,864**	**369,133**	**156,396**	**3,969,619**

	2010					
	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*
Financing commitments and guarantees	93,795	417,250	1,768,986	637,864	281	2,918,176
Undrawn commitments to lend	1,514,547	-	-	-	-	1,514,547
	1,608,342	417,250	1,768,986	637,864	281	4,432,723

The Group expects that not all of the contingent liabilities or commitments will be demanded before maturity.

Maturities of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

	2011							
	Less than 12 months				*Over 12 months*			
(Amounts in LL million)	*Up to 1 month*	*1 to 3 months*	*3 months to 1 year*	*Total*	*1 to 5 years*	*Over 5 years*	*Total*	*Total*
ASSETS								
Cash and balances with central banks	2,370,988	694,918	-	3,065,906	716,063	500,499	1,216,562	4,282,468
Due from banks and financial institutions	4,178,748	54,699	79,866	4,313,313	17,326	203	17,529	4,330,842
Loans to banks and financial institutions and reverse repurchase agreements	164,017	236,180	260,385	660,582	6,106	800	6,906	667,488
Financial assets given as collateral	-	-	106	106	8,814	-	8,814	8,920
Derivative financial instruments	2,758	2,158	440	5,356	-	-	-	5,356
Equity instruments at fair value through profit or loss	-	-	-	-	-	26,603	26,603	26,603
Debt instruments and other financial assets at fair value through profit or loss	6	1,508	21,050	22,564	76,496	129,546	206,042	228,606
Net loans and advances to customers and related parties	2,316,123	527,596	956,255	3,799,974	1,605,688	636,658	2,242,346	6,042,320
Debtors by acceptances	170,370	106,615	54,836	331,821	-	-	-	331,821
Debt instruments at amortized cost	425,109	452,617	937,451	1,815,177	4,832,423	1,959,701	6,792,124	8,607,301
Equity instruments at fair value through other comprehensive income	-	-	-	-	-	76,967	76,967	76,967
Property and equipment	-	-	-	-	-	301,066	301,066	301,066
Intangible assets	-	-	-	-	-	1,129	1,129	1,129
Assets taken in settlement of debt	-	-	-	-	-	35,452	35,452	35,452
Other assets	6,084	95	22,207	28,386	-	52,588	52,588	80,974
TOTAL ASSETS	9,634,203	2,076,386	2,332,596	14,043,185	7,262,916	3,721,212	10,984,128	25,027,313
LIABILITIES								
Due to central banks	5,929	-	423	6,352	9,318	-	9,318	15,670
Due to banks and financial institutions	1,038,122	105,183	115,392	1,258,697	247,661	129,122	376,783	1,635,480
Derivative financial instruments	4,333	2,624	390	7,347	-	-	-	7,347
Customers' and related parties' deposits at amortized cost	13,337,311	2,196,807	2,984,528	18,518,646	797,651	10,111	807,762	19,326,408
Debt issued and other borrowed funds	616	152,502	-	153,118	60,978	448,194	509,172	662,290
Engagements by acceptances	170,370	106,615	54,836	331,821	-	-	-	331,821
Other liabilities	47,093	10,104	66,752	123,949	-	2,318	2,318	126,267
Provisions for risks and charges	-	-	-	-	-	129,989	129,989	129,989
Subordinated notes	1,410	11	305,842	307,263	-	-	-	307,263
TOTAL LIABILITIES	14,605,184	2,573,846	3,528,163	20,707,193	1,115,608	719,734	1,835,342	22,542,535
Net liquidity gap	(4,970,981)	(497,460)	(1,195,567)	(6,664,008)	6,147,308	3,001,478	9,148,786	2,484,778

56 RISK MANAGEMENT (continued)

LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

Maturities of assets and liabilities (continued)

	2010							
	Less than 12 months				*Over 12 months*			
(Amounts in LL million)	*Up to 1 month*	*1 to 3 months*	*3 months to 1 year*	*Total*	*1 to 5 years*	*Over 5 years*	*Total*	*Total*
ASSETS								
Cash and balances with central banks	2,032,058	-	-	2,032,058	716,063	521	716,584	2,748,642
Due from banks and financial institutions	3,214,450	364,649	271,072	3,850,171	48,674	166	48,840	3,899,011
Financial assets given as collateral	-	-	104	104	8,814	-	8,814	8,918
Derivative financial instruments	938	363	161	1,462	-	-	-	1,462
Financial assets held for trading	12,220	6,946	5,371	24,537	108,964	72,439	181,403	205,940
Net loans and advances to customers and related parties	2,150,023	494,096	1,036,829	3,680,948	1,552,408	451,884	2,004,292	5,685,240
Debtors by acceptances	96,867	104,320	80,656	281,843	9,991	-	9,991	291,834
Available-for-sale financial instruments	13,201	275,338	686,560	975,099	576,363	324,349	900,712	1,875,811
Other financial assets classified as loans and receivables	118,274	332,526	874,554	1,325,354	4,218,479	1,947,023	6,165,502	7,490,856
Held to maturity financial instruments	7,962	185,748	57,942	251,652	44,729	132,317	177,046	428,698
Property and equipment	-	-	-	-	-	281,303	281,303	281,303
Intangible assets	-	-	-	-	-	1,039	1,039	1,039
Assets taken in settlement of debt	-	-	-	-	-	39,092	39,092	39,092
Other assets	23,147	1,672	1,584	26,403	911	62,232	63,143	89,546
Total assets	7,669,140	1,765,658	3,014,833	12,449,631	7,285,396	3,312,365	10,597,761	23,047,392
LIABILITIES								
Due to central banks	8,486	1	1,138	9,625	8,480	1,387	9,867	19,492
Due to banks and financial institutions	818,175	120,566	151,587	1,090,328	250,591	171,866	422,457	1,512,785
Derivative financial instruments	3,717	448	185	4,350	-	-	-	4,350
Customers' and related parties' deposits at amortized cost	12,547,461	2,205,037	2,642,483	17,394,981	581,580	3,465	585,045	17,980,026
Debt issued and other borrowed funds	-	39	-	39	213,462	-	213,462	213,501
Engagements by acceptances	96,867	104,320	80,656	281,843	9,991	-	9,991	291,834
Other liabilities	71,541	6,620	52,217	130,378	7,090	8,289	15,379	145,757
Provisions for risks and charges	-	-	-	-	-	119,905	119,905	119,905
Subordinated notes	-	12	3,340	3,352	299,972	-	299,972	303,324
Total liabilities	13,546,247	2,437,043	2,931,606	18,914,896	1,371,166	304,912	1,676,078	20,590,974
Net liquidity gap	(5,877,107)	(671,385)	83,227	(6,465,265)	5,914,230	3,007,453	8,921,683	2,456,418

MARKET RISK

Market risk is the risk of loss arising from movements in market variables, including interest rates, exchange rates and equity market indices. Market risk is incurred primarily through the Group's trading and foreign exchange activities.

The market risk unit is responsible for the independent control of market risk. It ensures that all market risks are identified, establishes the necessary controls and limits, monitors positions and exposures, and ensures compliance with regulatory and internal limits as set in the market risk policy and securities portfolio investment policy.

Interest rate 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-financial position items that mature or are repriced in a given period. The Group manages the risk by matching the repricing of assets and liabilities through risk management strategies.

Interest rate sensitivity

The table below shows the sensitivity of interest income and shareholders' equity to reasonably possible parallel increase 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 financial assets and financial liabilities held at year end, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing fixed rate financial assets available for sale (applicable prior to 1 January 2011) and swaps designated as cash flow hedges, at year end 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.

56 RISK MANAGEMENT (continued)

MARKET RISK (continued)

Interest rate risk (continued)
Interest rate sensitivity (continued)

		2011		2010	
Currency	*Increase in interest rate*	*Net effect on interest income LL million*	*Net effect on shareholders' equity LL million*	*Net effect on interest income LL million*	*Net effect on shareholder's equity LL million*
LBP	+0.5%	(18,679)	-	(19,920)	77,567
US Dollar	+0.5%	(1,178)	-	(2,306)	45,305
Euro	+0.5%	867	-	299	1,741
GBP	+0.5%	27	-	(30)	23
Other	+0.5%	(2,642)	-	(3,949)	(3,267)
		(21,605)	-	(25,906)	121,369

The Group's interest sensitivity position based on the earlier of contractual re-pricing or maturity date at 31 December 2011 was as follows:

(Amounts in LL million)	*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*	*Over 5 years LL million*	*Non interest bearing items LL million*	*Total LL million*
				2011			
ASSETS							
Cash and balances with central banks	2,284,562	670,838	-	716,063	500,499	110,506	4,282,468
Due from banks and financial institutions	4,175,623	61,760	73,070	17,326	203	2,860	4,330,842
Loans to banks and financial institutions and reverse repurchase agreements	298,964	189,577	170,745	6,000	800	1,402	667,488
Financial assets given as collateral	-	-	-	8,814	-	106	8,920
Derivative financial instruments	-	-	-	-	-	5,356	5,356
Equity instruments at fair value through profit or loss	-	-	-	-	-	26,603	26,603
Debt instruments and other financial assets at fair value through profit or loss	-	-	19,713	76,496	129,490	2,907	228,606
Net loans and advances to customers and related parties	2,953,507	1,150,399	1,484,140	473,899	53,859	(73,484)	6,042,320
Debtors by acceptances	-	-	-	-	-	331,821	331,821
Debt instruments at amortized cost	378,243	441,459	864,625	4,828,296	1,968,778	125,900	8,607,301
Equity instruments at fair value through other comprehensive income	-	-	-	-	-	76,967	76,967
Total	10,090,899	2,514,033	2,612,293	6,126,894	2,653,629	610,944	24,608,692
LIABILITIES							
Due to central banks	5,333	-	379	9,318	-	640	15,670
Due to banks and financial institutions	964,870	263,387	169,429	175,133	53,157	9,504	1,635,480
Derivative financial instruments	1,953	2,624	390	-	-	2,380	7,347
Customers' and related parties' deposits	13,221,286	2,178,276	3,030,298	796,592	10,044	89,912	19,326,408
Debt issued and other borrowed funds	-	152,484	-	60,978	448,194	634	662,290
Engagements by acceptances	-	-	-	-	-	331,821	331,821
Subordinated notes	-	-	303,911	-	-	3,352	307,263
Total	14,193,442	2,596,771	3,504,407	1,042,021	511,395	438,243	22,286,279
Total interest sensitivity gap	(4,102,543)	(82,738)	(892,114)	5,084,873	2,142,234	172,701	2,322,413

