BLOM BANK SAL

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BLOM BANK SAL

We have audited the accompanying financial statements of BLOM 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 statement of cash flows 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 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 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 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 of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young   Semaan, Gholam & Co.

16 March 2010
Beirut, Lebanon

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2009

	Notes	**2009 LL million**	2008 LL million
Interest and similar income	4	**1,712,928**	1,631,367
Interest and similar expense	5	**(1,081,395)**	(1,013,138)
Net interest income		**631,533**	618,229
Fee and commission income		**144,735**	138,208
Fee and commission expense		**(22,957)**	(15,976)
Net fee and commission income	6	**121,778**	122,232
Net trading income	7	**36,081**	41,305
Net gain (loss) on financial assets designated at fair value through profit or loss		**7,507**	(4,523)
Net gain on financial investments	8	**38,558**	9,809
Other operating income		**18,836**	7,433
Total operating income		**854,293**	794,485
Credit loss income (expense)	9	**5,215**	(13,040)
Write back of provision (impairment losses) on financial investments	22	**15,721**	(15,723)
Net operating income		**875,229**	765,722
Personnel expenses	10	**(192,083)**	(174,191)
Depreciation of property and equipment	23	**(33,118)**	(25,462)
Amortization of intangible assets	24	**(1,770)**	(947)
Other operating expenses	11	**(120,676)**	(112,420)
Total operating expenses		**(347,647)**	(313,020)
Net operating profits		**527,582**	452,702
Net profit from sale or disposal of other assets		**129**	5,024
Profit before tax		**527,711**	457,726
Income tax expense	12	**(85,982)**	(78,472)
Profit for the year		**441,729**	379,254
Attributable to:			
Equity holders of the parent		**429,558**	365,271
Minority interests		**12,171**	13,983
		441,729	379,254
Basic/diluted earnings per share attributable to equity holders of the parent for the year (in LL)	13	**19,421**	16,116

The accompanying notes 1 to 47 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2009

	2009 LL million	*2008 LL million*
Profit for the year	**441,729**	379,254
Net gain (loss) on available-for-sale financial assets	**104,864**	(11,966)
Exchange differences on translation of foreign operations	**(9,882)**	5,229
Other comprehensive income (loss) for the year	**94,982**	(6,737)
Total comprehensive income for the year	**536,711**	372,517
Attributable to:		
Equity holders of the parent	**522,441**	356,838
Minority interests	**14,270**	15,679
	536,711	372,517

The accompanying notes 1 to 47 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	Notes	2009 LL million	2008 LL million
Assets			
Cash and balances with central banks	14	**4,693,974**	3,580,467
Due from banks and financial institutions	15	**5,787,117**	5,817,382
Derivative financial instruments	16	**33,544**	39,867
Financial assets held-for-trading	17	**24,763**	14,264
Financial assets designated at fair value through profit or loss	18	**139,402**	81,955
Loans and advances to customers	19	**6,046,601**	5,230,447
Loans and advances to related parties	39	**11,522**	6,926
Bank acceptances	20	**197,637**	202,211
Non-current assets held for sale	21	**29,846**	27,561
Financial investments – available-for-sale	22	**4,694,221**	4,691,986
Financial assets classified as loans and receivables	22	**8,200,247**	6,094,232
Financial investments – held-to-maturity	22	**774,997**	634,306
Investment properties		**618**	581
Property and equipment	23	**374,850**	324,576
Intangible assets	24	**6,727**	5,307
Other assets	25	**129,510**	165,600
Goodwill	26	**63,268**	63,145
Total assets		**31,208,844**	26,980,813
Liabilities and equity			
Liabilities			
Due to banks and financial institutions	27	**705,438**	1,196,746
Derivative financial instruments	16	**23,526**	56,779
Customers' deposits	28	**26,859,051**	22,636,095
Related parties` deposits	39	**230,554**	140,278
Engagements by acceptances	20	**197,637**	202,211
Current tax liabilities	29	**48,588**	53,159
Other liabilities	30	**491,522**	430,211
Provisions for risks and charges	31	**38,421**	31,481
Retirement benefits obligation	32	**38,558**	34,534
Total liabilities		**28,633,295**	24,781,494
Equity attributable to equity holders of parent			
Share capital - common shares	33	**223,600**	223,600
Share capital - preferred shares	33	**18,200**	18,200
Share premium on common shares	33	**374,059**	374,059
Share premium on preferred shares	33	**246,310**	246,310
Capital reserves	34	**714,051**	595,391
Treasury shares	35	**(58,723)**	(39,877)
Reserves for revaluation variance - real estate	23	**14,727**	14,727
Available-for-sale reserve	36	**106,184**	3,905
Foreign currency translation reserve		**37,169**	46,565
Other reserves		**331**	106
Results of the financial period – profit		**429,558**	365,271
Retained earnings		**341,061**	229,863
		2,446,527	2,078,120
Minority interests		**129,022**	121,199
Total equity		**2,575,549**	2,199,319
Total liabilities and equity		**31,208,844**	26,980,813

The consolidated financial statements were authorized for issue in accordance with a resolution of the board of directors on 16 March 2010 by:

Saad Azhari Chairman and General Manager	Habib Rahal General Manager	Talal Baba Assistant General Manager

The accompanying notes 1 to 47 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION **(continued)**

At 31 December 2009

	Notes	**2009** **LL million**	2008 LL million
Off financial position			
Financing commitments			
- Commitments issued to financial institutions	40	**17,805**	35,517
- Commitments received from financial institutions		**33,089**	31,071
- Commitments issued to customers	40	**330,711**	449,489
Guarantees commitments			
- Guarantees issued to financial institutions	40	**209,040**	260,675
- Guarantees received from financial institutions		**45,050**	58,886
- Guarantees issued to customers	40	**505,602**	525,271
- Guarantees received from customers	45-1 (A)	**9,561,921**	8,625,099
Foreign currency operations			
- Foreign currencies to receive	16	**3,699,067**	2,072,651
- Foreign currencies to deliver		**3,708,139**	2,056,942
Commitments on term financial instruments	16	**1,110,062**	77,325
Other commitments		**173,810**	159,144
Fiduciary deposits	41	**951,344**	1,225,649
Financial assets under management	41	**5,312,368**	4,082,514
Impaired loans fully provided for and transferred to off financial position	19	**82,695**	83,928

The accompanying notes 1 to 47 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	Notes	2009 LL million	2008 LL million
OPERATING ACTIVITIES			
Profit for the financial period before income tax		**527,711**	457,726
Adjustments for:			
Prior year adjustment by subsidiary company		**-**	(8,773)
Depreciation of property and equipment	23	**33,118**	25,462
Amortization of intangible assets	24	**1,770**	947
Profit from sale of property and equipment		**(129)**	(5,024)
Write-back of provision for loans and advances, net		**(5,215)**	(1,160)
(Write back) provision for impairment of financial assets	22	**(15,721)**	15,723
Impairment allowance for placements with other banks	15	**-**	3,765
Unrealized (profit) loss for investment properties		**(37)**	21
Provision for doubtful sundry debtors	25	**-**	1,275
Provision for retirement benefits obligation	32	**6,484**	10,526
Net provision for risks and charges	31	**1,575**	574
Provision for fiduciary customers' commitments	31	**-**	9,160
Net provision for outstanding claims and IBNR reserves	31	**7,056**	7,226
Profit from sale of non-current assets held for sale		**(2,474)**	(1,184)
Gain from sale of financial assets classified as loans and receivables	8	**(23,398)**	(101)
Gain from sale of available-for-sale financial investments	8	**(14,265)**	(9,232)
Unrealized (gain) loss on financial assets designated at fair value through profit or loss		**(7,507)**	4,523
		508,968	511,454
Changes in operating assets and liabilities:			
Financial assets held-for-trading (2)		**(10,499)**	26,866
Financial assets designated at fair value through profit or loss		**(49,940)**	(23,408)
Banks and financial institutions – debit		**(142,618)**	(229,354)
Derivative financial instruments – debit		**6,323**	(20,837)
Loans and advances to customers		**(810,939)**	(1,055,920)
Loans and advances to related parties		**(4,596)**	(986)
Non-current assets held for sale		**252**	(13,460)
Other assets		**45,677**	(34,144)
Derivative financial instruments – credit		**(33,253)**	32,696
Banks and financial institutions – credit		**(125,650)**	104,308
Customers' deposits		**4,222,956**	2,029,542
Related parties' deposits		**90,276**	38,315
Other liabilities		**61,311**	47,903
Cash from operations		**3,758,268**	1,412,975
Taxes paid		**(91,055)**	(56,838)
Settlement of provisions for risks and charges		**(1,915)**	(1,591)
Retirement benefits obligation paid	32	**(2,551)**	(2,194)
Net cash from operating activities		**3,662,747**	1,352,352
INVESTING ACTIVITIES			
Term deposits with central banks		**142,291**	(199,704)
Financial investments – available-for-sale (1) (3)		**101,717**	(1,588,100)
Financial assets classified as loans and receivables (1) (2) (3)		**(2,067,550)**	(180,179)
Financial assets – held-to-maturity		**(140,041)**	(634,956)
Purchase of intangible assets	24	**(3,451)**	(1,760)
Purchase of property and equipment	23	**(115,848)**	(98,760)
Cash proceeds from the sale of property and equipment		**23,406**	11,034
Net cash used in investing activities		**(2,059,476)**	(2,692,425)
FINANCING ACTIVITIES			
Redemption of preferred shares		**-**	(113,093)
Purchase of treasury shares, net		**(17,128)**	(3,635)
Minority interests		**(6,447)**	17,446
Dividends paid	38,35	**(136,906)**	(157,552)
Net cash used in financing activities		**(160,481)**	(256,834)
Effect of exchange rate changes		**(8,908)**	4,879
Increase (decrease) in cash and cash equivalents		**1,433,882**	(1,592,028)
Cash and cash equivalents as of 1 January		**7,261,500**	8,853,528
Cash and cash equivalents as of 31 December	37	**8,695,382**	7,261,500
Operational cash flows from interest and dividends			
Interest paid		**1,053,850**	1,019,578
Interest received		**1,693,483**	1,593,881
Dividend received		**1,500**	8,255

(1) Non cash transactions in the investing activities include an increase in financial assets classified as loans and receivables in the amount of LL 2,775,362 million, against a decrease in financial investments – available-for-sale in the investing activities in the same amount during 2008.

(2) Non cash transactions in the investing activities include an increase in financial assets classified as loans and receivables in the amount of LL 63,424 million, against a decrease in financial assets held for trading in the operating activities in the same amount during 2008.

(3) Non cash transactions in the investing activities include an increase in financial assets classified as loans and receivables in the amount of LL 921,530 million against a decrease in financial investments – available-for-sale for the same amount during 2009.

BLOM Bank SAL

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Attributable to equity holders of the parent														
	Share capital-common shares LL million	*Share capital-preferred shares LL million*	*Share premium on common shares LL million*	*Share premium on preferred shares LL million*	*Capital reserves LL million*	*Treasury shares LL million*	*Reserves for revaluation variance-Real estate LL million*	*Available-for-sale reserve LL million*	*Foreign currency translation reserve LL million*	*Other reserves LL million*	*Retained earnings LL million*	*Results of the financial period -profit LL million*	*Total LL million*	*Minority interests LL million*	*Total equity LL million*
Balance at 1 January 2009	223,600	18,200	374,059	246,310	595,391	(39,877)	14,727	3,905	46,565	106	229,863	365,271	2,078,120	121,199	2,199,319
Results of the financial period– profit for the year 2009	-	-	-	-	-	-	-	-	-	-	-	429,558	429,558	12,171	441,729
Other comprehensive income	-	-	-	-	-	-	-	102,279	(9,396)	-	-	-	92,883	2,099	94,982
Total comprehensive income	-	-	-	-	-	-	-	102,279	(9,396)	-	-	429,558	522,441	14,270	536,711
Minority interests share in capital increase of a subsidiary company (note 33)	-	-	-	-	-	-	-	-	-	-	-	-	-	75	75
Dividends distributions (note 38)	-	-	-	-	-	-	-	-	-	-	-	(142,181)	(142,181)	-	(142,181)
Appropriation of 2008 profits (note 34)	-	-	-	-	116,942	-	-	-	-	225	105,923	(223,090)	-	-	-
Purchase of treasury shares (note 35)	-	-	-	-	-	(78,373)	-	-	-	-	-	-	(78,373)	(13)	(78,386)
Sales of treasury shares (note 35)	-	-	-	-	1,718	59,527	-	-	-	-	-	-	61,245	13	61,258
Minority interests share from dividends distribution in subsidiary companies	-	-	-	-	-	-	-	-	-	-	-	-	-	(6,522)	(6,522)
Dividends on treasury shares (note 35)	-	-	-	-	-	-	-	-	-	-	5,275	-	5,275	-	5,275
Balance at 31 December 2009	**223,600**	**18,200**	**374,059**	**246,310**	**714,051**	**(58,723)**	**14,727**	**106,184**	**37,169**	**331**	**341,061**	**429,558**	**2,446,527**	**129,022**	**2,575,549**

The accompanying notes 1 to 47 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Attributable to equity holders of the parent														
	Share capital- common shares LL million	*Share capital- preferred shares LL million*	*Share premium on common shares LL million*	*Share premium on preferred shares LL million*	*Capital reserves LL million*	*Treasury shares LL million*	*Reserves for revaluation variance-Real estate LL million*	*Available-for-sale reserve LL million*	*Foreign currency translation reserve LL million*	*Other reserves LL million*	*Retained earnings LL million*	*Results of the financial period -profit LL million*	*Total LL million*	*Minority interests LL million*	*Total equity LL million*
Balance at 1 January 2008	215,000	25,000	374,059	351,903	528,961	(36,122)	14,727	13,995	37,737	-	175,603	303,472	2,004,335	88,074	2,092,409
Results of the financial period– profit for the year 2008	-	-	-	-	-	-	-	-	-	-	-	365,271	365,271	13,983	379,254
Other comprehensive loss	-	-	-	-	-	-	-	(10,090)	1,657	-	-	-	(8,433)	1,696	(6,737)
Total comprehensive income	-	-	-	-	-	-	-	(10,090)	1,657	-	-	365,271	356,838	15,679	372,517
Capital increase (note 33, 34)	8,600	700	-	-	(9,300)	-	-	-	-	-	-	-	-	-	-
Redemption of preferred shares 2002 (note 33)	-	(7,500)	-	(105,593)	-	-	-	-	-	-	-	-	(113,093)	-	(113,093)
Dividends distributions (note 38)	-	-	-	-	-	-	-	-	-	-	-	(159,141)	(159,141)	-	(159,141)
Appropriation of 2007 profits (note 34)	-	-	-	-	83,936	-	-	-	-	106	60,289	(144,331)	-	-	-
Purchase of treasury shares	-	-	-	-	-	(14,900)	-	-	-	-	-	-	(14,900)	-	(14,900)
Sale of treasury shares (note 35)	-	-	-	-	120	11,145	-	-	-	-	-	-	11,265	-	11,265
Minority interests share in capital of newly established subsidiary companies	-	-	-	-	-	-	-	-	-	-	-	-	-	21,227	21,227
Minority interests share from dividends distribution in subsidiary companies	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,730)	(3,730)
Reallocation of tax related to dividends distribution booked in 2007	-	-	-	-	(8,326)	-	-	-	-	-	8,326	-	-	-	-
Dividends on treasury shares (note 35)	-	-	-	-	-	-	-	-	-	-	1,589	-	1,589	-	1,589
Other adjustment related to a subsidiary	-	-	-	-	-	-	-	-	-	-	(8,773)	-	(8,773)	(51)	(8,824)
Other transfers	-	-	-	-	-	-	-	-	7,171	-	(7,171)	-	-	-	-
Balance at 31 December 2008	**223,600**	**18,200**	**374,059**	**246,310**	**595,391**	**(39,877)**	**14,727**	**3,905**	**46,565**	**106**	**229,863**	**365,271**	**2,078,120**	**121,199**	**2,199,319**

1 CORPORATE INFORMATION

BLOM Bank SAL (the "Bank"), a Lebanese joint stock company, was incorporated in 1951 and registered under No 2464 at the commercial registry of Beirut and under No 14 on the banks' list published by the Bank of Lebanon. The headquarters of the Bank are located in Verdun, Rashid Karameh Street, Beirut, Lebanon.

