ANNUAL REPORT 2010

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Chairman's Letter

BBAC closed the year of 2010 on a positive note on all levels. Our balance sheet indicates continuous strength, our profits exhibit sustainable year-on-year net income and our capital base is organically growing and solid .

On the global front, the bright signs of economic recovery that began to appear at the end of 2009 were overshadowed by the possibility of yet another financial crisis triggered by sovereign debt concerns in certain European countries. However, emerging markets and developing economies continue to outperform the global economic growth index.

In Lebanon, real GDP grew by 7.5% in 2010 compared to 8.5% and 9.3% respectively in 2009 and 2008. Yet this is a very healthy growth when taking into account the global as well as the regional economic and political turmoil surrounding the country.

Commensurate with Lebanon's GDP growth, BBAC s.a.l. recorded rather strong growth rates in all the main financial indicators. Total assets grew by 10.2%, customer deposits registered an increase of 10.5% and customer loans increased by almost 28%, one of the highest rates in the sector. Our liquidity remains high reflecting our conservative approach to upholding a strong safety net, yet our net profits were consolidated with an increase of 7.3% year-on-year.

We continued to keep an unwavering focus on costs having the underlying expense growth in line with the approved budget to reflect only the necessary increase linked to the expansion taking place in the branch network and business development.

During 2010, BBAC s.a.l. demonstrated leadership in the sector by being one of the first banks to fully convert its accounting systems and policies to comply with International Financial Reporting Standards (IFRS). These new standards require more control and automation. For this purpose, BBAC s.a.l. has embarked in a major update to its core banking system which will set in place all required automated controls and data granulation. In addition, the bank also acquired a new international system for treasury management which covers front, middle and back office operations, practically without any manual intervention and directly interfaced with the bank's core system.

In several other facets of our operations, we have recorded significant progress in our quest to attain world-class standards. We continue to consolidate our market share of customer segments whose risk profile is consistent with our conservative risk appetite. This approach was proved quite fruitful in displaying the significant growth of our loan portfolio based on our risk strategy.

BBAC continues to ensure strong adherence to best practices in corporate governance built on the independence and separation of the board's supervisory responsibilities from the management framework. An internal guide, approved by the Board, has been issued recently regarding Corporate Governance in line with Basle recommendations and directives. I am proud to say that our bank is to a large extent already in line with these directives. Apart from the early adoption of the IFRS standards, we have endeavored to develop a wide range of controls and compliance measures to ensure a healthy and well governed work environment. At the Board's level, committees covering risk, audit and governance were established. New independent Board members were appointed with experience in the fields of risk and governance. In summary, BBAC s.a.l. has established a system that ensures an integrated view of risk and correlation/diversifications benefits.

Our sincere appreciation goes to our shareholders, customers, employees and other stakeholders for their continued support of the bank, which has enabled us to achieve another year of strong performance. With your continued support, we look forward to successful years ahead as we work hard to enhance returns for shareholders while continuing in our pursuit of excellence in our customer services and operations.

Ghassan T. Assaf
Chairman General Manager

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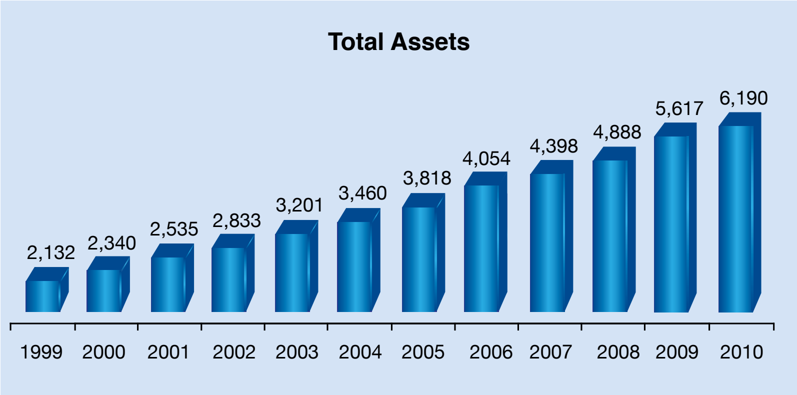
Management

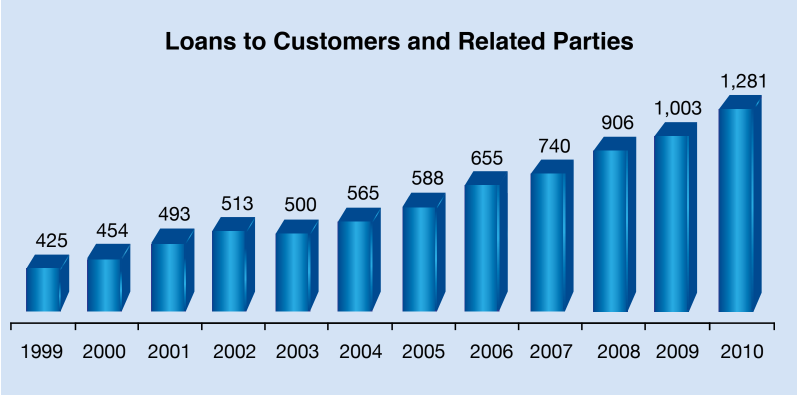
Financial Highlights

Evolution of Key Indicators (in billion LBP)

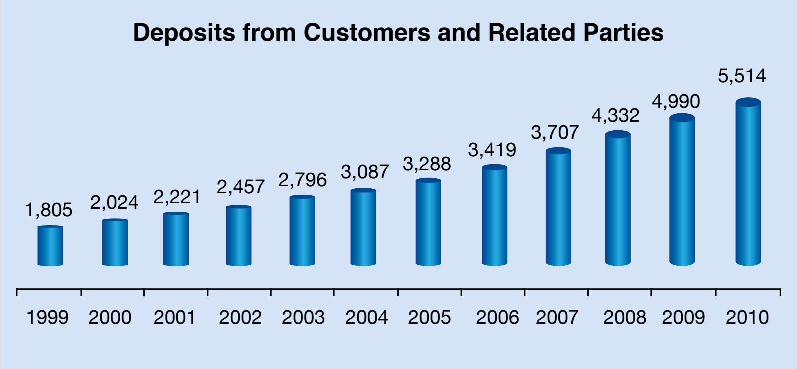
Assets



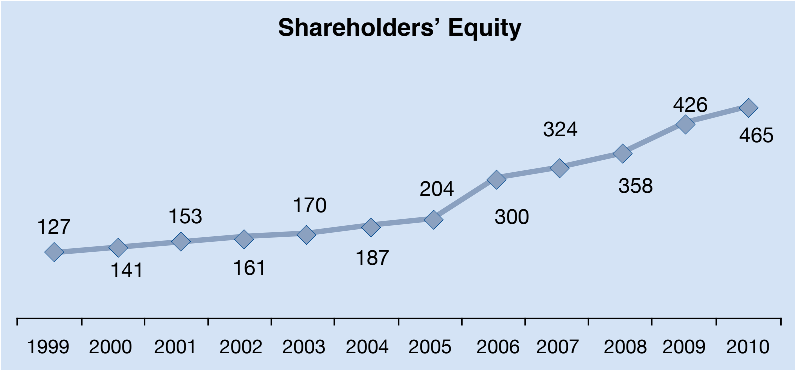
Loans



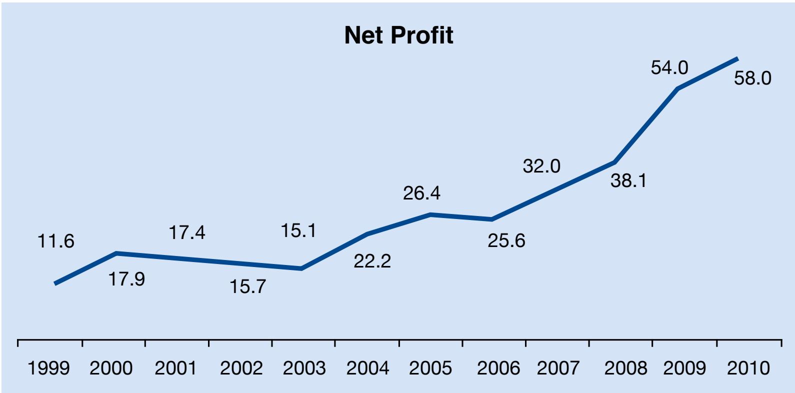
Deposits



Shareholders’ Equity



Net Profit



Selected Financial Data

	(in million LBP)		Growth	(Counter-value in thousand USD)	
	2010	2009	2010-2009	2010	2009
Total assets	6,190,023	5,617,080	10.20%	4,106,151	3,726,090
Total loans	1,281,439	1,003,221	27.73%	850,042	665,487
Net liquid assets	4,628,068	4,342,912	6.57%	3,070,029	2,880,870
Total deposits	5,513,681	4,990,340	10.49%	3,657,500	3,310,342
Shareholders' equity	464,994	426,128	9.12%	308,454	282,672
Net profit	57,987	54,034	7.32%	38,466	35,843

Key Ratios

Liquidity Ratios (%)	2010	2009
Net LBP liquidity	91.06%	94.73%
Net FC (foreign currency) liquidity	78.54%	81.35%
Net liquidity (Total)	83.94%	87.03%
Loans / Deposits (LBP)	17.39%	12.11%
Loans / Deposits (FC)	27.67%	25.99%
Loans / Deposits (Total)	23.24%	20.10%
Liquid assets / Total assets	76.57%	79.35%

Asset Quality Ratios[1] (%)	2010	2009
Gross doubtful loans / Gross loans	7.62%	9.36%
Gross substandard and doubtful loans / Gross loans	8.77%	10.69%
Provisions for doubtful loans / Gross doubtful loans	81.79%	84.44%
Provisions for loans / Gross loans	8.25%	9.69%
Net doubtful / Total assets	0.31%	0.29%
Net substandard and doubtful / Total assets	0.50%	0.47%

Capital Adequacy Ratios (%)	2010	2009
Capital adequacy ratio (Total)	22.85%	25.01%
Capital adequacy ratio according to Basel II	11.95%	11.49%

Profitability Ratios (%)	2010	2009
Return on average assets ROAA after Tax (%)	0.98%	1.03%
Return on average equity ROAE after Tax (%)	13.01%	13.79%
Number of common shares outstanding (million)	72	72
Number of preferred shares outstanding (million)	5	5
Earnings per common share (EPS) in LBP[2]	805	750
Earnings per common share (EPS) in LBP[3]	719	664
Dividends per common share DPS in LBP[4]	110	100
Dividends per preferred share in LBP	1,244	1,244
Dividends payout ratio[2]	15.30%	15.06%
Retention ratio[2]	84.70%	84.94%
Book value per common share in LBP[5]	5,411	4,872

Management Efficiency Ratios (%)	2010	2009
Interest paid / Interest received	70.32%	72.95%
Net commissions / Income[6]	16.56%	15.10%
Cost / Income[6] (Efficiency Ratio)	50.14%	50.19%
Cost per average branch (LBP million)	1,902	1,800

[1] Non-accrual interest is included in non-performing loans; unrealized interest is included in provisions
[2] Before the allocation of any dividends
[3] After allocation of dividends on the Preferred Shares
[4] An additional interest payment of about LBP 1,194 million was made on the Cash Contributions
[5] Before distribution of Common Shares' dividends
[6] Before "Operating expenses" and "Taxes"

Management

Board of Directors

Chairman General Manager
Sheikh Ghassan T. Assaf

Vice Chairman
Judge Abbas Al Halabi

Member
Mr. Walid T. Assaf

Member
Mr. Ali Assaf

Member
Mr. Marc Maamary

Member
Mr. Ali Ghandour

Secretary of the Board
Me. Amine Rizk

Major Shareholders and General Management

Major Shareholders

Assaf Family	54.236%
Fransabank s.a.l.	37.054%
Other Shareholders	8.710%

Board of Directors

Sheikh Ghassan T. Assaf	Chairman - General Manager
Judge Abbas Al Halabi	Vice Chairman
Mr. Walid Assaf	Member
Mr. Ali Assaf	Member
Mr. Marc Maamary	Member
Mr. Ali Ghandour	Member
Me. Amine Rizk	Secretary of the Board

Solicitors

Me. Chafic Khalaf	Me. Paul Morcos
Me. Amine Rizk	Me. Mazen Tajeddine
Me. Ramzi Haykal	Me. Bassam Daye
Me. Assaad Najm	Me. Adnan Jisr

Auditors

PricewaterhouseCoopers - KPMG

Executive Advisors to the Chairman

Mr. Georges Mirza	Credit and Recovery
Mr. Omar Saab	Business Development
Mr. Chawki Badr	International Expansion
Dr. Amalia Azoury	Economic Studies

General Management

Mr. Jean Mehanna	Deputy General Manager- Head of Retail Banking Division
Mr. Walid Haddad	Support Division
Mr. Nadim Hamadeh	Credit Division
Mr. Sami Saliba	Chief Financial Officer (CFO)
Ms. Wafaa Abed	Internal Audit
Mr. Jihad Njeim	Human Resources Department
Mr. Raja Makarem	Risk Management Department
Mr. Marwan Tayara	Recovery and Restructuring Department
Mr. Michel Kazan	Branch Management
Mr. Talal Abou Ziki	Compliance and Internal Control Department
Ms. Lina Makarem	Treasury Department
Mr. Salim Karam	Insurance Unit
Dr. Wael Dbaisy	Organization and Methods Unit
Mr. Francois Balaa	Information Technology Department
Ms. Sabah Khatounian	Administration Department
Mr. Tarek Bilal	Marketing Department
Ms. Nahed Zeid	Plastic Cards and Electronic Banking Department
Mr. Elie Nakad	Correspondent Banking Unit
Ms. Hilda Ashkar	Operations Department
Mr. Georges Moarbes	SME Credit Department
Ms. Micheline Dib	Consumer Credit Department
Mr. Ayman Fatayri	Corporate Credit Department
Mr. Maher Rahhal	Supported and Kafalat Loans Department
Mr. Anwar Abou Ghaida	General Accounting Department

Corporate Governance

BBAC recognizes that the key to its long-term success is sustaining the public's trust and confidence in the Bank. This is accomplished by ensuring that BBAC creates value for the shareholders and the other stakeholders, not only from a financial standpoint, but also in a socially and environmentally responsible way. Upholding the highest standards of ethical conduct requires setting strong corporate governance practices, which assign rights and responsibilities to the Bank's stockholders, Board of Directors and management, in a highly effective manner.

The Board oversees BBAC's affairs and is dynamically involved in setting the highest standards of corporate governance that are based on the core principles of transparency and accountability at all levels of the organization. These standards are ultimately safeguarded by a longstanding commitment to high moral values specifically honesty and integrity.

BBAC's management processes, structures and policies help ensure compliance with laws and regulations and provide clear lines of sight for decision-making and accountability. Accordingly, the corporate governance practices are designed, not just to satisfy regulatory requirements, but to provide for the effective management of the Bank.

Moreover, the Bank's current organizational structure aims to segregate the different functions and responsibilities between the Board, Executive Management, Operating Management, Board Committees, and Management Committees. These decision makers set clear grounds for control, authority segregation, job specialization, responsibility and accountability in order to ensure sustained value creation for the clients and the shareholders.

Excerpts from BBAC's Ordinary General Assembly of Shareholders

June 28, 2011

Resolution no. 1

The Ordinary General Assembly of BBAC Shareholders approved the activities, accounts, balance sheet and the profit and loss statement for the year ending December 31, 2010.

Resolution no. 2

The Ordinary General Assembly of BBAC Shareholders resolved the appropriation of the profits for the year 2010 as follows:

(LBP thousands)	2010
Profits for the year 2010	57,986,282
Less: Appropriation of reserves for “General Banking Risks”	6,249,003
Appropriation of reserves for “Legal Reserves”	5,798,628
Appropriation of reserves for “Property in Settlement of Debt”	3,044,082
Dividends on Preferred Shares	6,218,438
Dividends on Common Shares	7,920,000
Interest on Cash Contributions	1,193,761
Retained Earnings till Dec-09	82,158,079
Profits Carried Forward for 2010	**109,720,449**

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Financial Statements

Balance Sheet (in million LBP) as at December 31, 2010

Assets	2010			2009		
	LBP	FCY	Total	LBP	FCY	Total
Cash and balances with central banks	212,134	564,519	776,653	254,720	528,994	783,714
Banks and financial institutions	23,850	962,676	986,526	14,857	728,579	743,436
Derivative financial asset	-	888	888	-	1,576	1,576
Financial instruments held for trading	162,595	61,760	224,355	175,976	79,241	255,217
Loans and advances*	413,309	868,131	1,281,440	256,345	746,877	1,003,222
Debtors by acceptances	-	54,809	54,809	-	46,774	46,774
Investment securities:	1,770,330	980,945	2,751,275	1,567,663	1,105,705	2,673,368
Available for sale	653,522	251,115	904,637	658,159	263,820	921,979
Loans and receivables	686,097	441,206	1,127,303	547,114	460,148	1,007,262
Held to maturity	430,711	288,624	719,335	362,390	381,737	744,127
Investments in subsidiaries	3,524	-	3,524	3,524	-	3,524
Investment property	6,279	-	6,279	6,996	-	6,996
Property and equipment	53,472	5,639	59,111	53,312	776	54,088
Intangible fixed assets	884	230	1,114	1,172	229	1,401
Assets held for sale	1,435	17,893	19,328	1,590	20,213	21,803
Other assets	4,802	19,920	24,722	3,156	18,804	21,960
Total Assets	2,652,614	3,537,410	6,190,024	2,339,311	3,277,768	5,617,079
Total Assets C/V in thousands USD			4,106,152			3,726,089

Liabilities and Shareholders' Equity	2010			2009		
	LBP	FCY	Total	LBP	FCY	Total
Banks and financial institutions	4,957	106,672	111,629	8,575	105,822	114,397
Financial liabilities held for trading	1	900	901	52	900	952
Deposits from customers	2,376,337	3,137,345	5,513,682	2,116,108	2,874,232	4,990,340
Engagements by acceptances	-	54,809	54,809	-	46,774	46,774
Current income tax liabilities	1,538	173	1,711	2,106	174	2,280
Retirement benefit obligations	17,075	742	17,817	16,346	742	17,088
Deferred tax liability	6,595	-	6,595	6,595	-	6,595
Other provisions	2,938	848	3,786	3,219	176	3,395
Other liabilities	(74,427)	88,527	14,100	(89,249)	98,380	9,131
Total Liabilities	2,335,014	3,390,016	5,725,030	2,063,752	3,127,200	5,190,952
Ordinary share capital	72,000	-	72,000	72,000	-	72,000
Preferred share capital	5,000	70,375	75,375	5,000	70,375	75,375
Cash contributions to capital	-	43,109	43,109	-	43,109	43,109
Other reserves	134,143	15,314	149,457	119,254	19,619	138,873
Brought forward results	104,524	20,529	125,053	83,992	12,778	96,770
Total Shareholders' Equity	315,667	149,327	464,994	280,246	145,881	426,127
Total Liabilities and Shareholders' Equity	2,650,681	3,539,343	6,190,024	2,343,998	3,273,081	5,617,079
Total Liabilities and Shareholders' Equity in thousands USD			4,106,152			3,726,089

Balance Sheet (in million LBP) as at December 31, 2010

Off-Balance Sheet	2010	2009
	Total	Total
Engagements by endorsement received:	**3,022,908**	**2,651,000**
From financial intermediaries	15,829	121
Other engagements received	3,007,079	2,650,879
Engagements by endorsement given to:	**202,010**	**159,067**
Financial intermediaries	86,561	59,270
Clients	115,449	99,797
After deduction of:	**83,283**	**81,030**
Provisions for doubtful loans	52,716	51,536
Unrealized interest for doubtful loans	30,567	29,494
After deduction of:	**9,403**	**7,558**
Payables against receivables	9,403	7,558
Including net substandard loans:	**11,520**	**10,232**
Substandard loans	16,061	14,709
Unrealized interest for substandard loans	4,541	4,477

Income Statement (in million LBP) for the year ended December 31, 2010

Income Statement	(in million LBP)		(Counter-value in thousand USD)	
	2010	2009	2010	2009
Interest and similar income	**332,674**	**326,608**	**220,679**	**216,655**
Deposits and similar accounts at banks and financial institutions	11,138	22,121	7,388	14,674
Loans and advances facilities to customers	86,143	74,572	57,143	49,467
Loans and advances facilities to related parties	34	272	23	180
Available for sale investment securities	72,741	57,108	48,253	37,883
Interest on L&R investment securities	91,853	85,937	60,931	57,006
Interest on HTM investment securities	52,896	68,725	35,089	45,589
Interest from HFT financial assets	17,869	17,873	11,853	11,856
Dividend income	**7,774**	**2,369**	**5,157**	**1,571**
Interest and similar charges	**233,926**	**238,269**	**155,175**	**158,056**
Deposits and similar accounts from banks and financial institutions	7,179	6,010	4,762	3,987
Deposits and other credit balances from customers	224,253	229,859	148,758	152,477
Deposits and other credit balances from related parties	2,494	2,400	1,654	1,592
Net interest margin and similar income	**106,522**	**90,708**	**70,661**	**60,171**
Loan impairment charges	**3,668**	**1,489**	**2,433**	**988**
Specific provisions for loans and advances	12,601	13,050	8,359	8,657
Collective provision	516	-	342	-
Release of provisions and unrealized interest on doubtful and substandard loans	9,449	11,561	6,268	7,669
Net interest margin and similar income after loan impairment charges	**102,854**	**89,219**	**68,228**	**59,183**
Net commission	**22,929**	**19,498**	**15,210**	**12,934**
Fee and commission income	28,168	24,387	18,685	16,177
Fee and commission expense	5,239	4,889	3,475	3,243
Net trading income	**9,836**	**18,278**	**6,525**	**12,125**
Foreign exchange	3,575	2,970	2,371	1,970
Income from financial assets classified as:	-	-	-	-
Held for trading	(3,518)	7,787	(2,334)	5,166
Available for sale	8,161	547	5,414	363
Loans and receivables	1,618	138	1,073	92
Held to maturity	-	6,836	-	4,535
Other operating income	**2,854**	**2,125**	**1,893**	**1,410**
Operating expenses	**69,432**	**64,801**	**46,058**	**42,986**
Staff costs	38,870	37,125	25,784	24,627
Depreciation and amortization	3,480	3,189	2,308	2,115
Other operating expenses	27,082	24,487	17,965	16,243
Net income of the year before taxes	**69,041**	**64,319**	**45,798**	**42,666**
Taxes	**11,054**	**10,285**	**7,333**	**6,823**
Net profits for the year	**57,987**	**54,034**	**38,466**	**35,843**

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Management Discussion and Analysis

Basis of Presentation

The discussion and analysis that follow have been prepared by the management and are based on the audited financial statements of the Bank as at December 31, 2010 and December 31, 2009. The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

This analysis highlights the performance of BBAC in 2010. Any reference to "BBAC" or the "Bank" is meant to cover BBAC s.a.l. and its international branches; whereas any reference to BDL is meant to cover the Central Bank of Lebanon. Any reference to "Central Banks" is meant to cover BDL as well as the Central Bank where BBAC's branches operate.