56 RISK MANAGEMENT (continued)

MARKET RISK (continued)

Interest rate risk (continued)

Interest rate sensitivity (continued)

The Group's interest sensitivity position based on the earlier of contractual re-pricing or maturity date at 31 December 2010 was as follows:

(Amounts in LL million)	2010 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	Over 5 years LL million	Non interest bearing items LL million	Total LL million
ASSETS							
Cash and balances with the central banks	1,002,813	-	-	716,063	-	1,029,766	2,748,642
Due from banks and financial institutions	3,361,014	362,423	165,995	3,241	2,761	3,577	3,899,011
Financial assets given as collateral	-	-	-	8,814	-	104	8,918
Derivative financial instruments	-	-	-	-	-	1,462	1,462
Financial assets held for trading	11,538	4,733	4,666	108,964	55,861	20,178	205,940
Net loans and advances to customers and related parties	2,402,081	533,039	1,515,105	1,086,303	196,557	(47,845)	5,685,240
Debtors by acceptances	-	-	-	-	-	291,834	291,834
Available for sale financial instruments	11,171	268,206	703,724	489,909	275,870	126,931	1,875,811
Other financial assets classified as loans and receivables	177,706	348,904	777,143	4,214,930	1,860,489	111,684	7,490,856
Held to maturity financial instruments	22,872	192,087	59,138	41,444	110,598	2,559	428,698
Total	6,989,195	1,709,392	3,225,771	6,669,668	2,502,136	1,540,250	22,636,412
LIABILITIES							
Due to central banks	4,184	4,303	9,909	1,053	-	43	19,492
Due to banks and financial institutions	1,039,514	215,509	221,039	26,750	378	9,595	1,512,785
Derivative financial instruments	-	-	-	-	-	4,350	4,350
Customers' and related parties' deposits at amortized cost	12,474,221	2,207,698	2,635,408	575,968	3,465	83,266	17,980,026
Debt issued and other borrowed funds	-	-	-	213,462	-	39	213,501
Engagement by acceptances	-	-	-	-	-	291,834	291,834
Subordinated notes	-	-	1,410	299,972	-	1,942	303,324
Total	13,517,919	2,427,510	2,867,766	1,117,205	3,843	391,069	20,325,312
Total interest rate sensitivity gap	(6,528,724)	(718,118)	358,005	5,552,463	2,498,293	1,149,181	2,311,100

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group 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 Central Bank of Lebanon. The Group 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 (Central Bank of Lebanon circular number 32).

Group's sensitivity to currency exchange rates

The table below shows the currencies to which the Group had significant exposure at 31 December on its monetary assets and liabilities and its forecast cash flows. The analysis calculates 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 monetary assets and liabilities) . There is no impact on equity. A negative amount reflects a potential net reduction in income while a positive amount reflects a net potential increase.

Currency	***Change in currency rate %***	***2011 Effect on profit before tax LL million***	*2010 Effect on profit before tax LL million*
US Dollar	+5	**510**	107
Euro	+5	**23**	461
GBP	+5	**2**	-
SDG	+5	**2**	-
Other currencies	+5	**4,927**	594

56 RISK MANAGEMENT (continued)

MARKET RISK (continued)

Currency risk (continued)

The following consolidated statement of financial position as of 31 December 2011 detailed in Lebanese Lira (LL) and foreign currencies, translated into LL.

	2011		
ASSETS	*LL million*	*Foreign currencies in LL million*	*Total LL million*
Cash and balances with central banks	1,449,868	2,832,600	4,282,468
Due from banks and financial institutions	15,383	4,315,459	4,330,842
Loans to banks and financial institutions and reverse repurchase agreements	8,406	659,082	667,488
Financial assets given as collateral	8,920	-	8,920
Derivative financial instruments	3,549	1,807	5,356
Equity instruments at fair value through profit or loss	-	26,603	26,603
Debt instruments and other financial assets at fair value through profit or loss	66,789	161,817	228,606
Net loans and advances to customers at amortized cost	1,228,032	4,800,882	6,028,914
Net loans and advances to related parties at amortized cost	-	13,406	13,406
Debtors by acceptances	-	331,821	331,821
Debt instruments at amortized cost	5,514,183	3,093,118	8,607,301
Equity instruments at fair value through other comprehensive income	20,417	56,550	76,967
Property and equipment	185,886	115,180	301,066
Intangible assets	1,129	-	1,129
Assets taken in settlement of debt	(9,287)	44,739	35,452
Other assets	35,925	45,049	80,974
TOTAL ASSETS	8,529,200	16,498,113	25,027,313
LIABILITIES AND EQUITY			
Due to central banks	8,857	6,813	15,670
Due to banks and financial institutions	14,429	1,621,051	1,635,480
Derivative financial instruments	4,967	2,380	7,347
Customers' deposits at amortized cost	7,384,770	11,789,647	19,174,417
Related parties deposits at amortized cost	85,595	66,396	151,991
Debt issued and other borrowed funds	-	662,290	662,290
Engagement by acceptances	-	331,821	331,821
Other liabilities	64,112	62,155	126,267
Provisions for risks and charges	113,679	16,310	129,989
Subordinated notes	(20)	307,283	307,263
TOTAL LIABILITIES	7,676,389	14,866,146	22,542,535
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	684,273	-	684,273
Share capital – preferred shares	4,840	-	4,840
Share premium – common shares	-	229,014	229,014
Share premium – preferred shares	-	583,858	583,858
Non distributable reserves (legal and obligatory)	325,391	143,681	469,072
Distributable free reserves	73,705	5,422	79,127
Other equity instruments	-	14,979	14,979
Treasury shares	-	(25,476)	(25,476)
Retained earnings	10,758	54,456	65,214
Revaluation reserve of real estate	5,689	-	5,689
Change in fair value of financial instruments at fair value through other comprehensive income	11,810	(32,366)	(20,556)
Net results of the financial period - profit	220,657	39,237	259,894
Foreign currency translation reserves	-	(31,329)	(31,329)
NON-CONTROLLING INTEREST	13,475	152,704	166,179
TOTAL EQUITY	1,350,598	1,134,180	2,484,778
TOTAL LIABILITIES AND EQUITY	9,026,987	16,000,326	25,027,313

56 RISK MANAGEMENT (continued)

MARKET RISK (continued)

Currency risk (continued)

The following consolidated statement of financial position as of 31 December 2010 detailed in Lebanese Lira (LL) and foreign currencies, translated into LL.

	2010		
ASSETS	*LL million*	*Foreign currencies in LL million*	*Total LL million*
Cash and balances with central banks	654,572	2,094,070	2,748,642
Due from banks and financial institutions	11,799	3,887,212	3,899,011
Financial assets given as collateral	8,918	-	8,918
Derivative financial instruments	1,055	407	1,462
Financial assets held for trading	5,251	200,689	205,940
Net loans and advances to customers at amortized cost	925,515	4,747,785	5,673,300
Net loans and advances to related parties at amortized cost	-	11,940	11,940
Debtors by acceptances	-	291,834	291,834
Available-for-sale financial instruments	1,027,201	848,610	1,875,811
Other financial assets classified as loans and receivables	5,489,861	2,000,995	7,490,856
Held to maturity financial instruments	155,452	273,246	428,698
Property and equipment	163,043	118,260	281,303
Intangible assets	1,039	-	1,039
Assets taken in settlement of debt	(10,257)	49,349	39,092
Other assets	55,367	34,179	89,546
TOTAL ASSETS	8,488,816	14,558,576	23,047,392
LIABILITIES AND EQUITY			
Due to central banks	8,857	10,635	19,492
Due to banks and financial institutions	3,895	1,508,890	1,512,785
Derivative financial instruments	3,702	648	4,350
Customers' deposits at amortized cost	7,211,363	10,656,267	17,867,630
Related parties' deposits at amortized cost	62,255	50,141	112,396
Debt issued and other borrowed funds	-	213,501	213,501
Engagements by acceptances	-	291,834	291,834
Other liabilities	82,321	63,436	145,757
Provisions for risks and charges	98,785	21,120	119,905
Subordinated notes	(61)	303,385	303,324
TOTAL LIABILITIES	7,471,117	13,119,857	20,590,974
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	434,984	-	434,984
Share capital – priority shares	249,289	-	249,289
Share capital – preferred shares	4,840	-	4,840
Share premium – common shares	-	229,014	229,014
Share premium – preferred shares	-	581,456	581,456
Non distributable reserves (legal and obligatory)	264,859	131,667	396,526
Distributable free reserves	73,705	5,422	79,127
Other equity instruments	-	14,979	14,979
Treasury shares	-	(16,189)	(16,189)
Retained earnings	7,958	8,526	16,484
Revaluation reserve of real estate	5,689	-	5,689
Change in fair value of financial instruments at fair value through other comprehensive income	32,037	21,956	53,993
Net results of the financial period - profit	228,151	27,619	255,770
Foreign currency translation reserves		(9,573)	(9,573)
NON-CONTROLLING INTEREST	31,040	128,989	160,029
TOTAL EQUITY	1,332,552	1,123,866	2,456,418
TOTAL LIABILITIES AND EQUITY	8,803,669	14,243,723	23,047,392

Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. A 5 per cent increase in the value of the Group's equities at 31 December 2011 would have increased equity by LL 3,849 million and net income by LL 1,330 million (2010: LL 4,216 million and LL 1,322 million respectively). An equivalent decrease would have resulted in an equivalent but opposite impact.

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.

56 RISK MANAGEMENT (continued)

OPERATIONAL RISK

Operational risk is the risk of loss arising from 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's approach to operational risk is not designed to eliminate risk per se but, rather, to contain it within acceptable levels, as determined by senior management, and to ensure that the Group has sufficient information to make informed decisions about additional controls, adjustments to controls, or other risk responses. The Head of the GRM division is responsible for ensuring the independence, objectivity and effectiveness of the operational risk framework as prepared by the Operational Risk Management (ORM) department for identification, assessment and measurement of operational risk across the Group. The roles and responsibilities of the ORM department encompasses the development of ORM policies, the assistance and facilitation of the ORM programs and tools, the analysis of new products, activities and systems from an operational risk perspective. It is also responsible for promoting of the ORM culture across the Group through awareness sessions and coaching.