The Bank, together with its affiliated banks and subsidiaries (the Group), provides a wide range of banking (commercial, investment and private) as well as insurance and brokerage services.

On 14 February 2008, the Central Bank of the United Arab Emirates licensed BLOM Bank SAL to open a representative office in Abu Dhabi. This license is valid for five years.

On 12 March 2008, the Group obtained the approval from the Egyptian authorities for the establishment of two insurance companies in Egypt: (1) Arope Life Insurance Egypt SAE, activity includes life insurance, with a capital of EGP 100 million, and (2) Arope Insurance of Properties and Responsibilities Egypt SAE, activity includes properties and related responsibilities insurance, with a capital of EGP 100 million. On 11 June 2008, the Group paid 50% of the issued capital allocated to the Group.

2 ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements are prepared under the historical cost convention as modified for the restatement of certain tangible real estate properties in Lebanon according to the provisions of law No 282 dated 30 December 1993, and for the measurement at fair value of derivative financial instruments, financial assets held-for-trading, financial assets designated at fair value through profit or loss, financial investments – available-for-sale.

The consolidated financial statements have been presented in millions of Lebanese Lira (LL millions), which is the functional currency of the Bank. Balances denominated in other currencies have been presented in thousands.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Standards Board (IASB), and the regulations of the Bank of Lebanon and the Banking Control Commission.

The Group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in note 43.

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense will not be offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries for the year ended 31 December. The financial statements of the Bank's subsidiaries are prepared for the same reporting year as BLOM Bank SAL, using consistent accounting policies.

All intra-group balances, transactions, income and expenses are eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal.

Minority interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Bank and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from parent shareholders' equity. Any losses applicable to the minority interests in excess of the minority interests are allocated against the interests of the parent. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the fair value of the share of the net assets acquired is recognized as goodwill. If the cost of acquisition is below the fair values of the identifiable net assets acquired (i.e. a discount on acquisition), the difference is recognized directly in the consolidated statement of comprehensive income in the year of acquisition.

2 ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Basis of consolidation (continued)

The consolidated financial statements include the financial statements of BLOM Bank SAL and the subsidiaries listed in the following table:

Name	*Notes*	*Country of incorporation*	*Activities*	*% effective equity interest*	
				31 December 2009	*31 December 2008*
				%	%
BLOM Bank France SA	c	France	Banking activities	**99.998**	99.998
BLOM Bank (Switzerland) SA		Switzerland	Banking activities	**99.998**	99.998
BLOM Invest Bank SAL		Lebanon	Banking activities	**99.875**	99.875
BLOM Development Bank SAL		Lebanon	Islamic banking activities	**99.887**	99.887
Bank of Syria and Overseas SA	a	Syria	Banking activities	**39.000**	39.000
Arope Insurance SAL	d and f	Lebanon	Insurance activities	**88.932**	88.872
Syria International Insurance (Arope Syria) SA	b and d	Syria	Insurance activities	**42.187**	42.167
BLOM Bank Egypt SAE	c and f	Egypt	Banking activities	**99.419**	99.419
BLOM Egypt Securities SAE	d	Egypt	Brokerage activities	**99.622**	99.390
BLOM Invest – Saudi Arabia	e	Saudi Arabia	Banking activities	**59.937**	59.937
BLOM Bank Qatar LLC	e	Qatar	Banking activities	**99.000**	99.000
Arope Life Insurance Egypt SAE	d and e	Egypt	Insurance activities	**91.039**	91.009
Arope Insurance of Properties and Responsibilities Egypt SAE	d and e	Egypt	Insurance activities	**93.137**	93.118
Syria and Overseas Company for Financial Services	e and g	Syria	Brokerage activities	**43.750**	43.750

(a) Effective 1 January 2004, the Group obtained control, by virtue of agreement with other investors, over Bank of Syria and Overseas SA, and consequently, the financial statements of Bank of Syria and Overseas SA have been consolidated with those of the Group.

(b) Effective 1 January 2006, the Group obtained control, by virtue of agreement with other investors, over Syria International Insurance (Arope Syria) SA, and consequently, the financial statements have been consolidated with those of the Group.

(c) In November 2007, BLOM Bank Egypt SAE sold its branches in Romania to BLOM Bank France SA. Consequently, the Group realized foreign currency translation reserve in the amount of LL 7,171 million upon the sale of the branches in Romania. During 2008, the Group reclassified the foreign currency translation reserve realized in 2007 upon the sale of the branches in Romania from “Retained earnings” to “Foreign currency translation reserve”.

(d) The change in ownership is due to restructuring among the Group with no economic substance.

(e) These subsidiaries were established in 2008.

(f) The ownership interests of these subsidiaries were affected by the share capital increase of the respective subsidiaries which resulted in dilution of minority share.

(g) Syria and Overseas Company for Financial Services is 52% owned by Bank of Syria and Overseas SA. Consequently the financial statements of Syria and Overseas Company for Financial Services have been consolidated with those of the Group.

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those used in the previous financial year except that the Group has adopted the following standards, amendments and interpretations; which did not have any effect on the financial performance or position of the Group. They did however, give rise to additional disclosures.

IAS 1 *Presentation of financial statements*
This standard requires an entity to present all owner changes in equity and all non-owner changes to be presented either in one statement of comprehensive income or in two separate statements of income and comprehensive income. The revised standard also requires that the income tax effect of each component of comprehensive income be disclosed. In addition, it requires entities to present a comparative statement of financial position as at the beginning for the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in the financial statements.

2 ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies (continued)

IAS 1 *Presentation of financial statements (continued)*
The Group has elected to present comprehensive income in two separate statements of income and comprehensive income. Information about the individual components of comprehensive income as well as the tax effects have been disclosed in the notes to the financial statements. The Group has not provided a restated comparative set of financial position for the earliest comparative period, as it has not adopted any new accounting policies retrospectively, or has made retrospective restatements, or retrospectively reclassified items in the financial statements.

Amendments to IFRS 7 *Financial Instruments: Disclosures* - Improving Disclosures about Financial Instruments. The amendments to IFRS 7 were issued in March 2009 to enhance fair value and liquidity disclosures.

With respect to fair value, the amendments require disclosure of a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. In addition, the amendments modify the required liquidity disclosures with respect to derivative transactions and assets used for liquidity management.

IFRS 8 *Operating Segments*
This standard requires disclosure of information about the Group's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14, IFRS 8 disclosures are shown in Note 3.

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*
IFRIC 16 is effective for accounting periods beginning on or after 1 October 2008 with early application permitted. The Interpretation applies to a entity that hedges the foreign currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with IAS 39.

In addition, the following standards and interpretations are effective for the financial year 2009. The adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group:

- IAS 23 (Borrowing costs) (Revised)
- Amendments to IAS 32 Financial Instruments: Presentations and IAS 1 Presentation of financial Statements, - Puttable financial Instruments and Obligations Arising on Liquidation.
- Amendments to IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement – Embedded Derivatives.
- IFRIC 13 Customer Loyalty Programmes.
- IFRIC 15 Agreements for the Construction of Real Estate
- Improvements to International Financial Reporting Standards (issued 2008)
- Improvements to International Financial Reporting Standards (issued 2009)

Future changes in accounting policies
Below is the list of standards issued but not yet effective for the year ended 31 December 2009:

- IFRS 2 Share – based Payment: Group Cash-settled Share – based Payment Transactions
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and separate Financial Statements (Amended)
- IFRS 9 Financial Instruments: Classification and Measurement.
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement – eligible Hedged items.
- IFRIC 17 Distributions on Non-cash Assets to Owners
- IFRIC 18 Transfers of Assets from Customers
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

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

2 ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies (continued)

Improvements to IFRSs
In May 2008 and April 2009 the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separated transitional provisions for each standard. The amendments to the following standards below did not have any impact on the accounting policies, financial position or performance of the Group:

IFRS 5:Non-current Assets Held for Sale and Discontinued Operations
IAS 7: Statement of Cash Flows
IAS 8: Accounting Policies, Change in Accounting Estimates and Error
IAS 10: Events after the Reporting Period
IAS 16: Property, Plant and Equipment
IAS 18 Revenue
IAS 19: Employee Benefits
IAS 20: Accounting for Government Grants and Disclosures of Government Assistance
IAS 27: Consolidated and Separate Financial Statements
IAS 28: Investment in Associates
IAS 31: Interest in Joint ventures
IAS 34: Interim Financial Reporting
IAS 36: Impairment of Assets
IAS 38: Intangible Assets
IAS 39: Financial Instruments: Recognition and Measurement
IAS 40: Investments Properties

2.3 Summary of significant accounting policies

(1) Foreign currency translation
The consolidated financial statements are presented in Lebanese Lira which is the Bank's functional and presentation currency. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances
Transactions in foreign currencies are initially recorded at the functional currency at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. All differences arising on non-trading activities are taken to 'Other operating income' in the income statement, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity. These differences are taken directly to other comprehensive income until the disposal of the net investment, at which time they are recognized in the income statement. Tax charges and credits attributable to exchange differences on those borrowings are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

Group companies
As at the reporting date, the assets and liabilities of subsidiaries and overseas branches are translated into the Bank's presentation currency at the rate of exchange as at the statement of financial position date, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the income statement in 'Other operating expenses' or 'Other operating income', respectively.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(2) Financial instruments – initial recognition and subsequent measurement

(i) Date of recognition
All financial assets and liabilities are initially recognized on the trade date, i.e. the date that the Group becomes a party to the contractual provisions of the instrument. This includes purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(ii) Initial measurement of financial instruments
The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss and held for trading assets.

(iii) Derivatives recorded at fair value through profit or loss
The Group uses derivatives such as forward foreign exchange contracts and options on foreign currencies. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in "Net trading income".

Derivatives embedded in other financial instruments, such as the conversion option in an acquired convertible bond, are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held-for-trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognized in the consolidated income statement.

(iv) Financial assets held-for-trading
Financial assets held-for-trading are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recognized in "Net trading income". Interest and dividend income or expense is recorded in "Net trading income" according to the terms of the contract, or when the right to the payment has been established.

Included in this classification are debt securities and equities which have been acquired principally for the purpose of selling or repurchasing in the near term.

The Group evaluated its financial assets held-for-trading at fair value whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rate circumstances. The reclassification to loans and receivables, available-for-sale or held-to-maturity depends on the nature of the asset.

(v) Financial assets designated at fair value through profit or loss
Financial assets classified in this category are those that have been designated by management on initial recognition. Management may only designate an instrument at fair value though profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(2) Financial instruments – initial recognition and subsequent measurement (continued)

(v) Financial assets designated at fair value through profit or loss (continued)
Financial assets at fair value through profit or loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in "Net gain or loss on financial assets designated at fair value through profit or loss". Interest earned is accrued in "Interest income" using the effective interest rate, while dividend income is recorded in "Other operating income" when the right to the payment has been established.

(vi) Available-for-sale financial investments
Available-for-sale investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the available-for-sale reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in net profit or loss on financial operations. Where the Bank holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the effective interest rate. Dividends earned whilst holding available-for-sale financial investments are recognized in the income statement as "Net gain on financial investments" when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the consolidated statement of income in "Impairment losses on financial investments" and removed from the "Available-for-sale reserve".

The Group evaluated its available-for-sale financial assets whether the ability and intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent significantly changes to do so in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and has the intent and ability to hold these assets for the foreseeable future or maturity. The reclassification to held-to-maturity is permitted only when the entity has the ability and intent to hold until the financial asset accordingly.

(vii) Held-to-maturity financial investments
Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortized cost using the effective interest rate, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in "Interest and similar income" in the income statement. The losses arising from impairment of such investments are recognized in the income statement line "Credit loss expense".

If the Group were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial assets as held-to-maturity during the following two years.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(2) Financial instruments – initial recognition and subsequent measurement (continued)

(viii) Financial assets classified as loans and receivables

Financial assets classified as loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributed to the acquisition are also included in the cost of investment. After initial measurement, loans and receivables are measured at amortised cost, using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee that are integral part of the effective interest rate. The amortisation is included in "Interest and similar income" in the consolidated statement of income. Gain or losses are recognized in the consolidated statement of income when the investments are derecognised or impaired. The losses arising from impairment are recognized in the consolidated of income statement in "Credit loss expense".

(ix) Due from banks and loans and advances to customers

'Due from banks' and 'Loans and advances to customers', include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Group intends to sell immediately or in the near term and those that the Group upon initial recognition designates as at fair value through profit or loss;
- Those that the Group, upon initial recognition, designates as available-for-sale; or
- Those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, amount "Due from banks" and "Loans and advances to customers" are subsequently measured at amortized cost using the effective interest rate, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included in "Interest and similar income" in the consolidated income statement. The losses arising from impairment are recognized in the consolidated income statement in "Credit loss expense".

(x) Reclassification of financial assets

Effective from 1 July 2008, the Group may reclassify, in certain circumstances, non-derivative financial assets out of the "Held-for-trading" category and into the "Available-for-sale", "Loans and receivables", or "Held-to-maturity" categories. From this date it may also reclassify, in certain circumstances, financial instruments out of the "Available-for-sale" category and into the "Loans and receivables" category. Reclassifications are recorded at fair value at the date of reclassification which becomes the new amortized cost.

The Group may reclassify a non-derivative trading asset out of the "Held-for-trading" category and into the "Loans and receivables" category if it meets the definition of loans and receivables and the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognized as an adjustment to the effective interest rate from the date of the change in estimate.

