

## **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 (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the consolidated financial statements**

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

### **Auditors' responsibility**

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

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

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

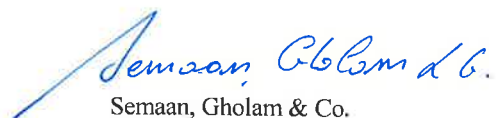
### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Ernst & Young

19 April 2013  
Beirut, Lebanon



Semaan, Gholam & Co.

# Byblos Bank SAL

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	<i>Notes</i>	<b>2012</b> <i>LL million</i>	<i>2011</i> <i>LL million</i>
Interest and similar income	5	1,274,746	1,260,390
Interest and similar expense	6	(884,216)	(840,373)
<b>NET INTEREST INCOME</b>		<b>390,530</b>	420,017
Fee and commission income	7	146,786	147,163
Fee and commission expense	7	(14,120)	(13,389)
<b>NET FEE AND COMMISSION INCOME</b>		<b>132,666</b>	133,774
Net gain from financial instruments at fair value through profit or loss	8	88,078	61,601
Net gain from sale of financial assets at amortized cost	9	65,995	64,165
Revenue from financial assets at fair value through other comprehensive income	24	4,491	4,200
Other operating income	10	27,484	24,212
<b>TOTAL OPERATING INCOME</b>		<b>709,244</b>	707,969
Net credit losses	11	(86,797)	(61,998)
<b>NET OPERATING INCOME</b>		<b>622,447</b>	645,971
Personnel expenses	12	(154,321)	(161,286)
Depreciation of property and equipment	25	(31,123)	(31,466)
Amortisation of intangibles assets	26	(159)	(159)
Other operating expenses	13	(139,891)	(116,048)
<b>TOTAL OPERATING EXPENSES</b>		<b>(325,494)</b>	(308,959)
<b>OPERATING PROFIT</b>		<b>296,953</b>	337,012
Net loss on disposal of fixed assets		-	(88)
<b>PROFIT BEFORE TAX</b>		<b>296,953</b>	336,924
Income tax expense	14	(44,691)	(65,987)
<b>PROFIT FOR THE YEAR</b>		<b>252,262</b>	270,937
Attributable to:			
Equity holders of the parent		246,450	259,894
Non-controlling interest		5,812	11,043
		<b>252,262</b>	270,937
<b>Earnings per share</b>		<i>LL</i>	<i>LL</i>
Equity shareholders of the parent:			
Basic earnings per share	15	352.70	376.60
Diluted earnings per share	15	337.32	356.91

The attached notes 1 to 54 form part of these consolidated financial statements.

# Byblos Bank SAL

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	<i>Notes</i>	<i>2012</i> <i>LL million</i>	<i>2011</i> <i>LL million</i>
<b>PROFIT FOR THE YEAR</b>		<b>252,262</b>	270,937
<b>Other comprehensive loss:</b>			
Net unrealized loss from financial assets at fair value through other comprehensive income	43	<b>(3,605)</b>	(3,863)
Exchange differences on translation of foreign operations		<b>(109,946)</b>	(37,348)
Income tax effect on components of other comprehensive loss	43	<b>527</b>	1,379
<b>OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX</b>		<b>(113,024)</b>	(39,832)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>		<b>139,238</b>	231,105
Attributable to:			
Equity holders of the parent		<b>181,939</b>	235,654
Non-controlling interest		<b>(42,701)</b>	(4,549)
		<b>139,238</b>	231,105

The attached notes 1 to 54 form part of these consolidated financial statements.

# Byblos Bank SAL

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	2012 LL million	2011 LL million
<b>ASSETS</b>			
Cash and balances with central banks	16	5,507,572	4,282,468
Due from banks and financial institutions	17	3,216,533	4,330,842
Loans to banks and financial institutions and reverse repurchase agreements	18	458,707	667,488
Financial assets given as collateral	19	8,923	8,920
Derivative financial instruments	20	12,174	5,356
Financial assets at fair value through profit or loss	21	300,909	255,209
Net loans and advances to customers at amortized cost	22	6,195,104	6,025,682
Net loans and advances to related parties at amortized cost	45	15,815	16,638
Debtors by acceptances		316,232	331,821
Financial assets at amortized cost	23	9,145,626	8,607,301
Financial assets at fair value through other comprehensive income	24	78,663	76,967
Property and equipment	25	265,394	301,066
Intangible assets	26	970	1,129
Assets obtained in settlement of debt	27	33,202	35,452
Other assets	28	94,385	80,974
<b>TOTAL ASSETS</b>		<b>25,650,209</b>	<b>25,027,313</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Due to central banks	29	17,918	15,670
Due to banks and financial institutions	30	1,327,047	1,635,480
Derivative financial instruments	20	8,613	7,347
Customers' deposits at amortized cost	31	19,967,531	19,157,233
Deposits from related parties at amortized cost	45	208,102	169,175
Debt issued and other borrowed funds	32	508,711	662,290
Engagements by acceptances		316,232	331,821
Other liabilities	33	262,888	126,267
Provisions for risks and charges	34	130,465	129,989
Subordinated debt	35	410,896	307,263
<b>TOTAL LIABILITIES</b>		<b>23,158,403</b>	<b>22,542,535</b>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>			
Share capital – common shares	36	684,273	684,273
Share capital – preferred shares	36	4,840	4,840
Share premium – common shares	36	229,014	229,014
Share premium – preferred shares	36	586,259	583,858
Non distributable reserves	37	568,145	469,072
Distributable reserves	38	99,659	79,127
Other equity instruments	39	14,979	14,979
Treasury shares	40	(25,302)	(25,476)
Retained earnings	41	74,024	65,214
Revaluation reserve of real estate	42	5,689	5,689
Change in fair value of financial assets at fair value through other comprehensive income	43	(23,634)	(20,556)
Net results of the financial period – profit		246,450	259,894
Foreign currency translation reserve		(92,762)	(31,329)
<b>NON-CONTROLLING INTEREST</b>		<b>120,172</b>	<b>166,179</b>
<b>TOTAL EQUITY</b>		<b>2,491,806</b>	<b>2,484,778</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>25,650,209</b>	<b>25,027,313</b>