The business line managers are directly responsible for managing and mitigating operational risks in their areas of responsibility. Each business line /support function is assigned a "Risk Champion" who will have a dotted line reporting to the ORM department. This structure is set to confirm the effective implementation of the operational risk framework in the business lines and to ensure transparent assessment and reporting of operational risks. Aside from the Risk Champion, all staff in the Group should play a role in the identification and management of Operational Risk.

57 CAPITAL

The Group maintains an actively managed capital base to cover risks, inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Central Bank of Lebanon and the Banking Control Commission.

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

Groups should maintain a required capital adequacy ratio (not less than 8%) based on their capital funds over the total risk weighted assets. The Group complies in full with all its externally imposed capital requirements.

The Group 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 Group 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, however, it is under constant scrutiny of the Board.

Regulatory capital

At 31 December 2011 and 2010, the capital consists of the following:

	2011	*2010*
	LL million	*LL million*
Tier 1 capital	**2,146,287**	2,028,101
Tier 2 capital	**52,345**	98,322
Total capital	**2,198,632**	2,126,423
Risk weighted assets	**16,151,534**	14,464,964

57 CAPITAL (continued)

The capital adequacy ratio as of 31 December (including profit for the year less proposed dividends) is as follows:

	2011	*2010*
Tier 1 capital ratio	**13.29%**	14.02%
Total capital ratio	**13.61%**	14.70%

Tier 1 Capital consists of capital, reserves and brought forward results. Tier 2 capital consists of revaluation variance recognized in the complementary equity, subordinated loans and cumulative changes in fair values.

58 DIVIDENDS PAID AND PROPOSED

	2011 *LL million*	*2010* *LL million*
Declared and paid during the year		
Equity dividends on ordinary shares:		
Dividends for 2011: LL 200 (2010: LL 200)	**71,898**	43,422
Equity dividends on priority shares:		
Dividends for 2011: LL 200 (2010: LL 200)	**41,205**	41,205
Distributions to preferred shares – 2008 series:		
Distributions for 2011: US$ 8.00 (2010: US$ 8.00)	**24,224**	24,032
Distributions to preferred shares – 2009 series:		
Distributions for 2011: US$ 8.00 (2010: US$ 3.53)	**24,224**	10,063
Distributions to priority shares		
Interest paid at 4% of share's nominal value: LL 46 for 2011 (2010: LL 48)	**9,518**	9,972
	171,069	128,694
Less dividends on treasury shares	**(630)**	(141)
	170,439	128,553

	2011 *LL million*	*2010* *LL million*
Proposed for approval at Annual General Assembly (not recognized as a liability as at 31 December)		
Equity dividends on ordinary shares:		
Dividends for 2011: LL 200 (2010: LL 200)	**113,103**	71,898
Equity dividends on priority shares:		
Dividends for 2011: LL 200 (2010: LL 200)	-	41,205
Distributions to preferred shares – 2008 series:		
Distributions for 2011: US$ 8.00 (2010: US$ 8.00)	**24,224**	24,120
Distributions to preferred shares – 2009 series:		
Distributions for 2011: US$ 8.00 (2010: US$ 8.00)	**24,224**	24,120
Distributions to priority shares:		
Interest paid at 4% of share's nominal value	-	9,972
	161,551	171,315

58 DIVIDENDS PAID AND PROPOSED (continued)

Dividends paid by the subsidiaries during the year were as follows:

	2011		*2010*	
	Dividends paid LL million	***Non controlling interest share LL million***	*Dividends paid LL million*	*Non controlling interest share LL million*
Byblos Bank Africa	**4,726**	**2,039**	4,543	1,960
Byblos Invest Bank SAL	**22,000**	**2**	23,000	2
Adonis Insurance and Reinsurance Co. (ADIR) SAL	**3,000**	**1,082**	2,750	992
Byblos Bank Syria S.A.	**-**	**-**	5,149	3,012
Adonis Insurance and Reinsurance (ADIR) Syria	**3,164**	**760**	-	-
	32,890	**3,883**	35,442	5,966

59 COMPARATIVE INFORMATION

Reclassifications in the statement of financial position

Pursuant to the early adoption of phase I of IFRS 9, the Group reclassified comparative balances relating to its investments in financial instruments as fully described in note 2 to these consolidated financial statements. Besides, comparative balances relating to the following line items of the statement of financial position were also reclassified as per the requirements of BDL intermediary circular 251 dated 15 April 2011:

Current classification	**Previous Classification**	**Amount reclassified** *LL million*
Assets taken in settlement of debt	Non-current assets held for sale	**39,092**
Other liabilities	Deferred tax liabilities	**11,445**
Other liabilities	Current tax liabilities	**44,526**
Provisions for risks and charges	End of service benefits	**30,922**
Non-distributable reserves (legal and obligatory)	Capital reserves	**396,526**
Distributable free reserves	Capital reserves	**79,127**

In addition to the above, the Bank reclassified the following:

- Margins on letters of credit and acceptances from "other liabilities" to "due to banks and financial institutions" and "customers' deposits at amortized cost" in the consolidated statement of financial position. Comparative amounts totaling LL 71,439 million and LL 52,348 million respectively, have been reclassified accordingly.
- Obligatory financial assets from "cash and balances with central banks" to "other assets" in the consolidated statement of financial position. Comparative amounts totaling LL 12,468 million have been reclassified accordingly.
- Taxes from "administrative and other operating expenses" to "income tax expense" in the consolidated income statement. Comparative amounts totaling LL 7,284 million have been reclassified accordingly.

BYBLOS BANK SAL

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

30 JUNE 2012

BYBLOS BANK SAL
INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
30 JUNE 2012
(UNAUDITED)

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF BYBLOS BANK SAL

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Byblos Bank SAL (the "Bank") and its subsidiaries (the "Group") as at 30 June 2012, comprising of the interim consolidated statement of financial position as at 30 June 2012 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34.

Ernst & Young   Semaan, Gholam & Co.

1 October 2012
Beirut, Lebanon

INTERIM CONSOLIDATED STATEMENT OF INCOME

For the six-month period ended 30 June 2012 (unaudited)

	Notes	***Unaudited 30 June 2012 LL million***	*Unaudited 30 June 2011 LL million*
Interest and similar income		**629,939**	619,435
Interest and similar expense		**(441,560)**	(400,609)
NET INTEREST INCOME		**188,379**	218,826
Fee and commission income		**84,065**	78,112
Fee and commission expense		**(7,748)**	(5,634)
NET FEE AND COMMISSION INCOME		**76,317**	72,478
Net gain from financial instruments at fair value through profit or loss	5	**45,829**	22,858
Net gain from sale of financial assets at amortized cost	6	**25,357**	9,598
Net gain on other financial assets		**3,405**	3,273
Other operating income	7	**11,719**	6,162
TOTAL OPERATING INCOME		**351,006**	333,195
Credit loss expense	8	**(23,883)**	(16,327)
NET OPERATING INCOME		**327,123**	316,868
Personnel expenses		**(81,363)**	(81,078)
Depreciation and amortization		**(17,873)**	(16,648)
Administrative and other operating expenses		**(79,893)**	(66,868)
TOTAL OPERATING EXPENSES		**(179,129)**	(164,594)
PROFIT BEFORE TAX		**147,994**	152,274
Income tax expense		**(26,774)**	(31,023)
PROFIT FOR THE PERIOD		**121,220**	121,251
Attributable to:			
Equity holders of the parent		**116,999**	115,797
Non-controlling interest		**4,221**	5,454
		121,220	121,251
Earnings per share			
Equity shareholders of the parent for the period:			
Basic earnings per share – common shares		**LL 165.27**	LL 162.94
Diluted earnings per share – common shares		**LL 158.47**	LL 155.20

The attached notes 1 to 31 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six-month period ended 30 June 2012 (unaudited)

	Unaudited 30 June 2012 LL million	*Unaudited 30 June 2011 LL million*
PROFIT FOR THE PERIOD	**121,220**	121,251
Elements of other comprehensive income		
Net unrealized gain from financial instruments at fair value through other comprehensive income	**(4,411)**	1,421
Exchange difference on translation of foreign operations	**(92,659)**	12,263
OTHER COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD	**(97,070)**	13,684
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**24,150**	134,935
Attributable to:		
Equity holders of the parent	**57,196**	128,827
Non-controlling interest	**(33,046)**	6,108
	24,150	134,935

The attached notes 1 to 31 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012 (unaudited)

	Notes	*Unaudited* *30 June 2012* *LL million*	*Audited* *31 December 2011* *LL million*
ASSETS			
Cash and balances with central banks		**5,119,321**	4,282,468
Due from banks and financial institutions		**3,672,536**	4,330,842
Loans to banks and financial institutions and reverse repurchase agreements		**639,286**	667,488
Financial assets given as collateral		**8,918**	8,920
Derivative financial instruments	9	**2,790**	5,356
Equity instruments at fair value through profit or loss		**23,012**	26,603
Debt instruments and other financial assets at fair value through profit or loss	10	**212,563**	228,606
Net loans and advances to customers at amortized cost		**6,156,658**	6,025,717
Net loans and advances to related parties at amortized cost	25	**14,883**	16,603
Debtors by acceptances		**219,250**	331,821
Debt instruments at amortized cost	11	**8,470,973**	8,607,301
Equity instruments at fair value through other comprehensive income	12	**77,020**	76,967
Property and equipment		**266,353**	301,066
Intangible assets		**1,129**	1,129
Assets taken in settlement of debt		**33,938**	35,452
Other assets	13	**85,076**	80,974
TOTAL ASSETS		**25,003,706**	25,027,313
LIABILITIES AND EQUITY			
Liabilities			
Due to central banks		**25,237**	15,670
Due to banks and financial institutions		**1,344,482**	1,635,480
Derivative financial instruments	9	**2,764**	7,347
Customers' deposits at amortized cost	14	**19,801,829**	19,160,582
Related parties' deposits at amortized cost	25	**203,394**	165,826
Debt issued and other borrowed funds	15	**509,619**	662,290
Engagements by acceptances		**219,250**	331,821
Other liabilities	16	**166,113**	126,267
Provisions for risks and charges		**129,966**	129,989
Subordinated notes	17	**256,387**	307,263
TOTAL LIABILITIES		**22,659,041**	22,542,535
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	18	**684,273**	684,273
Share capital – preferred shares	18	**4,840**	4,840
Share premium – common shares	18	**229,014**	229,014
Share premium – preferred shares	18	**586,259**	583,858
Non distributable reserves (legal and obligatory)	19	**555,019**	469,072
Distributable free reserves	20	**81,619**	79,127
Other equity instruments		**14,979**	14,979
Treasury shares	21	**(25,292)**	(25,476)
Retained earnings	22	**73,572**	65,214
Revaluation reserve of real estate		**5,689**	5,689
Change in fair value of financial instruments at fair value through other comprehensive income	23	**(24,967)**	(20,556)
Net results of the financial period – profit		**116,999**	259,894
Foreign currency translation reserve		**(86,721)**	(31,329)
		2,215,283	2,318,599
NON-CONTROLLING INTEREST		**129,382**	166,179
TOTAL EQUITY		**2,344,665**	2,484,778
TOTAL LIABILITIES AND EQUITY		**25,003,706**	25,027,313

Dr Francois Bassil
Chairman / General Manager

Mr Ziad El-Zoghbi
Financial and Administrative Manager

The attached notes 1 to 31 form part of these interim condensed consolidated financial statements.

