

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BYBLOS BANK SAL**

We have audited the accompanying consolidated financial statements of Byblos Bank SAL (the Bank) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Directors' Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

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

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

Semaan, Gholam & Co.

26 March 2010  
Beirut, Lebanon

# Byblos Bank SAL

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

	<i>Notes</i>	<i>2009</i> <i>LL million</i>	<i>2008</i> <i>LL million</i>
Interest and similar income	4	<b>1,141,893</b>	1,037,795
Interest and similar expense	5	<b>(754,832)</b>	(681,953)
<b>NET INTEREST INCOME</b>		<b>387,061</b>	355,842
Fees and Commissions income	6	<b>129,573</b>	116,719
Fees and Commissions expense	6	<b>(12,905)</b>	(9,796)
<b>NET FEES AND COMMISSIONS INCOME</b>		<b>116,668</b>	106,923
Net trading income	7	<b>37,688</b>	9,383
Net gain on financial assets	8	<b>14,464</b>	14,471
Other operating income	9	<b>16,251</b>	17,519
<b>TOTAL OPERATING INCOME</b>		<b>572,132</b>	504,138
Credit loss expense	10	<b>(26,245)</b>	(5,434)
Impairment losses on financial investments	11	<b>(15,278)</b>	(37,700)
<b>NET OPERATING INCOME</b>		<b>530,609</b>	461,004
Personnel expenses	12	<b>(129,339)</b>	(123,143)
Depreciation of property and equipment	26	<b>(25,585)</b>	(16,997)
Amortisation of intangibles assets	27	<b>(340)</b>	(125)
Other operating expenses	13	<b>(109,513)</b>	(98,208)
<b>TOTAL OPERATING EXPENSES</b>		<b>(264,777)</b>	(238,473)
<b>OPERATING PROFIT</b>		<b>265,832</b>	222,531
Impairment loss on assets held for sale	28	-	(408)
<b>PROFIT BEFORE TAX</b>		<b>265,832</b>	222,123
Income tax expense	14	<b>(46,410)</b>	(38,208)
<b>PROFIT FOR THE YEAR</b>		<b>219,422</b>	183,915
Attributable to:			
Equity holders of the parent		<b>206,628</b>	172,285
Minority interests		<b>12,794</b>	11,630
		<b>219,422</b>	183,915
<b>Earnings per share</b>			
Basic, for profit for the year attributable to ordinary equity holders of the parent – Common shares	15	<b>LL 384.65</b>	LL 317.19
Basic, for profit for the year attributable to ordinary equity holders of the parent – Priority shares	15	<b>LL 433.05</b>	LL 365.19
Diluted for profit for the period attributable to ordinary equity holders of the parent – common shares	15	<b>LL 362.97</b>	-
Diluted for profit for the period attributable to ordinary equity holders of the parent – priority shares	15	<b>LL 411.37</b>	-

The attached notes 1 to 62 form part of these consolidated financial statements.

# Byblos Bank SAL

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	<i>2009</i> <i>LL million</i>	<i>2008</i> <i>LL million</i>
<b>Profit for the year</b>	<b>219,422</b>	183,915
Net gain on available-for-sale financial assets	<b>112,073</b>	15,987
Income tax effect	<b>(15,485)</b>	-
	<hr/> <b>96,588</b>	<hr/> 15,987
Exchanges differences on translation of foreign operations	<b>(5,210)</b>	(3,065)
<b>Other comprehensive income for the year</b>	<hr/> <b>91,378</b>	<hr/> 12,922
<b>Total comprehensive income for the year</b>	<hr/> <b>310,800</b>	<hr/> 196,837
Attributable to:		
Equity holders of the parent	<b>297,943</b>	184,967
Minority interests	<b>12,857</b>	11,870
	<hr/> <b>310,800</b>	<hr/> 196,837

The attached notes 1 to 62 form part of these consolidated financial statements.