Unless otherwise indicated, all figures are expressed in Lebanese Pounds, where all US Dollar amounts have been translated at the closing exchange rate that is published by BDL at the relevant dates, which remained unchanged at a value of LBP 1507.50 / USD.

Corporate Profile

BBAC was incorporated as a commercial bank in 1956, under the name of "Bank of Beirut and the Arab Countries s.a.l." by a group of prominent investors, headed by Sheikh Toufic Assaf, Mr. Nashaat Sheiklard, and Mr. Jamal Shehaiber. Currently, 54.236% of the Bank's shares are owned by the Assaf family, 37.054% are owned by Fransabank s.a.l., and the remaining 8.710% are held by other shareholders.

BBAC provides a full range of commercial and personal financial services, including Corporate and Commercial Banking, Retail Banking, Private Banking, Trade Finance, Capital Markets, and Bancassurance. Building on the success it has achieved through its domestic branches and international presence, BBAC is well positioned to provide excellent service to its clients who conduct international business operations.

Throughout the years, the Bank has followed an expansion strategy that focuses mainly on penetrating the local as well as the international markets. BBAC is rigorously following this strategy, where the most recent local branch was opened in Dora-Mount Lebanon in early 2010. Another branch will be inaugurated in the near future on Allenby Street in Beirut Central District. Furthermore, various existing branches are either being renovated or even relocated in an effort to modernize them and boost their visibility and reach throughout the country. St. Nicolas (Achrafieh) branch and Bint Jbeil branch were both relocated and renovated in 2010 with the specific aim of enhancing customer convenience and better catering to the clients' needs along with reorganizing the branches from inside out in order to convey the Bank's image in accordance with its brand strategy.

Regionally, BBAC launched a new branch in Baghdad (Iraq) in early 2011 in addition to its existing branch in Erbil (Northern Iraq). The Bank is always on the lookout to open new branches in targeted areas and to expand abroad by establishing representative offices and/or branches in key regional and African markets. As a result, the Bank's network is currently comprised of thirty-five domestic branches, three international branches (one in Cyprus - Limassol and two in Iraq - Erbil and Baghdad), and a representative office in UAE - Abu Dhabi.

Management Discussion and Analysis

Mission Statement

Integrity

BBAC believes that a sound banking relationship is built on integrity and trust. Trust is achieved by conducting clients' personal and business transactions efficiently and with strict confidentiality.

Service

BBAC constantly strives to recognize and satisfy evolving customers' needs by developing services, products and solutions tailored to meet their requirements.

Growth

Wherever BBAC is present, it is committed to being a leading participant in the economic development of that community. The extent of the Bank's success in attaining this objective is reflected positively in the measure of its growth.

Business Overview

BBAC offers clients a wide range of financial products and services that vary from the traditional banking activities to the most recent financial engineered products. These are presented by:

Corporate and Commercial Banking

With the belief that the welfare and growth of its clients will promote its own welfare and growth, BBAC strives to provide them with the right solutions for their business needs so as to capitalize on development opportunities. The Bank offers lines of short and long term loan facilities to meet the financing needs of the ever growing businesses. They vary from simple lines of credit and term loans to the more advanced commercial loans and trade financing.

Keeping in mind the small and medium sized enterprises (SMEs), as well as their need for sources of non-costly financing, BBAC has various types of specialized loans available, such as Kafalat Loans and Subsidized Loans. These loans benefit from interest rate subsidies where they are granted based on business plans and feasibility studies showing the viability of the proposed business activity. Similar loans provide businesses with funds that enable them to grow and expand at a very low cost.

BBAC also delivers a comprehensive range of trade finance services to help businesses engaged in international and domestic import and export trade expand to new markets and focus on growing their business. These services include: Letters of Credit, Letters of Guarantee, Documentary and Clean Collections, and Discounting of Trade Bills.

The Bank's dedicated team of trade finance specialists has access to a global network of international correspondent banks and provides efficient processing and servicing along with consultation services, while ensuring that risks are adequately mitigated.

Retail Banking

BBAC offers a comprehensive range of retail banking services to residents and non-residents. The services offered include loans, plastic cards, electronic banking services, domiciliation, money transfers, safe deposit boxes, as well as current, savings and deposit accounts with competitive interest rates and flexible account options, depending on the clients' preferences and attitudes to risk.

In recent years, BBAC has taken many measures in order to increase its share of the consumer loan market. As a result, many new products were introduced so as to satisfy the large client base. Consumers with different needs can choose from a wide variety of loans which include the Personal Loan, Appliance Loan, Doctor Loan, Small Business Loan, Car Loan, and Educational Loans (School and University). The Bank also offers various housing loans including the Housing Loan from BBAC, Iskan Loan in collaboration with the Public Corporation for Housing, BDL Housing Loan in collaboration with the Central Bank of Lebanon, Military Housing Loan, Displaced Housing Loan in collaboration with the Ministry of Displaced and the Expatriate Housing Loan.

In an effort to provide the clients with more security, convenience, and control than any other payment method, BBAC offers a diversified collection of plastic cards. These cards do not only give the clients instant access to cash all around the world, but they also provide them with flexibility to purchase items in stores, on the Internet, through mail-order catalogues and over the telephone. These cards can be used in any of BBAC's 48 ATMs or in the ATM network and POS worldwide. They range from the common debit cards to a variety of credit cards.

The debit cards are cash cards that are directly linked to the clients' accounts and are offered in two different cards, the ordinary Electron Card or the chip secured Transparent Card.

The Bank issues various credit cards that offer consumers and businesses short-term lines of credit and a variety of repayment options. BBAC's main credit cards include Classic, Gold, and Platinum types. Other cards include the Euro Card that facilitates payments and saves on exchange costs for the Euro users, the Diamond Card that is specially designed for women and offers them the chance to win jewelry and diamonds through point accumulation, the CCCL Card that allocates 1% of the purchases to Children's Cancer Center of Lebanon (CCCL) to help treat a child with cancer, as well as the Kunhadi Card that allocates 1% of the purchases to the Kunhadi Association for youth awareness on road safety. In addition, BBAC offers the Internet Card, which provides the users with increased security when making purchases over the Internet.

Moreover, BBAC continually invests in modern technology in accordance with the Bank's objective to maximize automation and to constantly enhance the value of its services. Accordingly, the following electronic services have been implemented: Online Banking, which enables clients to check account balances and to carry out transactions through the Internet with complete safety and the Telephone Banking service that gives clients access to check their balance and get details of the transactions carried out over the phone. With the aim of ensuring comfort and convenience, the Bank established the Call Center, where clients find the necessary around-the-clock support and assistance.

All clients benefit from a free of charge SMS Account Alert Service that notifies them instantly whenever any balance changing transaction is performed on their accounts.

Treasury and Capital Markets

The main function of the Treasury Department at BBAC is to manage the Bank's liquidity where it makes every endeavor so as to benefit from all available resources. By doing so, it is able to maximize return on the Bank's assets while working under specific risk policies and guidelines set by the Board of Directors, the ALCO committee and in compliance with the rules and regulations set by BDL.

The Bank's treasurers continuously conduct research for domestic and international markets in order to identify rewarding and secure investment opportunities. Asset allocation is the central theme of the Bank's investment philosophy and the dominant factor in determining the return on its portfolio. Investments usually vary between a wide range of Lebanese (fixed income and equity) and foreign securities, as well as various money market operations and investments. Moreover, the Bank's treasurers are also active in the Foreign Exchange market. They provide the Bank's clients with around-the-clock services through the local Beirut Stock Exchange, as well as regional and international exchanges.

Private Banking

BBAC believes that Private Banking should go beyond traditional banking to meet its clients' individual needs. The Private Banking Unit at BBAC provides the personal service in an environment of confidentiality and trust, while finding creative solutions to complicated situations that are crucial for the clients who are seeking to manage their wealth today and develop new sources of wealth for future generations.

BBAC strives to be its clients' professional financial partner. Thus, the Private Banking Unit at the Bank functions with the aim of building long-term relationships with the clients by providing them with personal guidance and professional help in terms of investment services, which include trade execution, portfolio administration, and advice on investment opportunities and market insights.

The clients have full access to all equity markets and financial instruments that range from simple derivatives to the most sophisticated structured products including futures, options, equities and all the main commodity products.

The Private Banking Unit has achieved superior differentiation through the quality of the service being diligently supplied to the valued clients by adapting it to the clients' individual requirements. It includes a team of dedicated professionals who offer consultation services to the clients on all aspects of their banking needs in order to link personal wealth to a world of financial expertise. The main objective of the Private Banking Unit at BBAC is to provide the clients with a safe haven by guaranteeing them continuity and stability in uncertain times.

Insurance Services

BBAC differentiates its service by providing its clients with superior customer care and a broad portfolio of products and services that address the entire range of its clients' financial well-being objectives. In accordance with that, the Bank offers insurance services as well as investment and savings plans throughout its branch network in partnership with insurers known for their solidity, security and expertise.

In collaboration with The Capital Insurance & Reinsurance Co. s.a.l., a subsidiary of BBAC, the Bank offers flexible and competitive pre-signed insurance contracts that are specially designed to satisfy all clients' requirements in terms of premium, cover, security and services. These contracts include: (1) Private Car Insurance, (2) Personal Accident Insurance, (3) Term Life Insurance (natural and/or accidental death), (4) Home Insurance (fire, neighbors' recourse and earthquake) and (5) Expatriate Insurance (life and medical expenses covering domestic workers).

BBAC continues to offer two investment plans, JANA Retirement Plan and NAJAH Education Plan, in partnership with Allianz SNA s.a.l. These plans are designed to give BBAC's clients, and their families protection, as well as guaranteed benefits.

Information Technology

BBAC believes that the technological innovation does not only enable a broader reach for consumer banking and financial services, but also enhances its capacity for continued and inclusive growth.

Keeping in mind the ultimate purpose of constantly providing the clients with high quality and excellent service, BBAC continuously encourages a high level of interaction between the Information Technology (IT) Department and the other different business departments and divisions with the sole aim of increasing customer satisfaction, creating more synergy and reducing costs.

BBAC realizes that the competitive advantage of banks and financial institutions relies heavily on the capability of technology to implement business processes, manage risks and provide excellent customer service. As a result, the Bank constantly attempts to acquire and to internally develop advanced technologies.

The major achievements of the IT department in 2010 include the following:

- Updating the Bank's main computers to state-of-art servers and virtualization in order to facilitate the planned future growth strategies.

- Implementing a new product called OPICS with the aim of enhancing the automation of Treasury activities and integrating them online with the core banking system for better monitoring, controlling and minimized manual intervention.

- Upgrading the core banking system to the latest technology platform hence helping the Bank to invest more in the future of the automation and the delivery channel products in order to better serve the customers who conduct remote operations.

- Continuing with Phase II of Pexim Project, which is a business intelligence system based on the latest IBM BDW data warehouse platform.

- Centralizing and automating other substantial portions of the branches' daily operation successfully.

- Upgrading the network management and infrastructure security by installing high quality security products and technologies to protect the work environment such as Anti-virus, Anti-spam, Firewalls, Encryption and Authentication.

Compliance

The Anti-Money Laundering (AML) Lebanese Law No. 318 was issued on April 20, 2001. This law, along with its amendments, was aimed at detecting and preventing any money laundering and potential terrorist financing. The implementation of this law was entrusted to the Special Investigation Commission (SIC) that was established to supervise the Lebanese banks' adherence to this law.

In order to ensure proper implementation of this law, BDL issued several circulars that required the issuance of specific procedures for controlling all financial operations and activities that would result in either preventing or detecting any act of money laundering.

Since the issuance of the AML law, BBAC applied a new AML program, which includes written policies and procedures, designated AML officers and controllers, regular awareness training for all of its staff, as well as an independent internal and external audit in order to test the effectiveness of the program.

Risk Management

BBAC's Board of Directors strongly believes that adhering to sound corporate governance and reliable internal governance play a significant role in enhancing the Bank's global performance. Working in such an environment and keeping abreast with the industry's best practices while encouraging pro-active risk initiatives, positively contributes to the effectiveness and efficiency of the Bank's risk management activities.

The Risk Management Department (RMD) at BBAC is responsible of the measurement and the management of the Bank's risks. Its responsibility is segregated into the separate functions of credit risk management, market risk management, operational risk management, and information security management. The risk management process for each of these functions stems from the Board's risk appetite. It also involves the risk's identification and assessment, its measurement, its control and mitigation, in addition to its monitoring and reporting. The department also manages interest rate risk, liquidity risk, and credit concentration risk.

The RMD directly reports to the Board. The latter oversees all risk areas and is ultimately responsible for the Bank's risk profile. BBAC's risk profile is discussed regularly by the Board with the head of RMD and the top executives at the Bank. Risk management policies set the risk management's framework and are updated annually. Nevertheless, the treatment and the management of the risk eventually lie with each risk owner as in the case with treasury activities, lending, and operations.

BBAC strives for compliance with local regulatory requirements as well as with Basel guidelines. The Bank addresses Pillar 1 of Basel by measuring credit risk and market risk using the standardized approaches, and operational risk using the Basic Indicator Approach. The Bank also addresses Pillar 2 of Basel by developing and maintaining an Internal Capital Adequacy Assessment Process (ICAAP) in 2011.

The RMD has improved its processes and methodologies during 2010 by:

- Developing Pexim (Basel II System/Solution) to automate capital measurement for credit and market risks, and allow population of operational risk loss data by business line and event type in accordance with regulatory requirements and international standards.

- Developing the Bank's Data Warehouse and Management Information Systems for the purpose of ensuring more efficient, accurate, and timely risk management processes and reports.

• Developing its credit risk rating processes for individual borrowers.

• Developing and testing its business continuity plan including setting a disaster recovery site.

• Expanding its Operational Risk Management function to prepare for the advanced approaches of operational risk measurement under Basel II as well as to increase and maintain operational risk awareness across the Bank.

BBAC's RMD fully complies with the new directives of Basel III Accord and the Banking Control Commission of Lebanon's (BCCL) implementation plan. The Bank also follows up and strictly abides by the latest directives and requirements issued by the local regulatory bodies in all the countries where it operates.

Human Resources Management

The role of the Human Resources Department at BBAC is to encourage people to go beyond the contract, to put business needs before rules, to develop skills, and to reduce conflicts by emphasizing common goals. BBAC's human resources management involves a complete process of directing people that includes hiring, developing, assigning, motivating and retaining employees in order to achieve organizational objectives. This is attained whilst being committed at all times to the principle of equal opportunity for all employees and applicants without discrimination in the intention of promoting the best practices and diversity.

BBAC ensures that its employees are fully involved in designing the success factors and delivering the required goals and objectives by constantly providing them with opportunities to connect, develop, be rewarded and lead in an open and dynamic workplace built on a meritocracy, which allows the employees to maximize their contribution towards the success of the Bank and create value for the clients, while building a solid career for themselves.

Competent people are the core of the Bank's business. BBAC invests a lot of time and effort in motivating and retaining its employees, while at the same time always tries to attract other competitive individuals and professionals. This starts at the level of recruitment by adopting a policy that is based on behavioral and psychometric factors. Thus, the candidate is appraised based on different types of tests mainly intelligence, personality and attitude. The following stage consists of thorough training and observation while rotating within different sections. The aim is to determine career potential early so that the training program is focused accordingly.

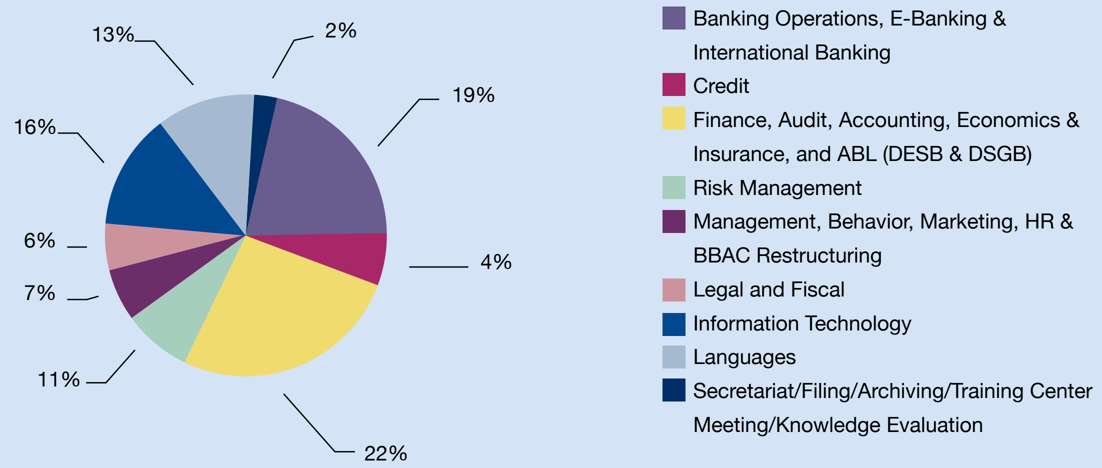
BBAC's work force is currently comprised of 730 talented individuals and qualified professionals, of whom 44% belong to an age bracket below 40 years.

Aiming at enhancing the level of competency and matching candidates with the right jobs while maintaining high efficiency in the utilization of resources, BBAC has placed a major focus on structuring the career planning and purpose oriented training along with supporting and encouraging continuous education.

In 2010, BBAC conducted several training activities for its employees to ensure a productive workforce, respond to the current and future challenges of the banking sector, and increase the ability of employees to achieve rewarding careers with the Bank.

Training was made available to the majority of the employees, where the coverage ratio reached 73%. The total number of training hours reached 13,752 hours and training activities, as shown in the graph below, covered Accounting and Financial topics, Banking Operations, Information Technology, and Risk Management, representing respectively 22%, 19%, 16% and 11% of the total training hours.

Distribution of Training Hours According to Training Subjects



BBAC continued to provide internships to numerous students so as to equip them with the basic tools that would enable them to better understand the work environment and thus be more prepared to join the workforce upon graduation.

The Bank also continued to provide educational sponsorships for a total of 37 employees in order to obtain technical certificates and academic degrees, which ranged from the Centre D'études Bancaires diplomas, to university B.A.'s and M.B.A.'s.

Corporate Social Responsibility

Even though BBAC is proud of the milestones it has managed to reach thanks to the efforts and the hard work of its staff, the Bank doesn't consider statistics as the only measure of its achievements. BBAC also cares about making a positive difference by remaining committed to Corporate Social Responsibility (CSR).

In 2010, BBAC's CSR activities included spreading awareness on road safety by collaborating with the Kunhadi Association and working with the Brave Heart Fund in order to raise funds for children suffering from heart disease, in addition to offering financial assistance to hospitals and participating in educational initiatives.

BBAC also championed the case of women's rights by being the first bank in Lebanon to welcome mothers and acknowledge their right to open a bank account for the benefit of their minor children through the Mother Account.

The Bank encourages its employees to become actively involved in their community and in charitable activities, as well as voluntary work. In 2010, BBAC also organized an employee fund raising campaign through which the employees donated money, food, clothing and volunteered their time, in order to put smiles on the faces of underprivileged children and bring back hope into the lives of forgotten elders during the holiday season.

By engaging in these and other kinds of good endeavors, BBAC puts its core value, Care, into action in ways that stimulate better community growth, development and overall wellbeing.

Financial Activities and Performance Highlights

The Lebanese economy nearly maintained its previous high average real GDP growth during 2010. This growth, according to various sources, was nearly about 7.5% (2009 real growth was estimated to be about 9% as per IMF estimates). The Lebanese economy succeeded in surpassing the rising local political tensions (especially in the last quarter of the year) where it was able to maintain a very favorable performance if compared to the global economy which recovery, according to the United Nation Development Policy and Analysis Division (UN DESA), is still very modest and even questionable.

During this period as well, the Lebanese banking sector continued to benefit from this political as well as economic stability where the banking sector continued to be the main driver for this high economic growth despite being at a slower pace than previous years.