For a financial asset reclassified out of the "Available-for-sale" category, any previous gain or loss on that asset that has been recognized in other comprehensive income is amortized to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in other comprehensive income is recycled to the consolidated income statement.

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Group does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition. An analysis of reclassified assets is disclosed in Note 42.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(3) Derecognition of financial assets and financial liabilities

(i) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(4) Determination of fair value

The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 42.

(5) Impairment of financial assets

The Group assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(5) Impairment of financial assets (continued)

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganization, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as cash and balances with central banks, due from banks and financial institutions, loans and advances to customers, loans and advances to related parties, financial assets classified as loans and receivables as well as held-to-maturity investments), the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of "Interest and similar income". Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the "Credit loss expense".

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. If the Group has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new effective interest rate (Refer to Note 2.3 (2) (x) above) determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the 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 years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

See Note 22 for details of impairment losses on financial assets carried at amortized cost and Note 19 for an analysis of impairment allowance on loans and advances to customers by class.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(5) Impairment of financial assets (continued)

(ii) Available-for-sale financial investments

For available-for-sale financial investments, the Group assess at each statement of financial position date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Group assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of "Interest and similar income". If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to credit event occurring after the impairment loss was recognized in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

In the case of equity investments classified as available-for-sale, objective evidence would also include a "significant" or "prolonged" decline in the fair value of the investment below its cost. The Group treats "significant" generally as 20% and "prolonged" as greater than 6 months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement – is removed from other comprehensive income and recognized in the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in the fair value after impairment are recognized directly in other comprehensive income.

(iii) Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(6) Hedge accounting

The Group makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions and firm commitments. In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed quarterly. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%. For situations where that hedged item is a forecast transaction, the Group assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated income statement.

(i) Fair value hedges

For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative is recognised in the consolidated income statement in 'Net trading income'. Meanwhile, the change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the consolidated income statement in 'Net trading income'.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(6) Hedge accounting (continued)

(i) Fair value hedges (continued)
If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective interest rate. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

(ii) Cash flow hedges
For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised directly in equity in the 'Cash flow hedge' reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in 'Net trading income'.

When the hedged cash flow affects the consolidated income statement, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the consolidated income statement. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated income statement.

(iii) Hedge of a net investment
Hedges of net investments in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in the income. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to the consolidated income statement.

(7) Offsetting financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position, if, and only if, there is currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(8) Operating leases
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expenses in the income statement on a straight-line basis over the lease term.

(9) Recognition of income and expenses
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

(i) Interest and similar income and expenses
For all financial instruments measured at amortized cost, interest bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate. However, for a reclassified financial asset (see Note 2.3.2 (x)) for which the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognized as an adjustment to the effective interest rate from the date of the change in estimate.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(9) Recognition of income and expenses (continued)

(i) Interest and similar income and expenses (continued)
Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Fee and commission income
The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time
Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan be drawn down, the loan commitment fees are recognized over the commitment period on a straight line basis.

Fee income from providing transaction services
Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

(iii) Dividend income
Dividend income is recognized when the Group's right to receive the payment is established.

(iv) Net trading income
Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities "Held-for-trading". This includes any ineffectiveness recorded in hedging transactions.

(10) Cash and cash equivalents
Cash and cash equivalents as referred to in the cash flow statement comprise balances with original maturities of a period of three months or less including: cash and balances with central banks, deposits with banks and financial institutions, deposits due to banks and financial institutions, and treasury bills.

(11) Property and equipment
Property and equipment are stated at cost less accumulated depreciation and accumulated impairment in value. Certain of tangible real estate properties purchased prior to 1 January 1994 were restated for the changes in the general purchasing power of the Lebanese Lira according to the provisions of law No 282 dated 30 December 1993. The net surplus arising on revaluation is credited to the account of "Reserves for revaluation variance – real estate" recognized in shareholders' equity.

Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated on a straight line basis to write down the cost of property and equipment to their residual values over their estimated useful lives. Freehold land is not depreciated. The estimated useful lives are as follows:

Buildings	50 years
Vehicles	6.67 years
Furniture, office installations and computer equipment	2 – 16.67 years

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(11) Property and equipment (continued)

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in "Net profit from sale or disposal of other assets" in the consolidated income statement in the year the asset is derecognised.

(12) Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities but excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognized directly in the income statement in the year of acquisition.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment in accordance with IFRS 8 Operating Segments.

Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognized in the consolidated income statement.

(13) Intangible assets

The Group's other intangible assets include the value of computer software and key money. An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement in the expense category consistent with the function of the intangible asset.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

Key money:	the lesser of lease period or 5 years
Software development cost:	2-5 years

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(14) Non current assets held for sale

The Group occasionally acquires real estate in settlement of certain loans and advances. Such real estate is stated at the lower of the amount of the related loans and advances and the current fair value of such assets based on the instructions of the Regulatory Authorities. Gains or losses on disposal, and revaluation losses, are recognized in the consolidated income statement for the period.

(15) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated income statement.

Impairment losses relating to goodwill cannot be reversed in future periods.

(16) Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements (within "Other liabilities") at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognized less, when appropriate, cumulative amortization recognized in the consolidated income statement and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

(17) Customers' deposits

All customer deposits are carried at the fair value of the consideration received, less amounts repaid.

(18) Taxation

(i) Current tax

Taxation is provided for in accordance with the fiscal regulations of the respective countries in which the Group and its branches and subsidiaries operate.

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

The Bank's profits from operations in Lebanon are subject to a tax rate of 15% after deducting the 5% tax on interest received according to Law no. 497/2003 dated 30 January 2003.

Dividends are subject to a flat 10% tax, reducible to 5% provided that the Bank is listed on a regulated stock exchange.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(18) Taxation (continued)

(ii) Deferred tax
Deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts in the financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the consolidated income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(19) Provisions for risks and charges
Provisions are recognized when the Group has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(20) Retirement benefits obligation

The Group provides retirement benefits obligation to its employees. The entitlement of these benefits is based upon the employees' final salary, length of services and other local regulations where the Group operates. The expected costs of these benefits are accrued over the period of employment.

For the Bank and its branches operating in Lebanon, end-of-service benefit subscriptions paid and due to the National Social Security Fund (NSSF) are calculated on the basis of 8.5% of the staff salaries. The final end-of-service benefits due to employees after completing 20 years of service, at the retirement age, or if the employee permanently leaves employment, are calculated based on the last salary multiplied by the number of years of service. The Bank is liable to pay to the NSSF the difference between the subscriptions paid and the final end-of-service benefits due to employees. The Bank provides for end-of-service benefits on that basis.

(21) Treasury shares

Own equity instruments of the Bank which are acquired by it or by any of its subsidiaries (treasury shares) are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase sale, issue or cancellation of the Bank's own equity instruments is recognized directly in equity. No gain or loss is recognized in the consolidated income statement on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

When the Bank holds own equity instruments on behalf of its clients, those holdings are not included in the Bank's statement of financial position.

(22) Fiduciary assets

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Group; and accordingly are recorded as off financial position items.

(23) Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders.

Dividends for the year that are approved after the statement of financial position date are disclosed as an event after the statement of financial position date.

(24) Segment reporting

The Group's segmental reporting is based on the following operating segments: Retail banking, corporate banking, treasury, money and capital markets and asset management and private banking.

(25) Accounting policies of subsidiary-insurance companies

The financial statements of the subsidiary insurance companies have been prepared in accordance with International Financial Reporting Standards and the requirements of the regulations related to insurance and reinsurance companies where the subsidiaries operate. The key accounting policies are as follows:

Premiums earned

Net premiums and accessories (gross premiums) are taken to income over the terms of the policies to which they relate using the prorata temporis method for non-marine business and 25% of gross premiums for marine business. Unearned premiums reserve represents the portion of the gross premiums written relating to the unexpired period of coverage.

If the unearned premiums reserve is not considered adequate to cover future claims arising on these premiums a premium deficiency reserve is created.

Commissions earned and paid

Commissions earned are recognized at the time policies are written.

Commissions paid are expensed over the terms of the policies to which they relate using the pro-rata temporis method for non-marine business and 25% of commissions paid for marine business. Deferred acquisition costs represent the portion of commissions paid relating to the unexpired period of coverage.

(26) Bank acceptances

Bank acceptances represent term documentary credits which the Group has committed to settle on behalf of its clients against commitments by those clients (acceptances). The commitments resulting from these acceptances are stated as a liability in the statement of financial position for the same amount.

2 ACCOUNTING POLICIES (continued)

2.4 Significant accounting judgments and estimates

In the process of applying the Group's accounting policies, management has exercised judgment and estimates in determining the amounts recognized in the financial statements. The most significant use of judgment and estimates are as follows:

Going concern
The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The valuation of financial instruments is described in more detail in Note 42.

Impairment losses on loans and advances
The Group reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident.

The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilization, loan to collateral ratios etc), concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

The impairment loss on loans and advances is disclosed in more detail in note 9.

Impairment of available-for-sale investments
The Group reviews its debt securities classified as available-for-sale investments at each statement of financial position date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is "significant" or "prolonged" requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and the duration and extent to which the fair value of an investment is less than its cost.

Deferred tax assets
Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

3 SEGMENTAL INFORMATION

The Group's segments provide products or services subject to different risks and returns than other segments.

The Group operates in four major business segments: retail, corporate, treasury, money and capital markets, and asset management and private banking.

Retail banking: Principally handling individual, customers' deposits and providing consumer loans, overdrafts, credit cards facilities and funds transfer facilities.

Corporate banking: Principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers.

Treasury, money and capital markets: Principally handling various investment services including operations in the money market for the Group's customers, trading operations (locally and internationally) and management of the liquidity risks and market risks. This segment also handles the management of the Group's portfolio of equities, debt securities and other financial instruments.

Asset management and private banking: Principally providing investment products and services to institutional investors and intermediaries.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the financial statements. Income taxes are not allocated to operating segments.

Interest income is reported net since the majority of the segments' revenues are from interest. Management primarily relies on net interest revenue as performance measure, not the gross revenue and expense amounts.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2009 or 2008.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The following table presents income and profit and certain asset and liability information regarding the Group's operating segments.

	2009					
	Treasury, money and capital markets LL million	*Corporate banking LL million*	*Retail banking LL million*	*Asset management and private banking LL million*	*Unallocated LL million*	*Total LL million*
Revenue						
Net interest income	466,617	102,679	58,043	4,194	-	631,533
Net fee and commission income	11,200	67,343	16,140	9,537	17,558	121,778
Net trading income	11,639	-	24,442	-	-	36,081
Net gain on financial assets designated at fair value through profit or loss	7,507	-	-	-	-	7,507
Net gain on financial investments	38,558	-	-	-	-	38,558
Other operating income	-	-	18,836	-	-	18,836
Total operating income	535,521	170,022	117,461	13,731	17,558	854,293
Credit loss income (expense)	-	6,915	(1,700)	-	-	5,215
Write-back of provision on financial investments	15,721	-	-	-	-	15,721
Net operating income	551,242	176,937	115,761	13,731	17,558	875,229
Unallocated expenses						(347,518)
Income tax expense						(85,982)
Profit for the year						441,729
Segment's assets	24,314,720	4,266,159	1,617,871	177,370	832,724	31,208,844
Segment's liabilities	20,536,777	4,519,098	2,554,587	206,874	815,959	28,633,295

3 SEGMENTAL INFORMATION (continued)

	2008					
	Treasury, money and capital markets LL million	*Corporate banking LL million*	*Retail banking LL million*	*Asset management and private banking LL million*	*Unallocated LL million*	*Total LL million*
Revenue						
Net interest income	461,325	117,474	34,987	4,443	-	618,229
Net fee and commission income	11,914	71,066	20,627	8,030	10,595	122,232
Net trading income	14,269	-	27,036	-	-	41,305
Net loss on financial assets designated at fair value through profit or loss	(4,523)	-	-	-	-	(4,523)
Net profit on financial operations	9,809	-	-	-	-	9,809
Other operating income	-	-	7,433	-	-	7,433
Total operating income	492,794	188,540	90,083	12,473	10,595	794,485
Credit loss expense (income)	(14,200)	982	178	-	-	(13,040)
Impairment losses on financial investments	(15,723)	-	-	-	-	(15,723)
Net operating income	462,871	189,522	90,261	12,473	10,595	765,722
Unallocated expense						(307,996)
Income tax expense						(78,472)
Profit for the year						379,254
Segment's assets	20,954,459	3,946,658	1,324,940	167,987	586,769	26,980,813
Segment's liabilities	17,931,199	4,566,084	1,359,929	172,686	751,596	24,781,494

Geographic information

The Group operates in two geographic markets based on the location of its markets and customers. The local market represents the Lebanese market and the international market represents markets outside Lebanon. The following table shows the distribution of the Group's external net operating income, total assets and capital expenditure by geographical segment.

	Domestic		*International*		*Total*	
	2009 LL million	*2008 LL million*	***2009 LL million***	*2008 LL million*	***2009 LL million***	*2008 LL million*
Revenue						
Net interest income	**515,015**	389,145	**116,518**	229,084	**631,533**	618,229
Net fee and commission income	**71,566**	60,591	**50,212**	61,641	**121,778**	122,232
Net trading income	**13,419**	10,879	**22,662**	30,426	**36,081**	41,305
Net gain (loss) on financial assets designated at fair value through profit or loss	**7,507**	(4,523)	**-**	-	**7,507**	(4,523)
Net gain on financial investments	**31,619**	7,655	**6,939**	2,154	**38,558**	9,809
Other operating income	**7,411**	3,418	**11,425**	4,015	**18,836**	7,433
Credit loss income (expense)	**8,269**	5,470	**(3,054)**	(18,510)	**5,215**	(13,040)
Write back of provision (impairment losses) on financial investments	**-**	-	**15,721**	(15,723)	**15,721**	(15,723)
Net operating income	**654,806**	472,635	**220,423**	293,087	**875,229**	765,722
Total operating expenses	**(188,734)**	(182,294)	**(158,913)**	(130,726)	**(347,647)**	(313,020)
Net profit from sale or disposal of other assets	**75**	725	**54**	4,299	**129**	5,024
Profit before tax	**466,147**	291,066	**61,564**	166,660	**527,711**	457,726
Total assets	**18,674,224**	15,718,922	**12,534,620**	11,261,891	**31,208,844**	26,980,813
Capital expenditures	**34,156**	37,217	**85,143**	63,303	**119,299**	100,520

The Group's major business segment is banking. Insurance activities represent 2% (2008: 2%) of profit before income tax and 1% (2008: 1%) of total assets.