The consolidated financial statements were authorized for issue in accordance with the resolution of the Board of Directors on 18 April 2013.

  
 Dr. François Bassil  
 Chairman/ General Manager

  
 Mr. Ziad El-Zoghbi  
 Financial and Administrative Manager

The attached notes 1 to 54 form part of these consolidated financial statements.

# Byblos Bank SAL

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to equity holders of the parent											Non-controlling interest		Total			
	Common shares LL million	Priority shares LL million	Preferred shares LL million	Share premium - common shares LL million	Share premium - preferred shares LL million	Non-distributable reserves LL million	Distributable reserves LL million	Other equity instruments LL million	Treasury shares LL million	Retained earnings LL million	Revaluation reserve of real estate LL million	Change in fair value of financial assets at fair value through other comprehensive income LL million	Net results of the financial period - profit LL million		Foreign currency translation reserve LL million	Total LL million	LL million
Balance at 1 January 2012	684,273	-	4,840	229,014	583,858	469,072	79,127	14,979	(25,476)	65,214	5,689	(20,556)	259,894	(31,329)	2,318,599	166,179	2,484,778
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	246,450	-	246,450	5,812	252,262
Other comprehensive loss	-	-	-	-	-	-	-	-	-	-	-	(3,078)	-	(61,433)	(64,511)	(48,513)	(113,024)
<b>Total comprehensive income</b>	-	-	-	-	-	-	-	-	-	-	-	(3,078)	246,450	(61,433)	181,939	(42,701)	139,238
Transfer to retained earnings	-	-	-	-	-	-	-	-	-	259,894	-	-	(259,894)	-	-	-	-
Transfer to reserves and premiums	-	-	-	-	2,412	85,518	2,492	-	-	(90,422)	-	-	-	-	-	-	-
Transfer to distributable reserves (note 37)	-	-	-	-	-	(18,040)	18,040	-	-	-	-	-	-	-	-	-	-
Equity component on convertible subordinated Loan (note 35)	-	-	-	-	-	31,618	-	-	-	-	-	-	-	-	31,618	-	31,618
Dividends paid – subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,306)	(3,306)
Translation difference	-	-	-	-	(11)	-	-	-	-	179	-	-	-	-	168	-	168
Equity dividends paid (note 52)	-	-	-	-	-	-	-	-	-	(160,841)	-	-	-	-	(160,841)	-	(160,841)
Treasury shares	-	-	-	-	-	(23)	-	-	174	-	-	-	-	-	151	-	151
<b>Balance at 31 December 2012</b>	<b>684,273</b>	<b>-</b>	<b>4,840</b>	<b>229,014</b>	<b>586,259</b>	<b>568,145</b>	<b>99,659</b>	<b>14,979</b>	<b>(25,302)</b>	<b>74,024</b>	<b>5,689</b>	<b>(23,634)</b>	<b>246,450</b>	<b>(92,762)</b>	<b>2,371,634</b>	<b>120,172</b>	<b>2,491,806</b>
Balance at 1 January 2011 before early adoption of IFRS 9	434,984	249,289	4,840	229,014	581,456	396,526	79,127	14,979	(16,189)	16,484	5,689	53,993	255,770	(9,573)	2,296,389	160,029	2,456,418
Effect of IFRS 9 early adoption (note 53)	-	-	-	-	-	-	-	-	-	38,077	-	(72,065)	-	-	(33,988)	(307)	(34,295)
Balance at 1 January 2011 after early adoption of IFRS 9	434,984	249,289	4,840	229,014	581,456	396,526	79,127	14,979	(16,189)	54,561	5,689	(18,072)	255,770	(9,573)	2,262,401	159,722	2,422,123
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	259,894	-	259,894	11,043	270,937
Other comprehensive loss	-	-	-	-	-	-	-	-	-	-	-	(2,484)	-	(21,756)	(24,240)	(15,592)	(39,832)
<b>Total comprehensive income</b>	-	-	-	-	-	-	-	-	-	-	-	(2,484)	259,894	(21,756)	235,654	(4,549)	231,105
Transfer of priority shares	249,289	(249,289)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to retained earnings	-	-	-	-	-	-	-	-	-	255,770	-	-	(255,770)	-	-	-	-
Transfer to reserves and premiums	-	-	-	-	2,412	72,266	-	-	-	(74,678)	-	-	-	-	-	-	-
Non-controlling interest share in a capital increase of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	23,473	23,473
Acquisition of non-controlling interest (note 3)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(8,584)	(8,584)
Dividends paid – subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,883)	(3,883)
Translation difference	-	-	-	-	(10)	-	-	-	-	-	-	-	-	-	(10)	-	(10)
Equity dividends paid (note 52)	-	-	-	-	-	-	-	-	-	(170,439)	-	-	-	-	(170,439)	-	(170,439)
Treasury shares	-	-	-	-	-	280	-	-	(9,287)	-	-	-	-	-	(9,007)	-	(9,007)
<b>Balance at 31 December 2011</b>	<b>684,273</b>	<b>-</b>	<b>4,840</b>	<b>229,014</b>	<b>583,858</b>	<b>469,072</b>	<b>79,127</b>	<b>14,979</b>	<b>(25,476)</b>	<b>65,214</b>	<b>5,689</b>	<b>(20,556)</b>	<b>259,894</b>	<b>(31,329)</b>	<b>2,318,599</b>	<b>166,179</b>	<b>2,484,778</b>