BBAC's actions during this period were mainly concentrated on prudently managing the different mix of assets and liabilities. Table T1 clearly shows that total assets growth during 2010 reached 10.20% where the 11.21% growth of interest earning assets was the main driving force behind this increase.

The major part of this increase was reflected in a 32.70% growth in deposits with banks which stood at 15.94% of total assets whereas loans and advances to customers increased to 20.63% of total assets. These increases were at the expense of a change in the total holdings of trading and investment securities which dropped from 51.42% of 2009 total assets to 47.44% of 2010 total assets.

Management Discussion and Analysis

T1: Interest and Non-Interest Earning Assets

(LBP million)	Amount		Structure		% Change
	2009	2010	2009	2010	2010/2009
Balances with central banks	515,162	522,698	9.17%	8.44%	1.46%
Due from banks and financial institutions	743,436	986,526	13.24%	15.94%	32.70%
Trading and investment securities	2,888,129	2,936,603	51.42%	47.44%	1.68%
Loans and advances to customers	998,918	1,276,896	17.78%	20.63%	27.83%
Loans and advances to related parties	4,303	4,543	0.08%	0.07%	5.58%
Total interest earning assets	**5,149,948**	**5,727,267**	**91.68%**	**92.52%**	**11.21%**
Cash and non-interest earning balances with central banks	268,551	253,955	4.78%	4.10%	(5.44)%
Debtors by acceptances	46,774	54,809	0.83%	0.89%	17.18%
Investments in subsidiaries	3,524	3,524	0.06%	0.06%	0.00%
Equity and other non-interest earning securities	42,031	39,915	0.75%	0.64%	(5.04)%
Assets held for sale	21,803	19,328	0.39%	0.31%	(11.35)%
Investment property	6,996	6,279	0.12%	0.10%	(10.25)%
Intangible fixed assets	1,401	1,114	0.02%	0.02%	(20.49)%
Property and equipment	54,088	59,111	0.96%	0.95%	9.29%
Other assets	21,964	24,722	0.39%	0.40%	12.56%
Total non-interest earning assets	**467,132**	**462,756**	**8.32%**	**7.48%**	**(0.94)%**
Total assets	**5,617,080**	**6,190,023**	**100.00%**	**100.00%**	**10.20%**

The increase in customers' deposits as well as the increase in equity were the main driving force behind the growth in total liabilities and equity; where the first increased by 10.59% in 2010 while the second witnessed a 9.12% increase during the same period. The interest bearing liabilities continued to constitute 90.88% of total liabilities and equity with deposits from customers adding up to about 87.68% of the sources of funds for BBAC (table T2):

T2: Interest and Non-Interest Bearing Liabilities

(LBP million)	Amount		Structure		% Change
	2009	2010	2009	2010	2010/2009
Due to banks and financial institutions	114,397	111,629	2.04%	1.80%	(2.42)%
Deposits from customers	4,907,796	5,427,517	87.37%	87.68%	10.59%
Deposits from related parties	82,544	86,164	1.47%	1.39%	4.39%
Total interest bearing liabilities	**5,104,737**	**5,625,310**	**90.88%**	**90.88%**	**10.20%**
Financial liabilities held for trading	952	901	0.02%	0.01%	(5.36)%
Engagements by acceptances	46,774	54,809	0.83%	0.89%	17.18%
Current income tax liabilities	2,280	1,711	0.04%	0.03%	(24.96)%
Retirement benefit obligations	17,088	17,817	0.30%	0.29%	4.27%
Deferred tax liability	6,595	6,595	0.12%	0.11%	0.00%
Other provisions	3,395	3,786	0.06%	0.06%	11.52%
Other liabilities	9,131	14,100	0.16%	0.23%	54.42%
Shareholders' equity	426,128	464,994	7.59%	7.51%	9.12%
Total non-interest bearing liabilities and equity	**512,343**	**564,713**	**9.12%**	**9.12%**	**10.22%**
Total liabilities and equity	**5,617,080**	**6,190,023**	**100.00%**	**100.00%**	**10.20%**

The stability that denominated the Lebanese economy during the previous years as well as the continued confidence in the Lebanese banking sector resulted in further reduction in the dollarization level of total assets and total liabilities as indicated by table T3. As for total deposits, they stood at 56.70% in 2010 down from 57.02% in 2009; this level remains much lower than the 63.20% dollarization level reported within the Lebanese banking sector during this same period.

T3: Currency Breakdown of Asset and Liabilities

(LBP million and Percentage)	Amount		Structure	
	2009	2010	2009	2010
Assets	5,617,080	6,190,023	100.00%	100.00%
LL	2,339,311	2,652,614	41.65%	42.85%
FC	3,277,769	3,537,409	58.35%	57.15%
Liabilities	5,617,080	6,190,023	100.00%	100.00%
LL	2,343,998	2,650,681	41.73%	42.82%
FC	3,273,082	3,539,342	58.27%	57.18%

Management Discussion and Analysis

Asset Management

Following the ease of the world economic situation, the Lebanese economic stability as well as the continuous search for profitable investments, BBAC continues its prudent managing of its mix of assets. Liquidity is still considered of high importance for the Lebanese banking sector as a whole and not only to BBAC. Table T4 clearly shows that the main constituents of assets are financial securities; they stand at 48.09% of total assets despite the decrease from 52.17% in 2009. This decrease was compensated in an increase in deposits with banks of 32.70% as well as an increase of 27.73% of loans and advances. The main driver behind this increase in the deposits with banks is the continuous ease of the economic situation worldwide, while the increase in loans to customers is mainly due to the continuous search for profitable opportunities; they currently constitute about 20.70% of total assets with an increase of 27.73% over the 2009 level. The asset side of the balance sheet is summarized in the following table:

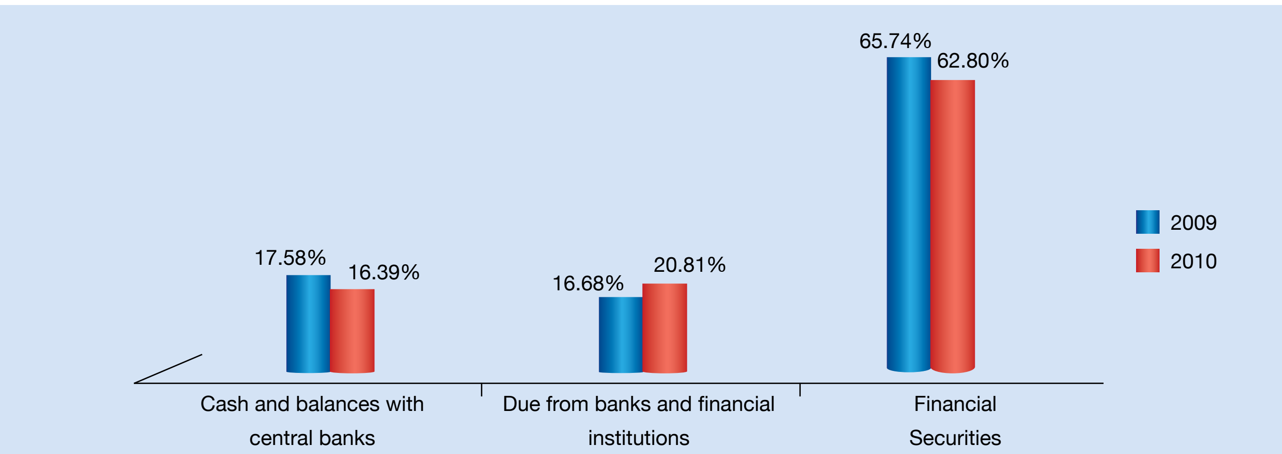
T4: Uses of Funds

(LBP million)	Amount		Structure		% Change
	2009	2010	2009	2010	2010/2009
Cash and balances with central banks	783,713	776,653	13.95%	12.55%	(0.90)%
Due from banks and financial institutions	743,436	986,526	13.24%	15.94%	32.70%
Financial securities	2,930,160	2,976,518	52.17%	48.09%	1.58%
Loans and advances	1,003,221	1,281,439	17.86%	20.70%	27.73%
Other financial accounts	46,774	54,809	0.83%	0.89%	17.18%
Permanent assets	109,776	114,078	1.95%	1.84%	3.92%
Total	**5,617,080**	**6,190,023**	**100.00%**	**100.00%**	**10.20%**

Liquid Assets

The above table clearly shows that 76.57% of the Bank's total assets are distributed among three asset classes that are the most liquid: cash and balances with central banks, due from banks and financial institutions as well as financial securities with the last one constituting about 62.80% of total liquid assets (figure F1).

F1: Distribution of Liquid Assets



Liquid assets currently constitute 76.57% of total assets and 85.96% of total deposits. This ratio stresses the fact that BBAC, like all the other banks in the Lebanese banking sector, is considered to be a highly liquid bank. Even without taking into consideration deposits from banks and financial institutions, these ratios still remain high enough as indicated by the following table:

T5: Liquidity ratios

(Percentage)	2009			2010		
	LBP	C/V	Total	LBP	C/V	Total
Loans / Assets	10.96%	22.79%	17.86%	15.58%	24.54%	20.70%
Loans / Deposits	12.11%	25.99%	20.10%	17.39%	27.67%	23.24%
Liquid Assets / Deposits	95.14%	85.03%	89.32%	91.27%	81.94%	85.96%
Liquid Assets / Assets	86.06%	74.57%	79.35%	81.76%	72.67%	76.57%
Net Liquid Assets* / Deposits	94.73%	81.35%	87.03%	91.06%	78.54%	83.94%
Net Liquid Assets* / Assets	85.69%	71.34%	77.32%	81.58%	69.66%	74.77%

*Liquid assets less “Deposits from banks and financial institutions”

Cash and central banks’ deposits currently hold about 12.55% of total assets with nearly no growth over last year’s numbers. The main change was a 17.50% decrease in sight deposits that was compensated with an increase in both cash and term deposits as per the following table:

T6: Cash and Central Banks’ Deposits

(LBP million)	Amount		% Change
	2009	2010	2010/2009
Cash	**36,961**	**46,166**	24.90%
Central banks			
Sight deposits	278,193	229,498	
Term deposits	467,978	500,385	
Accrued interest receivable	581	604	
Total Central banks	**746,752**	**730,487**	**(2.18)%**
Total Cash and central banks’ deposits	**783,713**	**776,653**	**(0.90)%**
Denominated as follows			
LBP	32.50%	27.31%	
Foreign currencies	67.50%	72.69%	

Due from banks and financial institutions showed an increase of 32.70% over 2009 level where they currently comprise about 15.94% of total assets. The increase was in the high yielding time deposits (table T7), thus reflecting more confidence in the economic situations.

T7: Due from Banks and Financial Institutions

(LBP million)	Amount		% Change
	2009	2010	2010/2009
Demand deposits	145,850	180,102	
Time deposits	594,897	805,951	
After-tax interest receivable	2,689	473	
Total	**743,436**	**986,526**	**32.70%**
Denominated as follows			
LBP	2.00%	2.42%	
Foreign currencies	98.00%	97.58%	

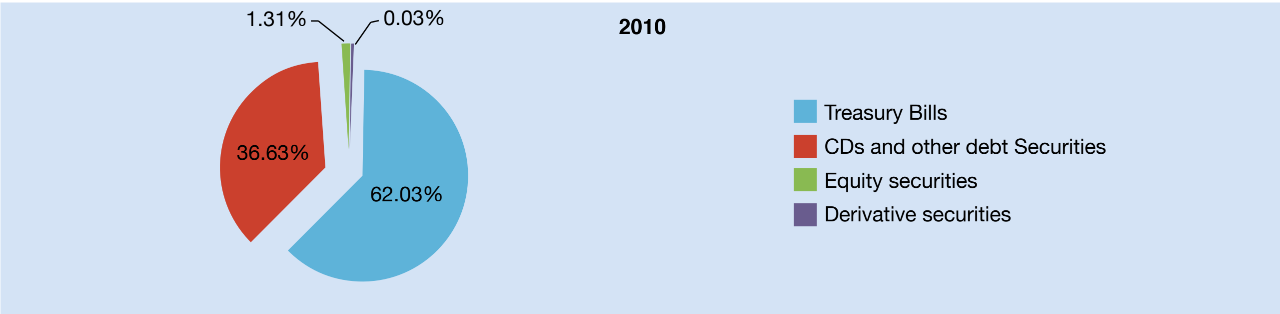
Keeping in mind diversification as well as profitable opportunities, investments in financial securities only grew by 1.58% in 2010; where they currently constitute 48.09% of total assets and are down from 52.17% in 2009 (table T4). The constituents of these securities are reflected in the following table:

T8: Financial Securities

(LBP million)	Amount		% Change
	2009	2010	2010/2009
Treasury bills			
Nominal amount	1,864,562	1,774,072	
Unamortized premium (discount)	5,516	2,412	
Net interest receivable	37,176	31,774	
Revaluation gain	45,141	38,012	
Total Treasury bills	**1,952,395**	**1,846,270**	**(5.44)%**
CDs and other debt securities			
Nominal value	907,181	1,058,159	
Unamortized premium (discount)	3,186	4,721	
Net interest receivable	18,505	19,598	
Revaluation gain (loss)	6,862	7,855	
Total CDs and other debt securities	**935,734**	**1,090,333**	**16.52%**
Total Equity securities	**40,455**	**39,027**	**(3.53)%**
Total Derivative securities	**1,576**	**888**	**(43.65)%**
Total Financial securities	**2,930,160**	**2,976,518**	**1.58%**

The breakdown of these securities by type of investment shows that Treasury bills constitute the main portion of investments with 62.03% of total followed by CDs and other debt securities with 36.63% (figure F2).

F2: Breakdown by Type of Investment Securities



Knowing that the dollarization level decreased during 2010 in the Lebanese banking sector in general and BBAC in particular, BBAC's investment policy also changed in this regards where foreign currency denominated securities dropped from 40.49% in 2009 to 35.06% in 2010.

Loans and Advances to Customers and Related Parties

The main beneficiary from the slight increase in financial securities was loans and advances that witnessed a 27.73% increase during 2010. With the ease of the last economic crisis as well as the international credit crunch, BBAC continued its aggressive lending policy while seeking high quality new loans; thus, resulting in a 27.73% increase of loans over 2009 level (table T9).

T9: Breakdown of Loans and Advances by Currency

(LBP million)	Amount		% Change
	2009	2010	2010/2009
Loans and advances to customers	998,918	1,276,896	27.83%
Loans and advances to related parties	4,303	4,543	5.58%
Total	**1,003,221**	**1,281,439**	**27.73%**
Denominated as follows			
LBP	25.55%	32.25%	
Foreign currencies	74.45%	67.75%	

In adherence with the international standards of accounting and reporting (IAS39 and IFRS 7), BBAC continued with its collective impairment tests on its loans and advances and provisioning any uncovered positions. Also, in adherence with BDL's requirements, BBAC pursued its effort to reduce its non-performing loans where the ratio of "net substandard and doubtful loans to gross loans" decreased from 2.38% in 2009 to 2.22% in 2010 as indicated in the following table:

T10: Breakdown of Loans and Advances to Customers by BDL Classification

(LBP million)	Amount	
	2009	2010
Net regular loans [1]	**972,568**	**1,246,065**
Add collective impairment on loans and advances	15,258	23,501
Gross regular loans [2]	**987,826**	**1,269,566**
Net substandard loans [3]	**10,232**	**11,520**
Add unrealized interest	4,477	4,541
Gross substandard loans [4]	**14,709**	**16,061**
Net doubtful loans [5]	**16,118**	**19,311**
Add unrealized interest	29,646	30,567
Add provisions	57,806	56,166
Gross doubtful loans [6]	**103,570**	**106,044**
Net substandard and doubtful loans [3+5]	**26,350**	**30,831**
Net loans	**998,918**	**1,276,896**
Gross loans	**1,106,105**	**1,391,671**
Net substandard and doubtful loans / Gross loans [(3+5)/(2+4+6)]	**2.38%**	**2.22%**

The 27.73% increase in loans and advances to customers coupled with 10.49% increase in total deposits resulted in a higher loans to deposits ratio as illustrated in table T11: .

T11: Operating Surplus or Deficit

(LBP million)	Amount		% Change
	2009	2010	2010/2009
Deposits from customers and related parties* (LBP)	2,116,108	2,376,337	12.30%
+ Deposits from customers and related parties* (FC)	2,874,232	3,137,344	9.15%
= Operating resources (OR)	**4,990,340**	**5,513,681**	**10.49%**
Loans and advances to customers and related parties (LBP)	256,345	413,309	61.23%
+ Loans and advances to customers and related parties (FC)	746,876	868,130	16.23%
= Operating uses (OU)	**1,003,221**	**1,281,439**	**27.73%**
Operating surplus (LBP)	1,859,763	1,963,028	5.55%
Operating surplus (FC)	2,127,356	2,269,214	6.67%
Operating surplus (OR-OU)	**3,987,119**	**4,232,242**	**6.15%**
LBP Loans to LBP Deposits	12.11%	17.39%	43.58%
FC Loans to FC Deposits	25.99%	27.67%	6.49%
Total Loans to Total Deposits	**20.10%**	**23.24%**	**15.61%**

* Including Credit Linked Deposits

Liability Management

Table T12 below summarizes the main sources of funds for BBAC that are mainly constituted of deposits from customers followed by shareholders' equity, deposits from banks and financial institutions as well as other financial accounts.

T12: Sources of Funds

(LBP million)	Amount		Structure		% Change
	2009	2010	2009	2010	2010/2009
Banks and financial institutions	114,397	111,629	2.04%	1.80%	(2.42)%
Deposits from customers and related parties	4,990,340	5,513,681	88.84%	89.07%	10.49%
Other financial accounts	86,215	99,719	1.53%	1.61%	15.66%
Shareholders' equity	426,128	464,994	7.59%	7.51%	9.12%
Total	**5,617,080**	**6,190,023**	**100.00%**	**100.00%**	**10.20%**

Deposits from Banks and Financial Institutions

Deposits from banks and financial institutions witnessed a slight decrease in 2010 where it dropped by 2.42% from its 2009 level as indicated by the following table:

T13: Deposits from Banks and Financial Institutions

(LBP million)	Amount		% Change
	2009	2010	2010/2009
Sight deposits	18,339	21,335	
Term deposits	93,070	87,517	
Short-term loan	2,323	2,469	
Accrued interest receivable	665	308	
Total	**114,397**	**111,629**	**(2.42)%**
Denominated as follows			
LBP	7.50%	4.44%	
Foreign currencies	92.50%	95.56%	

Deposits from Customers and Related Parties

Customers' deposits remain the main source of funds where they constitute 89.07% of total liabilities and shareholders' equity (table T12). Total deposits increased by 10.49% during the year and the dollarization level slightly decreased from 57.60% in 2009 to 56.90% in 2010 (table T14). Moreover, a major portion of the foreign currencies denominated credit-linked deposits that were issued in 2008 and were paying a higher coupon rate than the average deposits, matured in 2010 where they currently constitute only about 0.46% of total deposits.

T14: Breakdown of Deposits by Currency

(LBP million)	Amount		% Change
	2009	2010	2010/2009
Deposits from customers	4,840,471	5,402,105	11.60%
Credit linked deposits	67,325	25,412	(62.25)%
Deposits from related parties	82,544	86,164	4.39%
Total	**4,990,340**	**5,513,681**	**10.49%**
Denominated as follows			
LBP	42.40%	43.10%	
Foreign currencies	57.60%	56.90%	

In 2008, BBAC issued foreign currencies denominated credit-linked deposits (with nominal value of LBP 53,721 million) that pay higher coupon rate than the average deposits and have maturities up to five years. At maturity, the Bank has the option to deliver either cash or return Lebanese Treasury Bills with a nominal value equivalent to the nominal amounts of these deposits. These deposits constitute about 1.35% of total deposits.

Other Financial Accounts

Other financial accounts, which only constitute 1.61% of total liabilities and equity in 2010, include the following:

T15: Other Financial Accounts

(LBP million)	Amount		% Change
	2009	2010	2010/2009
Financial liabilities held for trading	952	901	(5.36)%
Engagements by acceptances	46,774	54,809	17.18%
Current income tax liabilities	2,280	1,711	(24.96)%
Retirement benefit obligations	17,088	17,817	4.27%
Deferred tax liability	6,595	6,595	0.00%
Other liabilities and provisions	12,526	17,886	42.79%
Total	**86,215**	**99,719**	**15.66%**

Shareholders’ Equity and the Capital Adequacy Ratio

Shareholders’ equity increased organically in 2010 where retained earnings (prior to dividend distribution) were the main driver behind the 9.12% increase although this increase was affected by the decrease in revaluation surplus of available for sale securities (table T16).

T16: Shareholders’ Equity

(LBP million)	2009	2010	% Change 2010/2009
Ordinary share capital	72,000	72,000	0.00%
Preferred share capital	75,375	75,375	0.00%
Cash Contribution to capital	43,109	43,109	0.00%
Real estate revaluation surplus*	21,061	21,061	0.00%
Reserves related for capital	64,996	77,044	18.54%
Reserve for liquidation of PSD	3,566	3,653	2.44%
Revaluation of AFS (Available-for-sale Securities)	36,733	32,225	(12.27)%
Other reserves	12,517	15,474	23.62%
Retained earnings	96,771	125,053	29.23%
Total	**426,128**	**464,994**	**9.12%**

With a 27.73% increase in loans, risk weighted assets increased by 21.30% over 2009. Thus, the capital adequacy ratio became 22.85% taking into consideration the 9.12% organic growth of equity. This number remains well above the 12% minimum requirement of BDL (table T17).