4 INTEREST AND SIMILAR INCOME

	2009 LL million	*2008 LL million*
Financial investments – available-for-sale	**389,128**	493,298
Financial investments – classified as loans and receivables	**684,444**	332,873
Financial investments – held-to-maturity	**27,648**	29,108
Financial investments – fair value through profit or loss	**3,625**	3,184
Deposits and similar accounts with banks and financial institutions	**160,777**	358,869
Loans and advances to customers	**446,272**	413,558
Loans and advances to related parties	**1,034**	477
	1,712,928	1,631,367

5 INTEREST AND SIMILAR EXPENSE

	2009 LL million	*2008 LL million*
Deposits and similar accounts from banks and financial institutions	**10,534**	18,682
Deposits from customers and other credit balances	**1,064,548**	989,085
Deposits from related parties	**6,313**	5,371
	1,081,395	1,013,138

6 NET FEE AND COMMISSION INCOME

	2009 LL million	*2008 LL million*
Fee and commission income		
Letters of credit, guarantees and acceptances	**26,538**	28,325
Loans and advances to customers	**22,263**	24,005
Asset management and correspondents' accounts (arising from fiduciary activities)	**9,537**	8,030
Checking accounts and transfers	**11,200**	11,914
Credit cards	**12,258**	10,278
Customers' deposits	**18,541**	18,736
Insurance premiums' commissions	**17,558**	10,595
Other services	**26,840**	26,325
	144,735	138,208
Fee and commission expense:		
Correspondents' accounts	**(22,957)**	(15,976)
	121,778	122,232

7 NET TRADING INCOME

	2009	*2008*
	LL million	*LL million*
Debt securities	**1,793**	4,673
Equities	**6,808**	4,730
Foreign exchange	**27,480**	31,902
	36,081	41,305

"Equities" income includes the results of buying and selling, and changes in the fair value of equity securities.

"Debt securities" income includes the results of buying and selling and changes in the fair value of trading debt securities as well as the related interest income and expense.

'Foreign exchange' income includes gains and losses from spot and forward contracts and other currency derivatives.

8 NET GAIN ON FINANCIAL INVESTMENTS

	2009	*2008*
	LL million	*LL million*
Dividend income	**895**	476
Gain from sale of financial assets classified as loans and receivables	**23,398**	101
Gain from sale of available-for-sale financial investments	**14,265**	9,232
	38,558	9,809

9 CREDIT LOSS INCOME (EXPENSE)

	2009	*2008*
	LL million	*LL million*
Provision for loans and advances:		
Commercial loans (note 19)	**(6,744)**	(24,270)
Consumer loans (note 19)	**(3,331)**	(99)
Banks and financial institutions (note 15)	**-**	(3,765)
Fiduciary customers' commitments (note 31)	**-**	(9,160)
Sundry debtors (note 25)	**-**	(1,275)
	(10,075)	(38,569)
Write-back of provisions for loans and advances:		
Commercial loans (note 19)	**4,980**	12,218
Consumer loans (note 19)	**1,631**	277
Unrealized interest (note 19)	**2,412**	6,630
Off-financial position loans	**5,529**	6,169
Commitment by signature	**-**	14
Settled legal suits	**650**	221
Risk and charges	**88**	-
	15,290	25,529
	5,215	(13,040)

10 PERSONNEL EXPENSES

	2009 ***LL million***	*2008* *LL million*
Wages and salaries	**100,726**	89,898
Social security contributions	**17,709**	15,893
Provisions for retirement benefits obligation (note 32)	**6,484**	10,526
Additional allowances	**22,482**	17,818
Bonus paid	**44,682**	40,056
	192,083	174,191

11 OTHER OPERATING EXPENSES

	2009 ***LL million***	*2008* *LL million*
Board of directors' attendance fees	**1,238**	1,153
Taxes and fees	**12,346**	6,566
Fee for guarantee of deposits	**8,225**	6,768
Rent and related charges	**9,117**	8,585
Electricity and fuel	**4,670**	4,710
Professional fees	**13,036**	10,855
Postage and telecommunications	**9,972**	10,706
Maintenance and repairs	**10,800**	8,374
Travel expenses	**3,378**	3,973
Insurance	**1,791**	1,201
Marketing and advertising	**9,604**	10,265
Stationary and printings	**5,162**	6,973
Fiscal stamps	**4,119**	3,427
Others	**27,218**	28,864
	120,676	112,420

12 INCOME TAX

The components of income tax expense for the years ended 31 December 2009 and 2008 are:

	2009 ***LL million***	*2008* *LL million*
5% tax paid on interest revenue during the year	**32,327**	21,678
Income tax on profit for the year	**53,655**	56,794
	85,982	78,472

12 INCOME TAX (continued)

Reconciliation of total tax change

The relationship between taxable profit and accounting profit of BLOM Bank SAL and its foreign branches and subsidiaries is as follow:

	2009	*2008*
	LL million	*LL million*
Profit before income tax	**527,711**	457,726
Less: Results of the subsidiary insurance company located in Lebanon(*)	**(7,702)**	(6,722)
Accounting profit before income tax	**520,009**	451,004
Add:		
Provisions non tax deductible	**4,761**	50,157
Other non tax deductible charges	**41,681**	31,579
Unrealized loss on difference of exchange	**868**	1,914
	567,319	534,654
Less:		
Dividends received and previously subject to income tax	**(3,969)**	(410)
Remunerations already taxed	**(8,571)**	(8,735)
4% of a subsidiary's capital eligible to be tax deductible	**(400)**	(400)
Write-back of provisions previously subject to income tax	**(30,505)**	(18,137)
Non taxable income	**(6,582)**	(2,956)
Permanent deductible charges	**(13,895)**	(49,964)
Losses related to prior years	**(41,655)**	(21,393)
Others	**(172)**	(132)
Taxable profit	**461,570**	432,527
Effective income tax rate	**16.29%**	17.14%
Income tax expense in the consolidated income statement	**85,982**	78,472

(*) The insurance company in Lebanon is subject to income tax at the rate of 15% calculated based on gross insurance premiums weighted differently for each class of business.

13 EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

The following table shows the income and share data used in the basic earnings per share calculations:

		2009	*2008*
Net profit for the year	***LL million***	**441,729**	379,254
Less :Proposed dividends on preferred shares (note 38)	***LL million***	**(23,931)**	(23,931)
Minority interests	***LL million***	**(12,171)**	(13,983)
Net profit attributable to ordinary equity holders of the parent	***LL million***	**405,627**	341,340
Weighted average number of ordinary shares for basic earnings per share		**20,885,997**	21,179,584
Basic earnings per share	***LL***	**19,421**	16,116

13 EARNINGS PER SHARE (continued)

No figure for diluted earnings per share has been presented as the Bank has not issued any instruments which would have an impact on earnings per share when exercised.

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of approval of these consolidated financial statements.

14 CASH AND BALANCES WITH CENTRAL BANKS

	2009 *LL million*	*2008* *LL million*
Cash on hand	**168,331**	157,257
Current accounts with Central Banks	**1,870,986**	1,262,770
Deposits with the Central Banks	**2,654,657**	2,160,440
	4,693,974	3,580,467

Cash and balances with the Central Banks include non-interest bearing balances held by the Group at the Bank of Lebanon in coverage of the obligatory reserve requirements for all banks operating in Lebanon on deposits in Lebanese Lira as required by the Lebanese banking rules and regulations. This obligatory reserve is calculated on the basis of 25% of sight commitments and 15% of term commitments.

In addition to the above, all banks operating in Lebanon are required to deposit with the Bank of Lebanon interest- bearing placements at the rate of 15% of total deposits in foreign currencies regardless of nature.

Foreign subsidiaries are also subject to obligatory reserve requirements with varying percentages, according to the banking rules and regulations of the countries in which they are located.

15 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2009 *LL million*	*2008* *LL million*
Current accounts		
Current accounts	**554,720**	533,017
Time deposits		
Time deposits	**5,231,027**	5,282,988
Doubtful accounts with banks	**5,197**	5,142
Less: Impairment allowance for placements with other banks (note 9)	**(3,769)**	(3,765)
Less: Unrealized interest for placements with other banks	**(58)**	-
	5,232,397	5,284,365
	5,787,117	5,817,382

Time deposits include US$ 185 million (2008: US$ 450 million) being guarantees against short term cash advances in the amount of Euro 105 million (2008: Euro 290 million). According to the contracts entered into with these banks, the Bank can withdraw these term deposits upon the settlement of the short-term cash advances.

The movement of the impairment allowance for placements with other banks is due to the difference of exchange of LL 4 million.

16 DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

	2009			*2008*		
	Assets LL million	***Liabilities LL million***	***Total notional amount LL million***	*Assets LL million*	*Liabilities LL million*	*Total notional amount LL million*
Derivatives held-for-trading						
Forward foreign exchange contracts	**21,632**	**18,454**	**3,466,008**	37,873	30,836	1,842,082
Equity swaps and options	**5,072**	**5,072**	**1,110,062**	1,994	1,994	77,325
	26,704	**23,526**	**4,576,070**	39,867	32,830	1,919,407
Derivatives used as fair value hedges						
Forward foreign exchange contracts (Hedge of net investment in foreign operations)	**6,840**	**-**	**233,059**	-	23,949	230,569
	6,840	**-**	**233,059**	-	23,949	230,569
	33,544	**23,526**	**4,809,129**	39,867	56,779	2,149,976

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Group.
Over-the-counter derivatives may expose the Group to the risks associated with the absence of an exchange market on which to close out an open position.

The Group's exposure under derivative contracts is closely monitored as part of the overall management of the Group's market risk (see also Note 45).

Forwards

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

The Group has credit exposure to the counterparties of forward contracts. Forward contracts are settled gross and are, therefore, considered to bear a liquidity risk. Forward contracts result in market risk exposure.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

The Group purchases and sells options through regulated exchanges and in the over-the-counter markets. Options purchased by the Group provide the Group with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed-upon value either on or before the expiration of the option. The Group is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

Derivative financial instruments held-for-trading purposes

Most of the Group's derivative trading activities relate to deals with customers which are normally offset by transactions with other counterparties. The Group may also take positions with the expectation of profiting from favorable movements in prices, rates or indices. Also included under this heading are any derivatives entered into for hedging purposes which do not meet the IAS 39 hedge accounting criteria.

16 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Derivative held for hedging purposes
As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to reduce its exposure to currency risk.

The Group uses forward foreign exchange contracts to hedge against specifically identified currency risks.

Hedge of net investment in foreign operations
Forward foreign exchange contracts (to sell Euros and buy US Dollars) designated as a hedge of the Bank's net investment in its French subsidiary, and is being used to hedge the Bank's investment exposure to foreign exchange risk on this investment amounting to Euro 107,904 thousand (2008: same). The notional amount of these contracts amounted to Euro 107,904 thousand (LL 233,059 million) as at 31 December 2009 (2008: LL 230,569 million). The forward foreign exchange contracts were revalued as of 31 December 2009 and resulted in unrealized gain of LL 6,840 million (2008: unrealized losses of LL 23,949 million). The contracts mature on 4 February 2010 at latest.

17 FINANCIAL ASSETS HELD-FOR-TRADING

	2009 LL million	*2008 LL million*
Debt securities	**8,654**	2,335
Equities	**13,397**	9,793
Investment funds	**2,712**	2,136
	24,763	14,264

18 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2009 LL million	*2008 LL million*
Convertible bonds	**66,305**	40,950
Investments related to unit-linked contracts (i)	**73,097**	41,005
	139,402	81,955

(i) The unrealized gain on investments related to unit-linked contracts amounted to LL 3,497 million for the year ended 31 December 2009 (2008: unrealized loss of LL 3,138 million).

19 LOANS AND ADVANCES TO CUSTOMERS

	2009 LL million	*2008 LL million*
Commercial loans	**4,621,866**	4,102,485
Consumer loans	**1,641,713**	1,346,041
Less:		
Allowance for impairment losses	**(178,946)**	(182,260)
Allowance for unrealized interest on impaired loans	**(38,032)**	(35,819)
	6,046,601	5,230,447

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

Breakdown by economic sector

	2009 ***LL million***	*2008* *LL million*
Agriculture and forestry	**24,454**	39,076
Manufacturing	**671,633**	556,334
Trade retail	**151,063**	193,911
Trade wholesale	**983,881**	1,013,297
Services	**1,653,459**	1,237,941
Construction	**803,133**	588,088
Freelance professions	**334,243**	473,838
Consumer loans	**1,641,713**	1,346,041
	6,263,579	5,448,526

A reconciliation of the allowance for impairment losses for loans and advances, by class, is as follows:

	2009			*2008*		
	Commercial loans LL million	***Consumer loans LL million***	***Total LL million***	*Commercial loans LL million*	*Consumer loans LL million*	*Total LL million*
Balance at 1 January	**161,159**	**21,101**	**182,260**	231,025	21,311	252,336
Add:						
Charge for the year	**6,744**	**3,331**	**10,075**	24,270	99	24,369
Provision transferred from off financial position - Recovery	**-**	**-**	**-**	227	-	227
Foreign exchange difference	**3,083**	**25**	**3,108**	(1,122)	-	(1,122)
	170,986	**24,457**	**195,443**	254,400	21,410	275,810
Less:						
Provisions written-off	**(4,685)**	**-**	**(4,685)**	(59,423)	(32)	(59,455)
Write-back of provisions	**(4,980)**	**(1,631)**	**(6,611)**	(12,218)	(277)	(12,495)
Provision transferred to off financial position	**(5,144)**	**-**	**(5,144)**	(21,706)	-	(21,706)
Foreign exchange difference	**(57)**	**-**	**(57)**	106	-	106
	(14,866)	**(1,631)**	**(16,497)**	(93,241)	(309)	(93,550)
Balance at 31 December	**156,120**	**22,826**	**178,946**	161,159	21,101	182,260
Individual impairment	**134,618**	**5,076**	**139,694**	141,456	3,351	144,807
Provision for loans not classified yet	**21,502**	**17,750**	**39,252**	19,703	17,750	37,453
	156,120	**22,826**	**178,946**	161,159	21,101	182,260
Gross amount of loans individually determined to be impaired	**202,828**	**13,225**	**216,053**	204,043	10,006	214,049

Collateral repossessed

During the year, the Bank took possession of real estates with a carrying value of LL 14,411 million (2008: LL 15,463 million) at the statement of financial position date, which the Bank is in the process of selling.

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

A reconciliation of allowance for unrealized interest on impaired loans, by class, as follows:

	2009 Commercial loans LL million	*2008 Commercial loans LL million*
Balance at 1 January	**35,819**	89,841
Add:		
Unrealized interest for the year	**35,118**	7,070
Foreign exchange difference	**(1,553)**	117
Transferred from off-financial position	**-**	61
	69,384	97,089
Less:		
Recoveries of unrealized interest	**(2,412)**	(6,630)
Amounts written-off	**(26,505)**	(17,664)
Transferred to off-financial position	**(2,435)**	(36,976)
Balance at 31 December	**38,032**	35,819
Unrealized interest on substandard loans	**13,000**	12,187
Unrealized interest on doubtful loans	**25,032**	23,632
	38,032	35,819

As required by Bank of Lebanon regulations, impaired loans fulfilling certain conditions have been transferred to off financial position, together with the related allowance for impairment losses provisions and allowance for unrealized interest.