	Unaudited 30 June 2012 LL million	*Audited 31 December 2011 LL million*
OFF FINANCIAL POSITION ITEMS		
Commitments		
Commitments to banks and financial institutions	**493,063**	552,339
Commitments to customers	**549,533**	523,392
Undrawn commitments to lend	**1,453,952**	1,434,194
Guarantees		
Guarantees given to banks and financial institution	**396,626**	423,451
Guarantees received from banks and financial institutions	**71,716**	47,220
Guarantees given to customers	**1,070,958**	1,036,243
Guarantees received from customers	**25,738,225**	24,458,189
Foreign currencies forwards		
Foreign currencies to receive	**787,385**	504,188
Foreign currencies to deliver	**787,359**	506,179
Claims from legal cases	**42,272**	41,174
Fiduciary assets	**130,182**	127,866
Assets under management	**3,128,798**	3,197,425
Bad debts fully provided for	**79,818**	91,644

The attached notes 1 to 31 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six-month period ended 30 June 2012 (unaudited)

	Attributable to equity holders of the parent															Non-controlling interest	Total
	Common shares	Priority shares	Preferred shares	Share premium - common shares	Share premium - preferred shares	Non-distributable reserves (legal and obligatory)	Distributable free reserves	Other equity instruments	Treasury shares	Retained earnings	Revaluation reserve of real estate	Change in fair value of financial instruments at fair value through other comprehensive income	Net results of the financial period - profit	Foreign currency translation reserve	Total		
	LL million	LL million	LL million	LL million	LL million	LL million	LL million	LL million	LL million	LL million	LL million	LL million	LL million	LL million	LL million	LL million	LL million
Balance at 1 January 2012	684,273	-	4,840	229,014	583,858	469,072	79,127	14,979	(25,476)	65,214	5,689	(20,556)	259,894	(31,329)	2,318,599	166,179	2,484,778
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	-	116,999	-	116,999	4,221	121,220
Other comprehensive loss	-	-	-	-	-	-	-	-	-	-	-	(4,411)	-	(55,392)	(59,803)	(37,267)	(97,070)
Total comprehensive income	-	-	-	-	-	-	-	-	-	-	-	(4,411)	116,999	(55,392)	57,196	(33,046)	24,150
Transfer to retained earnings	-	-	-	-	-	-	-	-	-	259,894	-	-	(259,894)	-	-	-	-
Transfer to reserves and premiums	-	-	-	-	2,412	85,970	2,492	-	-	(90,874)	-	-	-	-	-	-	-
Dividends paid to non controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,751)	(3,751)
Translation difference	-	-	-	-	(11)	-	-	-	-	179	-	-	-	-	168	-	168
Equity dividends paid (note 28)	-	-	-	-	-	-	-	-	-	(160,841)	-	-	-	-	(160,841)	-	(160,841)
Treasury shares	-	-	-	-	-	(23)	-	-	184	-	-	-	-	-	161	-	161
Balance at 30 June 2012	**684,273**	**-**	**4,840**	**229,014**	**586,259**	**555,019**	**81,619**	**14,979**	**(25,292)**	**73,572**	**5,689**	**(24,967)**	**116,999**	**(86,721)**	**2,215,283**	**129,382**	**2,344,665**
Balance at 1 January 2011 before early adoption of IFRS 9	434,984	249,289	4,840	229,014	581,456	396,526	79,127	14,979	(16,189)	16,484	5,689	53,993	255,770	(9,573)	2,296,389	160,029	2,456,418
Effect of IFRS 9 early adoption (note 29)	-	-	-	-	-	-	-	-	-	38,077	-	(72,065)	-	-	(33,988)	(307)	(34,295)
Balance at 1 January 2011 after early adoption of IFRS 9	434,984	249,289	4,840	229,014	581,456	396,526	79,127	14,979	(16,189)	54,561	5,689	(18,072)	255,770	(9,573)	2,262,401	159,722	2,422,123
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	-	115,797	-	115,797	5,454	121,251
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	1,421	-	11,609	13,030	654	13,684
Total comprehensive income	-	-	-	-	-	-	-	-	-	-	-	1,421	115,797	11,609	128,827	6,108	134,935
Transfer of priority shares	249,289	(249,289)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to retained earnings	-	-	-	-	-	-	-	-	-	255,770	-	-	(255,770)	-	-	-	-
Transfer to reserves and premiums	-	-	-	-	2,412	71,945	-	-	-	(74,357)	-	-	-	-	-	-	-
Dividends paid to non controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,850)	(3,850)
Translation difference	-	-	-	-	(10)	-	-	-	-	-	-	-	-	-	(10)	-	(10)
Equity dividends paid (note 28)	-	-	-	-	-	-	-	-	-	(170,439)	-	-	-	-	(170,439)	-	(170,439)
Treasury shares	-	-	-	-	-	287	-	-	(8,658)	-	-	-	-	-	(8,371)	-	(8,371)
Balance at 30 June 2011	684,273	-	4,840	229,014	583,858	468,758	79,127	14,979	(24,847)	65,535	5,689	(16,651)	115,797	2,036	2,212,408	161,980	2,374,388

The attached notes 1 to 31 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six-month period ended 30 June 2012 (unaudited)

	Unaudited 30 June 2012 LL million	*Unaudited 30 June 2011 LL million*
OPERATING ACTIVITIES		
Profit before tax	**147,994**	152,274
Adjustments to reconcile profit before tax to net cash flows:		
Depreciation and amortisation	**17,873**	16,648
Provision for loans and advances, net	**35,284**	12,115
Provision for doubtful bank accounts, net	**(471)**	(3,095)
Provision for debt instruments, net	**(10,930)**	7,307
Gain on disposal of property, plant and equipment	**(7)**	(8)
Gain on disposal of assets taken in settlement of debts	**(3,260)**	(2,418)
Provisions for risks and charges, net	**618**	6,120
Derivative financial instruments	**(2,017)**	(7,365)
Unrealized fair value losses (gains) on financial instruments	**1,764**	(1,842)
Realized gains from financial instruments	**(33,063)**	(7,891)
	153,785	171,845
Changes in operating assets and liabilities		
Due from central banks	**(1,582,900)**	(24,494)
Due from banks and financial institutions	**(203,665)**	(242,938)
Financial assets given as collateral	**2**	2
Due to banks and financial institutions	**38,743**	(114,322)
Equity instruments at fair value through profit or loss	**3,644**	1,552
Debt instruments at fair value through profit or loss	**21,932**	(27,884)
Net loans and advances	**(164,505)**	(243,326)
Other assets	**(3,326)**	(2,667)
Customers' and related parties' deposits	**678,815**	1,065,311
Other liabilities	**51,573**	47,007
Cash (used in) from operations	**(1,005,902)**	630,086
Provision for risks and charges paid	**(641)**	(3,290)
Taxation paid	**(38,501)**	(48,368)
Net cash (used in) from operating activities	**(1,045,044)**	578,428
INVESTING ACTIVITIES		
Debt instruments at amortized cost	**172,615**	10,795
Equity instruments at fair value through other comprehensive income	**(5,240)**	(6)
Loans to banks and financial institutions and reverse repurchase agreements	**28,202**	(67,836)
Property and equipment	**(12,008)**	(31,419)
Assets taken in settlement of debts	**4,774**	6,044
Net cash from (used) in investing activities	**188,343**	(82,422)
FINANCING ACTIVITIES		
Due to central banks	**5,712**	(1,193)
Debt issued and other borrowed funds	**(152,671)**	449,847
Subordinated notes	**(50,876)**	521
Treasury shares	**161**	(8,371)
Dividends paid to the equity holders of the parent (net)	**(160,841)**	(170,439)
Dividends paid to non-controlling interest	**(3,751)**	(3,850)
Net cash (used in) from financing activities	**(362,266)**	266,515
Effect of exchange rates:		
Effect of exchange rates on property and equipment	**28,855**	2,430
Foreign currency translation differences	**(92,659)**	12,263
Effect of exchange rates on reserves and premiums	**168**	(242)
Net effect of foreign exchange rates	**(63,636)**	14,451
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(1,282,603)**	776,972
Cash and cash equivalents at 1 January	**6,150,118**	4,735,368
CASH AND CASH EQUIVALENTS AT 30 JUNE (note 24)	**4,867,515**	5,512,340

1 CORPORATE INFORMATION

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

The Bank, together with its affiliated banks and subsidiaries (the Group), provides a wide range of banking and insurance services, through its headquarters and branches in Lebanon and 9 locations abroad (Cyprus, Belgium, United Kingdom, France, Syria, Sudan, Iraq, Democratic Republic of Congo and Armenia) (collectively the "Group").