As for Basel II ratio, it remained above the required ratio of 8% where it witnessed a slight increase from 11.49% in 2009 up to 11.95% in 2010 as indicated by the table below:

T17: Capital Adequacy

(LBP million and Percentage)	2009	2010
Risk weighted assets	**1,418,574**	**1,720,729**
Tier I Capital	326,068	367,158
Tier II Capital	28,666	26,113
Net Capital	**354,734**	**393,271**
Tier I Capital ratio	22.99%	21.34%
Tier II Capital ratio	2.02%	1.52%
Capital Ratio (Basel ratio)	**25.01%**	**22.85%**
Capital Ratio (Basel II ratio)	**11.49%**	**11.95%**

Financial Performance

With the efficient management of the available mix of assets and liabilities, BBAC was able to sustain and even build on the huge increase in profits that was achieved during 2009 where profits increased by 7.32% to become LBP 57,987 million in 2010 (Table T18).

T18: Income Statement

(LBP million)	Amount		% Change
	2009	2010	2010/2009
Net interest margin and similar income	90,708	106,522	17.43%
Net provision less releases on loans and advances	(1,489)	(3,668)	146.34%
Non-interest income	39,901	35,619	(10.73)%
Staff expenses	(37,125)	(38,870)	4.70%
Other operating expenses	(27,676)	(30,562)	10.43%
Profit before taxes	**64,319**	**69,041**	**7.34%**
Taxes	(10,285)	(11,054)	7.48%
Net Income	**54,034**	**57,987**	**7.32%**

The proficient management was also revealed with lower costs where the efficiency ratio remained at the low level of 2009 and interest paid to interest received witnessed a further decrease this year where it reached 70.32% in 2010 (Table T19):

T19: Management Efficiency Ratios

(Percentage)	2009	2010
Interest paid / Interest received	72.95%	70.32%
Net Commissions / Income*	15.10%	16.56%
Cost / Income* (Efficiency ratio)	50.19%	50.14%
Cost per average branch (LBP million)	1,800	1,902

* Before “Operating expenses” and “Taxes”

Net Financial Income

Net financial income increased by 7.24% in 2010 which was driven by the 15.28% increase in net interest margin but hindered by a 10.73% decrease in non-interest income (table T20).

T20: Net Financial Income

(LBP million)	Amount		% Change
	2009	2010	2010/2009
Net interest margin	89,219	102,854	15.28%
Non-interest income	39,901	35,619	(10.73)%
Net financial income	**129,120**	**138,473**	**7.24%**

BBAC continued its efforts to reduce the cost of its average interest earning assets where it decreased from 4.95% in 2009 to 4.30% in 2010 (table T21) however, this decrease was caught up with another decrease in the return of these assets as well as increased provisions in 2010 thus resulting in a lower interest margin as reflected in the below table. Yet, despite this decrease, net interest margin dollar return witnessed a 15.28% increase due to the effective management of the available mix of assets and liabilities.

T21: Interest Margin Analysis

(LBP million)	2009					2010				
	LBP	%	C/V	%	Total	LBP	%	C/V	%	Total
Average interest earning assets	1,776,247	36.90%	3,037,060	63.10%	**4,813,308**	2,193,084	40.32%	3,245,523	59.68%	**5,438,607**
Interest paid	134,711	56.54%	103,558	43.46%	**238,269**	137,345	58.71%	96,581	41.29%	**233,926**
Interest received	158,294	48.47%	168,314	51.53%	**326,608**	178,848	53.76%	153,826	46.24%	**332,674**
Net interest received	23,583	26.70%	64,756	73.30%	**88,339**	41,503	42.03%	57,245	57.97%	**98,748**
Cost of average interest earning assets (in %)		7.58%		3.41%	**4.95%**		6.26%		2.98%	**4.30%**
Return on average interest earning assets (in %)		8.91%		5.54%	**6.79%**		8.16%		4.74%	**6.12%**
Gross interest margin (in %)		**1.33%**		**2.13%**	**1.84%**		**1.89%**		**1.76%**	**1.82%**
Net releases (provisions) on loans and advances	(11,756)		10,267		**(1,489)**	(12,385)		8,717		**(3,668)**
Net interest margin (in %)		**0.67%**		**2.47%**	**1.80%**		**1.33%**		**2.03%**	**1.75%**
Average interest earning assets to average assets (in %)		86.20%		95.15%	**91.63%**		87.87%		95.24%	**92.12%**
Gross spread (in %)		1.14%		2.03%	**1.68%**		1.66%		1.68%	**1.67%**
Net spread (in %)		0.57%		2.35%	**1.65%**		1.17%		1.94%	**1.61%**

With the increase in loans and advances to customers, net commissions received witnessed a 17.60% increase over last year's level (table T22). However, due to the moderate activity of the Lebanese capital market, net trading income witnessed a decrease that caused non-interest income to go down by 10.73%.

T22: Non-Interest Income

(LBP million)	Amount		Structure		% Change
	2009	2010	2009	2010	2010/2009
Credit-related fees and commission	5,986	8,479			41.65%
Commissions on letters of credits and guarantees	4,655	6,249			34.24%
Commissions on banking operations	5,856	6,282			7.27%
Brokerage fees	2,058	2,768			34.50%
Other fees and commissions	5,832	4,390			(24.73)%
Total fees and commissions income(1)	**24,387**	**28,168**			**15.50%**
Commissions on banking operations	2,760	1,807			(34.53)%
Brokerage fees	1,337	1,651			23.49%
Other fees	792	1,781			124.87%
Total fees and commissions expense(2)	**4,889**	**5,239**			**7.16%**
Net commissions received(3)	**19,498**	**22,929**	**48.87%**	**64.37%**	**17.60%**
Net trading income(4)	**18,278**	**9,836**	**45.81%**	**27.61%**	**(46.19)%**
Other operating income(5)	**2,125**	**2,854**	**5.33%**	**8.01%**	**34.31%**
Total non-interest income(6)	**39,901**	**35,619**	**100.00%**	**100.00%**	**(10.73)%**

(3) = (1)-(2)

(6) = (3)+(4)+(5)

General Operating Expenses

Operating expenses only increased by 7.15% (table T23), a rate that is much lower than the 10.20% increase in total assets thus reflecting the efficiency of managing the Bank's overall expenses and charges.

T23: General Operating Expenses

(LBP million)	Amount		% Change
	2009	2010	2010/2009
Staff expenses	37,125	38,870	4.70%
Other operating expenses	24,487	27,082	10.60%
Depreciation and amortization	3,189	3,480	9.13%
Total	**64,801**	**69,432**	**7.15%**

Profitability

The continued efficient management of interest rate margins and effective cost controls resulted in preserving the 41.77 % increase in 2009 net profits; net income in 2010 reached LBP 57,987 million with an increase of 7.32%. Return on average assets (ROAA) and the return on average equity (ROAE) reached 0.98% and 13.01% respectively.

Earnings per share increased in 2010 to LBP 805 while diluted earnings per share reached LBP 719. Dividend payout ratio reached 15.30% of total earnings and the retention ratio reached 84.70% after the allocation of preferred shares dividends. As for the book value per common share, it increased from LBP 4,872 in 2009 to reach LBP 5,411 in 2010 (table T24).

T24: Profitability

(LBP million and Percentage)	Amount		% Change
	2009	2010	2010/2009
Average assets	5,252,724	5,903,552	12.39%
Average equity	391,836	445,561	13.71%
Return on average assets ROAA after tax (%)	1.03%	0.98%	(0.05)%
Return on average equity ROAE after tax (%)	13.79%	13.01%	(0.78)%
Net income for the Year after tax*	54,034	57,987	7.32%
Net income available for common shareholders**	47,814	51,767	8.27%
Number of common shares outstanding (million)	72	72	-
Number of preferred shares outstanding (million)	5	5	-
Earnings per common share (EPS) in LBP*	750	805	7.33%
Earnings per common share (EPS) in LBP**	664	719	8.28%
Dividends per common share DPS in LBP***	100	110	10.00%
Dividends per preferred share in LBP	1,244	1,244	0.00%
Dividends payout ratio**	15.06%	15.30%	0.24%
Retention ratio**	84.94%	84.70%	(0.24)%
Book value per common share in LBP****	4,872	5,411	11.06%

* Before the allocation of any dividends

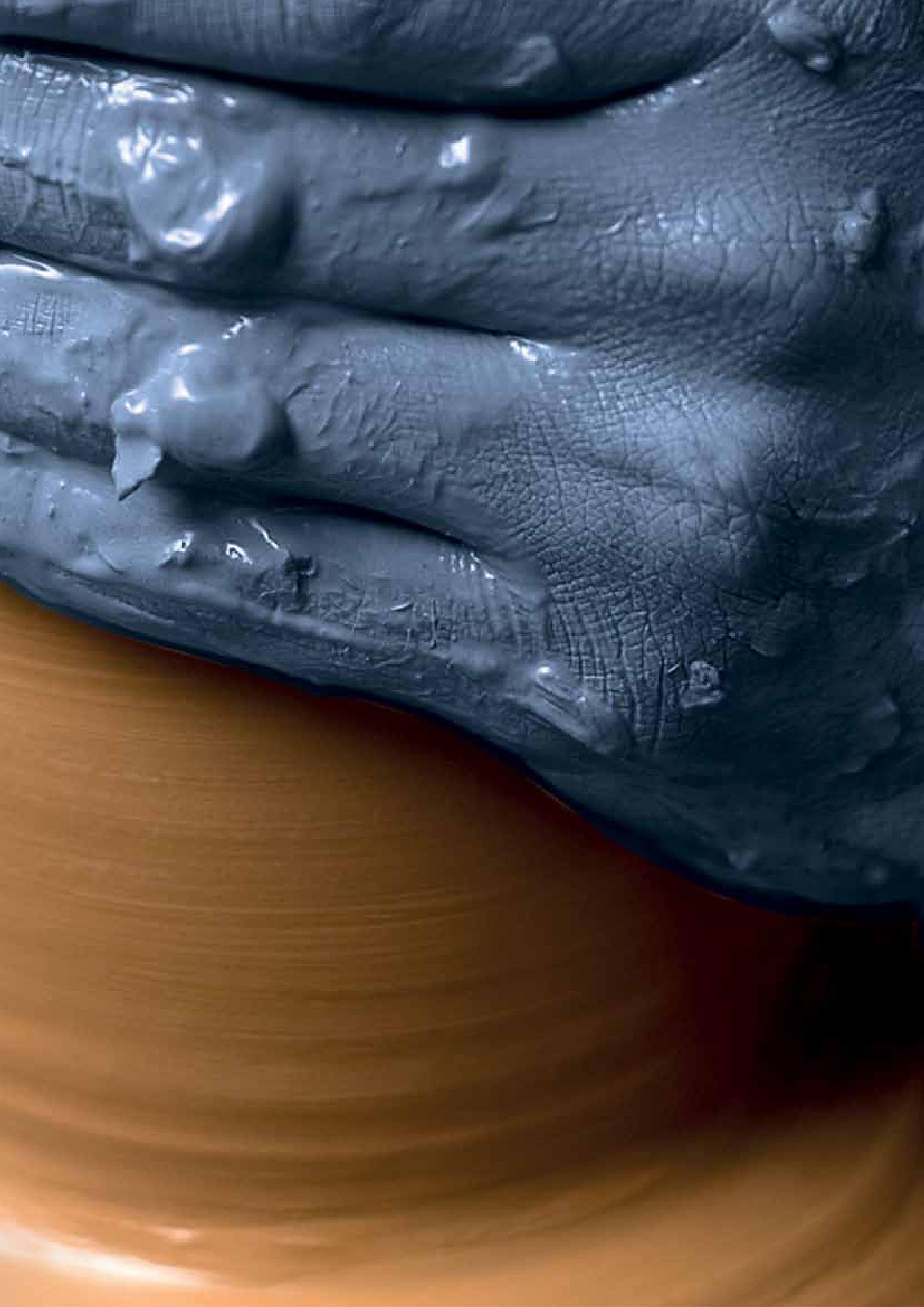
** After allocation of dividends on the preferred shares

*** An additional interest payment of about LBP 1,194 million was made on the cash contributions

**** Before distribution of common shares' dividends

ANNUAL REPORT 2010

Auditor's Report



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Auditor's Report

PRICEWATERHOUSECOOPERS | KPMG

Independent Auditor's Report to the Shareholders of BBAC S.A.L.

Report on the financial statements

We have audited the accompanying financial statements of BBAC S.A.L. ("the Bank") which comprise the balance sheet as of 31 December 2010 and the statement of comprehensive income, statement of changes in equity and cash flows statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for qualified opinion

Based on the preliminary results of the revaluation performed by the Bank, buildings and lands classified as property and equipment and investment property are significantly understated. This revaluation will be finalised during 2011 and reflected in the accounts once the approvals of the Ministry of Finance and the Banking Control Commission are obtained.

Qualified opinion

In our opinion, except for the possible effects of the matter described in the Basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Beirut, Lebanon
June 6, 2011

PricewaterhouseCoopers

KPMG

Balance Sheet at 31 December 2010

	Notes	2010 LL Million	2009 LL Million
ASSETS			
Cash and balances with central banks	5	**776,653**	783,713
Loans and advances to banks	6	**986,526**	743,436
Financial assets held for trading	7	**225,243**	256,793
Loans and advances to customers	8	**1,281,439**	1,003,221
Debtors by acceptances	9	**54,809**	46,774
Investment securities:			
• Available for sale	10	**904,637**	921,979
• Loans and receivables	10	**1,127,303**	1,007,261
• Held to maturity	10	**719,335**	744,127
Investments in subsidiaries	11	**3,524**	3,524
Investment property	12	**6,279**	6,996
Property and equipment	13	**59,111**	54,088
Intangible assets	14	**1,114**	1,401
Other assets	15	**24,722**	21,964
		6,170,695	5,595,277
Assets classified as held for sale	16	**19,328**	21,803
Total assets		**6,190,023**	5,617,080
LIABILITIES			
Deposits from banks and financial institutions	17	**111,629**	114,397
Deposits from customers	18	**5,513,681**	4,990,340
Financial liabilities held for trading	7	**901**	952
Engagements by acceptances	9	**54,809**	46,774
Current income tax liabilities	33	**1,711**	2,280
Deferred income tax liabilities		**6,595**	6,595
Other liabilities	19	**14,986**	9,626
Provision for restructuring	20	**2,900**	2,900
Retirement benefit obligations	21	**17,817**	17,088
Total liabilities		**5,725,029**	5,190,952
EQUITY			
Share capital – Common shares	22	**72,000**	72,000
Share capital – Preferred shares	22	**75,375**	75,375
Cash contributions to capital	22	**43,109**	43,109
Other reserves	23	**149,457**	138,873
Retained earnings	23	**125,053**	96,771
Total equity		**464,994**	426,128
Total equity and liabilities		**6,190,023**	5,617,080

The financial statements on pages 48 to 115 were authorised for issue by the directors on 24 May 2011 and were signed on their behalf by:

Mr. Ghassan Assaf
Chairman

The notes on pages 53 to 115 are an integral part of these financial statements.

Statement of Comprehensive Income for the year ended 31 December 2010

	Notes	2010 LL Million	2009 LL Million
Interest and similar income	24	**332,674**	326,608
Dividend income		**7,774**	2,369
Interest and similar expenses	24	**(233,926)**	(238,269)
Net interest and similar income		**106,522**	90,708
Net loan impairment charges	29	**(3,668)**	(1,489)
Net interest and similar income after loan impairment charges		**102,854**	89,219
Fee and commission income	25	**28,168**	24,387
Fee and commission expense	25	**(5,239)**	(4,889)
Net fee and commission income		**22,929**	19,498
Net gain on financial instruments classified as held for trading	26	**57**	10,757
Net gains on investment securities	27	**9,779**	7,521
Other operating income	28	**2,854**	2,125
Personnel expenses	30	**(38,870)**	(37,125)
Depreciation and amortisation expense	32	**(3,480)**	(3,189)
Other operating expenses	31	**(27,082)**	(24,487)
Profit before income tax		**69,041**	64,319
Income tax expense	33	**(11,054)**	(10,285)
Profit for the year		**57,987**	54,034
Other comprehensive income			
Net (losses)/gains on available–for–sale financial assets, before tax		**(4,508)**	34,462
Income tax relating to components of comprehensive income		**-**	(6,595)
Other comprehensive income for the year, net of tax		**(4,508)**	27,867
Total comprehensive income for the year		**53,479**	81,901

The notes on pages 53 to 115 are an integral part of these financial statements.

Statement of Changes in Equity for the year ended 31 December 2010

	Common shares LL Million	Preferred shares LL Million	Cash contributions to capital LL Million	Other reserves LL Million	Retained earnings LL Million	Total LL Million
At 1 January 2009	**72,000**	**75,375**	**43,109**	**91,346**	**75,713**	**357,543**
Profit for the year	-	-	-	-	54,034	54,034
Fair value gains on available for sale financial assets (net of tax) (note 23)	-	-	-	27,867	-	27,867
Total comprehensive income	**-**	**-**	**-**	**27,867**	**54,034**	**81,901**
Dividends relating to 2008	-	-	-	-	(12,122)	(12,122)
Interest paid on cash contributions to capital	-	-	-	-	(1,194)	(1,194)
Transfers from retained earnings (note 23 (g))	-		-	19,660	(19,660)	-
At 1 January 2010	**72,000**	**75,375**	**43,109**	**138,873**	**96,771**	**426,128**
Profit for the year	-	-	-	-	57,987	57,987
Fair value (losses)/gains on available for sale financial assets (net of tax) (note 23)	-	-	-	(4,508)	-	(4,508)
Total comprehensive income	**-**	**-**	**-**	**(4,508)**	**57,987**	**53,479**
Dividends relating to 2009	-	-	-	-	(13,419)	(13,419)
Interest paid on cash contributions to capital	-	-	-	-	(1,194)	(1,194)
Transfers from retained earnings (note 23)	-	-	-	15,092	(15,092)	-
At 31 December 2010	**72,000**	**75,375**	**43,109**	**149,457**	**125,053**	**464,994**

The notes on pages 53 to 115 are an integral part of these financial statements.

Statement of Cash Flows for the year ended 31 December 2010

	Notes	2010 LL Million	2009 LL Million
Cash flows from operating activities			
Profit before income tax		**69,041**	64,319
Adjustments for non cash-items:			
Net loan impairment charges	29	**3,668**	1,489
Impairment charges on other assets	15, 31	**591**	1,906
Depreciation charge	13	**2,975**	2,725
Amortisation charge	14	**505**	464
(Gain)/loss on disposal of property and equipment	28	**(11)**	7
Gain on disposal of assets classified as held for sale	28	**(2,346)**	(1,636)
Fair value loss on investment property	12, 31	**154**	148
Net loss/(gain) on financial instruments classified as held for trading		**3,595**	(7,418)
Net gain on investment securities		**(9,779)**	(7,538)
Changes in deferred tax liabilities		**-**	6,595
Dividends income		**(7,774)**	(2,369)
Provision for retirement benefit obligations	21	**1,866**	2,043
		62,485	60,735
Balances with central banks	5	**(7,031)**	74,285
Loans and advances to banks	6	**252,175**	(192,537)
Financial assets held for trading	7	**27,904**	(15,623)
Loans and advances to customers	8	**(283,463)**	(101,789)
Investment securities	10	**(72,637)**	(411,806)
Other assets	15	**(3,349)**	7,418
Deposits from banks and financial institution	17	**(2,768)**	(431)
Deposits from customers	18	**523,341**	641,448
Other liabilities		**5,321**	(1,635)
Dividends received		**7,774**	2,369
Employee benefits paid	21	**(1,137)**	(1,277)
Income taxes paid	33	**(11,623)**	(9,965)
Net cash generated from operating activities		**496,992**	51,192

Statement of Cash Flows (continued) for the year ended 31 December 2010

	Notes	2010 LL Million	2009 LL Million
Cash flows from investing activities			
Purchase of intangible assets	14	**(224)**	(490)
Purchase of property and equipment	13	**(7,640)**	(16,790)
Proceeds from disposal of property and equipment		**216**	1,539
Proceeds from disposal of intangible assets		**6**	-
Proceeds from disposal of assets classified as held for sale		**6,398**	**6,959**
Net cash used in investing activities		**(1,244)**	(8,782)
Cash flows from financing activities			
Interest paid on cash contributions to capital		**(1,194)**	(1,194)
Dividends paid		**(13,380)**	(12,136)
Net cash used in financing activities		**(14,574)**	(13,330)
Cash and cash equivalents at the beginning of the year	35	**557,499**	528,419
Net cash generated from operating activities		**496,992**	51,192
Net cash used in investing activities		**(1,244)**	(8,782)
Net cash used in financing activities		**(14,574)**	(13,330)
Cash and cash equivalents at the end of the year	35	**1,038,673**	557,499

Principal non-cash transactions:

The principal non-cash transactions are as follows:

- The Bank took possession of properties in settlement of customers' loans amounting to LL 1,577 million (2009 – LL 3,477 million) and classified them as assets held-for-sale (note 16); and
- Management transferred an amount of LL 563 million from investment property to property and equipment (2009 – LL 2,100 million) (note 12).

The notes on pages 53 to 115 are an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2010

1 General information

BBAC S.A.L. ("the Bank") offers a full range of retail, private and commercial banking activities through its head office in Beirut and its network of thirty five branches across Lebanon, in addition to a branch in Cyprus and Iraq.

The Bank was incorporated in Lebanon in 1956 and registered at the Commercial Court in Beirut under No. 6196. It appears under number 28 in the list of Lebanese banks. The address of its registered office is as follows: P.O. Box: 11-1536, Clemenceau, Beirut – Lebanon.