The movement of allowance for impairment losses and allowance for unrealized interest against fully impaired loans included in the off financial position accounts is as follows:

	2009 LL million	*2008 LL million*
Balance at 1 January	**83,928**	28,312
Add:		
Unrealized interest for the year	**6,747**	5,756
Provision and unrealized interest transferred from the statement of financial position	**7,579**	58,682
Foreign exchange difference	**36**	-
	98,290	92,750
Less:		
Provisions written-back	**(2,767)**	(3,632)
Recoveries	**(2,762)**	(2,537)
Amounts written-off	**(10,066)**	(2,251)
Provision and unrealized interest transferred to the statement of financial position	**-**	(288)
Foreign exchange difference	**-**	(114)
	(15,595)	(8,822)
Balance at 31 December	**82,695**	83,928

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

The fair value of collateral that the Group holds relating to loans and advances to corporate customers individually determined to be impaired amounts to LL 179,329 million as of 31 December 2009 (LL 122,459 million as of 31 December 2008). The collateral consists of cash, securities, letters of guarantee and properties.

As for the consumer loans that are individually determined to be impaired, the fair value of the collateral that the Group holds exceed the carrying value of these loans at the statement of financial position date.

20 BANK ACCEPTANCES / ENGAGEMENTS BY ACCEPTANCES

	2009 ***LL million***	*2008* *LL million*
Acceptances as of 31 December	**197,637**	202,211

Acceptances resulted from letters of credit opened for accounts of customers, with deferred payments.

21 NON-CURRENT ASSETS HELD FOR SALE

	2009 ***LL million***	*2008* *LL million*
Cost		
At 1 January	**34,765**	20,099
Additions	**14,411**	15,463
Disposals	**(12,189)**	(819)
Translation difference	**63**	22
At 31 December	**37,050**	34,765
Impairment		
At 1 January	**(7,204)**	(7,204)
At 31 December	**(7,204)**	(7,204)
Net carrying value		
At 31 December	**29,846**	27,561

22 FINANCIAL INVESTMENTS

	2009			2008		
	Available-for- sale investments LL million	***Financial investments classified as loans & receivables LL million***	***Held-to-maturity investments LL million***	*Available-for- sale investments LL million*	*Financial investments classified as loans & receivables LL million*	*Held- to-maturity investments LL million*
Quoted investments						
Equities	12	-	-	922	-	-
Debt securities	166,349	554,365	440,255	67,512	501,425	411,793
Certificates of deposit – commercial banks and financial institutions	121,279	4,557	-	194	4,546	-
	287,640	**558,922**	**440,255**	68,628	505,971	411,793
Unquoted investments						
Government debt securities	**4,313,911**	**2,256,217**	**267,835**	4,533,923	2,393,514	198,616
Debt securities (i)	**13,858**	**-**	**36,554**	13,858	-	24,547
Certificates of deposit – Central Bank of Lebanon	**-**	**5,158,477**	**-**	-	2,907,053	-
Certificates of deposit – Commercial banks and financial institutions	**72,460**	**124,080**	**30,353**	70,083	130,175	-
Equities (ii)	**6,201**	**-**	**-**	5,343	-	-
Granted financial loans	**-**	**102,551**	**-**	-	172,594	-
Investment fund (iii)	**151**	**-**	**-**	151	-	-
	4,406,581	**7,641,325**	**334,742**	4,623,358	5,603,336	223,163
Collective impairment	**-**	**-**	**-**	-	(15,075)	(650)
	4,694,221	**8,200,247**	**774,997**	4,691,986	6,094,232	634,306

22 FINANCIAL INVESTMENTS (continued)

Collective impairment allowance for financial investments classified as loans and receivables and held-to-maturity

A reconciliation of the collective impairment allowance for financial investments classified as loans and receivables and held-to-maturity (relating to unquoted debt securities), is as follows:

	2009 LL million	*2008 LL million*
At 1 January	**15,725**	-
Charge for the year	**-**	15,723
Write-back during the year	**(15,721)**	-
Difference on exchange	**(4)**	2
At 31 December	**-**	15,725

All unquoted available-for-sale financial investments are recorded at fair value as of 31 December except for the following:

	2009 LL million	*2008 LL million*
Debt securities (i)	**13,858**	13,858
Equities (ii)	**6,201**	5,343
Investment fund (iii)	**151**	151
	20,210	19,352

All unquoted available-for-sale financial investments listed above are recorded at cost since their fair value cannot be reliably estimated. There is no market for these investments, and the Group intends to hold them for the long term.

In 2008 and due to the financial crisis in international markets and the ongoing decrease in the market value of some financial instruments, the Group's management decided to provide a collective provision covering any upcoming decrease in the value of its financial assets amounted to USD 10,431 thousand (LL 15,725 million) for the year ended 31 December 2008. This provision was written-bank during 2009 taking into consideration the significant increase in the market value of these financial instruments.

23 PROPERTY AND EQUIPMENT

	Freehold land and buildings LL million	*Vehicles LL million*	*Furniture, office installations and computer equipment LL million*	*Advances on acquisition of fixed assets and construction in progress LL million*	*Total LL million*
Cost					
At 1 January 2009	217,575	4,807	199,002	47,411	468,795
Additions	24,587	1,110	22,383	67,768	115,848
Disposals	(2,043)	(639)	(4,013)	(19,721)	(26,416)
Transfers	28,636	60	6,989	(35,910)	(225)
Adjustments	-	-	-	(9,587)	(9,587)
Translation difference	650	(231)	(2,968)	228	(2,321)
At 31 December 2009	**269,405**	**5,107**	**221,393**	**50,189**	**546,094**
Depreciation					
At 1 January 2008	34,672	2,806	106,741	-	144,219
Charge for the year	5,959	814	26,345	-	33,118
Relating to disposals	-	(590)	(2,983)	-	(3,573)
Translation difference	(85)	(147)	(2,288)	-	(2,520)
At 31 December 2009	**40,546**	**2,883**	**127,815**	**-**	**171,244**
Net carrying value					
At 31 December 2009	**228,859**	**2,224**	**93,578**	**50,189**	**374,850**

23 PROPERTY AND EQUIPMENT (continued)

	Freehold land and buildings LL million	*Vehicles LL million*	*Furniture, office installations and computer equipment LL million*	*Advances on acquisition of fixed assets and construction in progress LL million*	*Total LL million*
Cost					
At 1 January 2008	182,812	4,498	146,119	48,583	382,012
Additions	36,567	520	36,335	25,338	98,760
Disposals	(6,595)	(125)	(1,729)	(421)	(8,870)
Transfers	7,871	-	18,380	(26,251)	-
Translation difference	(3,080)	(86)	(103)	162	(3,107)
At 31 December 2008	217,575	4,807	199,002	47,411	468,795
Depreciation					
At 1 January 2008	31,198	2,078	88,989	-	122,265
Charge for the year	5,193	848	19,421	-	25,462
Relating to disposals	(1,123)	(124)	(1,613)	-	(2,860)
Translation difference	(596)	4	(56)	-	(648)
At 31 December 2008	34,672	2,806	106,741	-	144,219
Net carrying value					
At 31 December 2008	182,903	2,001	92,261	47,411	324,576

Certain freehold land and buildings purchased prior to 1 January 1999 were restated in previous years for the changes in the general purchasing power of the Lebanese Lira giving rise to a net surplus amounting to LL 14,727 million, which was credited to equity under “reserves for revaluation variance – real estate”.

24 INTANGIBLE ASSETS

	Software development LL million	*Key money LL million*	*Advances on acquisition of intangible assets LL million*	*Total LL million*
Cost				
At 1 January 2009	8,299	9,048	475	17,822
Additions	3,038	-	413	3,451
Disposals	(149)	-	(434)	(583)
Transfers	233	-	(8)	225
Translation difference	56	101	(17)	140
At 31 December 2009	**11,477**	**9,149**	**429**	**21,055**
Amortization				
At 1 January 2009	5,900	6,615	-	12,515
Charge for the year	1,623	147	-	1,770
Relating to disposals	(149)	-	-	(149)
Translation difference	127	65	-	192
At 31 December 2009	**7,501**	**6,827**	**-**	**14,328**
Net carrying value				
At 31 December 2009	**3,976**	**2,322**	**429**	**6,727**

24 INTANGIBLE ASSETS (continued)

	Software development LL million	*Key money LL million*	*Advances on acquisition of intangible assets LL million*	*Total LL million*
Cost				
At 1 January 2008	6,007	8,869	887	15,763
Additions	1,411	-	349	1,760
Transfers	707	-	(707)	-
Translation difference	174	179	(54)	299
At 31 December 2008	8,299	9,048	475	17,822
Amortization				
At 1 January 2008	4,927	6,377	-	11,304
Charge for the year	799	148	-	947
Translation difference	174	90	-	264
At 31 December 2008	5,900	6,615	-	12,515
Net carrying value				
At 31 December 2008	2,399	2,433	475	5,307

25 OTHER ASSETS

	2009 LL million	*2008 LL million*
Compulsory deposits (i)	**15,094**	15,033
Precious metals and stamps	**740**	615
Customers' transactions between head office and branches	**13,505**	16,929
Prepaid expenses	**22,275**	27,762
Transactions pending between consolidated subsidiaries	**6,252**	5,729
Sundry debtors (ii)	**8,874**	2,549
Other revenues to be collected	**7,754**	8,528
Reinsurer's share of technical reserves	**21,846**	14,448
Taxes paid in advance	**-**	34,007
Investment in a non-consolidated subsidiary (iii)	**50**	50
Other assets	**33,120**	39,950
	129,510	165,600

(i) Compulsory deposits represent amounts deposited with local authorities based on local regulations of the countries in which the subsidiaries are located, and are detailed as follows:

	2009 LL million	*2008 LL million*
BLOM Invest SAL	**1,500**	1,500
Bank of Syria and Overseas SA	**9,094**	9,033
BLOM Development Bank SAL	**4,500**	4,500
	15,094	15,033

25 OTHER ASSETS (continued)

(ii) Sundry debtors

	2009	*2008*
	LL million	*LL million*
Sundry debtors	**11,613**	5,286
Less: Provision against sundry debtors	**(2,739)**	(2,737)
	8,874	2,549

The movement of provision against sundry debtors is summarized as follows:

	2009	*2008*
	LL million	*LL million*
Balance at 1 January	**2,737**	1,466
Provided during the year (note 9)	**-**	1,275
Translation difference	**2**	(4)
Balance at 31 December	**2,739**	2,737

(iii) The book value of the subsidiary's equity which was not consolidated because it is immaterial to the consolidated financial statements as at 31 December is detailed as follows:

	Shareholders' equity	
	2009	*2008*
	LL million	*LL million*
Société de Services d'Assurances et de Marketing SAL	**216**	163

26 GOODWILL

	2009	*2008*
	LL million	*LL million*
Cost:		
At 1 January	**63,145**	60,586
Translation difference	**123**	2,559
At 31 December	**63,268**	63,145

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to two individual cash-generating units, which are subsidiaries of the Bank, for impairment testing as follows:

- BLOM Bank Egypt SAE
- BLOM Bank (Switzerland) SA

The carrying amount of goodwill allocated to each of the subsidiaries is as follows:

	2009	*2008*
	LL million	*LL million*
BLOM Bank Egypt SAE	**61,550**	62,077
BLOM Bank (Switzerland) SA	**1,718**	1,068
	63,268	63,145

26 GOODWILL (continued)

Key assumptions used in value in use calculations
The recoverable amount of BLOM Bank Egypt SAE has been determined based on a value in use calculation, using cash flow projections based on financial budgets approved by senior management covering a ten-year period. The following rates are used by the Bank.

	2009	*2008*
	%	*%*
Discount rate	**9.54**	9.41
Projected growth rate (average during the first 5 years)	**14.12**	12
Projected growth rate beyond the five year period	**0**	0

The calculation of value in use for BLOM Bank Egypt SAE is most sensitive to the following assumptions:
- Interest margins;
- Discount rates;
- Projected growth rates;
- Gross domestic product of the country where the subsidiary operates;
- Local inflation rates.

Interest margins
Interest margins are based on average values achieved in the 13 months proceeding of the budget period. These are increased over the budget period for anticipated market conditions.

Discount rates
Discount rates reflect management's estimate of return on capital employed. Discount rates are calculated by using the weighted average cost of capital.

Projected growth rates, GDP and local inflation rates
Assumptions are based on management analysis and published industry research.

Sensitivity to changes in assumptions
Management believes that reasonable possible change in any of the above key assumptions would cause the carrying value of the units to exceed their recoverable amount.

27 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2009	*2008*
	LL million	*LL million*
Current accounts	**305,063**	334,912
Time deposits	**400,375**	861,834
	705,438	1,196,746

28 CUSTOMERS' DEPOSITS

	2009	*2008*
	LL million	*LL million*
Sight deposits	**3,666,255**	2,632,131
Time deposits	**12,630,830**	10,532,384
Saving accounts	**9,539,939**	8,696,333
Credit accounts and deposits against debit accounts	**1,022,027**	775,247
	26,859,051	22,636,095

Customers' deposits include coded deposit accounts in BLOM Bank SAL and BLOM Invest Bank SAL amounting to LL 82,778 million as of 31 December 2009 (2008: LL 64,306 million).

29 CURRENT TAX LIABILITIES

	2009	*2008*
	LL million	*LL million*
Income tax liability	**48,588**	53,159
Income tax payable is detailed as follows:		
At 1 January	**53,159**	31,984
Tax expense for the year	**53,655**	56,794
Tax paid during the year	**(58,728)**	(35,160)
Exchange difference	**502**	(459)
At 31 December	**48,588**	53,159

30 OTHER LIABILITIES

	2009	*2008*
	LL million	*LL million*
Margins on letters of credit	**81,134**	61,350
Deposits related to entities under constitution	**-**	834
Transactions pending between consolidated subsidiaries	**21,322**	17,024
Advances from customers for acquisition of securities	**22,119**	18,757
Sundry creditors	**41,733**	45,819
Dividends payable	**439**	339
Accrued expenses	**44,887**	40,686
Transactions pending between branches	**56,698**	17,351
Unearned premiums and liability related to unit linked insurance contracts	**189,352**	164,993
Complementary taxes due related to a subsidiary bank (i)	**10,136**	50,269
Other taxes due	**17,586**	12,789
Other liabilities	**6,116**	-
	491,522	430,211

(i) Complementary taxes due related to a subsidiary bank represents mainly accruals for additional complementary taxes in a subsidiary resulting from inspection by tax authorities for the years from 1991 onwards. The subsidiary bank settled an amount of LL 40,133 million in 2009.