The interim condensed consolidated financial statements comprise the financial statements of Byblos Bank SAL and the following subsidiaries:

Subsidiary	*Percentage of ownership*		*Principal activity*	*Country of incorporation*
	30 June 2012	*31 December 2011*		
	%	%		
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	**64.00**	64.00	Insurance activities	Lebanon
Adonis Brokerage House SAL	**100.00**	100.00	Insurance brokerage	Lebanon
Byblos Invest Bank SAL	**99.99**	99.99	Investment banking activities	Lebanon
Byblos Bank Africa	**56.86**	56.86	Banking activities	Sudan
Byblos Bank Syria S.A.	**52.37**	52.37	Banking activities	Syria
Byblos Bank Armenia CJSC	**65.00**	65.00	Banking activities	Armenia
Adonis Insurance and Reinsurance (ADIR) Syria	**76.00**	76.00	Insurance activities	Syria
Solidaire Banque International S.B.I. SARL	**66.67**	66.67	Banking activities	Congo

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial statements of the Group for the six-month period ended 30 June 2012 have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group's annual consolidated financial statements dated 31 December 2011. In addition, the results for the six months ended 30 June 2012 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2012.

The consolidated financial statements and the related disclosures are presented in millions of Lebanese Pounds (LL million), except when otherwise indicated.

2.2 Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

3 SEASONALITY OF RESULTS

Dividend income amounted to LL 3,932 million for the six month period ended 30 June 2012 (30 June 2011: LL 4,160 million). These dividends relate to investments in equity securities, where distributions are usually made in the first half of the year.

4 OPERATING SEGMENTS

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 Group segments its business into Retail Banking, Corporate Banking, Treasury and Capital Markets, and Insurance. Management treats the operations of these segments separately for the purposes of decision making, resource allocation and performance assessment.

Retail banking
Retail banking provides a diversified range of products and services to individuals. The range includes housing loans, consumer loans, credit cards, deposits, foreign exchange and other branch related services.

Corporate banking
Corporate banking provides a comprehensive product and service offering to business and corporate customers, including lending, deposits, trade finance and foreign exchange operations.

Treasury and capital markets
Treasury and capital markets include treasury, investments and other defined Group activities. It also includes investment products and services to institutional investors and intermediaries. Treasury is also responsible for the Group's liquidity management and market risk.

Insurance
The Group provides insurance services through subsidiaries operating in Lebanon and Syria.

Unallocated
This includes long term investments and other operating income and expenses not allocated to any of the above segments in addition to other miscellaneous activities.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the financial statements. Income taxes are not allocated to operating segments.

Interest income is reported net since the majority of the segments' revenues are from interest. Management primarily relies on net interest revenue as performance measure, not the gross revenue and expense amounts. Transfer prices between operating segments are on arm's length basis in a manner similar to transactions with third parties.

The following table presents net operating income and total assets and liabilities information in respect of the Group's business segments:

	Retail banking LL million	*Corporate banking LL million*	*Treasury and capital markets LL million*	*Insurance LL million*	*Unallocated LL million*	*Total LL million*
Revenues and expenses for the period ended 30 June 2012 (unaudited)						
Net interest income	106,212	68,409	12,510	1,248	-	188,379
Net fee and commission income	8,040	53,963	3,546	9,610	1,158	76,317
Net gain from financial instruments at fair value through profit or loss	-	-	45,674	155	-	45,829
Net gain from sale of financial assets at amortized cost	-	-	25,357	-	-	25,357
Net gain from other financial assets	-	-	3,405	-	-	3,405
Other operating income	-	-	-	8	11,711	11,719
Credit loss expense	(6,841)	(26,988)	11,226	(1,280)	-	(23,883)
Net operating income	107,411	95,384	101,718	9,741	12,869	327,123
Assets and liabilities as of 30 June 2012 (unaudited)						
Total assets	1,855,194	4,535,596	18,226,420	132,098	254,398	25,003,706
Total liabilities	18,685,190	1,320,033	2,135,724	207,488	310,606	22,659,041

4 OPERATING SEGMENTS (continued)

	Retail banking LL million	Corporate banking LL million	Treasury and capital markets LL million	Insurance LL million	Unallocated LL million	Total LL million
Revenues and expenses for the period ended 30 June 2011 (unaudited):						
Net interest income	139,792	40,903	37,361	770	-	218,826
Net fee and commission income	25,965	36,210	3,624	7,704	(1,025)	72,478
Net gain from financial instruments at fair value through profit or loss	-	-	22,242	136	480	22,858
Net gain from sale of financial assets at amortized cost	-	-	9,598	-	-	9,598
Net gain from other financial assets	-	-	3,113	-	160	3,273
Other operating income	-	-	-	70	6,092	6,162
Credit loss expense	(582)	(7,962)	(7,308)	(475)	-	(16,327)
Net operating income	165,175	69,151	68,630	8,205	5,707	316,868
Assets and liabilities as of 31 December 2011 (audited):						
Total assets	1,680,172	4,693,970	18,252,393	110,807	289,971	25,027,313
Total liabilities	17,989,539	1,336,869	2,620,704	192,796	402,627	22,542,535

5 NET GAIN FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Unaudited 30 June 2012 LL million	Unaudited 30 June 2011 LL million
Interest and similar income from debt instruments and other financial assets at fair value through profit or loss:		
- Lebanese treasury bills and other governmental bills	**4,247**	8,133
- Bonds and financial assets with fixed income	**237**	265
- Certificates of deposit	**508**	1,215
	4,992	9,613
Gain (loss) from sale of debt instruments and other financial assets at fair value through profit or loss:		
- Lebanese treasury bills and other governmental bills	**7,867**	(3,404)
- Bonds and financial assets with fixed income	**210**	761
- Certificates of deposit	**15**	889
	8,092	(1,754)
Unrealized (loss) gain from revaluation of debt instruments and other financial assets at fair value through profit or loss:		
- Lebanese treasury bills and other governmental bills	**(3,043)**	3,593
- Bonds and financial assets with fixed income	**1,045**	(589)
- Certificates of deposit	**(205)**	1,430
	(2,203)	4,434
Net gain from debt instruments and other financial assets at fair value through profit or loss	**10,881**	12,293
Net gain (loss) from equity instruments at fair value through profit or loss:		
- (Loss) gain from sale	**(386)**	47
- Unrealized gain (loss) from revaluation	**439**	(2,592)
- Dividend income	**527**	887
Net gain (loss) from equity instruments at fair value through profit or loss	**580**	(1,658)
Unrealized gain from revaluation of structural position of a subsidiary	**15,295**	755
Foreign exchange	**19,073**	11,468
	45,829	22,858

6 NET GAIN FROM SALE OF FINANCIAL ASSETS AT AMORTIZED COST

Sales of financial assets at amortized cost were made during the period due to the following reasons:

- Liquidity gap and yield management
- Swap of certificates of deposit by BDL

The schedule below details the gains and losses arising from the derecognition of these financial assets:

	Unaudited 30 June 2012		
	Gains LL million	***Losses LL million***	***Net LL million***
Lebanese sovereign and Central Bank of Lebanon:			
- Certificates of deposit	**33,346**	**-**	**33,346**
- Treasury bills and bonds	**1,213**	**-**	**1,213**
	34,559	**-**	**34,559**
Other sovereign:			
- Treasury bills and bonds	**718**	**(10,020)**	**(9,302)**
Private sector:			
- Other debt instruments – Corporate institutions	**100**	**-**	**100**
	35,377	**(10,020)**	**25,357**

	Unaudited 30 June 2011		
	Gains LL million	*Losses LL million*	*Net LL million*
Lebanese sovereign and Central Bank of Lebanon:			
- Certificates of deposit	2,482	(422)	2,060
- Treasury bills and bonds	6,161	(6)	6,155
	8,643	(428)	8,215
Other sovereign:			
- Treasury bills and bonds	42	-	42
Private sector:			
- Other debt instruments – Corporate institutions	1,341	-	1,341
	10,026	(428)	9,598

7 OTHER OPERATING INCOME

	Unaudited 30 June 2012 LL million	*Unaudited 30 June 2011 LL million*
Net gain from sale of assets taken in settlement of debt	**3,260**	2,418
Rental income from assets taken in settlement of debt	**752**	847
Write back of provisions for risks and charges	**6,154**	2,128
Others	**1,553**	769
	11,719	6,162

8 CREDIT LOSS EXPENSE

	Unaudited 30 June 2012 LL million	*Unaudited 30 June 2011 LL million*
Specific provisions for loans and advances	**29,092**	1,800
Collective provision for loans and advances	**12,411**	14,061
Specific provisions for debt instruments at amortized cost (note 11)	**-**	4,460
Collective provision for debt instruments at amortized cost (note 11)	**-**	2,847
Bad debts written off	**37**	39
	41,540	23,207
Write back of provisions:		
Specific provisions for loans and advances	**(6,256)**	(3,143)
Collective provision for loans and advances	**-**	(642)
Specific provisions for doubtful banks	**(471)**	(3,095)
Collective provision for debt instruments at amortized cost (note 11)	**(10,930)**	-
	(17,657)	(6,880)
Net credit loss expense	**23,883**	16,327

9 DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, 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 period end and are indicative of neither the market risk nor the credit risk.

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 favourable to the Group.

	Unaudited 30 June 2012			*Audited 31 December 2011*		
	Assets LL million	***Liabilities LL million***	***Notional amount LL million***	*Assets LL million*	*Liabilities LL million*	*Notional amount LL million*
Currency swaps	**777**	**528**	**367,647**	891	2,201	190,831
Foreign exchange contracts	**2,013**	**2,236**	**419,738**	4,465	5,146	313,357
	2,790	**2,764**	**787,385**	5,356	7,347	504,188

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Group.

Over–the–counter derivatives may expose the Group to the risks associated with the absence of an exchange market on which to close out an open position.

The Group's exposure under derivative contracts is closely monitored as part of the overall management of the Group's market risk.

Forwards
Forwards are contractual agreements to buy or sell a specified 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 streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross–settled.