2 Summary of significant accounting policies

These financial statements relate to the parent company and are presented on a non-consolidated basis. The Bank has also prepared under a separate cover consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") for the Bank and its subsidiaries (the "Group").

The consolidated financial statements can be obtained from BBAC S.A.L. registered office: P.O. Box: 11-1536, Clemenceau, Beirut – Lebanon.

Users of the parent company financial statements should read them together with the Group's consolidated financial statements as at year ended 31 December 2010 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as defined by IAS 1: "Presentation of financial statements". The financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets, financial assets and liabilities held at fair value through profit or loss, all derivative contracts, investment properties and certain properties, which have been measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumption and estimates are significant to the financial statements are disclosed in note 4.

(a) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Bank:

The following standards and amendments to existing standards have been published and are mandatory for the Bank's accounting periods beginning on or after 1 January 2010 or later periods, but the Bank has not early adopted them:

• IFRIC 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). The interpretation was published in November 2008. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.

• IAS 1 (amendment), 'Presentation of financial statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

• IAS 36 (amendment), 'Impairment of assets', effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, ''Operating segments" (that is, before the aggregation of segments with similar economic characteristics).

• IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'. The amendment clarificates that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.

• IFRIC 9, 'Reassessment of embedded derivatives and IAS 39, Financial instruments: Recognition and measurement', effective 1 July 2009. This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remains classified as at fair value through profit or loss in its entirety.

(b) New standards, amendment and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted:

The following standards, amendments and interpretations, which became effective in 2010 are relevant to the Bank:

• IFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace IAS 39, ''Financial instruments: recognition and measurement". IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Bank's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. Key impacts are as follows:

(i) Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

(ii) An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features").

(iii) All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses is permissible to be measured in the income statement.
The Bank opted for the early adoption of the standard on 1 January 2011 in line with the Banking Control Commission circular number 265 dated 23 September 2010. Initial indications are that it may affect the Bank's accounting for its debt available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity securities that are not held for trading.

• Revised IAS 24 (revised), ''Related party disclosures", issued in November 2009. It supersedes IAS 24, ''Related party disclosures", issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Bank will apply the revised standard from 1 January 2011. When the revised standard is applied, the Bank and the parent will need to disclose any transactions between its subsidiaries and its associates.

(b) New standards, amendment and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted:

• IFRIC 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished.

2.2 Investments in subsidiaries

Subsidiaries are companies in which the Bank directly or indirectly holds the majority of the voting rights and when it determines their financial and business policies and is able to exercise control over them in order to benefit from their activities. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether the Bank controls another entity.

A listing of the Bank's subsidiaries is shown in note 11.

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Lebanese pounds, which is the Bank's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions that are transactions denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

All foreign exchange gains and losses recognised in the income statement are presented net in the statement of comprehensive income within the corresponding item. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item.

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available for sale, a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security.

Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount, except impairment, are recognised in other comprehensive income.

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

2.4 Financial assets and liabilities

In accordance with IAS 39, all financial assets and liabilities – which include derivative financial instruments – have to be recognised in the balance sheet and measured in accordance with their assigned category.

2.4.1 Financial assets

The Bank allocates financial assets to the following IAS 39 categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available for sale financial assets. Management determines the classification of its financial instruments at initial recognition.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and financial assets designated by the Bank as at fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments. Financial assets held for trading consist of debt instruments, including money-market paper, traded corporate and bank loans, and equity instruments, as well as financial assets with embedded derivatives. They are recognised in the balance sheet as "Financial assets held for trading".

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to the statement of comprehensive income. Gains and losses arising from changes in fair value are included directly in the statement of comprehensive income and are reported as "Net trading income". Interest income and expense and dividend income and expenses on financial assets held for trading are included in "Net interest and similar income" or "Dividend income", respectively. The instruments are derecognised when the rights to receive cash flows have expired or the Bank has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognising.

The Bank designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot subsequently be changed. According to IAS 39, the fair value option is only applied when the following conditions are met:

- The application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise or
- The financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis or
- The financial assets consists of debt host and an embedded derivative that must be separated.

Financial assets for which the fair value option is applied are recognised in the balance sheet as "Financial assets designated at fair value". Fair value changes relating to financial assets designated at fair value through profit or loss are recognised in "Net gain (loss) on financial instruments designated at fair value through profit or loss".

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

(a) those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as fair value through profit or loss; (b) those that the Bank upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value, which is the cash consideration to originate or purchase the loan including any transaction costs, and measured subsequently at amortised cost using the effective interest rate method. Loans and receivables are reported in the balance sheet as loans and advances to banks or customers or as investment securities. Interest on loans is included in the statement of comprehensive income and is reported as "Interest and similar income". In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the statement of comprehensive income as "Loan impairment charges".

(c) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity, other than:

(a) those that the Bank upon initial recognition designates as at fair value through profit or loss; (b) those that the Bank designates as available for sale; and (c) those that meet the definition of loans and receivables. These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

Interest on held-to-maturity investments is included in the statement of comprehensive income and reported as "Interest and similar income". In the case of an impairment, the impairment loss is been reported as a deduction from the carrying value of the investment and recognised in the profit and loss statement as "Net gains/(losses) on investment securities". Held-to-maturity investments comprise Lebanese treasury bills, and debt securities issued by commercial banks and Central Bank of Lebanon.

(d) Available-for-sale financial assets

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in the statement of comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the income statement. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement in "Dividend income" when the Bank's right to receive payment is established.

(e) Recognition

The Bank uses trade date accounting for regular way contracts when recording financial asset transactions. Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the balance sheet as "Assets pledged as collateral", if the transferee has the right to sell or repledge them.

2.4.2 Financial liabilities

The Bank's holding in financial liabilities is in financial liabilities designated at fair value through profit or loss, financial liabilities at amortised cost. Financial liabilities are derecognised when extinguished.

(a) Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the Bank as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading. Those financial instruments are recognised in the balance sheet as "Financial liabilities held for trading".

Gains and losses arising from changes in fair value of financial liabilities classified held for trading are included in the statement of comprehensive income and are reported as "Net gains (loss) on financial instruments held for trading". Interest expenses on financial liabilities held for trading are included in "Net interest and similar income". Financial liabilities for which the fair value option is applied are recognised in the balance sheet as "Financial liabilities designated at fair value". Fair value changes relating to financial liabilities designated at fair value through profit or loss are recognised in "Net gains/(losses) on financial instruments designated at fair value through profit or loss".

(b) Other liabilities measured at amortised cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost. Financial liabilities measured at amortised cost are deposits from banks or customers (even those deposits with embedded derivatives, where the derivative was separated from the host contract and accounted for as a trading derivative), debt securities in issue for which the fair value option is not applied, convertible bonds and subordinated debts.

2.4.3 Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at the dates of the balance sheet.

The Bank uses widely recognised valuation models for determining fair values of non-standardised financial instruments of lower complexity, such as foreign exchange, credit default swaps and unlisted Lebanese treasury bills (denominated in Lebanese pounds). For these financial instruments, inputs into models are generally market observable.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment.

2.4.4 Recognition of deferred day-one profit and loss

The best evidence of fair value at initial recognition is the transaction price (that is, the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (that is, without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

The timing of recognition of deferred day one profit and loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for the deferred day one profit and loss. Subsequent changes in fair value are recognised immediately in the statement of comprehensive income without immediate reversal of deferred day one profits and losses.

2.4.5 Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions is not derecognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Bank retains a portion of the risks.

2.5 Reclassification of financial assets

The Bank may choose to reclassify a non-derivative financial asset held for trading out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near-term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term. In addition, the Bank may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification. The Bank reclassified debt securities (treasury bills and certificates of deposits) from the held for trading and available for sale categories to loans and receivables (note 10).

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

2.6 Classes of financial instruments

The Bank classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table below:

<table>
<tr><th colspan="2">Category (as defined by IAS 39)</th><th colspan="2">Class (as determined by the Bank)</th><th>Subclass</th></tr>
<tr><td rowspan="10">Financial assets</td><td rowspan="3">Financial assets at fair value through profit or loss</td><td rowspan="3">Financial assets held for trading</td><td>Debt securities</td><td></td></tr>
<tr><td>Equity securities</td><td></td></tr>
<tr><td colspan="2">Derivatives - non-hedging</td></tr>
<tr><td rowspan="4">Loans and receivables</td><td colspan="3">Loans and advances to banks</td></tr>
<tr><td rowspan="2">Loans and advances to customers</td><td>Loans to individuals</td><td>- Overdraft
- Credit cards
- Personal loans
- Housing loans</td></tr>
<tr><td>Loans to corporate entities</td><td>- SME
- Large corporate customers</td></tr>
<tr><td colspan="2">Investment securities - debt securities</td><td>Unlisted and Listed</td></tr>
<tr><td>Held-to-maturity investments</td><td colspan="2">Investment securities - debt securities</td><td>Unlisted and Listed</td></tr>
<tr><td rowspan="2">Available-for-sale financial assets</td><td colspan="2">Investment securities - debt securities</td><td>Unlisted and Listed</td></tr>
<tr><td colspan="2">Investment securities - equity securities</td><td>Unlisted and Listed</td></tr>
<tr><td rowspan="5">Financial liabilities</td><td>Financial liabilities at fair value through profit or loss</td><td colspan="3">Financial liabilities held for trading (credit linked deposits, derivatives)</td></tr>
<tr><td rowspan="4">Financial liabilities at amortised cost</td><td>Deposits from banks</td><td></td><td></td></tr>
<tr><td rowspan="3">Deposits from customers</td><td>Retail customers</td><td></td></tr>
<tr><td colspan="2">Large corporate customers</td></tr>
<tr><td>SMEs</td><td></td></tr>
<tr><td rowspan="2">Off balance sheet financial instruments</td><td colspan="3">Loan commitments</td><td></td></tr>
<tr><td colspan="3">Guarantees, letters of credit and other financial facilities</td><td></td></tr>
</table>

2.7 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.8 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within "interest and similar income" and "interest expense and similar charges" in the statement of comprehensive income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.9 Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. The same principle is applied for wealth management, and custody services that are continuously provided over an extended period of time.

2.10 Dividend income

Dividends are recognised in the statement of comprehensive income when the Bank's right to receive payment is established.

2.11 Impairment of financial assets

(a) Assets carried at amortised cost

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

(i) significant financial difficulty of the issuer or obligor;

(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

(iv) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

(v) the disappearance of an active market for that financial asset because of financial difficulties; or

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

- adverse changes in the payment status of borrowers in the portfolio; and
- national or local economic conditions that correlate with defaults on the assets in the portfolio.

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between three months and 12 months; in exceptional cases, longer periods are warranted.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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 credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income.

The calculation of the present value of the estimated future cash flows of a collateralised 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 purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to loans and advances to banks and customers are classified in "Loan impairment charges" whilst impairment charges relating to investment securities (Held to maturity and loans and receivables categories) are classified in "Net gains/(losses) on investment securities". If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

(b) Assets classified as available-for-sale

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of comprehensive income.

(c) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated again.

2.12 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. No non-financial assets were impaired in 2010.

2.13 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.14 Repossessed property

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and reported within "Assets classified as held for sale".

2.15 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets (for example, exchange-traded options), including recent market transactions, or valuation techniques (for example for swaps and currency transactions), including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, such as credit default swaps in financial instruments, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the statement of comprehensive income unless the Bank chooses to designate the hybrid contracts at fair value through profit or loss.

2.16 Leases

Leases are accounted for in accordance with IAS 17 and IFRIC 4. They are divided into finance leases and operating leases. The leases entered into by the Bank, are principally operating leases, where a significant portion of the risks and rewards of ownership are retained by another party, the lessor. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. The total payments made under operating leases are charged to "other operating expenses" in the statement of comprehensive income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.17 Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the Bank, are classified as investment properties. Investment properties comprise office buildings and retail parks leased out under operating lease agreements.

Some properties may be partially occupied by the Bank, with the remainder being held for rental income or capital appreciation. If that part of the property occupied by the Bank can be sold separately, the Bank accounts for the portions separately. The portion that is owner-occupied is accounted for under IAS 16, and the portion that is held for rental income or capital appreciation or both is treated as investment property under IAS 40. When the portions cannot be sold separately, the whole property is treated as investment property only if an insignificant portion is owner-occupied. The Bank considers the owner-occupied portion as insignificant when the property is more than 5% held to earn rental income or capital appreciation. In order to determine the percentage of the portions, the Bank uses the size of the property measured in square metre. Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably. This is usually the day when all risks are transferred.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time the cost has incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the date of the balance sheet. Gains or losses arising from changes in the fair value of investment properties are included in the statement of comprehensive income in the year in which they arise. Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred. The fair value of investment properties is based on the nature, location and condition of the specific asset. The fair value is based on valuations performed periodically by external appraisers.

The Bank only enters as lessor into lease agreements that are classified as operating leases (IAS 17). A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. The properties leased out under operating leases are included in “Investment properties”.

2.18 Property and equipment

Land and buildings comprise mainly branches and offices. All property and equipment are stated at fair market value less depreciation and accounted for using the revaluation model.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to ‘real estate revaluation reserve’ in shareholders' equity. Decreases that offset previous increases of the same asset are charged against ‘real estate revaluation reserve’ in equity; all other decreases are charged to the statement of comprehensive income.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their revalued amounts to their residual values over their estimated useful lives, as follows:

	Years
Buildings	50
Computer equipment	5
Furniture, fixtures and equipment	12 - 13
Vehicles	10
Leasehold improvements	16 - 17

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. No property, plant and equipment were impaired as at 31 December 2010 (2009 - nil).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within 'other operating income' in the statement of comprehensive income.

2.19 Intangible assets

Intangible assets comprise separately identifiable intangible items arising from business combinations, computer software licences and other intangible assets. Intangible assets are recognised at cost. Intangible assets with a definite useful life are amortised using the straight-line method over their estimated useful economic life, generally not exceeding 20 years. Intangible assets with an indefinite useful life are not amortised. Generally, the identified intangible assets of the Bank have a definite useful life. At each date of the balance sheet, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount.

Intangible assets comprise only computer software licenses. Intangible assets are recognised at cost.

The Bank chooses to use the cost model for the measurement after recognition.

Intangible assets with indefinite useful life are annually tested for impairment and whenever there is an indication that the asset may be impaired.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has a maximum expected useful life of 5 years.

2.20 Income tax

(a) Current income tax

Income tax payable (receivable) is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognised as an expense (income) for the period except to the extent that current tax related to items that are charged or credited in other comprehensive income or directly to equity. In these circumstances, current tax is charged or credit to other comprehensive income or to equity (for example, current tax on revaluation of properties).

Tax losses can be relieved only by carry-forward against taxable profits of future periods, a deductible temporary difference arises. Those losses carried forward are set-off against deferred tax liabilities carried in the balance sheet.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of the balance sheet and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax related to fair value re-measurement of available-for-sale investments, which are recognised in other comprehensive income, is also recognised in other comprehensive income and subsequently in the income statement together with the deferred gain or loss.

2.21 Employee benefits

The Bank is subscribed to the compulsory defined benefit plan of the national social security fund. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service or compensation.

The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the balance sheet date less contributions to the fund. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government securities that have terms to maturity approximating the terms of the related pension liability.

2.22 Provisions

Provisions for restructuring costs and legal claims are recognised when: the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. The Bank recognises no provisions for future operating losses.

Where there is a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.23 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the statement of comprehensive income within other operating expenses.

2.24 Share capital

(a) Share issue costs

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(b) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders.

Dividends for the year that are declared after the date of the balance sheet are dealt with in the subsequent events note.

(c) Cash contributions to capital

Cash contributions to capital are classified as equity. A part of these cash contributions generates interest charges paid to the respective shareholders.

2.25 Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

Where IAS 8 applies, comparative figures have been adjusted to conform with changes in presentation in the current year.

3 Financial risk management

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. The Bank's Audit committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank's Audit committee is assisted in these functions by the internal audit department.

The risks arising from financial instruments to which the Bank is exposed are financial risks, which include credit risk, liquidity risk, market risk (which are discussed below) and operational risk.

3.1 Credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfill their contractual obligations to the Bank. Credit risk arises mainly from commercial and retail loans and advances, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as credit derivatives (credit default swaps), financial guarantees, letters of credit, and acceptances.

The Bank is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ("trading exposures"), including non-equity trading portfolio assets, derivatives and settlement balances with market counterparties.

Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralised in a credit risk unit, which reports to the Board of Directors and head of risk management department.

3.1.1 Credit risk measurement

(a) Loans and advances (including loan commitments and guarantees)

To measure the credit risk of loans and advances to customers, the Bank rates its counterparties based on the rating model as set by the Central Bank of Lebanon ("BDL") basic circular number 58:

- Normal – the loan is expected to be repaid on a timely and consistent basis;
- Special mention – the loan is expected to be repaid but the client's file is not complete;
- Sub-standard – the client has a difficult financial condition and might not be in a position to settle the loan in full;
- Doubtful – there is no movement in the clients' balance; and
- Bad – the probability of repayment is low and almost nil.

These credit risk measurements reflect the impairment allowances required under IAS 39, which are based on losses that have been incurred at the balance sheet date (the ‘incurred loss model’).

(b) Debt securities

For debt securities, external rating such as Standard & Poor’s rating or their equivalents are used by the Treasury department for managing the credit risk exposures.

3.1.2 Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and Banks, and to industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and country are set by the Board of Directors, (in compliance with the requirements of BDL basic circular number 48 and 81).

The exposure to any one borrower including banks and financial institutions is further restricted by sub-limits covering on and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as spot and forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Lending limits are reviewed in the light of changing market and economic conditions and periodic credit reviews and assessments of probability of default.

Some other specific control and mitigation measures are outlined below:

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is a common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties (housing loans);
- Mortgages over commercial properties (commercial loans);
- Cash collaterals;
- Bank and public sector guarantees;
- Salary domiciliation;
- Charges over business assets such as premises, inventory, accounts receivable, commercial bills, machinery, vehicles, trade rights; and
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured. In addition, the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

(b) Master netting arrangements

The Bank further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis.

(c) Financial covenants (for credit related commitments and loan books)

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate in addition to a required cash margin set by the credit committee based on the credit rating of each customer (usually a margin of 15% is blocked in compliance with BDL basic circular number 52) and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

3.1.3 Impairment and provisioning policies

Impairment allowances are recognised for financial reporting purposes only for losses that have been incurred at the date of the statement of financial position based on objective evidence of impairment (refer to note 2.11) Accordingly, the internal and external rating systems described in note 3.1.1 are used as indicators for impairment.

The impairment provision shown in the balance sheet at year-end is derived from each of the five internal rating grades. However, the majority of the impairment provision comes from the bottom two gradings. The table below shows the percentage of loans and advances and the associated impairment provision for each of the Bank's internal rating categories:

Bank's rating

	2010 Credit risk exposure (%)	**2010 Impairment provision (%)**	2009 Credit risk exposure (%)	2009 Impairment provision (%)
1, 2. Normal and Special Mention	**91%**	**2%**	89%	2%
3. Sub-standard	**1%**	**28%**	1%	30%
4. Doubtful	**7%**	**78%**	9%	83%
5. Bad	**1%**	**100%**	1%	100%
	100%	**8%**	100%	10%

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to on-balance sheet assets are as follows:

	Maximum exposure	
	2010 LL Million	2009 LL Million
Assets		
Balances with central banks	**730,487**	746,752
Loans and advances to banks	**986,526**	743,436
Financial assets held for trading (debt securities)	**186,624**	216,058
Loans and advances to customers		
Loans to individuals		
Personal	**113,473**	48,729
Credit cards	**5,970**	3,559
Mortgages	**262,626**	156,428
Other	**100,248**	86,515
Loans to corporate entities		
Large corporate customers	**478,332**	402,526
Small and medium size enterprises (SMEs)	**231,307**	256,541
Kafalat loan	**28,582**	21,965
Subsidized loans	**60,901**	26,958
Debtors by acceptances	**54,809**	46,774
Investment securities (debt securities)	**2,749,979**	2,672,071
Other assets	**23,501**	20,655
At 31 December	**6,013,365**	5,448,967

Credit risk exposures relating to off-balance sheet items are as follows:

	Maximum exposure	
	2010 LL Million	2009 LL Million
Loan commitments	**54,790**	38,407
Financial guarantees	**149,946**	128,646
	204,736	167,053

The above table represents a worse case scenario of credit risk exposure to the Bank at 31 December 2010 and 2009, without taking account any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 46% of the total maximum exposure is derived from investment securities (2009 – 49%); 21% is derived from loans and advances to customers (2009 – 18%) and 16% is derived from loans and advances to banks (2009 – 14%).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loans and advances portfolio and debt securities based on the following:

- 91% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2009 – 90%);
- Mortgage loans, which represents the biggest group in the portfolio of loans to individuals, are backed by collateral;
- 86% of the loans and advances portfolio are considered to be neither past due nor impaired (2009 – 87%);
- 62% of the Bank's debt securities portfolio is allocated to Lebanese treasury bills (2009 – 68%), of which 61% is denominated in Lebanese pounds (2009 – 35%), whose risk of default is considered nil.

Concentration of risks of financial assets with credit exposure

The following table breakdowns the Bank's credit exposure at their carrying amounts (without taking into account any collateral held on other credit support), as categorised by geographical region as of 31 December 2010. For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties.