31 PROVISIONS FOR RISKS AND CHARGES

	2009	*2008*
	LL million	*LL million*
Provision for risks and charges (i)	**4,378**	4,679
Provision for fiduciary customers' commitments (note 9) (ii)	**9,160**	9,160
Provision for outstanding claims and IBNR reserves related to subsidiary- insurance companies (iii)	**24,088**	16,855
Other provision	**795**	787
	38,421	31,481

31 PROVISIONS FOR RISKS AND CHARGES (continued)

(i) Provisions for risks and charges

	2009	*2008*
	LL million	*LL million*
Balance at 1 January	**4,679**	5,546
Charge for the year	**1,567**	637
Provisions paid during the year	**(1,915)**	(1,591)
Provisions written-back during the year	**-**	(14)
Exchange difference	**47**	101
Balance at 31 December	**4,378**	4,679

(ii) The provision for fiduciary customers' commitments amounting to LL 9,160 million represents a provision against probable default of Investment Dar S.A.K. - Kuwait to settle the fiduciary deposits of BLOM Development Bank SAL's (a subsidiary) customers.

(iii) Provisions for outstanding claims and IBNR reserves related to subsidiary-insurance companies

	2009	*2008*
	LL million	*LL million*
Balance at 1 January	**16,855**	9,512
Provision for outstanding claims and IBNR reserves charged for the year	**7,056**	7,234
Provisions used during the year	**-**	(8)
Exchange difference	**177**	117
Balance at 31 December	**24,088**	16,855

32 RETIREMENT BENEFITS OBLIGATION

	2009	*2008*
	LL million	*LL million*
Balance at 1 January	**34,534**	26,160
Charge for the year (note 10)	**6,484**	10,526
Benefits paid	**(2,551)**	(2,194)
Exchange difference	**91**	42
Balance at 31 December	**38,558**	34,534

33 SHARE CAPITAL AND PREMIUMS

	2009		*2008*	
	Share capital LL million	***Share premium LL million***	*Share capital LL million*	*Share premium LL million*
Common shares – authorized, issued and fully paid				
21,500,000 shares at LL 10,400 per share as of 31 December 2009 (2008: same)	**223,600**	374,059	223,600	374,059

a- On 8 May 2008, the nominal value of the common shares was increased from LL 10,000 to LL 10,400 through the transfer of an amount of LL 8,600 million from the free reserves to the share capital.

b- On 16 February 2006, the Bank issued 3,000,000 common shares with a share premium of USD 248,443 thousand (LL 374,059 million).

33 SHARE CAPITAL AND PREMIUMS (continued)

	2009		*2008*	
	Share capital LL million	***Share premium LL million***	*Share capital LL million*	*Share premium LL million*
Preferred shares – Authorized, issued and fully paid				
750,000 preferred shares (2004 issue) of LL 10,400 per share as of 31 December 2009 (31 December 2008: same)	**7,800**	**105,590**	7,800	105,590
1,000,000 preferred shares (2005 issue) of LL 10,400 per share as of 31 December 2009 (31 December 2008: same)	**10,400**	**140,720**	10,400	140,720
Total preferred shares	**18,200**	**246,310**	18,200	246,310

a- Based on the decision of the ordinary general assembly of the shareholders held on 8 May 2008, the Bank redeemed and cancelled all the preferred shares (2002 issue) and increased the nominal value of the preferred shares from LL 10,000 to LL 10,400 through the transfer of an amount of LL 700 million from the free reserves to the share capital.

b- Preferred shares consist of the following:

	4 June 2004 issue	17 September 2005 issue
Number of shares	750,000	1,000,000
Premium (denominated in USD)	LL 105,590 million (USD 70,043 thousand)	LL 140,720 million (USD 93,347 thousand)
Non cumulative benefits	An annual amount for each share equal to USD 8.5 based on the exchange rate on the date of the General Assembly Meeting, (subject to the approval of the Shareholders' General Assembly Meeting and the availability of a non-consolidated distributable net income for the year).	2005 distributions to be based on a fixed amount of USD 3.75 per share and thereafter at an annual amount equal to 6% of the net consolidated profit of the Bank, with a minimum of 7.5% and a maximum of 9.5% of the issue price (subject to the approval of the Shareholder's General Assembly Meeting and the availability of a non-consolidated distributable net income for the year).

The total number of preferred shares is 1,750,000 shares as of 31 December 2009 (2008: 1,750,000 shares).

These preferred shares (2004 and 2005 issues) are redeemable 60 days after the annual general assemblies dealing with the accounts for the years 2009 and 2010 respectively.

In the event of any liquidation, dissolution or winding-up of the Bank, the holders of series 2004 and 2005 preferred shares shall be entitled to be paid out of the assets of the Bank available for distribution to its shareholders on a pro rata basis, before any payment shall be made to common shareholders.

All of the Bank's common and preferred shares are listed in the Beirut Stock Exchange starting 20 June 2008. Out of the total common shares, 7,389,601 shares are listed as General Depository Receipts (GDRs) in the Luxembourg Stock Exchange.

During 2009, Blom Bank Qatar increased its capital by US$ 5 million (cv LL 7,538 million), where Blom Bank SAL acquired 99% of the new issued shares.

34 CAPITAL RESERVES

	Reserve for general banking risks LL million	*Legal reserve LL million*	*General reserve LL million*	*Reserve for increase of share capital LL million*	*Non distributable reserves LL million*	*Total LL million*
At 1 January 2008	69,126	136,495	252,594	14,158	56,588	528,961
Appropriation of 2007 profits	10,450	25,788	35,318	12,380	-	83,936
Capital increase (note 33)	-	-	(9,300)	-	-	(9,300)
Reallocation of tax related to dividends distribution booked in 2007	-	-	(8,326)	-	-	(8,326)
Net gain on sale of treasury shares	-	-	-	120	-	120
At 31 December 2008	79,576	162,283	270,286	26,658	56,588	595,391
Appropriation of 2008 profits	12,699	41,122	55,828	7,293	-	116,942
Net gain on sale of treasury shares	-	-	-	1,718	-	1,718
At 31 December 2009	**92,275**	**203,405**	**326,114**	**35,669**	**56,588**	**714,051**

Reserves for general banking risks
According to the Bank of Lebanon regulations, banks in Lebanon are required to appropriate from their annual net profit a minimum of 0.2 percent and a maximum of 0.3 percent of total risk weighted assets and off-financial position accounts based on rates specified by the Bank of Lebanon to cover general banking risks. The consolidated ratio should not be less than 1.25 percent of these risks at the end of year ten (2007) and 2 percent at the end of year twenty (2017). This reserve is part of the Group's equity and cannot be distributed as dividends. This reserve is based on the denomination (Lebanese Lira and US Dollars) of the risk weighted assets and off-financial position accounts.

Legal reserve
According to the Lebanese Code of Commerce and to the Money and Credit Act, banks and companies operating in Lebanon have to transfer 10% of their annual net profit to a legal reserve. This reserve cannot be distributed as dividends.

General reserve
The Group appropriated general reserves from its retained earnings to strengthen its equity. This reserve amounting to LL 326,114 million as at 31 December 2009 (2008: LL 270,286 million) is available for dividends distribution.

Reserve for increase of share capital
The balance amounting to LL 35,669 million (2008: LL 26,658 million) represents a regulatory reserve pursuant to circular no. 167 issued by the Banking Control Commission. This reserve cannot be distributed as dividends.

Details of the reserve for increase of share capital are as follows:

	2009 LL million	*2008 LL million*
Recoveries of provisions for doubtful debts	**31,922**	24,633
Revaluation reserves for fixed assets sold	**438**	438
Gain on sale of treasury shares	**3,309**	1,587
	35,669	26,658

Non distributable reserves
Non distributable reserves resulted mainly from the increase of share capital of subsidiaries through transfer from the general reserves and retained earnings.

35 TREASURY SHARES

Movement of treasury shares recognized in the statement of financial position is as follows:

	2009		2008	
	No. of common shares	***Amount LL million***	*No. of common shares*	*Amount LL million*
At 1 January	**333,732**	**39,877**	306,000	36,122
Purchase of treasury shares	**834,968**	**78,386**	110,782	14,900
Sales of treasury shares	**(586,981)**	**(59,540)**	(83,050)	(11,145)
At 31 December	**581,719**	**58,723**	333,732	39,877

The treasury shares represent Global Depository Receipts (GDR) owned by the Bank. The market value of one GDR was USD 89.80 as of 31 December 2009 (2008: USD 72.85).

During 2009, the Bank refunded the distribution of dividends on the treasury shares amounting to LL 5,275 million (2008: LL 1,589 million) resulting from the distribution of dividends for all ordinary shares in 2008.

The Group generated profits of LL 1,718 million from the sale of treasury shares during the year 2009 (2008: profits of LL 120 million). Profit or loss is reflected under “Reserve for increase of share capital” in the “Capital reserves” (note 34).

36 AVAILABLE-FOR-SALE RESERVE

The available-for-sale reserve related to available-for-sale investments are as follows:

	2009 LL million	*2008 LL million*
Balance at 1 January	**3,905**	13,995
Net changes in fair values during the year	**102,279**	(10,090)
Balance at 31 December	**106,184**	3,905

37 CASH AND CASH EQUIVALENTS

	2009 LL million	*2008 LL million*
Cash and balances with central banks	**4,693,974**	3,438,176
Deposits with banks and financial institutions (whose original maturities are less than 3 months)	**4,620,657**	4,793,540
Debt securities (whose original maturities are less than three months)	**1,229**	15,920
	9,315,860	8,247,636
Less:		
Due to banks and financial institutions (whose original maturities are less than 3 months)	**(620,478)**	(986,136)
	8,695,382	7,261,500

Balances with the Central Banks include term placements with the Bank of Lebanon, which are considered as cash equivalent based on a contractual agreement with the Bank of Lebanon.

38 DIVIDENDS DECLARED AND PAID

According to the General Assembly meetings held during 2009 and 2008, dividends have been distributed as follows:

	2009 *LL million*	*2008* *LL million*
Distribution to preferred shareholders' issue 2002 dividends of LL 22,612 / 50 per share in 2008.	**-**	16,960
Distribution to preferred shareholders' issue 2004 dividends of LL 12,813 / 75 per share (2008: LL 12,813 / 75 per share)	**9,610**	9,610
Distribution to preferred shareholders' issue 2005 dividends of LL 14,321 / 25 per share (2008: 14,321 / 25 per share)	**14,321**	14,321
Distribution to common shareholders' dividends of LL 5,500 per share (2008: LL 5,500 per share)	**118,250**	118,250
	142,181	159,141

In the meeting held on 16 March 2010, the board of directors proposed the distribution of dividend from 2009 operations as follows:

	LL million
Common shares (LL 6,000 per share)	**129,000**
Preferred shares issue 2004 (LL 12,813/75 per share)	**9,610**
Preferred shares issue 2005 (LL 14,321/25 per share)	**14,321**
	152,931

39 RELATED PARTY TRANSACTIONS

The Group enters into transactions with major shareholders, directors, senior management, and their related concerns, and entities controlled, jointly controlled or significantly influenced by such parties in the ordinary course of business at commercial interest and commission rates. All the loans and advances to related parties are performing advances and are free of any provision for possible credit losses.

The transactions with related parties are as follows:

	Major shareholders *LL million*	*Board of directors and senior management* *LL million*	*Other related parties* *LL million*	*2009* *LL million*	*2008* *LL million*
Deposits	**120,188**	**109,702**	**664**	**230,554**	140,278
Loans and advances	**6,682**	**-**	**4,840**	**11,522**	6,926
Indirect facilities	**-**	**67**	**10**	**77**	90
Interest received from loans and advances	**16**	**-**	**1,018**	**1,034**	476
Interest paid on deposits	**402**	**5,900**	**11**	**6,313**	5,370
Accounting services' revenues from a non-consolidated subsidiary	**-**	**-**	**272**	**272**	203

The board of directors and senior management remunerations are as follows:

	2009 *LL million*	*2008* *LL million*
Board of directors and senior management remunerations	**30,960**	25,962

All remunerations paid to board of directors and senior management are short term in nature.

40 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

Credit – related commitments
To meet the financial needs of customers, the Group enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group (see Note 45-1).

Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

The Group has the following credit related commitments:

	2009 ***LL million***	*2008* *LL million*
Commitments issued to financial institutions	**17,805**	35,517
Commitments issued to customers	**330,711**	449,489
Guarantees issued to financial institutions	**209,040**	260,675
Guarantees issued to customers	**505,602**	525,271
Acceptances (note 20)	**197,637**	202,211
	1,260,795	1,473,163
Commitments to lend	**2,658,602**	2,347,564
	3,919,397	3,820,727

Capital and operating lease commitments
Capital expenditure and lease payments that were not provided for as of the consolidated statement of financial position date are as follows:

Lease arrangements
The commitments on capital expenditures and operating lease commitments at the statement of financial position date, which were not provided for, were as follows:

	2009 ***LL million***	*2008* *LL million*
Capital commitments		
Property and equipment	**24,731**	37,685
Operating lease commitments – Group as lessee		
Future minimum lease payments under operating leases as at 31 December are as follows:		
During one year	**1,779**	1,157
More than 1 year and less than five years	**6,340**	4,858
More than five years	**9,660**	8,994
Total operating lease commitments at the statement of financial position date	**17,779**	15,009

41 FIDUCIARY DEPOSITS, ASSETS UNDER MANAGEMENT AND CUSTODY ACCOUNTS

	2009 LL million	2008 LL million
Fiduciary deposits	**951,344**	1,225,649
Financial assets under management	**5,312,368**	4,082,514
	6,263,712	5,308,163

Fiduciary accounts and financial assets under management include notes, checks, policies, treasury bills/bonds, shares and documents for collection held by the Group to the order of third parties.

42 FAIR VALUE OF THE FINANCIAL INSTRUMENTS

A. Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

31 December 2009

	Level 1 LL million	Level 2 LL million	Level 3 LL million	Total LL million
Financial assets				
Derivative financial instruments:				
Forward foreign exchange contracts held- for- trading	-	26,704	-	26,704
Forward foreign exchange contracts used for hedging purposes	-	6,840	-	6,840
	-	33,544	-	33,544
Financial assets held- for- trading:				
Debt securities	8,654	-	-	8,654
Equities	13,153	244	-	13,397
Investment funds	-	2,712	-	2,712
	21,807	2,956	-	24,763
Financial investments designated at fair value through profit or loss:				
Investments related to unit-linked contracts	-	73,097	-	73,097
Convertible bonds	66,305	-	-	66,305
	66,305	73,097	-	139,402
Financial investments available-for-sale:				
Quoted financial assets				
Debt securities	166,349	-	-	166,349
Equities	12	-	-	12
Certificates of deposit – commercial banks and financial institutions	121,279	-	-	121,279
	287,640	-	-	287,640
Unquoted financial assets:				
Government debt securities	-	4,313,911	-	4,313,911
Certificates of deposit – commercial banks and financial institutions	-	72,460	-	72,460
	-	4,386,371	-	4,386,371
Financial liabilities				
Derivative financial instruments:				
Forward foreign exchange contracts held for trading	-	23,526	-	23,526
	-	23,526	-	23,526

42 FAIR VALUE OF THE FINANCIAL INSTRUMENTS (continued)

A. Determination of fair value and fair value hierarchy (continued)

Financial instruments recorded at fair value
The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives
Derivative products valued using a valuation technique with market observable inputs are forward foreign exchange contracts and equity swaps and options. The most frequently applied valuation technique include forward pricing model and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Financial investments – available-for-sale
Available-for-sale financial assets valued using a valuation technique or pricing models primarily consist of unquoted debt securities and certificates of deposit.