10 DEBT INSTRUMENTS AND OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Unaudited 30 June 2012 LL million	*Audited 31 December 2011 LL million*
Lebanese treasury bills and other governmental bills	**176,053**	195,146
Bonds and financial assets with fixed income	**22,334**	19,637
Certificates of deposit	**11,376**	10,916
Accrued interest receivable on:		
- Lebanese treasury bills and other governmental bills	**2,490**	2,438
- Bonds and financial assets with fixed income	**138**	307
- Certificates of deposit	**172**	162
	212,563	228,606

11 DEBT INSTRUMENTS AT AMORTIZED COST

	Unaudited 30 June 2012 LL million	*Audited 31 December 2011 LL million*
Lebanese treasury bills and other governmental bills	**3,309,392**	3,401,137
Bonds and financial assets with fixed income	**718,959**	675,105
Certificates of deposit	**4,313,740**	4,415,691
Accrued interest receivable on:		
- Lebanese treasury bills and other governmental bills	**49,971**	62,786
- Bonds and financial assets with fixed income	**9,988**	10,265
- Certificates of deposit	**83,023**	84,353
	8,485,073	8,649,337
Less: collective provision for impairment losses	**(14,100)**	(25,015)
specific provision for impairment losses	**-**	(17,021)
	8,470,973	8,607,301

The movement in the collective provision for impairment losses during the period was as follows:

	Unaudited 30 June 2012		
	Other governmental bills LL million	***Bonds and financial assets with fixed income LL million***	***Total LL million***
Balance at 1 January	**14,236**	**10,779**	**25,015**
Write back during the period (note 8)	**(10,930)**	**-**	**(10,930)**
Exchange difference	**15**	**-**	**15**
Balance at 30 June	**3,321**	**10,779**	**14,100**

11 DEBT INSTRUMENTS AT AMORTIZED COST (continued)

	Unaudited 30 June 2011		
	Other governmental bills LL million	*Bonds and financial assets with fixed income LL million*	*Total LL million*
Balance at 1 January	-	-	-
Provision transferred upon early adoption of IFRS 9	10,977	5,704	16,681
Provision transferred to specific provision for impairment losses	(1,831)	-	(1,831)
Charge for the period (note 8)	2,485	362	2,847
Exchange difference	445	(2)	443
Balance at 30 June	12,076	6,064	18,140

The movement in the specific provision for impairment losses during the period was as follows:

	Unaudited 30 June 2012 Other governmental bills LL million	*Unaudited 30 June 2011 Other governmental bills LL million*
Balance at 1 January	**17,021**	-
Provision transferred upon early adoption of IFRS 9	**-**	3,860
Provision transferred from collective provision for impairment losses	**-**	1,831
Charge for the period (note 8)	**-**	4,460
Exchange difference	**104**	279
Provision written off against Hellenic Republic Bonds disposed of	**(17,125)**	-
Balance at 30 June	**-**	10,430

12 EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Unaudited 30 June 2012 LL million	*Audited 31 December 2011 LL million*
Quoted shares	**41,787**	39,927
Unquoted shares	**35,233**	37,040
	77,020	76,967

12 EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The table below details the equity instruments at fair value through other comprehensive income:

	Unaudited 30 June 2012		*Audited 31 December 2011*	
	Carrying amount LL million	***Cumulative fair value changes LL million***	*Carrying amount LL million*	*Cumulative fair value changes LL million*
Unquoted shares:				
Banque de l'Habitat SAL	**18,979**	**13,790**	18,979	13,790
Intra Investment Company SAL	**13,025**	**-**	14,979	1,954
Interbank Payment Network (IPN) SAL	**1,206**	**203**	1,206	203
Arab Trade Financing Program	**1,492**	**-**	1,492	-
Others	**531**	**124**	384	-
Quoted shares:				
Jordan Ahli Bank	**41,787**	**(38,891)**	39,927	(35,361)
	77,020	**(24,774)**	76,967	(19,414)

Dividend income amounted to LL 3,405 million for the six-month period ended 30 June 2012 (2011: LL 3,273 million) and resulted from equity instruments held at period end (2011: the same).

13 OTHER ASSETS

		Unaudited 30 June 2012 LL million	*Audited 31 December 2011 LL million*
Obligatory financial assets	a	**19,173**	20,091
Other assets	b	**64,066**	59,822
Deferred tax assets		**1,837**	1,061
Doubtful debtor accounts		**37**	37
		85,113	81,011
Less: allowance for credit loss		**(37)**	(37)
		85,076	80,974

a) Obligatory financial assets consist of deposits at a percentage of the share capital of subsidiary banks that was blocked at incorporation as a guarantee with the authorities. These deposits shall be returned to the subsidiary banks without any interest upon liquidation of their activities.

b) Other assets consist of the following:

	Unaudited 30 June 2012 LL million	*Audited 31 December 2011 LL million*
Prepaid rent	**6,234**	3,768
Printings and stationary	**2,800**	3,213
Credit card balances due from customers	**10,305**	11,248
Insurance premiums receivable	**3,731**	2,945
Reinsurers' share of technical reserve of subsidiary insurance company	**23,134**	19,974
ATM balances	**357**	397
Advance payment on participating in capital increase of equity instruments at fair value through other comprehensive income	**-**	5,187
Other debit balances	**17,505**	13,090
	64,066	59,822

14 CUSTOMERS' DEPOSITS AT AMORTIZED COST

	Unaudited 30 June 2012 LL million	*Audited 31 December 2011 LL million*
Current accounts	**3,344,087**	3,196,125
Term deposits	**15,480,688**	14,989,496
Cash margins	**882,815**	888,133
Accrued interest payable	**94,239**	86,828
	19,801,829	19,160,582

15 DEBT ISSUED AND OTHER BORROWED FUNDS

	Nominal value US$ (000)	*Maturity*	*Interest rate %*	*Unaudited 30 June 2012 LL million*	*Audited 31 December 2011 LL million*
Certificates of deposit					
Issue 2009 – First Series (*)	**101,150**	**31/03/2012**	**6.50**	**-**	152,484
Issue 2009 – Second Series	**40,450**	**31/03/2014**	**7.25**	**60,978**	60,978
Accrued interest payable				**12**	39
				60,990	213,501
Bonds					
Issue 2011	**297,310**	**24/06/2021**	**7.00**	**448,013**	448,174
Accrued interest payable				**616**	615
				448,629	448,789
				509,619	662,290

(*) The certificate of deposits – issue 2009 – first series matured and were settled on 31 March 2012.

16 OTHER LIABILITIES

	Unaudited 30 June 2012 LL million	*Audited 31 December 2011 LL million*
Accrued expenses	**47,127**	28,823
Fixed assets suppliers	**7,642**	10,211
Unearned commission and interest	**1,572**	2,010
Cash margin related to companies under establishment	**2,263**	10,104
Insurance premiums received in advance	**2,181**	2,178
Partial payments received from customers	**5,164**	4,512
Payables to the National Social Security Fund	**1,631**	1,692
Advance payments linked to assets taken in settlement of debt	**1,250**	1,428
Current tax liability	**35,942**	47,669
Deferred tax liabilities	**1,962**	2,229
Certificates of deposits matured and not yet settled	**8,684**	612
Other creditors	**50,695**	14,799
	166,113	126,267

17 SUBORDINATED NOTES

	Unaudited* *30 June 2012* *LL million	*Audited* *31 December 2011* *LL million*
Convertible subordinated notes (maturity 30 November 2012)	**256,387**	258,875
Subordinated notes (maturity 30 June 2012)	**-**	48,388
	256,387	307,263

The subordinated notes matured and were settled on 30 June 2012.

18 SHARE CAPITAL

	Unaudited* *30 June 2012			*Audited* *31 December 2011*		
	No of shares	***Share capital LL million***	***Share premium LL million***	*No of shares*	*Share capital LL million*	*Share premium LL million*
Ordinary shares						
- Common shares	**565,515,040**	**684,273**	**229,014**	565,515,040	684,273	229,014
Preferred shares						
- Series 2008	**2,000,000**	**2,420**	**295,154**	2,000,000	2,420	295,154
- Series 2009	**2,000,000**	**2,420**	**291,105**	2,000,000	2,420	288,704
	4,000,000	**4,840**	**586,259**	4,000,000	4,840	583,858

During the period, an amount of LL 2,412 million was transferred from retained earnings to share premium Series 2009 preferred shares for the difference between the redemption price and issue price (2011: the same).

Listing of shares

The Bank's shares were listed as follows as of 30 June / 31 December:

	Stock exchange	***Unaudited* *30 June 2012* *No of shares***	*Audited* *31 December 2011* *No of shares*
Ordinary shares	Beirut	**501,204,240**	500,804,990
Global depository receipts (*)	London SEAQ and Beirut	**1,286,216**	1,294,201
Preferred shares	Beirut	**4,000,000**	4,000,000

(*) Global Depository Receipts (GDR's) can be issued at a ratio of 50 Common Shares per one GDR.

19 NON DISTRIBUTABLE RESERVES (LEGAL AND OBLIGATORY)

	Legal reserve LL million	*Reserves for capital increase LL million*	*Equity component of convertible subordinated notes LL million*	*Reserve for general banking risks LL million*	*Other capital reserves LL million*	*Total LL million*
(Unaudited)						
Balance at 1 January 2012	172,250	45,716	18,040	138,609	94,457	469,072
Appropriation from retained earnings	28,571	3,951	-	41,385	12,063	85,970
Net loss on sale of treasury shares	-	(23)	-	-	-	(23)
Balance at 30 June 2012	**200,821**	**49,644**	**18,040**	**179,994**	**106,520**	**555,019**

19 NON DISTRIBUTABLE RESERVES (LEGAL AND OBLIGATORY) (continued)

	Legal reserve LL million	*Reserves for capital increase LL million*	*Equity component of convertible subordinated notes LL million*	*Reserve for general banking risks LL million*	*Other capital reserves LL million*	*Total LL million*
(Audited)						
Balance at 1 January 2011	143,741	40,135	18,040	113,209	81,401	396,526
Appropriation from retained earnings	28,509	5,301	-	25,400	13,056	72,266
Net gain on sale of treasury shares	-	280	-	-	-	280
Balance at 31 December 2011	172,250	45,716	18,040	138,609	94,457	469,072

As of 30 June 2012, "Other capital reserves" include reserves of LL 71,022 million maintained by the subsidiary Byblos Bank Europe to meet several legal limits and requirements (31 December 2011: LL 61,443 million).

20 DISTRIBUTABLE FREE RESERVES

Distributable free reserves consist of general reserves appropriated from the Group's retained earnings to strengthen its equity.

During the six-month period ended 30 June 2012, the Group appropriated LL 2,492 million from 2011 profits (year ended 31 December 2011: nil) to distributable free reserves. This reserve is available for dividends distribution.

21 TREASURY SHARES

	Unaudited 30 June 2012		*Audited 31 December 2011*	
	No of shares	***US$ (000)***	*No of shares*	*US$ (000)*
Common shares	**8,609,221**	**15,633**	8,707,829	15,813
Global Depository Receipts	**13,305**	**1,144**	12,541	1,086
Total in US$ (000)		**16,777**		16,899
Counter value in LL million		**25,292**		25,476

As of 30 June 2012, treasury shares include 5,520,000 common shares held against other equity instruments (31 December 2011: the same).