	Lebanon LL Million	Arab countries LL Million	United Kingdom LL Million	Other European countries LL Million	Other countries LL Million	Total LL Million
Assets						
Balances with central banks	706,005	21,034	-	3,448	-	730,487
Loans and advances to banks	58,341	336,965	165,416	298,700	127,104	986,526
Financial assets held for trading	179,929	2,640	4,055	-	-	186,624
Loans and advances to customers	1,149,166	65,028	40,271	9,660	17,314	1,281,439
Debtors by acceptances	53,437	422	-	54	896	54,809
Investment securities (debt securities)	2,627,819	24,611	29,765	16,280	51,504	2,749,979
Other assets	22,892	504	-	105	-	23,501
At 31 December 2010	**4,797,589**	**451,204**	**239,507**	**328,247**	**196,818**	**6,013,365**
Balances with central banks	732,772	10,568	-	3,412	-	746,752
Loans and advances to banks	232,712	175,247	89,573	166,931	78,973	743,436
Financial assets held for trading	185,315	2,723	15,381	8,091	4,548	216,058
Loans and advances to customers	918,770	24,912	41,878	4,371	13,290	1,003,221
Debtors by acceptances	46,198	96	-	284	196	46,774
Investment securities (debt securities)	2,604,078	12,817	20,352	151	34,673	2,672,071
Other assets	20,655	-	-	-	-	20,655
At 31 December 2009	**4,740,500**	**226,363**	**167,184**	**183,240**	**131,680**	**5,448,967**

3.1.5 Loans and advances

Loans and advances are summarised as follows:

	2010		2009	
	Loans and advances to customers LL Million	Loans and advances to banks LL Million	Loans and advances to customers LL Million	Loans and advances to banks LL Million
Neither past due nor impaired	**1,198,625**	**986,507**	964,969	743,417
Past due but not impaired	**75,484**	**-**	27,160	-
Individually impaired	**122,105**	**2,555**	118,279	2,555
Gross	**1,396,214**	**989,062**	1,110,408	745,972
Less: allowance for impairment	**(114,775)**	**(2,536)**	(107,187)	(2,536)
Net	**1,281,439**	**986,526**	1,003,221	743,436
Individually impaired	**(90,824)**	**(2,536)**	(91,929)	(2,536)
Portfolio allowance	**(23,951)**	**-**	(15,258)	-
Total	**(114,775)**	**(2,536)**	(107,187)	(2,536)

The total impairment charge for loans and advances is LL 117 billion (2009 – LL 110 billion) of which LL 93 billion (2009 – LL 95 billion) represents the individually impaired loans and the remaining amount of LL 24 billion (2009 – LL 15 billion) represents the portfolio provision. Further information of the impairment allowance for loans and advances to banks and to customers is provided in notes 6 and 8.

During the year ended 31 December 2010, the Bank's total loans and advances increased by 30% (2009 – LL 19%) as a result of the expansion of the lending business. (However, in order to minimise the potential increase of credit risk exposure, the Bank focused more on the business with large corporate enterprises or banks with good credit rating or retail customers providing sufficient collateral.

(a) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances to customers that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank.

At 31 December 2010

	Individual (retail customers)				Corporate entities				
	Personal LL Million	Credit cards LL Million	Mortgages LL Million	Other LL Million	Large corporate customers LL Million	SME LL Million	Kafalat LL Million	Subsidized LL Million	Total LL Million
Grades:									
1. Normal	60,837	5,706	255,728	95,787	436,635	234,011	24,251	51,203	1,164,158
2. Special mention	8,474	84	633	803	15,437	7,396	1,631	9	34,467
Total	**69,311**	**5,790**	**256,361**	**96,590**	**452,072**	**241,407**	**25,882**	**51,212**	**1,198,625**

At 31 December 2009

	Individual (retail customers)				Corporate entities				
	Personal LL Million	Credit cards LL Million	Mortgages LL Million	Other LL Million	Large corporate customers LL Million	SME LL Million	Kafalat LL Million	Subsidized LL Million	Total LL Million
Grades:									
1. Normal	50,009	3,894	170,828	92,200	368,421	212,748	22,069	29,190	949,359
2. Special mention	123	45	698	2,321	8,164	3,342	917	-	15,610
Total	**50,132**	**3,939**	**171,526**	**94,521**	**376,585**	**216,090**	**22,986**	**29,190**	**964,969**

(b) Loans and advances past due but not impaired

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore, loans and advances past due are not usually considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

At 31 December 2010

	Individuals				Corporate entities				
	Personal LL Million	Credit cards LL Million	Mortgages LL Million	Other LL Million	Large corporate customers LL Million	SME LL Million	Kafalat LL Million	Subsidized LL Million	Total LL Million
Grades									
Past due up to 30 days	103	-	4,923	2,282	7,144	1,756	907	26,525	43,640
Past due 30-60 days	32	-	590	1,097	2,022	53	94	473	4,361
Past due 60-90 days	29	-	212	91	125	139	-	-	596
Past due above 90 days	362	-	3,361	2,155	15,981	3,150	1,878	-	26,887
Total	**526**	**-**	**9,086**	**5,625**	**25,272**	**5,098**	**2,879**	**26,998**	**75,484**
Fair value of collateral	607	-	35,379	28,660	53,166	14,848	3,353	17,415	153,428

At 31 December 2009

	Individuals				Corporate entities				
	Personal LL Million	Credit cards LL Million	Mortgages LL Million	Other LL Million	Large corporate customers LL Million	SME LL Million	Kafalat LL Million	Subsidized LL Million	Total LL Million
Grades									
Past due up to 90 days	524	-	203	589	3,964	2,943	190	155	8,568
Past due 90-120 days	42	-	11	75	137	594	50	403	1,312
Past due 120-150 days	25	-	8	70	219	312	44	1	679
Past due above 150 days	172	-	22	503	11,920	2,852	1,042	90	16,601
Total	**763**	**-**	**244**	**1,237**	**16,240**	**6,701**	**1,326**	**649**	**27,160**
Fair value of collateral	-	-	1,608	-	12,030	3,683	2,102	9,671	29,094

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or by using valuation techniques with updated market data.

(c) Loans and advances individually impaired

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Bank as a security, are as follows:

(i) Loans and advances to customers

At 31 December 2010

	Individuals (retail customers)				Corporate entities				
	Personal LL Million	Credit cards LL Million	Mortgages LL Million	Other LL Million	Large corporate customers LL Million	SMEs LL Million	Kafalat LL Million	Subsidized LL Million	Total LL Million
Gross amount	**5,543**	**35**	**1,377**	**16,532**	**35,448**	**60,456**	**501**	**2,213**	**122,105**
Fair value of collateral	723	-	1,193	-	25,841	22,652	-	-	50,409

At 31 December 2009

	Individuals (retail customers)				Corporate entities				
	Personal LL Million	Credit cards LL Million	Mortgages LL Million	Other LL Million	Large corporate customers LL Million	SMEs LL Million	Kafalat LL Million	Subsidized LL Million	Total LL Million
Gross amount	**3,040**	**-**	**1,371**	**-**	**52,708**	**61,160**	**-**	**-**	**118,279**
Fair value of collateral	691	-	1,264	-	20,409	23,206	-	-	45,570

(ii) Loans and advances to banks

The total gross amount of individually impaired loans and advances to banks as at 31 December 2010 was LL 2.56 billion (2009 – LL 2.56 billion). No collateral is held by the Bank, and an impairment provision of LL 2.54 billion (2009 – LL 2.54 billion) has been recognised to cover the exposure.

(d) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans. Renegotiated loans that would otherwise be past due or impaired are as follows:

	2010 LL Million	2009 LL Million
Loans and advances to customers - individuals		
Term loans	**10,543**	14,530

3.1.6 Debt securities

The table below presents an analysis of debt securities by rating agency designation at 31 December 2010 and 2009, based on Standard & Poor's ratings:

At 31 December 2010

	From AAA+ to AAA- LL Million	From AA+ to AA- LL Million	From A+ to A- LL Million	From BBB+ to BBB- LL Million	From BB+ to BB- LL Million	From B+ to B- LL Million	Total LL Million
Financial assets held for trading	-	-	3,679	3,015	-	179,930	186,624
Investment securities	-	45,795	94,433	-	-	2,609,751	2,749,979
Total	**-**	**45,795**	**98,112**	**3,015**	**-**	**2,789,681**	**2,936,603**

At 31 December 2009

	From AAA+ to AAA- LL Million	From AA+ to AA- LL Million	From A+ to A- LL Million	From BBB+ to BBB- LL Million	From BB+ to BB- LL Million	From B+ to B- LL Million	Total LL Million
Financial assets held for trading	16,171	4,523	-	2,020	-	193,344	216,058
Investment securities	-	27,286	40,671	-	-	2,604,114	2,672,071
Total	**16,171**	**31,809**	**40,671**	**2,020**	**-**	**2,797,458**	**2,888,129**

3.1.7 Repossessed collateral

The Bank obtained assets by taking possession of collateral held as security, as follows:

	2010 LL Million	2009 LL Million
Nature of assets		
Residential property- carrying amount	**1,577**	3,477

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the balance sheet within assets classified as held for sale (note 16).

3.2 Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios.

The market risks arising from trading and non-trading activities are monitored by the Treasury department. Regular reports are submitted to the Board of Directors and heads and Asset Liability Committee ("ALCO").

Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market. Non-trading portfolios primarily arise from the interest rate management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Bank's investment securities.

3.2.1 Market risk measurement techniques

Effective identification and monitoring of market risk is essential for maintaining stable profit. This is carried out by the Bank's risk management department. The Bank's treasury is responsible for managing the exposure within the risk exposure limits set out in the policy as approved by ALCO and the Board of Directors. This policy sets out the nature of the market risks that may be taken along with aggregate risk limits, and stipulates the procedures, instruments and controls to be used in managing market risk. The major measurement techniques used to measure and control market risk are outlined below.

(a) Stress tests

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Risk management department include: risk factor stress testing, where stress movements are applied to each risk category; emerging market stress testing, where emerging market portfolios are subject to stress movements; and ad hoc stress testing, which includes applying possible stress events to specific positions or regions – for example, the stress outcome to a region following a currency peg break, or a reverse decrease in interest rates.

The results of the stress tests are reviewed by Top management and by ALCO. The stress testing is tailored to the business and typically uses scenario analysis.

(b) Sensitivity analysis

A technique used to determine how different values of an independent variable will impact a particular dependent variable under a given set of assumptions. This technique is used within specific boundaries that will depend on one or more input variables, such as the effect that changes in interest rates will have on a bond's price. Sensitivity analysis is a way to predict the outcome of a decision if a situation turns out to be different compared to the key predictions.

The Bank performs this analysis for each type of market risk to which the Bank is exposed at each reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date.

3.2.2 Sensitivity analysis

Foreign exchange risk

If the foreign currency exchange rate increases by 1%, the net effect [gain/(loss)] is as follows:

	2010		2009	
	Effect on profit LL Million	Effect on equity LL Million	Effect on profit LL Million	Effect on equity LL Million
USD	**892**	**-**	2,977	-
Euro	**56**	**-**	74	-
	948	**-**	3,051	-

Interest rate risk

If the interest rate increases by 2%, the net effect [gain/(loss)] is as follows:

	2010		2009	
	Effect on profit LL Million	Effect on equity LL Million	Effect on profit LL Million	Effect on equity LL Million
USD	**(4,578)**	**(27,621)**	(3,546)	(23,470)

3.2.3 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency which should not exceed 1% of Tier I capital.

This exposure limit is related to and set out in compliance with the limits set by the BDL (basic circular number 32) as approved by the ALCO and Board of Directors and closely monitored by the Bank's Treasury department on a daily basis.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2010 and 2009. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

At 31 December 2010

	LBP LL Million	USD LL Million	EUR LL Million	GBP LL Million	Others LL Million	Total LL Million
ASSETS						
Cash and balances with central banks	212,134	544,452	7,217	1,025	11,825	776,653
Loans and advances to banks	22,367	833,326	101,059	11,256	18,518	986,526
Financial assets held for trading	163,483	57,588	4,172	-	-	225,243
Loans and advances to customers	413,308	774,258	29,400	39,661	24,812	1,281,439
Debtors by acceptances	-	46,516	6,270	-	2,023	54,809
Investment securities:						
Available for sale	652,278	222,797	29,562	-	-	904,637
Loans and receivables	686,037	441,266	-	-	-	1,127,303
Held to maturity	430,771	284,409	4,155	-	-	719,335
Other assets	5,986	18,002	732	-	3	24,722
Total financial assets	**2,586,364**	**3,222,614**	**182,567**	**51,942**	**57,180**	**6,100,667**
LIABILITIES						
Deposits from banks and financial institutions	4,957	82,367	1,222	55	23,028	111,629
Deposits from customers	2,376,322	2,898,913	167,947	52,052	18,447	5,513,681
Financial liabilities held for trading	1	900	-	-	-	901
Engagements by acceptances	-	46,516	6,270	-	2,023	54,809
Other liabilities	-	14,482	495	5	4	14,986
Total financial liabilities	**2,381,280**	**3,043,178**	**175,934**	**52,112**	**43,502**	**5,696,006**
Net on-balance sheet financial position	**205,084**	**179,436**	**6,633**	**(170)**	**13,678**	**404,661**
Financial guarantees and loan commitments	**27,080**	**149,800**	**20,962**	**2**	**6,892**	**204,736**

At 31 December 2009

	LBP LL Million	USD LL Million	EUR LL Million	GBP LL Million	Others LL Million	Total LL Million
ASSETS						
Cash and balances with central banks	252,411	524,336	6,031	503	432	783,713
Loans and advances to banks	14,857	599,969	83,822	13,446	31,342	743,436
Financial assets held for trading	175,976	76,370	4,447	-	-	256,793
Loans and advances to customers	255,444	653,840	35,864	41,845	16,228	1,003,221
Debtors by acceptances	-	40,801	4,293	-	1,680	46,774
Investment securities:						
Available for sale	658,159	249,465	14,355	-	-	921,979
Loans and receivables	547,113	460,148	-	-	-	1,007,261
Held to maturity	362,390	377,234	4,503	-	-	744,127
Other assets	6,246	13,327	2,391	-	-	21,964
Total financial assets	**2,272,596**	**2,995,490**	**155,706**	**55,794**	**49,682**	**5,529,268**
LIABILITIES						
Deposits from banks and financial institutions	8,575	74,203	8,789	7,302	15,528	114,397
Deposits from customers	2,098,289	2,678,185	138,725	48,381	26,760	4,990,340
Financial liabilities held for trading	-	952	-	-	-	952
Engagements by acceptances	-	40,801	4,293	-	1,680	46,774
Other liabilities	-	8,936	555	19	116	9,626
Total financial liabilities	**2,106,864**	**2,803,077**	**152,362**	**55,702**	**44,084**	**5,162,089**
Net on-balance sheet financial position	**165,732**	**192,413**	**3,344**	**92**	**5,598**	**367,179**
Financial guarantees and loan commitments	**19,815**	**102,743**	**11,523**	**22**	**32,950**	**167,053**

3.2.4 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily by the Treasury department.

The table below summarises the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual repricing (for example for floating rate notes) or maturity dates.

At 31 December 2010

	Up to 1 month LL Million	1 – 3 months LL Million	3 – 12 months LL Million	1 – 5 years LL Million	Over 5 years LL Million	Non interest bearing LL Million	Total LL Million
ASSETS							
Cash and balances with central banks	260,958	22,613	69,345	342,646	-	81,091	776,653
Loans and advances to banks	719,784	233,183	-	15,075	16,688	1,796	986,526
Financial assets held for trading	23,562	7,500	83,995	60,588	10,553	39,045	225,243
Loans and advances to customers	470,267	100,809	404,366	280,552	25,445	-	1,281,439
Debtors by acceptances	-	-	-	-	-	54,809	54,809
Investment securities:							
Available for sale	143,065	12,000	164,321	524,381	60,308	562	904,637
Loans and receivables	79,425	35,000	27,150	736,861	248,867	-	1,127,303
Held to maturity	16,692	65,500	213,428	308,904	114,811	-	719,335
Other assets	-	-	-	-	-	24,722	24,722
Total financial assets	**1,713,753**	**476,605**	**962,605**	**2,269,007**	**476,672**	**202,025**	**6,100,667**
LIABILITIES							
Deposits from banks and financial institutions	74,349	10,033	1,814	3,769	-	21,664	111,629
Deposits from customers	4,241,297	392,207	510,502	293,470	6,005	70,200	5,513,681
Financial liabilities held for trading	-	-	-	-	-	901	901
Engagements by acceptances	-	-	-	-	-	54,809	54,809
Other liabilities	-	-	-	-	-	14,986	14,986
Total financial liabilities	**4,315,646**	**402,240**	**512,316**	**297,239**	**6,005**	**162,560**	**5,696,006**
Total interest repricing gap	**(2,601,893)**	**74,365**	**450,289**	**1,971,768**	**470,667**		

At 31 December 2009

	Up to 1 month LL Million	1 – 3 months LL Million	3 – 12 months LL Million	1 – 5 years LL Million	Over 5 years LL Million	Non interest bearing LL Million	Total LL Million
ASSETS							
Cash and balances with central banks	113,789	15,075	15,075	339,188	-	300,586	783,713
Loans and advances to banks	436,121	178,645	15,305	60,300	4,000	49,065	743,436
Financial assets held for trading	2,326	10,760	5,094	181,768	17,462	39,383	256,793
Loans and advances to customers	441,969	58,928	251,262	215,658	35,036	368	1,003,221
Debtors by acceptances	-	-	-	-	-	46,774	46,774
Investment securities:							
Available for sale	9,322	9,359	79,269	737,739	84,993	1,297	921,979
Loans and receivables	-	84,156	12,078	668,929	242,098	-	1,007,261
Held to maturity	9,447	155,322	55,374	474,005	49,979	-	744,127
Other assets	-	-	-	-	-	21,964	21,964
Total financial assets	**1,012,974**	**512,245**	**433,457**	**2,677,587**	**433,568**	**459,437**	**5,529,268**
LIABILITIES							
Deposits from banks and financial institutions	101,281	2,700	514	3,768	-	6,134	114,397
Deposits from customers	4,033,443	346,793	430,065	134,500	10,417	35,122	4,990,340
Financial liabilities held for trading	-	-	-	-	-	952	952
Engagements by acceptances	-	-	-	-	-	46,774	46,774
Other liabilities	-	-	-	-	-	9,626	9,626
Total financial liabilities	**4,134,724**	**349,493**	**430,579**	**138,268**	**10,417**	**98,608**	**5,162,089**
Total interest repricing gap	**(3,121,750)**	**162,752**	**2,878**	**2,539,319**	**423,151**		

3.3 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the balance sheet and sales of assets, or potentially an inability to fulfill lending commitments. The risk that the Bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

3.3.1 Liquidity risk management process

The Bank's liquidity management process, as carried out within the Bank and monitored by the Treasury department, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met.

This includes replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in global money markets to enable this to happen;

- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring the liquidity ratios of the balance sheet against internal and regulatory requirements (BDL basic circulars number 72, 73, 84, 86 and 87); and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets (note 3.3.3).

3.3.2 Funding approach

Sources of liquidity are regularly reviewed by the Treasury department to maintain a wide diversification by currency, geography, provider, product and term.

3.3.3 Non-derivative financial liabilities and assets held for managing liquidity risk

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the date of the balance sheet. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the liquidity risk based on a different basis (see note 3.3.1), not resulting in a significantly different analysis.

At 31 December 2010

	Up to 1 month LL Million	1 – 3 months LL Million	3 – 12 months LL Million	1 – 5 years LL Million	Over 5 years LL Million	Total LL Million
LIABILITIES						
Deposits from banks and financial institutions	39,236	9,395	1,823	-	4,289	54,743
Deposits from customers	4,145,008	393,669	526,099	328,858	8,899	5,402,534
Financial liabilities held for trading	-	-	-	901	-	901
Engagements by acceptances	53,938	-	-	-	-	53,938
Other liabilities	14,667	-	-	-	-	14,667
Total liabilities (contractual maturity dates)	**4,252,849**	**403,065**	**527,922**	**329,759**	**13,187**	**5,526,783**
Assets held for managing liquidity risk (contractual maturity dates)	**1,070,847**	**458,775**	**720,087**	**2,451,671**	**545,136**	**5,246,516**

At 31 December 2009

	Up to 1 month LL Million	1 – 3 months LL Million	3 – 12 months LL Million	1 – 5 years LL Million	Over 5 years LL Million	Total LL Million
LIABILITIES						
Deposits from banks and financial institutions	107,135	2,733	516	4,579	-	114,963
Deposits from customers	4,076,459	350,203	443,232	160,533	15,038	5,045,465
Financial liabilities held for trading	-	-	-	952	-	952
Engagements by acceptances	14,447	18,564	13,763	-	-	46,774
Other liabilities	8,444	-	-	-	-	8,444
Total liabilities (contractual maturity dates)	**4,206,485**	**371,500**	**457,511**	**166,064**	**15,038**	**5,216,598**
Assets held for managing liquidity risk (contractual maturity dates)	**990,829**	**538,782**	**588,750**	**2,687,858**	**486,899**	**5,293,118**

3.3.4 Assets held for managing liquidity risk

The Bank holds a diversified portfolio of cash and high-quality liquid securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise:

- Cash and balances with central banks and other commercial banks;
- Lebanese treasury bills and other securities that are easily liquidated in the secondary markets; and
- Secondary sources of liquidity in the form of highly liquid instruments in the Bank's trading portfolios.