# Byblos Bank SAL

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	Notes	2009 LL million	2008 LL million
<b>ASSETS</b>			
Cash and balances with central banks	16	2,533,372	2,023,979
Due from banks and financial institutions	17	3,142,483	2,525,830
Financial assets given as collateral and reverse repurchase agreements	18	1,193	96,847
Derivative financial instruments	19	12,224	30,117
Financial assets held for trading	20	204,128	210,825
Net loans and advances to customers	21	4,807,633	4,194,647
Net loans and advances to related parties	46	11,515	12,017
Debtors by acceptances	22	335,904	284,468
Available-for-sale financial instruments	23	1,793,540	1,280,283
Financial assets classified as loans and receivables	24	6,681,970	4,619,105
Held to maturity financial instruments	25	564,640	1,299,646
Property and equipment	26	266,738	243,322
Intangible assets	27	734	1,074
Non-current assets held-for-sale	28	38,567	46,108
Other assets	29	70,545	60,874
<b>TOTAL ASSETS</b>		<b>20,465,186</b>	<b>16,929,142</b>
<b>LIABILITIES AND EQUITY</b>			
Due to central banks	30	11,704	83,656
Due to banks and financial institutions	31	1,675,807	1,462,261
Financial assets against securities lent and repurchase agreements		1,193	-
Derivative financial instruments	19	11,144	28,866
Customers' deposits	32	15,366,354	12,500,408
Deposits from related parties	46	139,814	106,472
Debt issued and other borrowed funds	33	281,609	267,555
Engagements by acceptances	22	335,904	284,468
Current tax liability	34	40,212	29,996
Deferred tax liabilities		15,485	-
Other liabilities	35	236,169	191,059
Liabilities linked to held-for-sale assets	28	1,995	1,720
Provision for risks and charges	36	66,954	30,591
End of service benefits	37	28,276	27,478
Subordinated notes	38	299,634	296,203
<b>TOTAL LIABILITIES</b>		<b>18,512,254</b>	<b>15,310,733</b>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>			
Share capital – Common ordinary shares	39	262,706	260,535
Share capital – Common priority shares	39	249,289	247,228
Share capital – Preferred shares	39	4,840	3,600
Issue premium – Common ordinary shares	39	26,425	26,425
Issue premium – Preferred shares		579,035	444,704
Capital reserves	42	384,115	334,348
Treasury shares	39	(176)	(1,554)
Retained earnings		24,954	15,317
Revaluation reserve of real estate	40	5,689	5,689
Available-for-sale reserve	41	66,026	(30,517)
Net results of the financial period - profit		206,628	172,285
Foreign currency translation reserve		13,394	18,604
Other reserve	43	6,958	5,538
		<b>1,829,883</b>	<b>1,502,202</b>
<b>MINORITY INTEREST</b>	44	<b>123,049</b>	<b>116,207</b>
<b>TOTAL EQUITY</b>		<b>1,952,932</b>	<b>1,618,409</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>20,465,186</b>	<b>16,929,142</b>

The consolidated financial statements were authorized for issue in accordance with the Board of Directors resolution on 26 March 2010.

Dr Francois Bassil

Mr Alain Wanna

The attached notes 1 to 62 form part of these consolidated financial statements.

# Byblos Bank SAL

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 31 December 2009

	<i>Notes</i>	<i>2009 LL million</i>	<i>2008 LL million</i>
<b>Off-financial position</b>			
<b>Financing Commitments</b>			
Financing commitments given to banks and financial institutions	47	<b>803,564</b>	862,122
Financing commitments received from banks and financial institutions		<b>244,917</b>	184,563
Engagements to customers		<b>403,731</b>	276,964
<b>Bank Guarantees</b>			
Guarantees given to banks and financial institutions	47	<b>360,485</b>	267,414
Guarantees given to customers	47	<b>885,543</b>	793,830
<b>Foreign Currencies Contracts</b>			
Foreign currencies to receive		<b>297,126</b>	339,685
Foreign currencies to deliver		<b>296,046</b>	338,434
<b>Claims from legal cases</b>			
		<b>290,679</b>	265,458
<b>Fiduciary assets</b>			
		<b>116,590</b>	174,558
<b>Assets under management</b>			
		<b>3,835,767</b>	2,604,921
<b>Bad debts fully provided for</b>	21	<b>113,117</b>	121,244

The attached notes 1 to 62 form part of these consolidated financial statements.