Major movements in treasury shares during the period were as follows:

Period ended 30 June 2012 (unaudited)

	Common shares		***Global Depository Receipts***	
	Number of shares	***Amount US$ (000)***	***Number of shares***	***Amount US$ (000)***
Acquisition of treasury shares	**5,845**	**10**	**764**	**58**
Sales of treasury shares	**(104,453)**	**(190)**	**-**	**-**

Period ended 30 June 2011 (unaudited)

	Common shares		*Priority shares*		*Global Depository Receipts*	
	Number of shares	*Amount US$ (000)*	*Number of shares*	*Amount US$ (000)*	*Number of shares*	*Amount US$ (000)*
Acquisition of treasury shares	2,334,706	4,220	9,186,412	16,916	7,548	675
Sale of treasury shares	(718,254)	(1,296)	(7,953,871)	(14,639)	(1,500)	(134)
Conversion of priority shares into common shares	1,345,942	2,477	(1,345,942)	(2,477)	-	-

22 RETAINED EARNINGS

As of 30 June 2012 and 31 December 2011, retained earnings include the following non distributable amounts:

	Unaudited 30 June 2012 LL million	*Audited 31 December 2011 LL million*
Group's share of accumulated unrealized gain on revaluation of structural position of subsidiary bank	**7,764**	-
Other	**442**	-
	8,206	-

In accordance with decision 362 of the Council of Money and Credit of Syria, unrealized accumulated foreign exchange profits from the revaluation of the structural position in foreign currency maintained by the subsidiary bank in Syria are non-distributable. These are classified as non- distributable amounts in retained earnings after the closing of each financial year ending 31 December, upon transfer of the profit for the period to retained earnings.

23 CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The movement of the change in fair value during the period ended 30 June 2012 and the year ended 31 December 2011 was as follows:

	Unaudited Period from 1 January to 30 June 2012 LL million	*Audited Year ended 31 December 2011 LL million*
At 1 January	**(20,556)**	53,993
Effect of IFRS 9 early adoption (note 29)	**-**	(72,065)
Net changes in fair values during the period / year	**(5,360)**	(3,718)
Net changes in deferred taxes	**776**	1,379
Difference on exchange	**173**	(145)
Balance at the end of the period / year	**(24,967)**	(20,556)

24 CASH AND CASH EQUIVALENTS

	Unaudited 30 June 2012 LL million	*Audited 31 December 2011 LL million*	*Unaudited 30 June 2011 LL million*
Cash and balances with central banks	**2,319,859**	3,065,906	2,309,500
Due from banks and financial institutions	**3,371,005**	4,233,447	4,586,100
	5,690,864	7,299,353	6,895,600
Less: Due to banks and financial institutions	**(813,564)**	(1,143,305)	(1,365,603)
Less: Due to central banks	**(9,785)**	(5,930)	(17,657)
	4,867,515	6,150,118	5,512,340

25 RELATED PARTY TRANSACTIONS

The Group enters into transactions, arrangements and agreements involving directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates.

The following table provides the balances with related parties included in the statement of financial position:

	(Unaudited) 30 June 2012			
	Major shareholders and board members LL million	***Senior management LL million***	***Other related parties LL million***	***Total LL million***
Net loans and advances	**9,762**	**2,416**	**2,705**	**14,883**
Deposits	**91,904**	**111,490**	**-**	**203,394**
Other credit balances	**235**	**-**	**-**	**235**

	(Audited) 31 December 2011			
	Major shareholders and board members LL million	*Senior management LL million*	*Other related parties LL million*	*Total LL million*
Net loans and advances	10,796	3,197	2,610	16,603
Deposits	73,583	92,243	-	165,826
Other credit balances	215	-	-	215

Related parties are granted indirect facilities with an outstanding balance amounting to LL 1,900 million at 30 June 2012 (31 December 2011: LL 1,358 million).

Undrawn commitments to lend related parties amounted to LL 6,545 million at 30 June 2012 (31 December 2011: LL 7,218 million).

The above related party advances are guaranteed by cash collaterals amounting to LL 9,772 million at 30 June 2012 (31 December 2011: LL 9,506 million).

Transactions with related parties during the period were as follows:

	Unaudited 30 June 2012 LL million	*Unaudited 30 June 2011 LL million*
Interest income on loans and advances	**291**	267
Interest expense on deposits	**5,122**	3,242

Compensation of the key management personnel of the Group

	Unaudited 30 June 2012			*Unaudited 30 June 2011*		
	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	**1,850**	**3,218**	**5,068**	1,011	4,257	5,268
Bonuses	**3,375**	**2,616**	**5,991**	7,732	3,056	10,788
Attendance fees	**294**	**-**	**294**	390	42	432

26 COMMITMENTS, CONTINGENT LIABILITIES AND LEASING ARRANGEMENTS

To meet the financial needs of customers, the Group enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Even though these obligations may not be recognised on the consolidated statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group.

Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

26 COMMITMENTS, CONTINGENT LIABILITIES AND LEASING ARRANGEMENTS (continued)

Legal claims
Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Group has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. At period / year end, the Group had several unresolved legal claims. Management believes that legal claims will not result in any financial loss to the Group based on information presently available.

Lease arrangements
Operating leases – Group as lessee
The Group has entered into commercial leases on premises. These leases have an average life of between five and ten years.

There are no restrictions placed upon the lessee by entering into these leases.

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

	Unaudited 30 June 2012 LL million	*Audited 31 December 2011 LL million*
Within one year	**3,544**	3,773
After one year but not more than five years	**11,917**	11,394
More than five years	**13,481**	18,929
	28,942	34,096

Other contingencies
The Bank's books and records have been reviewed by Department of Income Tax for the years 2006 and 2007. On 20 February 2012, the Department of Income Tax issued its review report, whereby it charged the Bank with additional taxes and penalties amounting to LL 1.2 billion, which were fully paid during 2012. In addition, the Bank's books and records for the years 2008 and thereafter have not been reviewed by the Department of Income Tax. The ultimate outcome of any potential review that may take place cannot be presently determined.

The subsidiaries' books and records are subject to review by the tax and social security authorities. The ultimate outcome of any review that might take place cannot be presently determined.

Contingent liabilities
Syria, one of the significant credit markets of the Group is still witnessing a period of political and civil unrest which may have an impact on the financial performance and financial position of the Group in future periods. As of 30 June 2012, management is not aware of any indication that may lead to significant changes to its financial position or performance in future periods. Management continues to monitor the evolution of these events and their effect on the Group's financial position and performance which is directly linked to their impact on the economic environment of Syria and the length of the period of political and civil unrest.

27 FAIR VALUE OF FINANCIAL INSTRUMENTS

Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable market data, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

27 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Unaudited 30 June 2012		
	Level 1 LL million	***Level 2 LL million***	***Total LL million***
FINANCIAL ASSETS			
Derivative financial instruments:			
Currency swaps	**-**	**777**	**777**
Forward foreign exchange contracts	**-**	**2,013**	**2,013**
	-	**2,790**	**2,790**
Equity instruments at fair value through profit or loss	**23,012**	**-**	**23,012**
Debt instruments and other financial assets at fair value through profit or loss:			
Lebanese treasury bills and other governmental bills	**161,352**	**17,191**	**178,543**
Certificates of deposit	**-**	**11,548**	**11,548**
Bonds and financial assets with fixed income	**22,472**	**-**	**22,472**
Equity instruments at fair value through other comprehensive income	**41,787**	**35,233**	**77,020**
	248,623	**63,972**	**312,595**
	248,623	**66,762**	**315,385**
FINANCIAL LIABILITIES			
Derivative financial instruments:			
Currency swaps	**-**	**528**	**528**
Forward foreign exchange contracts	**-**	**2,236**	**2,236**
	-	**2,764**	**2,764**

	Audited 31 December 2011		
	Level 1 LL million	*Level 2 LL million*	*Total LL million*
FINANCIAL ASSETS			
Derivative financial instruments:			
Currency swaps	-	891	891
Forward foreign exchange contracts	-	4,465	4,465
	-	5,356	5,356
Equity instruments at fair value through profit or loss	26,603	-	26,603
Debt instruments and other financial assets at fair value through profit or loss:			
Lebanese treasury bills and other governmental bills	141,874	55,710	197,584
Certificates of deposit	-	11,078	11,078
Bonds and financial assets with fixed income	19,944	-	19,944
Equity instruments at fair value through other comprehensive income	39,927	37,040	76,967
	228,348	103,828	332,176
	228,348	109,184	337,532
FINANCIAL LIABILITIES			
Derivative financial instruments:			
Currency swaps	-	2,201	2,201
Forward foreign exchange contracts	-	5,146	5,146
	-	7,347	7,347

Other financial assets in the consolidated statement of financial position amounting to LL 24,301,825 million at 30 June 2012 (31 December 2011: LL 24,271,160 million) are measured at amortized cost.

There were no transfers between levels of fair value hierarchy during the period ended 30 June 2012 (2011: the same).

28 DIVIDENDS PAID

During the periods ended 30 June 2012 and 2011, the following dividends were declared and paid by the Bank:

	Unaudited 30 June 2012 LL million	*Unaudited 30 June 2011 LL million*
Equity dividends on ordinary and priority shares LL 200 per share	**113,103**	113,103
Distributions to preferred shares – 2008 series US$ 8.00 per share	**24,224**	24,224
Distributions to preferred shares – 2009 series: US$ 8.00 per share	**24,224**	24,224
Distributions to priority shares calculated at 4% of the share's nominal value	**-**	9,518
	161,551	171,069
Less: dividends on treasury shares	**(710)**	(630)
	160,841	170,439

29 EARLY ADOPTION OF IFRS 9

In compliance with Circular 265 of the Lebanese Banking Control Commission issued on 23 September 2010, the Group adopted, effective 1 January 2011, Phase I of IFRS 9 as issued in November 2009 and reissued in October 2010 and related consequential amendments to other International Financial Reporting Standards. The effective application date stipulated by the standard is annual periods beginning on or after 1 January 2015. The initial application date of this standard with respect to the Group is 1 January 2011 in accordance with the transitional provisions of the standard.