3.4 Fair value of financial assets and liabilities

(a) Financial instruments not measured at fair value

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at their fair value:

	Carrying amount		Fair value	
	2010 LL Million	2009 LL Million	**2010 LL Million**	2009 LL Million
Financial assets				
Balances with central banks	**730,487**	746,752	**733,091**	745,707
Loans and advances to banks	**986,526**	743,436	**988,116**	738,324
Loans and advances to customers	**1,281,439**	1,003,221	**1,285,797**	1,005,767
Investment securities (loans and receivables)	**1,127,303**	1,007,261	**1,201,092**	1,153,513
Investment securities (held-to-maturity)	**719,335**	744,127	**731,329**	795,338
	4,845,090	4,244,797	**4,939,425**	4,438,649
Financial liabilities				
Deposits from banks and financial institutions	**111,629**	114,397	**111,659**	114,092
Deposits from customers	**5,513,681**	4,990,340	**5,527,002**	5,031,821
	5,625,310	5,104,737	**5,638,661**	5,145,913

(i) Loans and advances to banks

Loans and advances to banks include inter-bank placements and items in the course of collection.

The carrying amount of floating rate placements and overnight deposits is a reasonable approximation of fair value.

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 remaining maturity.

(ii) Loans and advances to customers

Loans and advances are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(iii) Investment securities

The fair value for loans and receivables and held-to-maturity assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using the discounted cash flow model. For more information, refer to step (ii) above.

(iv) Deposits from banks and due to customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(b) Financial instruments measured at fair value

See note 2.4.3 “Determination of fair value”.

c) Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts, traded loans issued structured debt. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

3.4.1 Assets and liabilities measured at fair value

At 31 December 2010	Level 1 LL Million	Level 2 LL Million	Total LL Million
Financial assets held for trading:			
Debt securities	20,582	166,042	186,624
Equity securities	15,792	21,939	37,731
Derivatives	-	888	888
Available-for-sale financial assets:			
Investment securities – debt	251,115	652,226	903,341
Investment securities – equity	-	1,296	1,296
Total assets	**287,489**	**842,391**	**1,129,880**
Financial liabilities held for trading	-	901	901
Total liabilities	**-**	**901**	**901**
At 31 December 2009			
Financial assets held for trading:			
Debt securities	21,235	194,823	216,058
Equity securities	26,408	12,751	39,159
Derivatives	-	1,576	1,576
Available-for-sale financial assets:			
Investment securities – debt	256,181	664,502	920,683
Investment securities – equity	-	1,296	1,296
Total assets	**303,824**	**874,948**	**1,178,772**
Financial liabilities held for trading	-	952	952
Total liabilities	**-**	**952**	**952**

3.5 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the Balance sheet, are:

- To comply with the capital requirements set by the regulators of the banking markets where the Bank operates;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by BDL, for supervisory purposes. The required information is filed with the Authority on a monthly basis.

The Bank maintains a ratio of total regulatory capital to its risk-weighted assets (the 'Basel Ratio') above a minimum level agreed with the authority which takes into account the risk profile of the Bank.

The regulatory capital requirements are strictly observed when managing economic capital.

The Bank's regulatory capital is managed by its Treasury department and comprises two tiers:

- Tier I capital: share capital, unspecified banking reserve, legal reserve, retained earnings and reserves created by appropriations of retained earnings; and

- Tier II capital: unrealised gains arising on the fair valuation of equity instruments held as available for sale and revaluation surplus on real estate as approved by BDL.

The table below summarises the composition of regulatory capital and the ratios of the Group for the years ended 31 December.

	2010 LL Million	2009 LL Million
Tier I Capital		
Share capital and cash contributions to capital	**120,760**	120,760
Premium	**130,427**	121,627
Unspecified banking reserve	**32,690**	26,441
Retained earnings	**89,578**	68,946
Less: intangible assets	**(6,297)**	(11,706)
Total qualifying Tier I Capital	**367,158**	326,068
Tier II Capital		
Real estate revaluation reserve	**10,000**	10,000
Revaluation reserve – available for sale investments	**16,113**	18,666
Total qualifying Tier II Capital	**26,113**	28,666
Total regulatory Capital	**393,271**	354,734
Risk- weighted assets		
On-balance sheet	**1,527,870**	1,326,342
Off-balance sheet	**116,746**	91,423
Unassigned market risk components	**76,113**	809
Total risk-weighted assets	**1,720,729**	1,418,574
Basel ratio (%)	**22.85**	25.01

The increase of the regulatory capital in the year 2010 is mainly due to the increase of the risk weighted assets which reflects the expansion of the business in 2010.

4 Critical accounting estimates and judgements

The Bank's financial statements and its financial result are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements.

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

Accounting policies and management's judgements for certain items are especially critical for the Bank's results and financial situation due to their materiality.

(a) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on a semi-annual basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank makes judgements as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Held to maturity investments

In accordance with IAS 39 guidance, the Bank classifies some non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank were to fail to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – the Bank is required to reclassify the entire category as available for sale. Accordingly, the investments would be measured at fair value instead of amortised cost. If all held-to-maturity investments were to be so reclassified, the carrying value would increase by LL 11,994 million, with a corresponding entry in the fair value reserve in shareholders' equity.

(c) Retirement benefits

The present value of the pension obligations depends on a number of factors that are determined using a number of assumptions. The assumptions used in determining the net cost for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Bank determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Bank considers the interest rates of

Lebanese government securities that have terms to maturity approximating the terms of the related liability.

If the discount rate differed by +/- 1% from management's estimates, the carrying amount of the pension obligations would decrease/increase by approximately LL 18 million.

(d) Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques (i.e. models). All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. Models use only observable market data. Refer to note 3.2.2 for sensitivity information for financial instruments.

(e) Income taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Bank recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions.

5 Cash and balances with central banks

	2010 LL Million	2009 LL Million
Cash in hand	**45,313**	36,961
Checks for collection	**24,459**	30,195
Other money market placements	**-**	20,250
Balances with central bank other than mandatory reserve deposits	**50,145**	46,602
Included in cash and cash equivalents (note 35)	**119,917**	134,008
Mandatory reserve deposits with Central Banks (a)	**644,727**	638,846
Mandatory reserve – cash in hand	**853**	-
Restricted cash - Central Bank of Iraq (b)	**10,553**	-
Term deposits	**-**	10,276
Interest receivable – BDL	**603**	583
	656,736	649,705
	776,653	783,713
Current	**512,840**	444,526
Non-current	**263,813**	339,187
	776,653	783,713

(a) In accordance with BDL regulations, the Bank is required to constitute mandatory reserves in Lebanese pounds ("LL reserves") of 15% and 25% of the average weekly customers deposit accounts denominated in Lebanese pounds. The Bank is also required to constitute mandatory reserves in foreign currency ("FCY reserve") calculated on the basis of 15% of customers deposit accounts denominated in foreign currency.

Foreign branches (in Iraq and Cyprus) are also subject to mandatory reserve requirements with varying percentages, according to the banking rules and regulations of the countries in which they are operating.

(b) In compliance with the Central Bank of Iraq law number 56/2004, the Bank placed a deposit of LL 10,553 million (US$ 7 million) to open a branch in Baghdad - Iraq. This deposit will be released once the licence is acquired.

Mandatory reserve deposits are not available for use in the Bank's day-to-day operations. Cash in hand and LL reserves are non-interest bearing, whereas FCY reserves are floating–rate assets.

6 Loans and advances to banks

	2010 LL Million	2009 LL Million
Current accounts	**180,973**	146,551
Placements with banks	**737,783**	276,940
Included in cash and cash equivalents (note 35)	**918,756**	423,491
Loans and advances to banks	**69,833**	319,792
Less: allowance for impairment	**(2,536)**	(2,536)
Interest receivable	**473**	2,689
	67,770	319,945
	986,526	743,436
Current	**922,549**	679,059
Non-current	**63,977**	64,377
	986,526	743,436

7 Financial instruments held-for-trading

	2010 LL Million	2009 LL Million
Debt securities		
Listed:		
Lebanese treasury bills	**17,772**	17,319
Other debt securities	**2,810**	3,916
	20,582	21,235
Unlisted:		
Lebanese treasury bills	**121,406**	134,903
Certificates of deposit - BDL	**40,641**	40,526
Other debt securities	**3,995**	19,394
	166,042	194,823
Total debt securities	**186,624**	216,058
Equity securities		
Listed (at fair value)	**15,792**	26,408
Unlisted (at cost)	**21,939**	12,751
Total equity securities	**37,731**	39,159
Total trading derivatives	**888**	1,576
Total assets held for trading	**225,243**	256,793

The Bank uses the following derivative strategies:

- *Trading purposes (customer needs)*

  The Bank offers its customers derivatives in connection with their risk-management actions to transfer, modify or reduce their foreign exchange and other market/credit risk or for their own trading purposes. As part of this process, the Bank considers the customers' suitability for the risk involved, and the business purpose for the transaction. The Bank also manages its derivative-risk positions through offsetting trade activities, controls focused on price verification, and daily reporting of positions to top management.

- *Trading purposes (own account)*

  The Bank trades derivatives for its own account. These derivatives include credit derivatives entered into in order to take proprietary long positions in the Lebanese market. Trading limits and price verification controls are key aspects of this activity.

Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. The credit risk is negligible, as forward contracts are collateralised by cash or marketable securities (usually not less than 20% of notional contract amount), and changes in the forward contract value are settled immediately if change exceeds the cash margin taken from clients.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised in the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below:

	Notional contract amount	Fair Values	
		Assets	Liabilities
	LL Million	LL Million	LL Million
At 31 December 2010			
Credit default swap - credit linked note (a)	45,979	-	900
Credit default swap - credit linked deposit (b)	25,412	888	-
Forward foreign exchange agreements	9,111	-	1
		888	**901**
At 31 December 2009			
Credit default swap - credit linked note (a)	45,979	-	900
Credit default swap - credit linked deposit (b)	67,325	1,576	-
Forward foreign exchange agreements	19,266	-	52
		1,576	**952**

(a) The Bank invested in debt securities that contain an embedded derivative. In case of default prior to maturity, the issuer can settle the notes with the delivery of Lebanese treasury bills. This derivative is separated from the host contract, which is classified as held-to-maturity and loans and receivables.

(b) The Bank issued credit-linked deposits with preferential interest rates. At maturity, the Bank can settle the deposit with the delivery of Lebanese treasury bills in foreign currency. These deposits are linked to the credit risk of the Lebanese treasury bills. This derivative is separated from the host contract which is classified as financial liability and measured at amortised cost.

8 Loans and advances to customers

	2010 LL Million	2009 LL Million
Medium and long term loans	**991,819**	712,906
Overdrafts	**174,171**	158,451
Short term loans	**71,627**	78,198
Bills to the order of the Bank	**19,360**	23,722
Discounted bills	**6,709**	8,456
Loans and advances to related parties (note 37)	**4,542**	4,302
Net debit against credit accounts – speculation accounts	**1,296**	1,106
Creditors accidentally debtors	**1,208**	1,473
Unpaid bills	**571**	801
Interest receivable	**2,806**	2,714
Non-performing loans:		
Substandard	**16,061**	14,709
Doubtful and bad	**106,044**	103,570
Gross loans and advances to customers	**1,396,214**	1,110,408
Less: allowance for impairment	**(114,775)**	(107,187)
Net loans and advances to customers	**1,281,439**	1,003,221
Current	**966,547**	752,265
Non-current	**314,892**	250,956
	1,281,439	1,003,221

Reconciliation of allowance account for loans and advances to customers is as follows:

	2010 Specific allowance impairment for LL Million	2010 Collective allowance impairment for LL Million	2009 Specific allowance impairment for LL Million	2009 Collective allowance impairment for LL Million
Balance at 1 January	**91,929**	**15,258**	98,308	8,454
Increase in impairment allowances (note 29)	**4,424**	**8,693**	6,246	6,804
Unrealised interest	**6,785**	**-**	7,146	-
Reversal of impairment (note 29)	**(9,449)**	**-**	(11,561)	-
Non-performing loans written-off	**(2,640)**	**-**	(6,663)	-
Provisions transferred to off-balance sheet	**(225)**	**-**	(1,547)	-
At 31 December	**90,824**	**23,951**	91,929	15,258

9 Debtors by acceptances

	2010 LL Million	2009 LL Million
Customers' acceptances	**54,809**	46,774

Customers' acceptances represent term documentary credits which the Bank has committed to settle on behalf of its customers against commitments provided by them, which are stated as a liability in the balance sheet under caption entitled "Engagements by acceptances". Debtors and engagements by acceptances are considered as current assets and liabilities.

10 Investment securities

	2010 LL Million	2009 LL Million
Securities available for sale		
Debt securities – at fair value:		
Listed:		
Lebanese treasury bills	**177,626**	245,175
Other debt securities	**73,489**	11,006
	251,115	256,181
Unlisted:		
Lebanese treasury bills	**611,656**	614,093
Certificates of deposit - BDL	**40,570**	42,769
Other debt securities	**-**	7,640
	652,226	664,502
Equity securities – at cost:		
Unlisted	**1,296**	1,296
Total securities available for sale ("AFS")	**904,637**	921,979
Securities loans and receivables		
Debt securities – at amortised cost:		
Listed:		
Lebanese treasury bills	**296,165**	297,713
Debt security linked to credit risk	**15,695**	15,702
	311,860	313,415
Unlisted:		
Certificates of deposit – BDL (denominated in LL)	**686,097**	547,114
Certificates of deposit – BDL (denominated in US$)	**118,409**	138,849
Certificates of deposit - commercial banks	**10,937**	**7,883**
	815,443	693,846
Total securities loans and receivables ("L&R")	**1,127,303**	1,007,261

	2010 LL Million	2009 LL Million
Securities held to maturity		
Debt securities – at amortised cost:		
Listed:		
Lebanese treasury bills	**222,723**	312,061
Other debt securities	**-**	754
	222,723	312,815
Unlisted:		
Lebanese treasury bills	**398,923**	331,133
Certificates of deposit – BDL (denominated in LL)	**31,788**	31,257
Certificates of deposit – BDL (denominated in US$)	**30,232**	30,679
Certificates of deposit - commercial banks	**2,879**	7,131
Other debt securities	**32,790**	31,112
	496,612	431,312
Total securities held to maturity ("HTM")	**719,335**	744,127
Current	**613,531**	415,624
Non-current	**2,137,744**	2,257,743
	2,751,275	2,673,367

All debt securities have fixed coupons.

The movement of non-current investments securities may be summarised as follows:

	Available for sale LL Million	Loans and receivables LL Million	Held to maturity LL Million	Total LL Million
At 1 January 2009	400,345	867,749	943,005	2,211,099
Additions	619,845	634,000	81,890	1,335,735
Disposals (sale and redemption)	(133,614)	(494,488)	(280,768)	(908,870)
Gains from changes in fair value (note 23)	35,403	-	-	35,403
At 31 December 2009	**921,979**	**1,007,261**	**744,127**	**2,673,367**

	Available for sale LL Million	Loans and receivables LL Million	Held to maturity LL Million	Total LL Million
At 1 January 2010	921,979	1,007,261	744,127	2,673,367
Exchange differences on monetary assets	(978)	-	(325)	(1,303)
Additions	289,998	646,791	202,717	1,139,506
Disposals (sale and redemption)	(303,895)	(526,749)	(227,184)	(1,057,828)
Losses from changes in fair value (note 23)	(2,467)	-	-	(2,467)
At 31 December 2010	**904,637**	**1,127,303**	**719,335**	**2,751,275**

Reclassification of financial assets

The crisis that shook financial markets worldwide since the second half of 2007 resulted in the disappearance of almost all reliable market transactions or reference points for a number of financial instruments.

The Bank has therefore reclassified certain assets into the corresponding categories allowed by the amendments to IAS 39 and IFRS 7.

On 31 October 2009, the Bank reclassified certain financial assets originally classified as held for trading that were no longer held for the purpose of selling or repurchasing in the near term out of fair value through profit or loss and financial assets classified as available for sale to loans and receivables.

The following table shows carrying values at 31 December 2010 and fair values of the assets reclassified:

	Fair value at date of reclassification LL Million	2010	
		Fair value LL Million	Carrying amount LL Million
Financial assets held for trading reclassified to loans and receivables			
Lebanese treasury bills	100,229	**131,178**	**100,293**
Financial assets available for sale reclassified to loans and receivables			
Lebanese treasury bills	189,935	**201,430**	**187,076**
Certificates of deposits – BDL	14,128	**16,156**	**13,266**
	304,292	**348,764**	**300,635**

Effective interest rates on financial assets reclassified into loans and receivables as at their respective dates of reclassification fell into the following ranges:

Treasury bills – foreign currency	9.4% - 11.1%
Certificates of deposit – BDL	12.4%

Presented below are the estimated amounts of undiscounted cash flows the Bank expected to recover from these reclassified financial assets as at 31 December 2010.

	Lebanese treasury bills LL Million	Certificates of deposit – BDL LL Million	Total LL Million
1 year or less	24,264	1,345	25,609
Between 1 and 5 years	309,185	17,729	326,914
Over 5 years	45,885	-	45,885
	379,334	**19,074**	**398,408**

If the financial assets had not been reclassified, the change in their fair values, after actual reclassification, would have resulted in a fair value gain of LL 48,130 million in the statement of comprehensive income for the year ended 31 December 2010 (2009 – LL 7,191 million).

After reclassification, the contribution of the reclassified financial assets to the Bank's statement of comprehensive income was an increase in "interest and similar income" of LL 6,863 million (2009 – LL 26,924 million) for the year ended 31 December 2010.

11 Investments in subsidiaries

	% ownership	2010 LL Million	2009 LL Million
The Capital for Insurance and Reinsurance Company S.A.L.	80%	**3,524**	3,524
Informatics Co. S.A.R.L.	84%	**-**	-
Société Libanaise de Service S.A.R.L.	91%	**-**	-
		3,524	3,524

The principal activities of The Capital Insurance & Reinsurance Company S.A.L. comprise providing life and general insurance services.

The principal activities of Informatics Co. S.A.R.L. comprise providing information technology services to the Bank.

The principal activities of Société Libanaise de Service S.A.R.L. comprise managing the properties of the Bank and third parties, providing security and maintenance services.

12 Investment property

	Land LL Million	Buildings LL Million	Total LL Million
At 1 January 2009	**5,747**	**3,497**	**9,244**
Fair value loss (note 31)	-	(148)	(148)
Transfer to property and equipment (note 13)	-	(2,100)	(2,100)
At 31 December 2009	**5,747**	**1,249**	**6,996**
Fair value loss (note 31)	-	(154)	(154)
Transfer to property and equipment (note 13)	-	(563)	(563)
At 31 December 2010	**5,747**	**532**	**6,279**

The following amounts have been recognised in the statement of comprehensive income:

	2010 LL Million	2009 LL Million
Rental income (note 28)	**136**	120
Investment property expenses	**(154)**	(147)
	(18)	(27)

13 Property and equipment

	Land and buildings LL Million	Work in progress LL Million	Computer equipment LL Million	Furniture, fixtures and equipment LL Million	Vehicles LL Million	Leasehold improvements LL Million	Total LL Million
At 1 January 2009							
Cost or valuation	37,602	2,828	8,619	7,751	268	15,705	72,773
Accumulated depreciation	(9,926)	-	(6,855)	(4,955)	(115)	(11,446)	(33,297)
Net book amount	**27,676**	**2,828**	**1,764**	**2,796**	**153**	**4,259**	**39,476**
Year ended 31 December 2009							
Opening net book amount	27,676	2,828	1,764	2,796	153	4,259	39,476
Additions	6,116	3,984	4,123	910	38	1,619	16,790
Transfers from investment properties (note 12)	2,100	-	-	-	-	-	2,100
Disposals	-	-	(1,068)	(383)	(40)	(62)	(1,553)
Depreciation charge (note 32)	(963)	-	(1,038)	(374)	(21)	(329)	(2,725)
Closing net book amount	**34,929**	**6,812**	**3,781**	**2,949**	**130**	**5,487**	**54,088**
At 31 December 2009							
Cost or valuation	45,688	6,812	10,272	8,134	233	17,189	88,328
Accumulated depreciation	(10,759)	-	(6,491)	(5,185)	(103)	(11,702)	(34,240)
Net book amount	**34,929**	**6,812**	**3,781**	**2,949**	**130**	**5,487**	**54,088**

	Land and buildings LL Million	Work in progress LL Million	Computer equipment LL Million	Furniture, fixtures and equipment LL Million	Vehicles LL Million	Leasehold improvements LL Million	Total LL Million
Year ended 31 December 2010							
Opening net book amount	34,929	6,812	3,781	2,949	130	5,487	54,088
Additions	361	4,246	763	559	21	1,690	7,640
Transfers from investment property (note 12)	563	-	-	-	-	-	563
Disposals	(14)	-	(167)	(8)	(7)	(9)	(205)
Transfers	3,514	(3,514)	-	-	-	-	-
Depreciation charge (note 32)	(940)	-	(1,113)	(436)	(17)	(469)	(2,975)
Closing net book amount	**38,413**	**7,544**	**3,264**	**3,064**	**127**	**6,699**	**59,111**
At 31 December 2010							
Cost or valuation	50,126	7,544	10,632	8,529	227	18,878	95,936
Accumulated depreciation	(11,713)	-	(7,368)	(5,465)	(100)	(12,179)	(36,825)
Net book amount	**38,413**	**7,544**	**3,264**	**3,064**	**127**	**6,699**	**59,111**

14 Intangible assets

	LL Million
At 1 January 2009	
Cost	4,612
Accumulated amortisation	(3,237)
Net book amount	**1,375**
Year ended 31 December 2009	
Opening net book amount	1,375
Additions	490
Amortisation charge (note 32)	(464)
Closing net book amount	**1,401**
At 31 December 2009	
Cost	5,102
Accumulated amortisation	(3,701)
Net book amount	**1,401**
Year ended 31 December 2010	
Opening net book amount	1,401
Additions	224
Disposals	(6)
Amortisation charge (note 32)	(505)
Closing net book amount	**1,114**
At 31 December 2010	
Cost	5,282
Accumulated amortisation	(4,168)
Net book amount	**1,114**

15 Other assets

	2010 LL Million	2009 LL Million
Advances on purchases of property and equipment (a)	**9,158**	7,621
Credit card facilities	**3,946**	3,347
Prepaid expenses	**1,221**	1,309
Receivable from national social security fund (b)	**1,326**	1,096
Stationary supplies	**342**	340
Other receivables	**2,264**	1,123
Doubtful receivables (c)	**14,020**	14,092
Less: allowance for impairment	**(7,555)**	(6,964)
	24,722	21,964
Current	**14,238**	13,247
Non-current	**10,484**	8,717
	24,722	21,964

(a) Advances on fixed asset purchases include an amount of LL 5.4 billion (2009 – LL 5.4 billion) paid to a contractor in respect of the construction of a branch in Beirut Central District.