# Byblos Bank SAL

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Attributable to equity holders of the parent																	Minority interests	Total equity		
	Share capital						Capital reserves						Net results of the financial period - profit			Foreign currency translation reserve					
	Ordinary Shares LL million	Preferred shares LL million	Priority shares LL million	Issue premium - Common shares LL million	Issue premium - Preferred shares LL million	Treasury shares LL million	Legal reserve LL million	Reserves appropriated for capital increase LL million	General reserve LL million	Equity component of convertible subordinated notes LL million	Reserve for general Banking risks LL million	Other capital reserves LL million	Other reserve LL million	Retained earnings LL million	Revaluation reserve LL million	Available-for-sale reserve LL million	Net results of the financial period - profit LL million			Total	
Balance at 1 January 2008	246,028	1,200	247,228	-	149,550	(947)	90,124	20,284	108,354	20,809	56,916	-	-	11,127	5,689	(46,244)	142,550	21,669	1,074,337	77,622	1,151,959
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	172,285	-	172,285	11,630	183,915
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	15,747	-	(3,065)	12,682	240	12,922
Total comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	15,747	172,285	(3,065)	184,967	11,870	196,837
Transfer to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	142,550	-	-	(142,550)	-	-	-	-
Transfer to capital reserves and other reserves	-	-	-	-	-	-	15,313	523	13,558	9,970	-	5,538	(44,902)	-	-	-	-	-	-	-	-
Increase in capital (note 39)	14,507	2,400	-	26,425	295,154	-	-	-	(2,769)	-	-	-	-	-	-	-	-	-	335,717	-	335,717
Capital increase of subsidiaries (notes 42 & 44)	-	-	-	-	-	-	-	-	(2,453)	-	6,028	-	-	-	-	-	-	-	3,575	31,203	34,778
Translation difference	-	-	-	-	-	(791)	-	-	(1,518)	-	-	-	(497)	-	(20)	-	-	-	(2,826)	(2,158)	(4,984)
Equity dividends paid (note 61)	-	-	-	-	-	-	-	-	-	-	-	-	(92,961)	-	-	-	-	-	(92,961)	-	(92,961)
Dividend paid - subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,330)	(2,330)
Treasury shares (note 39)	-	-	-	-	-	(607)	-	-	-	-	-	-	-	-	-	-	-	-	(607)	-	(607)
Balance at 31 December 2008	260,535	3,600	247,228	26,425	444,704	(1,554)	104,646	20,807	117,941	18,040	66,886	6,028	5,538	15,317	5,689	(30,517)	172,285	18,604	1,502,202	116,207	1,618,409
<b>Balance at 1 January 2009</b>	<b>260,535</b>	<b>3,600</b>	<b>247,228</b>	<b>26,425</b>	<b>444,704</b>	<b>(1,554)</b>	<b>104,646</b>	<b>20,807</b>	<b>117,941</b>	<b>18,040</b>	<b>66,886</b>	<b>6,028</b>	<b>5,538</b>	<b>15,317</b>	<b>5,689</b>	<b>(30,517)</b>	<b>172,285</b>	<b>18,604</b>	<b>1,502,202</b>	<b>116,207</b>	<b>1,618,409</b>
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	206,628	-	206,628	12,794	219,422
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	96,525	-	(5,210)	91,315	63	91,378
Total comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	96,525	206,628	(5,210)	297,943	12,857	310,800
Transfer to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	172,285	-	-	-	(172,285)	-	-	-	-
Transfer to reserves and premiums	-	-	-	-	-	-	15,770	4,921	16,613	13,543	-	2,318	(53,165)	-	-	-	-	-	-	-	-
Transfer from other reserve to general reserve (note 43)	-	-	-	-	-	-	-	-	898	-	-	(898)	-	-	-	-	-	-	-	-	-
Capital increase in 2009:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Redemption of series 2003 preferred shares (note 39)	-	(1,200)	-	-	(149,550)	-	-	-	-	-	-	-	-	-	-	-	-	-	(150,750)	-	(150,750)
-Increase in par value of outstanding shares (note 39)	2,171	20	2,061	-	-	-	-	(3,052)	-	-	-	-	(1,200)	-	-	-	-	-	-	-	-
-Issuance of series 2009 preferred shares (note 39)	-	2,420	-	-	283,881	-	-	-	-	-	-	-	-	-	-	-	-	-	286,301	-	286,301
Dividends paid - subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,558)	(3,558)
Translation difference	-	-	-	-	-	-	(58)	-	1,738	-	(606)	-	(3,270)	-	18	-	-	-	(2,178)	(2,457)	(4,635)
Equity dividends paid (note 61)	-	-	-	-	-	-	-	-	-	-	-	-	(105,013)	-	-	-	-	-	(105,013)	-	(105,013)
Treasury shares (note 39)	-	-	-	-	-	1,378	-	-	-	-	-	-	-	-	-	-	-	-	-	1,378	1,378
Balance at 31 December 2009	262,706	4,840	249,289	26,425	579,035	(176)	120,358	22,676	137,190	18,040	80,429	5,422	6,958	24,954	5,689	66,026	206,628	13,394	1,829,883	123,049	1,952,932

The attached notes 1 to 62 form part of these consolidated financial statements.