The Group did not restate comparative information as permitted by the transitional provisions of IFRS 9 and has recognized impact of early adoption of IFRS 9 as at 1 January 2011, in the opening retained earnings and other components of equity as of that date. The schedule below summarizes the new classification and amendments to the Group financial instruments as at 1 January 2011 following the early adoption of IFRS 9 which resulted in adjustment to the opening retained earnings and cumulative changes in fair value of financial instruments designated at fair value through other comprehensive income as at 1 January 2011.

	Financial assets held for trading LL million	*Available-for-sale financial instruments LL million*	*Other financial assets classified as loans and receivables LL million*	*Held-to-maturity financial instruments LL million*	*Total LL million*
Carrying value as at 31 December 2010 according to IAS 39	**205,940**	**1,875,811**	**7,490,856**	**428,698**	**10,001,305**
Reclassification following early adoption of IFRS 9:					
Financial instruments reclassified to fair value through profit or loss:					
Debt instruments	150,639	-	72,608	-	223,247
Equity instruments	26,447	3,636	-	-	30,083
Debt instruments reclassified at amortized cost					
Loans to banks and financial institutions	-	-	629,997	-	629,997
Debt instruments	28,270	1,728,447	6,808,703	428,698	8,994,118
Equity instruments reclassified to fair value through other comprehensive income	-	80,687	-	-	80,687
Carrying value as at 1 January 2011 after early adoption of IFRS 9	**205,356**	**1,812,770**	**7,511,308**	**428,698**	**9,958,132**
Effect on opening balance of change in fair value of financial instruments through other comprehensive income	-	(100,168)	18,918	-	(81,250)
out of which: effect of previous amendments to IAS 39	-	-	*18,918*	-	*18,918*
Less: deferred taxes	-	8,878	-	-	8,878
Effect on opening balance of change in fair value of financial instruments through other comprehensive income, net	**-**	**(91,290)**	**18,918**	**-**	**(72,372)**
Attributable to equity holders of the parent	-	(91,046)	18,981	-	(72,065)
Non-controlling interest	-	(244)	(63)	-	(307)
	-	**(91,290)**	**18,918**	**-**	**(72,372)**
Effect on opening balance of retained earnings	**(584)**	**37,127**	**1,534**	**-**	**38,077**
Attributable to equity holders of the parent	(584)	37,127	1,534	-	38,077
Non-controlling interest	-	-	-	-	-
	(584)	**37,127**	**1,534**	**-**	**38,077**

30 CONSOLIDATED STATEMENT OF FINANCIAL POSITION IN LEBANESE LIRA AND FOREIGN CURRENCIES

Following is the consolidated statement of financial position as of 30 June 2012 detailed in Lebanese Lira (LL) and foreign currencies, translated into LL.

	30 June 2012 (unaudited)		
ASSETS	*LL million*	*Foreign currencies in LL million*	*Total LL million*
Cash and balances with central banks	**1,586,915**	**3,532,406**	**5,119,321**
Due from banks and financial institutions	**20,563**	**3,651,973**	**3,672,536**
Loans to banks and financial institutions and reverse repurchase agreements	**8,403**	**630,883**	**639,286**
Financial assets given as collateral	**8,918**	**-**	**8,918**
Derivative financial instruments	**2,676**	**114**	**2,790**
Equity instruments at fair value through profit or loss	**-**	**23,012**	**23,012**
Debt instruments and other financial assets at fair value through profit or loss	**28,078**	**184,485**	**212,563**
Net loans and advances to customers and related parties at amortized cost	**1,364,391**	**4,807,150**	**6,171,541**
Debtors by acceptances	**-**	**219,250**	**219,250**
Debt instruments at amortized cost	**5,452,764**	**3,018,209**	**8,470,973**
Equity instruments at fair value through other comprehensive income	**20,417**	**56,603**	**77,020**
Property and equipment	**183,014**	**83,339**	**266,353**
Intangible assets	**1,129**	**-**	**1,129**
Assets taken in settlement of debt	**(8,687)**	**42,625**	**33,938**
Other assets	**45,601**	**39,475**	**85,076**
TOTAL ASSETS	**8,714,182**	**16,289,524**	**25,003,706**
LIABILITIES AND EQUITY			
Due to central banks	**8,858**	**16,379**	**25,237**
Due to banks and financial institutions	**13,272**	**1,331,210**	**1,344,482**
Derivative financial instruments	**2,686**	**78**	**2,764**
Customers' and related parties' deposits at amortized cost	**7,692,986**	**12,312,237**	**20,005,223**
Debt issued and other borrowed funds	**-**	**509,619**	**509,619**
Engagements by acceptances	**-**	**219,250**	**219,250**
Other liabilities	**71,091**	**95,022**	**166,113**
Provisions for risks and charges	**115,329**	**14,637**	**129,966**
Subordinated notes	**-**	**256,387**	**256,387**
TOTAL LIABILITIES	**7,904,222**	**14,754,819**	**22,659,041**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	**684,273**	**-**	**684,273**
Share capital – preferred shares	**4,840**	**-**	**4,840**
Share premium – common shares	**-**	**229,014**	**229,014**
Share premium – preferred shares	**-**	**586,259**	**586,259**
Non distributable reserves (legal and obligatory)	**403,668**	**151,351**	**555,019**
Distributable free reserves	**71,907**	**9,712**	**81,619**
Other equity instruments	**-**	**14,979**	**14,979**
Treasury shares	**-**	**(25,292)**	**(25,292)**
Retained earnings	**45,628**	**27,944**	**73,572**
Revaluation reserve of real estate	**5,689**	**-**	**5,689**
Change in fair value of financial instruments at fair value through other comprehensive income	**11,860**	**(36,827)**	**(24,967)**
Net results of the financial period - profit	**107,820**	**9,179**	**116,999**
Foreign currency translation reserves	**-**	**(86,721)**	**(86,721)**
NON-CONTROLLING INTEREST	**13,650**	**115,732**	**129,382**
TOTAL EQUITY	**1,349,335**	**995,330**	**2,344,665**
TOTAL LIABILITIES AND EQUITY	**9,253,557**	**15,750,149**	**25,003,706**

30 CONSOLIDATED STATEMENT OF FINANCIAL POSITION IN LEBANESE LIRA AND FOREIGN CURRENCIES (continued)

Following is the consolidated statement of financial position as of 31 December 2011 detailed in Lebanese Lira (LL) and foreign currencies, translated into LL.

	31 December 2011 (audited)		
ASSETS	*LL million*	*Foreign currencies in LL million*	*Total LL million*
Cash and balances with central banks	1,449,868	2,832,600	4,282,468
Due from banks and financial institutions	15,383	4,315,459	4,330,842
Loans to banks and financial institutions and reverse repurchase agreements	8,406	659,082	667,488
Financial assets given as collateral	8,920	-	8,920
Derivative financial instruments	3,549	1,807	5,356
Equity instruments at fair value through profit or loss	-	26,603	26,603
Debt instruments and other financial assets at fair value through profit or loss	66,789	161,817	228,606
Net loans and advances to customers and related parties at amortized cost	1,228,032	4,814,288	6,042,320
Debtors by acceptances	-	331,821	331,821
Debt instruments at amortized cost	5,514,183	3,093,118	8,607,301
Equity instruments at fair value through other comprehensive income	20,417	56,550	76,967
Property and equipment	185,886	115,180	301,066
Intangible assets	1,129	-	1,129
Assets taken in settlement of debt	(9,287)	44,739	35,452
Other assets	35,925	45,049	80,974
TOTAL ASSETS	8,529,200	16,498,113	25,027,313
LIABILITIES AND EQUITY			
Due to central banks	8,857	6,813	15,670
Due to banks and financial institutions	14,429	1,621,051	1,635,480
Derivative financial instruments	4,967	2,380	7,347
Customers' and related parties' deposits at amortized cost	7,470,365	11,856,043	19,326,408
Debt issued and other borrowed funds	-	662,290	662,290
Engagement by acceptances	-	331,821	331,821
Other liabilities	64,112	62,155	126,267
Provisions for risks and charges	113,679	16,310	129,989
Subordinated notes	(20)	307,283	307,263
TOTAL LIABILITIES	7,676,389	14,866,146	22,542,535
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	684,273	-	684,273
Share capital – preferred shares	4,840	-	4,840
Share premium – common shares	-	229,014	229,014
Share premium – preferred shares	-	583,858	583,858
Non distributable reserves (legal and obligatory)	325,391	143,681	469,072
Distributable free reserves	73,705	5,422	79,127
Other equity instruments	-	14,979	14,979
Treasury shares	-	(25,476)	(25,476)
Retained earnings	10,758	54,456	65,214
Revaluation reserve of real estate	5,689	-	5,689
Change in fair value of financial instruments at fair value through other comprehensive income	11,810	(32,366)	(20,556)
Net results of the financial period - profit	220,657	39,237	259,894
Foreign currency translation reserves	-	(31,329)	(31,329)
NON-CONTROLLING INTEREST	13,475	152,704	166,179
TOTAL EQUITY	1,350,598	1,134,180	2,484,778
TOTAL LIABILITIES AND EQUITY	9,026,987	16,000,326	25,027,313

31 COMPRARATIVE AMOUNTS

- Unrealized gain from revaluation of structural position of a subsidiary bank has been reclassified from “net gain on other financial assets” to “net gain from financial instruments at fair value through profit or loss” in the consolidated statement of income. Comparative amounts totaling LL 755 million have been reclassified accordingly.

- Net gain from sale of financial assets at amortized cost has been reclassified from “net gain on other financial assets” in the consolidated statement of income. Comparative amounts totaling LL 9,598 million have been reclassified accordingly.

- Taxes have been reclassified from “administrative and other operating expenses” to “income tax expense” in the consolidated statement of income. Comparative amounts totaling LL 3,842 million have been reclassified accordingly.

- Loans and advances to senior management have been reclassified from “net loans and advances to customers at amortized cost” to “net loans and advances to related parties at amortized cost” in the consolidated statement of financial position. Comparative amounts totaling LL 3,197 million have been reclassified accordingly.

- Certain deposits to senior management have been reclassified from “customers deposits at amortized cost” to “related parties’ deposits at amortized cost” in the consolidated statement of financial position. Comparative amounts totaling LL 13,835 million have been reclassified accordingly.

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