These assets are valued using models which sometimes only incorporate data observable in the market.

Fair value of financial assets and liabilities not carried at fair value
The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

(i) Assets for which fair value approximates carrying value
For financial assets and financial liabilities that have a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, and savings accounts without a specific maturity.

(ii) Fixed rate financial instruments
The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are determined based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads.

Set out below is a comparison, by class, of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair value of non-financial assets and non-financial liabilities.

	2009		*2008*	
	Carrying value LL million	***Fair value LL million***	*Carrying value LL million*	*Fair value LL million*
Financial assets				
Cash and balances with central banks	**4,693,974**	**4,804,854**	3,580,467	3,810,705
Due from banks and financial institutions	**5,787,117**	**5,817,238**	5,817,382	5,830,814
Loans and advances to customers	**6,046,601**	**6,049,797**	5,230,447	5,279,381
Loans and advances to related parties	**11,522**	**11,907**	6,926	7,250
Financial assets classified as loans and receivables	**8,200,247**	**8,831,695**	6,094,232	5,979,223
Financial investments held-to-maturity	**774,997**	**745,966**	634,306	623,143
Financial liabilities				
Due to banks and financial institutions	**705,438**	**711,011**	1,196,746	1,209,141
Customers' deposits	**26,859,051**	**26,930,045**	22,636,095	22,676,813
Related parties' deposits	**230,554**	**230,852**	140,278	140,485

42 FAIR VALUE OF THE FINANCIAL INSTRUMENTS (continued)

B. Reclassification of financial assets

2008 was characterized by a substantial deterioration in global market conditions, including a severe shortage of liquidity and credit availability. These conditions have led to a reduction in the level of market activity for many assets, and, particularly for residential property-related assets, the inability to sell other than at substantially lower prices. Governments have taken unprecedented action to mitigate these circumstances, including the injection of substantial levels of capital into banks, and the provision of banking guarantees and liquidity facilities. However the Lebanese market was not as severely affected as the global market.

Following the amendments to IAS 39 and IFRS 7 Reclassification of Financial Assets (effective from 1 July 2008) and as a result of the contraction in the market for many classes of assets, the Group has undertaken a review of assets that are classified as "Held-for-trading" and "Available-for-sale", in order to determine whether this classification remains appropriate. Where it was determined that the market for an asset is no longer active, and that the Group no longer intends to trade, management have reviewed the instrument to determine whether it is appropriate to reclassify it to "Loans and receivables". This reclassification has only been performed where the Group, at the reclassification date, has the clear intention and ability to hold the financial asset for the foreseeable future or until maturity.

The following table shows the carrying amount and fair value of financial assets reclassified from "Available-for-sale" to the "Loans and receivables" category, as at the date of reclassification and as at the reporting date. All transfers occurred on 1 July 2008 and thereafter. There were no reclassifications prior to 1 July 2008.

	Available-for-sale			
	2009		*2008*	
	Carrying amount LL million	***Fair value LL million***	*Carrying amount LL million*	*Fair value LL million*
Financial assets reclassified during the year as at the date of reclassification	**-**	**-**	2,771,944	2,771,944
Financial assets reclassified during 2008 as at year end	**2,433,100**	**2,517,836**	2,784,447	2,657,018

The following table shows the carrying amount and fair value of financial assets reclassified from "Held-for-trading" to the "Loans and receivables" category, as at the date of reclassification and as at the reporting date. All transfers occurred on 1 July 2008 and thereafter. There were no reclassifications prior to 1 July 2008.

	Held-for-trading			
	2009		*2008*	
	Carrying amount LL million	***Fair value LL million***	*Carrying amount LL million*	*Fair value LL million*
Financial assets reclassified during the year as at the date of reclassification	**-**	**-**	63,382	63,382
Financial assets reclassified during 2008 as at year end	**25,059**	**28,324**	62,387	58,640

42 FAIR VALUE OF THE FINANCIAL INSTRUMENTS (continued)

B. Reclassification of financial assets (continued)

The following table shows the total fair value gains and losses recorded on trading and available for sale assets reclassified to the "Loans and receivables" category, up until the date of transfer. It also shows the undiscounted amount of cash flows expected to be recovered from and the expected effective interest rate applied to, reclassified assets, as assessed at the date of reclassification.

	Debt securities held-for-trading LL million	***Debt securities – Available for sale LL million***
Cost of securities transferred	**62,806**	**2,772,702**
Fair value losses recognized in net trading income/equity:		
Recorded during 2008	**576**	**17,493**
Recorded during 2007	**-**	**(2,214)**
Recorded prior to 2007	**-**	**(16,037)**
Carrying amount at date of reclassification	**63,382**	**2,771,944**
Expected undiscounted cash recoveries, as assessed at the date of reclassification	**110,189**	**3,410,339**
Anticipated average effective interest rate over the remaining life of the assets	**7,84%**	**6,81%**

The following table shows the total fair value gains or losses and the difference in net interest income that would have been recognized during the period subsequent to reclassification if the Group had not reclassified financial assets from the "Held-for-trading" and "Available-for-sale" to the "Loans and receivables" category. This disclosure is provided for information purposes only; it does not reflect what has actually been recorded in the consolidated financial statements of the Group.

	Debt securities			
	2009		*2008*	
	Income statement LL million	***Equity LL million***	*Income statement LL million*	*Equity LL million*
Gain on sale of financial investments	**28,278**	**-**	-	-
Fair value gains and losses which would otherwise have been recorded after reclassification, during the current period	**5,153**	**210,307**	(1,703)	(116,724)
Net interest income which would otherwise have been recorded after reclassification, during the current period	**265**	**-**	54	-
Total income or expense which would otherwise have been recorded during the year since reclassification	**33,696**	**210,307**	(1,649)	(116,724)

The following table shows the net profit or loss actually recorded on assets reclassified to loans and receivables subsequent to reclassification:

	2009		*2008*	
	Debt securities held-for-trading LL million	***Debt securities-available for sale LL million***	*Debt securities held-for-trading LL million*	*Debt securities-available for sale LL million*
Net interest income	**5,193**	**185,401**	1,123	54,353
Impairment charges	**-**	**15,073**	-	(15,073)
Net profit	**5,193**	**200,474**	1,123	39,280

The effect of the reclassification of financial assets on the basic earnings per share is:

	2009 LL	*2008 LL*
(Decrease) increase of basic earnings per share	**(1,613)**	78

43 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

The maturity profile of the Group's assets and liabilities as at **31 December 2009** is as follows:

	Less than one year LL million	*More than one year LL million*	*Total LL million*
ASSETS			
Cash and balances with central banks	**2,894,017**	**1,799,957**	**4,693,974**
Due from banks and financial institutions	**5,721,689**	**65,428**	**5,787,117**
Derivative financial instruments	**33,544**	**-**	**33,544**
Financial assets held-for-trading	**5,047**	**19,716**	**24,763**
Financial assets designated at fair value through profit or loss	**457**	**138,945**	**139,402**
Loans and advances to customers	**4,086,173**	**1,960,428**	**6,046,601**
Loans and advances to related parties	**11,522**	**-**	**11,522**
Bank acceptances	**194,475**	**3,162**	**197,637**
Non-current assets held for sale	**-**	**29,846**	**29,846**
Financial investments – available-for-sale	**1,149,870**	**3,544,351**	**4,694,221**
Financial assets classified as loans and receivables	**939,245**	**7,261,002**	**8,200,247**
Financial investments – held-to-maturity	**192,396**	**582,601**	**774,997**
Investment properties	**-**	**618**	**618**
Property and equipment	**-**	**374,850**	**374,850**
Intangible assets	**-**	**6,727**	**6,727**
Other assets	**112,648**	**16,862**	**129,510**
Goodwill	**-**	**63,268**	**63,268**
TOTAL ASSETS	**15,341,083**	**15,867,761**	**31,208,844**
LIABILITIES			
Due to banks and financial institutions	**637,157**	**68,281**	**705,438**
Derivative financial instruments	**23,526**	**-**	**23,526**
Customers' deposits	**26,384,467**	**474,584**	**26,859,051**
Related parties` deposits	**230,554**	**-**	**230,554**
Engagements by acceptances	**194,475**	**3,162**	**197,637**
Current tax liabilities	**48,588**	**-**	**48,588**
Other liabilities	**468,100**	**23,422**	**491,522**
Provisions for risks and charges	**-**	**38,421**	**38,421**
Retirement obligation benefits	**3,204**	**35,354**	**38,558**
TOTAL LIABILITIES	**27,990,071**	**643,224**	**28,633,295**
NET	**(12,648,988)**	**15,224,537**	**2,575,549**

The maturity profile of the Group's assets and liabilities as at 31 December 2008 is as follows:

	Less than one year LL million	*More than one year LL million*	*Total LL million*
ASSETS			
Cash and balances with central banks	1,592,224	1,988,243	3,580,467
Due from banks and financial institutions	5,482,179	335,203	5,817,382
Derivative financial instruments	39,867	-	39,867
Financial assets held-for-trading	3,793	10,471	14,264
Financial assets designated at fair value through profit or loss	-	81,955	81,955
Loans and advances to customers	3,550,563	1,679,884	5,230,447
Loans and advances to related parties	6,926	-	6,926
Bank acceptances	202,211	-	202,211
Non-current assets held for sale	-	27,561	27,561
Financial investments – available-for-sale	1,259,321	3,432,665	4,691,986
Financial assets classified as loans and receivables	487,490	5,606,742	6,094,232
Financial investments – held-to-maturity	99,963	534,343	634,306
Investment properties	-	581	581
Property and equipment	-	324,576	324,576
Intangible assets	-	5,307	5,307
Other assets	134,709	30,891	165,600
Goodwill	-	63,145	63,145
TOTAL ASSETS	12,859,246	14,121,567	26,980,813
LIABILITIES			
Due to banks and financial institutions	1,151,521	45,225	1,196,746
Derivative financial instruments	56,779	-	56,779
Customers' deposits	22,463,977	172,118	22,636,095
Related parties` deposits	140,278	-	140,278
Engagements by acceptances	202,211	-	202,211
Current tax liabilities	53,159	-	53,159
Other liabilities	427,228	2,983	430,211
Provisions for risks and charges	-	31,481	31,481
Retirement obligation benefits	358	34,176	34,534
TOTAL LIABILITIES	24,495,511	285,983	24,781,494
NET	(11,636,265)	13,835,584	2,199,319

44 LEGAL CASES AND CONTINGENT LIABILITIES

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Group has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, the Group had several unresolved legal claims.

Management, after discussing with its counselors all such cases and proceedings against the Group, considers that the aggregate liability or loss, if any, resulting from an adverse determination would not have a material effect on the consolidated financial position of the Group.

The Bank's books in Lebanon have not been reviewed by the tax authorities for the years 2008 and 2009. The ultimate outcome of any review by the tax authorities on the Bank's books in Lebanon for these years cannot be presently determined.

The Bank's books in Lebanon have not been reviewed by the national social Security Fund (NSSF) since 1998. The ultimate outcome of any review by the NSSF on the Bank's books in Lebanon from 1998 to 2009 cannot be presently determined.

45 RISK MANAGEMENT

The Bank manages its business activities within risk management guidelines as set by the Group's "Risk Management Policy" approved by the Board of Directors. The Group recognizes the role of the board of directors and executive management in the risk management process as set out in the Banking Control Commission circular 242. In particular, it is recognized that ultimate responsibility for establishment of effective risk management practices and culture lies with the Board of Directors as does the establishing of the Bank's risk appetite and tolerance levels. The Board of Directors delegates through its Risk Management Committee the day–to–day responsibility for establishment and monitoring of risk management process across the Bank's group to the Chief Risk Officer, who is directly appointed by the Board of Directors, in coordination with executive management at BLOM Bank SAL.

The Group is mainly exposed to credit risk, liquidity risk, market risk and operational risk.

The Board's Risk Management Committee has the mission to periodically (1) review and assess the risk management function of the Group, (2) review the adequacy of the Bank's capital and its allocation within the Group, and (3) review risk limits and reports and make recommendations to the Board.

The Chief Risk Officer undertakes his responsibilities through the "Risk Management Department" in Beirut which also acts as Group Risk Management, overseeing and monitoring risk management activities throughout the Group. The Chief Risk Officer is responsible for establishing the function of Risk Management and its employees across the Group.

BLOM Bank's Group Risk Management aids executive management in monitoring, controlling and actively managing and mitigating the Group's overall risk. The department mainly ensures that:

- Risk policies and methodologies are consistent with the Group's risk appetite.
- Limits and risk across banking activities are monitored throughout the Group.

Through a comprehensive risk management framework, transactions and outstanding risk exposures are quantified and compared against authorized limits, whereas non-quantifiable risks are monitored against policy guidelines as set by the Group's "Risk Management Policy". Any discrepancies, breaches or deviations are escalated to executive senior management in a timely manner for appropriate action.

In addition to the Group's Risk Management in Lebanon, risk managers and / or risk officers were assigned within the Group's foreign subsidiaries or branches to report to Group Risk Management and executive senior management in a manner that ensures:

- Standardization of risk management functions and systems developed across the Group.
- Regional consistency of conducted business in line with the board's approved risk appetite.

45 RISK MANAGEMENT (continued)

The major objective of risk management is the implementation of sound risk management practices and the Basel II frame work as well as all related regulatory requirements within the group. Pillar I capital adequacy calculations have been generated since December 2004, while preparations for moving on to the more advanced approaches of pillar I have been initiated. Group Risk Management is progressively complying with the requirements of pillars II and III of the Basel framework.

Excessive risk concentration

Concentrations arise when the Group has significant exposure to one borrower or a group of related borrowers or to a number of counter parties engaging in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance developments affecting a particular industry or geographic location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures includes specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Group to manage risk concentrations at both the relationship and industry levels.

45-1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter parties, and continuously assessing the creditworthiness of counter parties.

The Group manages credit risk in line with the guidelines set by the Basel Framework and regulatory guidance. The Group has set a credit risk policy which lays down norms for credit risk governance, methodologies and procedures for credit risk management and measurement. It consists of the following:

- The permissible activities, segments, programs and services that the Group intends to deliver and the acceptable limits;
- The mechanism of the approval on credit-facilities;
- The mechanism for managing and following up credit-facilities; and
- The required actions for analyzing and organizing credit files.

The debt securities included in investments are mainly sovereign risk and standard grade securities. Analysis of investments by counterparty is provided in notes 17, 18 and 22. For details of the composition of the loans and advances refer to note 19. Information on credit risk relating to derivative instruments is provided in note 17 and for commitments and contingencies in note 40. The information on the Group's net maximum exposure by economic sectors is given in note (A) below.