# Byblos Bank SAL

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	Note	2009 LL million	2008 LL million
<b>OPERATING ACTIVITIES</b>			
Profit before tax		265,832	222,123
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and amortisation		25,344	17,122
Provision for loans and advances, net		26,245	5,434
Gain on disposal of property, plant and equipment		(860)	(72)
Gain on disposal of non-current assets held for sale		(11,275)	(12,505)
Provisions for risks and charges, net		36,363	12,558
Provision for impairment of financial instruments		15,278	37,700
Provision for end of services benefits		3,686	7,252
Impairment provision on non-current assets held for sale		581	408
Excess of fair value of net assets acquired of Unicredit Banca di Roma SpA- Beirut Branch over cost		-	(1,353)
		<u>361,194</u>	<u>288,667</u>
<b>Changes in operating assets and liabilities</b>			
Due from central banks		126,370	(221,380)
Due from banks and financial institutions		(189,970)	108,814
Financial assets given as collateral		95,654	(5,918)
Due to banks and financial institutions		8,993	270,760
Cash collateral on securities lent and repurchase agreements		1,193	-
Derivative financial instruments		171	(1,093)
Financial assets held for trading		6,697	521,875
Net loans and advances		(638,729)	(826,190)
Other assets		(9,671)	(9,072)
Customers' and related party deposits		2,899,288	1,615,843
Other liabilities		38,911	3,550
		<u>2,700,101</u>	<u>1,745,856</u>
Cash from operations		(2,888)	(349)
End of service benefits paid		(29,996)	(25,400)
Taxation paid		<u>2,667,217</u>	<u>1,720,107</u>
<b>Net cash from operating activities</b>		<u>2,667,217</u>	<u>1,720,107</u>
<b>INVESTING ACTIVITIES</b>			
Available for sale financial instruments		(416,507)	(987,470)
Financial assets classified as loans and receivables		(2,062,865)	(1,616,818)
Held to maturity financial instruments		735,006	352,921
Purchase of property and equipment		(52,887)	(58,757)
Proceeds from sale of property and equipment		7,277	317
Purchase of non current assets held for sale		(772)	(5,179)
Proceeds from sale of non-current assets held for sale		19,587	22,557
Liabilities linked to held for sale assets		275	(419)
Acquisition of net assets of Unicredit Banca Di Roma SpA- Beirut Branch		-	(12,415)
		<u>(1,770,886)</u>	<u>(2,305,263)</u>
<b>Net cash used in investing activities</b>		<u>(1,770,886)</u>	<u>(2,305,263)</u>
<b>FINANCING ACTIVITIES</b>			
Issuance of ordinary common shares		-	38,479
Issuance of preferred shares		286,301	297,554
Redemption of preferred shares		(150,750)	-
Due to Central Bank		(82,516)	22,706
Debts issued and other borrowed funds		14,054	(2,317)
Subordinated notes		3,431	(37,711)
Treasury shares		1,378	(607)
Dividends paid		(105,013)	(92,961)
Gain on sale of subsidiary shares to minority interest	42	-	6,028
Change in minority interest		(5,951)	26,955
		<u>(39,066)</u>	<u>258,126</u>
<b>Net cash from financing activities</b>		<u>(39,066)</u>	<u>258,126</u>
<b>Effect of exchange rates:</b>			
Effect of exchange rates on property and equipment		(2,530)	(866)
Foreign currency translation differences		(5,210)	(3,065)
Effect of exchange rates on reserves and premiums		(2,197)	(2,806)
		<u>(9,937)</u>	<u>(6,737)</u>
<b>Net effect of foreign exchange rates</b>		<u>(9,937)</u>	<u>(6,737)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<u>847,328</u>	<u>(333,767)</u>
Cash and cash equivalents at 1 January		2,651,204	2,984,971
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	45	<u>3,498,532</u>	<u>2,651,204</u>

In 2008, operating and investing activities include a non-cash item representing the increase in financial assets classified as loans and receivables in the amount of LL 1,820,022 against decrease in trading and available-for-sale financial assets in the amount of LL 104,071 million and LL 1,715,951 million, respectively. No such transaction occurred in 2009.

The attached notes 1 to 62 form part of these consolidated financial statements.