The attached notes 1 to 54 form part of these consolidated financial statements.

# Byblos Bank SAL

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Notes	2012 LL million	2011 LL million
<b>OPERATING ACTIVITIES</b>			
Profit before tax		296,953	336,924
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and amortisation	25 & 26	31,282	31,625
Provision for loans and advances and direct write offs, net	11	107,229	45,016
Write-back of provision for other doubtful bank accounts, net	11	(942)	(6,593)
Provision for financial assets at amortized cost, net	11	(19,490)	23,575
Loss on disposal of fixed assets		-	88
Gain on disposal of assets obtained in settlement of debt	10	(4,613)	(3,877)
Provisions for risks and charges, net		2,468	14,300
Unrealized fair value (gains) losses on financial instruments at fair value through profit or loss		(4,361)	6,339
Realized gains from financial assets		(75,747)	(70,052)
Derivative financial instruments		(5,552)	(897)
<b>Operating profit before working capital changes</b>		<b>327,227</b>	<b>376,448</b>
<b>Changes in operating assets and liabilities</b>			
Due from central banks		(1,957,792)	(499,978)
Due from banks and financial institutions		35,274	229,110
Financial assets given as collateral		(3)	(2)
Financial assets at fair value through profit or loss		(31,587)	(2,331)
Due to banks and financial institutions		(23,314)	(153,308)
Net loans and advances to customers and related parties		(275,828)	(402,096)
Assets obtained in settlement of debt	27	(286)	(829)
Proceeds from sale of assets obtained in settlement of debt		7,149	8,346
Other assets		(3,049)	9,633
Customers' and related parties' deposits		979,684	1,346,382
Other liabilities		1,433	(9,954)
Cash (used in) from operations		(941,092)	901,421
Provision for risks and charges paid		(1,445)	(4,216)
Taxation paid		(51,014)	(66,327)
<b>Net cash (used in) from operating activities</b>		<b>(993,551)</b>	<b>830,878</b>
<b>INVESTING ACTIVITIES</b>			
Financial assets at amortized cost		(452,840)	427,407
Financial assets at fair value through other comprehensive income		(5,179)	(143)
Loans to banks and financial institutions and reserve purchase agreements		208,781	(37,491)
Purchase of property and equipment and intangible assets		(29,919)	(57,381)
Proceeds from sale of property and equipment		278	1,170
Acquisition of additional non-controlling interest	3	-	(8,584)
<b>Net cash (used in) from investing activities</b>		<b>(278,879)</b>	<b>324,978</b>
<b>FINANCING ACTIVITIES</b>			
Due to central banks		763	(1,265)
Debts issued and other borrowed funds		(153,579)	448,789
Subordinated debt		135,251	3,939
Treasury shares		151	(9,007)
Dividends paid to equity holders of the parent (net)		(160,841)	(170,439)
Dividends paid to non-controlling interest		(3,306)	(3,883)
Non-controlling interest share in a capital increase of a subsidiary		-	23,473
<b>Net cash (used in) from financing activities</b>		<b>(181,561)</b>	<b>291,607</b>
<b>Net effect of foreign exchange</b>		<b>(75,040)</b>	<b>(32,713)</b>
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(1,529,031)</b>	<b>1,414,750</b>
Cash and cash equivalents at 1 January		6,150,118	4,735,368
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	44	<b>4,621,087</b>	<b>6,150,118</b>
<b>Operational cash flows from interest and dividends</b>			
Interest paid		(881,733)	(834,902)
Interest received		1,269,069	1,249,141
Dividend received		5,043	5,214

Operating activities include a non-cash item consisting of a decrease in customer deposits by LL 130,459 million against an increase in other liabilities by the same amount (2011: nil).

The attached notes 1 to 54 form part of these consolidated financial statements.