(b) This account represents medical expenses reimbursed by the Bank to the employees. These amounts will be recovered later from the national social security fund.

(c) This account includes doubtful receivables of LL 2.7 billion (2009 – LL 2.7 billion) from one of the Bank's money dealers. Management recorded a provision of LL 1.8 billion (2009 – LL 1.8 billion) to cover any expected loss.

This account also includes an amount of LL 3.2 billion (2009 – LL 3.2 billion) that is fully provided for to cover losses incurred in connection with contentious depositors' claims in one of the Bank's branches.

Moreover, this account includes amounts receivable from two employees of LL 8.2 billion, which were involved in fraudulent activities. Management booked a provision of LL 2.5 billion (2009 – LL 1.9 billion) to cover any expected loss.

16 Assets classified as held for sale

The movement of assets classified as held for sale is as follows:

	2010 LL Million	2009 LL Million
Balance at 1 January	**21,803**	22,013
Acquisitions during the year	**1,577**	3,477
Disposals during the year	**(4,052)**	(3,687)
Balance at 31 December	**19,328**	21,803

17 Deposits from banks and financial institutions

	2010 LL Million	2009 LL Million
Deposits from other banks	**108,853**	111,409
Deposits from a financial institution	**2,469**	2,323
Interest payable	**307**	665
	111,629	114,397
Current	**107,860**	110,718
Non-current	**3,769**	3,679
	111,629	114,397

Deposits from banks only include financial instruments classified as liabilities at amortised cost.

Included in deposits from banks are fixed-interest deposits amounting to LL 30,050 million (2009 – LL 42,722 million) and variable-interest deposits amounting to LL 81,579 million (2009 – LL 71,675 million).

18 Deposits from customers

	2010 LL Million	2009 LL Million
Term deposits (a)	**4,226,916**	3,865,864
Sight deposits (i)	**765,517**	677,813
Related parties (note 37)	**86,163**	82,544
Deposits held as collateral (ii)	**409,075**	337,769
Interest payable	**26,010**	26,350
	5,513,681	4,990,340
Current	**5,464,363**	4,945,688
Non-current	**49,318**	44,652
	5,513,681	4,990,340
(i) Sight deposits:		
Checking and current accounts	**468,851**	407,864
Debtors accidentally creditors	**31,035**	35,531
Payment orders	**13,215**	14,530
Public sector deposits	**96**	110
Saving accounts - demand	**252,320**	219,778
	765,517	677,813
(ii) Deposits held as collateral:		
Blocked accounts against credit facilities	**4,645**	4,913
Margins on speculation accounts	**341,613**	276,664
Margins against issuance of letters of guarantee	**35,773**	35,514
Margins against issuance of documentary credits	**27,044**	20,678
	409,075	337,769

(a) Term deposits include credit-linked deposits that bear preferential interest rates. At maturity, the Bank can settle the deposit with Lebanese treasury bills denominated in US Dollars (note 7).

Deposits due to customers only include financial instruments classified as liabilities at amortised cost.

All deposits are at fixed interest rates.

19 Other liabilities

	2010 LL Million	2009 LL Million
Due to financial institution (a)	**2,871**	2,045
Accrued expenses	**2,127**	1,606
With holding taxes and other charges	**2,024**	1,430
Due to clients (b)	**1,955**	-
Due to employees	**1,316**	1,088
Due to national social security fund	**555**	342
Dividends payable and interest payable on cash contribution to capital	**390**	351
Other provisions	**886**	495
Other liabilities	**2,862**	2,269
	14,986	9,626

Other liabilities are expected to be settled within no more than 12 months of the date of the balance sheet.

(a) This account represents transactions executed by the clients on credit cards and settled on behalf of the Bank.

(b) This account represents the redemption of securities (Lebanese treasury bills) that were held by the Bank on behalf of clients, which have not yet been collected by clients.

20 Provision for restructuring

The provision for restructuring represents the indemnities payable by the Bank under a restructuring plan that started in 2009 and that will result in the reduction of personnel. The cost estimated to be incurred under this plan has been recognised in the income statement and is expected to be fully utilised during 2011.

21 Retirement benefit obligations

Provision for retirement benefit obligations comprises the following:

	2010 LL Million	2009 LL Million
Provision for retirement benefit obligations	**18,022**	17,293
Advances against retirement benefit obligations	**(205)**	(205)
	17,817	17,088

The movement in provision for retirement benefit obligations can be summarised as follows:

	2010 LL Million	2009 LL Million
At 1 January	**17,293**	16,527
Charge for the year (note 30)	**1,866**	2,043
Payments during the year	**(1,137)**	(1,277)
At 31 December	**18,022**	17,293

The principal assumptions used were as follows:

	2010	2009
Discount rate	**7,19%**	7.85%
Future salary increases	**7.4%**	6%

22 Share capital and cash contributions to capital

	2010 LL Million	2009 LL Million
Share capital – common shares	**72,000**	72,000
Preferred share capital		
Par value	**5,000**	5,000
Premium on issuance	**70,375**	70,375
	75,375	75,375
Cash contributions to capital		
Interest bearing (5.5% per annum)	**21,697**	21,697
Non-interest bearing	**21,412**	21,412
	43,109	43,109

The total number of ordinary shares at year end was 72 million (2009 – 72 million) with a par value of LL 1,000 per share (2009 – LL 1,000 per share). All issued shares are fully paid.

In July 2006, the Bank issued 5 million non-cumulative redeemable preferred shares with nominal value of LL 1,000 each at an issue price of LL 15,075 (US$ 10 per share). The excess of issue price over nominal value amounted to LL 70 billion and was reflected as share premium.

In prior years, cash contributions were made based on agreements held between the Bank and its shareholders and subject to the following conditions:

- These contributions will remain placed as a fixed deposit as long as the Bank is a going concern.
- These contributions can be used to write off any deficit incurred by the Bank.
- The shareholders have the right to use these contributions to settle their share in any increase of capital.
- These contributions are considered as part of Tier I capital for the purpose of determining the Bank's capital adequacy ratio, as approved by BDL.

23 Other reserves and retained earnings

	2010 LL Million	2009 LL Million
Reserves		
Real estate revaluation reserve (a)	**21,061**	21,061
Legal reserve (b)	**44,353**	38,555
Reserve for unidentified banking risks (c)	**32,690**	26,441
Revaluation reserve of available for sale investment securities (d)	**32,225**	36,733
Reserve for capital increase (e)	**11,501**	8,545
Reserve for liquidation of assets classified as held for sale (f)	**3,653**	3,566
Other reserves	**3,974**	3,972
	149,457	138,873
Retained earnings (g)	**125,053**	96,771

(a) Real estate revaluation reserve

The revaluation reserve arose from the revaluation of investment property and property and equipment. The revaluation was performed by an independent appraiser under the provisions of fiscal law 282/93 based on market values of 31 December 1993.

(b) Legal reserve

In compliance with the requirements of Code of Money and Credit article number 132, banks are required to appropriate 10% of their annual profits as legal reserve. This reserve is not available for distribution.

(c) Reserve for unidentified banking risks

In compliance with the requirements of BDL basic circular number 50, banks are required to appropriate from annual profits an amount between 2 per mil and 3 per mil of risk weighted assets and off balance sheet accounts as a reserve for unidentified banking risks. This reserve is considered as part of Tier I capital, but is not available for distribution.

(d) Revaluation reserve of available for sale investment securities

The revaluation reserve shows the effects from the fair value measurement of financial instruments of the category available for sale after deduction of deferred taxes. Any gains or losses are not recognised in the statement of comprehensive income until the asset has been sold or impaired.

The balance in revaluation reserve of available investment securities is summarised as follows:

	2010 LL Million	2009 LL Million
Revaluation reserve of investment securities (i)	**29,642**	33,167
Revaluation reserve of investment securities – reclassified (ii)	**2,583**	3,566
	32,225	36,733

(i) The movement in revaluation reserve of investment securities may be summarised as follows:

	2010 LL Million	2009 LL Million
At 1 January	**33,167**	4,376
Sale	**(1,058)**	(17)
Net change in fair value (note 10)	**(2,467)**	35,403
Less: deferred tax	**-**	(6,595)
At 31 December	**29,642**	33,167

(ii) The movement in revaluation reserve of reclassified investment securities may be summarised as follows:

	2010 LL Million	2009 LL Million
At 1 January	**3,566**	4,490
Amortisation of reserve (recognised in Bank's profit and loss)	**(983)**	(924)
At 31 December	**2,583**	3,566

(e) Reserve for capital increase

In compliance with Banking Control Commission circular number 173, all gains recognised on the sale of properties acquired in settlement of debt should be appropriated from retained earnings and recorded as "free reserve for capital increase".

(f) Reserve for liquidation of assets classified as held for sale

In compliance with BDL basic circular number 78, banks are required to deduct from annual profits an amount of 5% or 20% of the carrying value of its properties acquired in settlement of debt. However, in 2009 and in compliance with Banking Control Commission issued memo 4/2009 and 10/2009, the Bank transferred the booked provision to equity. Moreover, the required reserves are now established through appropriation of retained earnings. This reserve is not considered as part of the Bank's Tier Capital nor is available for distribution.

(g) Retained earnings

	2010 LL Million	2009 LL Million
Balance at 1 January	**96,771**	75,713
Profit for the year	**57,987**	54,034
Dividend declared	**(13,419)**	(12,122)
Interest declared on cash contributions to capital	**(1,194)**	(1,194)
Transfer to legal reserve (x)	**(5,798)**	(5,405)
Transfer to reserve for unidentified banking risks (x)	**(6,249)**	(6,159)
Transfer to reserve for liquidation of assets classified as held for sale (x)	**(87)**	(111)
Transfer to reserve for capital increase (x)	**(2,958)**	(7,985)
At 31 December	**125,053**	96,771

(x) Transfers from retained earnings to other reserves amounted to LL 15,092 million (2009 – LL 19,660 million).

24 Net interest income

	2010 LL Million	2009 LL Million
Interest and similar income		
Loans and advances:		
Customers	**86,143**	74,572
Banks and financial institutions	**11,138**	22,121
Related parties (note 37)	**34**	272
	97,315	96,965
Financial assets held for trading	**17,869**	17,873
Investment securities:		
Available for sale	**72,741**	57,108
Loans and receivables	**91,853**	85,937
Held-to-maturity	**52,896**	68,725
	217,490	211,770
	332,674	326,608
Interest and similar expenses		
Deposits due to customers	**(224,253)**	(229,859)
Deposits from banks and financial institutions	**(7,179)**	(6,010)
Deposits due to related parties (note 37)	**(2,494)**	(2,400)
	(233,926)	(238,269)
Net interest and similar income	**98,748**	88,339

25 Net fee and commission income

	2010 LL Million	2009 LL Million
Fee and commission income		
Credit-related fees and commissions	**8,479**	5,986
Commissions on banking operations	**6,282**	5,856
Commissions on letters of credit and guarantees	**6,249**	4,655
Brokerage fees	**2,768**	2,058
Other commissions	**4,390**	5,832
	28,168	24,387
Fee and commission expense		
Commission on banking operations	**(1,807)**	(2,760)
Brokerage fees paid	**(1,651)**	(1,337)
Other commission expenses	**(1,781)**	(792)
	(5,239)	(4,889)
Net fee and commission income	**22,929**	19,498

26 Net gain on financial instruments classified as held for trading

	2010 LL Million	2009 LL Million
Net gains on foreign exchange transactions	**2,858**	2,608
Net gains on foreign exchange translation	**717**	362
Net unrealised (loss)/gain	**(3,595)**	7,258
Realised gain	**77**	529
	57	10,757

27 Net gains on investment securities

Net gains on investment securities comprise:

Sale of financial assets classified as AFS	**8,161**	547
Swap of financial assets classified as HTM (a)	**-**	6,836
Sale of financial assets classified as L&R	**1,618**	138
	9,779	7,521

(a) This gain resulted from a swap with BDL on a portion of the Bank's portfolio of Lebanese treasury bills that were close to maturity against Lebanese treasury bills with longer maturities.

28 Other operating income

	2010 LL Million	2009 LL Million
Gain on disposal of assets classified as held for sale	**2,346**	1,636
(Gain)/loss on disposal of property and equipment	**11**	(7)
Rental income (note 12)	**136**	120
Other	**361**	376
	2,854	2,125

29 Net loan impairment charges

Loans and advances to customers		
Increase in impairment (note 8)	**(13,117)**	(13,050)
Reversal of impairment (note 8)	**9,449**	11,561
	(3,668)	(1,489)

30 Personnel expenses

	2010 LL Million	2009 LL Million
Wages and salaries	**25,721**	25,754
Social security costs	**4,024**	3,349
Pension costs – defined benefit plan (note 21)	**1,866**	2,043
Scholarship	**2,181**	2,038
Transportation	**1,888**	1,556
Medical expenses	**1,147**	1,048
Training expenses	**392**	285
Other employee benefits	**1,651**	1,052
	38,870	37,125

31 Other operating expenses

Office supplies and utilities	**4,456**	3,954
Advertising expense	**2,743**	1,666
Municipality and other taxes	**2,690**	906
Deposit guarantee premiums	**2,460**	1,738
Professional fees	**2,097**	1,809
Repairs and maintenance	**1,770**	2,630
Software costs	**1,628**	923
Travel expense	**1,249**	1,231
Directors' remuneration (note 37)	**1,115**	906
Operating lease rentals	**993**	1,045
Subscriptions	**948**	905
Insurance expense (note 37)	**811**	700
Impairment charge on other assets (note 15 (c))	**591**	1,906
Directors' attendance fees (note 37)	**434**	325
Fair value loss on investment property (note 12)	**154**	148
Other	**2,943**	3,695
	27,082	24,487

32 Depreciation and amortisation

Depreciation charge (note 13)	**2,975**	2,725
Amortisation charge (note 14)	**505**	464
	3,480	3,189

33 Income tax expense

	2010 LL Million	2009 LL Million
Lebanon branches ("Head office")	**10,083**	9,376
Cyprus branch	**971**	909
Tax charge for the year	**11,054**	10,285

The tax on the parent's (consolidated branches) profit before tax differs from the theoretical amount that would arise using the basic tax rate of the Lebanon branches as follows:

	2010 LL Million	2009 LL Million
Profit before income tax	**69,041**	64,319
Tax calculated at the Head office tax rate of 15% (2009 – 15%)	**10,356**	9,648
Effect of:		
Adjustments for prior periods	**(60)**	(45)
Different tax rates in other countries	**(510)**	(314)
Differences between accounting and fiscal depreciation	**36**	21
Net (loss) gain on investment securities	**539**	(1,538)
Expenses (donations and other provisions) not deductible for tax purposes	**1,095**	2,413
Interest paid on cash contributions to capital	**(179)**	(179)
Other	**223**	279
Income tax	**11,054**	10,285

The income tax rate applicable to Head office income is 15% (2009 – 15%). The income tax rate applicable to foreign branches ranges from 0% to 10% (2009 – 0% to 10%).

The movement in the current income tax liability is as follows:

	2010 LL Million	2009 LL Million
At 1 January	**2,280**	1,960
Charge for the year	**11,054**	10,285
Payments during the year	**(11,623)**	(9,965)
At 31 December	**1,711**	2,280

The fiscal years 2008 to 2010 remain subject to examination by the income tax authorities.

34 Dividends per share and interest on cash contributions

A dividend in respect of 2009 of LL 98 per common share and LL 1,244 per preferred share amounting to a total of LL 13,419 million (2009 – actual LL 12,122 million) and interest on cash contributions to capital of LL 1,194 million (2009 – actual LL 1,194 million).

A dividend in respect of 2010 of LL 110 per common share and LL 1,244 per preferred share amounting to a total of LL 14,138 million and interest on cash contributions to capital of LL 1,194 million are proposed by the directors subject to ratification by the General Assembly on 20 June 2011. These financial statements do not reflect these payables.

35 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks.

	2010 LL Million	2009 LL Million
Cash and balances with central banks (note 5)	**119,917**	134,008
Loans and advances to banks (note 6)	**918,756**	423,491
	1,038,673	557,499

36 Contingent liabilities and commitments

(a) Legal proceedings

There were a number of legal proceedings involving claims by and against the Bank at 31 December 2010, which arose in the ordinary course of business. The Bank does not expect the ultimate resolution of any of the proceedings to which Bank is party to have a significantly adverse effect on the financial position of the Bank. Accordingly, no provision has been booked.

(b) Guarantee and other financial facilities

At 31 December 2010, the Bank had the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit and guarantees to customers as follows:

	2010 LL Million	2009 LL Million
Letters of guarantee (i)	**149,946**	128,646
Letters of credit	**54,790**	38,407
	204,736	167,053

(i) The nature and the amounts of the letters of guarantee are as follows:

	2010 LL Million	2009 LL Million
Guarantees given to insurance brokers	**39,161**	28,849
Guarantees given to customers	**60,448**	45,980
Guarantees against bank facilities	**50,337**	53,817
	149,946	128,646

37 Related party transactions

The Bank is controlled by Assaf Holding S.A.L. (incorporated in Lebanon) which owns 45% of the ordinary shares, Fransabank S.A.L. (incorporated in Lebanon) owns 37% of the ordinary shares and the remaining 18% are widely held.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other financial facilities (i.e. loan commitments, guarantees, etc.).

The volumes of related party transactions, outstanding balances at the year end, and related expenses and income for the year are as follows:

(a) Loans and advances to related parties

	Directors and other key management personnel (and close family members)		**Related companies (associated companies and subsidiaries)**	
	2010 LL Million	2009 LL Million	**2010 LL Million**	2009 LL Million
Loans and advances (note 8)	**4,542**	4,302	**-**	-
Interest income (note 24)	**34**	207	**-**	65

No provisions have been recognised in respect of loans given to related parties (2009 - nil).

Loans and advances to related parties comprise loans with variable rates and fixed rates of LL 3,527 million (2009 – LL 3,341 million) and LL 1,015 million (2009 – LL 961 million) respectively. The majority of these loans are secured by a residential mortgage.

(b) Deposits from related parties

	Directors and other key management personnel (and close family members)		Related companies (associated companies and subsidiaries)	
	2010 LL Million	2009 LL Million	**2010 LL Million**	2009 LL Million
Due to customers (note 18)	**47,310**	52,229	**38,853**	30,315
Interest expense (note 24)	**1,764**	1,922	**730**	478

Deposits from related parties are unsecured and comprise deposits with variable rates repayable on demand, and fixed rates repayable at maturity of LL 12,856 million (2009 – LL 4,094 million) and LL 73,307 million (2009 – LL 78,450 million) respectively.

(c) Other transactions with related parties

	2010 LL Million	2009 LL Million
Insurance expense – Bank (note 31)	**811**	700
Insurance expense – staff	**236**	212
Cost of other services received	**391**	380
Dividends received	**5,200**	-
Commissions paid	**16**	13

(d) Key management compensation

Directors' remuneration (note 31)	**1,115**	906
Directors' attendance fees (note 31)	**434**	325
Other key management compensation	**1,611**	1,463

38 Events after the reporting period

On 24 May 2011, the Board of Directors called for an extraordinary general assembly meeting to be held on 20 June 2011 to increase the Bank's share capital from LL 77 billion (excluding premiums on issued preferred shares) to LL 149 billion through the issuance of common shares. The newly issued common shares are partially financed by the cash contributions to capital.

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Colombo
Bank of Ceylon

Copenhagen
Danske Bank A/S

Doha
Qatar National Bank SAQ

Dubai
MashreqBank PSC

Frankfurt
Deutsche Bank AG
Commerzbank AG

Kuwait
National Bank of Kuwait SAK

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HSBC Bank Plc

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Skandinaviska Enskilda Banken AB

Sydney
Arab Bank Australia Limited

Tokyo
U.B.A.F.

Vienna
Unicredit Bank Austria AG

Zurich
Credit Suisse

Subsidiaries

• Informatics Co. s.a.r.l.

It is a software company that offers commercial and technical services. It was established in 1980 and is chaired by Sheikh Ghassan Assaf. BBAC owns 84 % of the company’s shares.

• Société Libanaise de Service s.a.r.l.

The company is active in real estate management. It was established in 1980 and is chaired by Sheikh Ghassan Assaf. BBAC owns 91 % of the company’s shares.

• The Capital Insurance & Reinsurance Co. s.a.l.

The company provides a full-range of insurance and reinsurance services. It is chaired by Mr. Assad G. Merza. BBAC owns 80% of the company’s shares.