The Group's Risk Management is designed to identify and to set appropriate risk limits and to monitor the risk adherence to limits. Actual exposures against limits are monitored daily, monthly and periodically. Group Risk Management is responsible for monitoring the risk profile of the Group's loan portfolio by producing internal reports highlighting any exposure of concern in corporate, commercial and consumer lending. The Group examines the level of concentration whether by credit quality, client groupings or economic sector and collateral coverage. Further, the Group monitors non-performing loans and takes the required provisions for these loans.

The Group in the ordinary course of lending activities holds collaterals and guarantees as security to mitigate credit risk in the loans and advances. Collaterals and guarantees are continuously monitored and revaluated. These collaterals mostly include cash collateral, quoted shares and debt securities, real estate mortgages, personal guarantees and others. In addition, the Recovery Unit in the Group dynamically manages and takes remedial actions for non-performing loans.

45 RISK MANAGEMENT (continued)

45-1 Credit risk (continued)

The Group uses an internal classification system based on risk ratings for its corporate and middle market customers. The risk rating system, which is managed by an independent unit, provides a rating based on client and transaction level. The classification system includes six grades, of which three grades relate to the performing portfolio (regular credit facilities: risk ratings "1" and "2" and special mention – watch list: risk rating "3"), one grade relates to substandard loans (risk rating "4") and two grades relate to non-performing loans (risk ratings "5" and "6"). Credit cards, personal loans, car loans, housing loans and other loans related to these loans are classified as regular as they are performing and have timely repayment with no past dues; except for those loans that have unsettled payments due for more than 90 days. Each individual borrower is rated based on an internally developed debt rating model that evaluates risk based on financial as well as qualitative inputs. The associated loss estimate norms for each grade have been calculated based on the Group's historical default rates for each rating. These risk ratings are reviewed on a regular basis.

Introduction of the Moody's Risk Analyst credit analysis and internal ratings system in the domestic market has provided the Bank with an additional tool to enhance risk measurement and assessment of the corporate and commercial loan portfolios. This system will be gradually extended to all group entities over time.

At the same time, implementation of consumer loan application and behavioral scorecards will aid significantly in meeting Basel II requirements for the retail portfolio as well as making available new quality management resources.

Non-performing loans are closely monitored and well provisioned as required with remedial actions taken and managed proactively by a dedicated Recovery Unit. In line with Basel II, the Group considers payments that are past due for more than 90 days as being non-performing.

The Group uses the above internal grading system for the classification of all financial assets portfolio.

A- Risk concentrations: maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The Group concentrations of risk are managed by client/counterparty, by geographical region. The maximum credit exposure to any client or counterparty as of 31 December 2009 was LL 306,123 million (2008: LL 188,440 million) before taking account of collateral or other credit enhancements and LL 125,029 million (2008: LL 52,655 million) net of such protection.

The following table shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives, by geography before the effect of mitigation through the use of master netting and collateral agreements. Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

		2009	
	Domestic LL million	*International LL million*	*Total LL million*
Financial assets			
Balances with central banks	**2,922,610**	**1,603,033**	**4,525,643**
Due from banks and financial institutions	**585,292**	**5,201,825**	**5,787,117**
Derivative financial instruments	**9,909**	**23,635**	**33,544**
Financial assets held-for-trading	**13,724**	**11,039**	**24,763**
Financial assets designated at fair value through profit or loss	**139,402**	**-**	**139,402**
Loans and advances to customers	**3,074,309**	**2,972,292**	**6,046,601**
Loans and advances to related parties	**3,879**	**7,643**	**11,522**
Bank acceptances	**97,545**	**100,092**	**197,637**
Financial investments – available-for-sale	**3,921,152**	**773,069**	**4,694,221**
Financial assets classified as loans and receivables	**7,607,132**	**593,115**	**8,200,247**
Financial investments – held-to-maturity	**-**	**774,997**	**774,997**
Total credit exposure	**18,374,954**	**12,060,740**	**30,435,694**

45 RISK MANAGEMENT (continued)

45-1 Credit risk (continued)

A- Risk concentrations: maximum exposure to credit risk without taking account of any collateral and other credit enhancements (continued)

	2008		
	Domestic LL million	*International LL million*	*Total LL million*
Financial assets			
Balances with central banks	2,544,823	878,387	3,423,210
Due from banks and financial institutions	606,225	5,211,157	5,817,382
Derivative financial instruments	8,906	30,961	39,867
Financial assets held-for-trading	5,171	9,093	14,264
Financial assets designated at fair value through profit or loss	40,950	41,005	81,955
Loans and advances to customers	2,465,046	2,765,401	5,230,447
Loans and advances to related parties	497	6,429	6,926
Bank acceptances	113,124	89,087	202,211
Financial investments – available-for-sale	4,091,391	600,595	4,691,986
Financial assets classified as loans and receivables	5,522,542	571,690	6,094,232
Financial investments – held-to-maturity	4,670	629,636	634,306
Total credit exposure	15,403,345	10,833,441	26,236,786

Collateral and other credit enhancements

The amount, type and valuation of collateral is based on guidelines specified in the risk management framework. The main types of collateral obtained include real estate, quoted shares, cash collateral and bank guarantees.

The revaluation and custody of collaterals are performed independent of the business units.

Guarantees received from customers are detailed as follows:

	2009 LL million	*2008 LL million*
Personal guarantees received from customers	**4,565,176**	4,283,013
Real estate guarantees received	**4,020,476**	3,506,446
Cash collateral received	**976,269**	835,640
	9,561,921	8,625,099

B- Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Group's internal credit rating system and the relationship with external credit rating. The amounts presented are gross of impairment allowances.

	2009				
	Neither past due nor impaired	***Past due but not impaired***	***Individually Impaired***		
	Regular and special mention LL million	***Regular and special mention LL million***	***Sub-standard LL million***	***Non performing LL million***	***Total LL million***
Balances with central banks	**4,525,643**	**-**	**-**	**-**	**4,525,643**
Due from banks and financial institutions	**5,785,747**	**-**	**-**	**5,197**	**5,790,944**
Derivative financial instruments	**33,544**	**-**	**-**	**-**	**33,544**
Financial assets held-for-trading	**24,763**	**-**	**-**	**-**	**24,763**
Financial assets designated at fair value through profit or loss	**139,402**	**-**	**-**	**-**	**139,402**
Loans and advances to customers	**5,953,599**	**62,625**	**31,302**	**216,053**	**6,263,579**
Loans and advances to related parties	**11,522**	**-**	**-**	**-**	**11,522**
Financial investments – available-for-sale					
Quoted:					
Debt securities	**166,349**	**-**	**-**	**-**	**166,349**
Certificates of deposit	**121,279**	**-**	**-**	**-**	**121,279**
Unquoted:					
Debt securities	**4,327,769**	**-**	**-**	**-**	**4,327,769**
Certificates of deposit	**72,460**	**-**	**-**	**-**	**72,460**
Financial assets classified as loans and receivables	**8,200,247**	**-**	**-**	**-**	**8,200,247**
Financial investments-held-to-maturity	**774,997**	**-**	**-**	**-**	**774,997**
Total	**30,137,321**	**62,625**	**31,302**	**221,250**	**30,452,498**
Moody's equivalent	**Aaa-B2***	**Not rated**	**Not rated**	**Not rated**	

(*) The regular grade includes derivative financial instruments, loans and advances to customers, loans and advances to related parties which are not rated by Moody's.

45 RISK MANAGEMENT (continued)

45-1 Credit risk (continued)

B- Credit quality per class of financial assets (continued)

	2008				
	Neither past due nor impaired	*Past due but not impaired*	*Individually Impaired*		
	Regular and special mention LL million	*Regular and special Mention LL million*	*Sub-standard LL million*	*Non performing LL million*	*Total LL million*
Balances with central banks	3,423,210	-	-	-	3,423,210
Due from banks and financial institutions	5,816,005	-	-	5,142	5,821,147
Derivative financial instruments	39,867	-	-	-	39,867
Financial assets held-for-trading	14,264	-	-	-	14,264
Financial assets designated at fair value through profit or loss	81,955	-	-	-	81,955
Loans and advances to customers	5,183,343	23,479	27,655	214,049	5,448,526
Loans and advances to related parties	6,926	-	-	-	6,926
Financial investments – available-for-sale					
Quoted:					
Debt securities	67,512	-	-	-	67,512
Certificates of deposit	194	-	-	-	194
Unquoted:					
Debt securities	4,547,781	-	-	-	4,547,781
Certificates of deposit	70,083	-	-	-	70,083
Financial assets classified as loans and receivables	6,094,232	-	-	-	6,094,232
Financial investments-held-to-maturity	634,306	-	-	-	634,306
Total	25,979,678	23,479	27,655	219,191	26,250,003
Moody's equivalent	**Aaa-B3***	**Not rated**	**Not rated**	**Not rated**	

(*) The regular grade include derivative financial instruments, loans and advances to customers, loans and advance to related parties which are not rated by Moody's.

C- Aging analysis of past due but not impaired financial assets, by class

	2009				
	Less than 30 days LL million	***30 to 60 days LL million***	***60 to 90 days LL million***	***More than 90 days LL million***	***Total LL million***
Commercial loans	**32,844**	**8,994**	**3,075**	**271**	**45,184**
Consumer loans	**12,101**	**4,910**	**430**	**-**	**17,441**
	44,945	**13,904**	**3,505**	**271**	**62,625**

	2008				
	Less than 30 days LL million	*30 to 60 days LL million*	*60 to 90 days LL million*	*More than 90 days LL million*	*Total LL million*
Commercial loans	10,080	5,078	1,501	-	16,659
Consumer loans	4,919	1,544	357	-	6,820
	14,999	6,622	1,858	-	23,479

See note 19 for more detailed information with respect of the allowance for impairment losses on loans and advances to customers.

Impairment allowance

For accounting purposes, the Group uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognized when objective evidence of a specific loss event has been observed. This approach differs from the expected loss model used for regulatory capital purposes in accordance with Basel II.

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or whether there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

45 RISK MANAGEMENT (continued)

45-1 Credit risk (continued)

C- Aging analysis of past due but not impaired financial assets, by class (continued)

Impairment allowance (continued)

Individually assessed allowances
The Group determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Allowances are assessed collectively for losses on loans and advances and for held-to-maturity debt investments that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances that have been assessed individually and found not to be impaired. Allowances are evaluated separately at each reporting date with each portfolio.

The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilization, loan to collateral ratios and expected receipts and recoveries once impaired) or economic data (such as current economic conditions, unemployment levels and local or industry-specific problems). This approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Group's overall policy.

Financial guarantees and letters of credit are assessed and provisions are made in a similar manner as for loans.

Commitments and guarantees
To meet the financial needs of customers, the Group enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group.

The table below shows the Group's maximum credit risk exposure for commitments and guarantees.

The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Group could have to pay if the guarantee is called on. The maximum exposure to credit risk relating to a loan commitment is the full amount of the commitment. In both cases, the maximum risk exposure is significantly greater than the amount recognized as a liability in the statement of financial position.

	2009	*2008*
	LL million	*LL million*
Financial guarantees	**714,642**	785,946
Letters of credit	**348,516**	485,006
Other undrawn commitments to lend	**2,658,602**	2,347,564
Other commitments and guarantees	**173,810**	159,144
	3,895,570	3,777,660

Carrying amount of financial assets presented in the statement of financial position whose terms have been renegotiated:

The table below shows the carrying amount of renegotiated financial assets, by class

	2009	*2008*
	LL million	*LL million*
Loans and advances to customers	**38,517**	3,681

45 RISK MANAGEMENT (continued)

45-2 Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due under normal and stress circumstances. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, maintaining a healthy balance of cash and cash equivalents and readily marketable securities.

The management of liquidity risk is currently governed by the Group's Assets and Liability Management policy. The main objectives converge around the following:

- Set targets and ranges for key financial position or income statement ratios to assure that the needed liquidity capacity of the Group is maintained at all times, while providing sufficient flexibility to enable the Group to address short term fluctuations in liquidity pressures.
- Provide general guidance on the sequence to be followed in drawing on the Group's funding sources to meet a liquidity drain.
- Review the current and prospective liquidity positions and monitor alternative funding sources.
- Develop parameters for the pricing and maturity distributions of deposits, loans and investments.
- Promulgate a contingency liquidity plan that identifies early indicators of stress conditions and describe actions to be taken in the event of financial difficulties arising from systemic or other crises, while minimizing adverse long-term implications for the Group's business.

All assets and liability management issues are subject to review and monitoring by the Asset Liability Committee, which receives regular reports from the Group Risk Management as well as treasury.

In accordance with Lebanese banking rules and regulations, the Group is required to maintain 40% of its Tier 1 capital in Lebanese Lira in liquid assets. It is also required to maintain non-interest bearing balances at the Bank of Lebanon calculated on the basis of 25% of sight commitments and 15% of term commitments in Lebanese Lira. Regarding foreign currencies, the Group maintains interest-bearing placements at the Bank of Lebanon at the rate of 15% of total deposits in foreign currencies regardless of nature. Foreign subsidiaries are also subject to obligatory reserve requirements with varying percentages, according to the banking rules and regulations of the countries in which they are located.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. One of these methods is to maintain limits on the ratio of liquid assets to customers' deposits, set to reflect market conditions. Net liquid assets consist of cash, short-term deposits and liquid debt securities available for immediate sale less deposits for banks and financial institutions due to mature within the next month. The ratio during the year was as follows:

	2009	*2008*
	%	*%*
At 31 December	**26.76**	22.95
Average during the year	**24.38**	25.56
Highest	**26.76**	28.21
Lowest	**22.30**	22.95

45-2-1 Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Trading derivatives are shown at fair value in a separate column. All derivatives used for hedging purposes are shown by maturity, based on their contractual undiscounted repayment obligations. Gross settled, non trading derivatives are shown separately, by contractual maturity at the foot of the note. As the special commission payments up to contractual maturity are included in the table, totals do not match with the statement of financial position. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date. Repayments which are subject to notice are treated as if notice were being given immediately. However, the group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

45 RISK MANAGEMENT (continued)

45-2 Liquidity risk and funding management (continued)

45-2-1 Analysis of financial liabilities by remaining contractual maturities (continued)

	31 December 2009						
	On demand LL million	Trading derivatives LL million	Less than 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	Over 5 years LL million	Total LL million
Financial assets							
Cash and balances with central banks	**2,039,317**	**-**	**842,328**	**34,351**	**1,828,528**	**-**	**4,744,524**
Due from banks and financial institutions	**554,720**	**-**	**4,636,376**	**553,013**	**67,226**	**-**	**5,811,335**
Net settled derivative assets	**-**	**33,544**	**-**	**-**	**-**	**-**	**33,544**
Financial assets held-for-trading	**-**	**-**	**3,849**	**1,743**	**5,735**	**17,224**	**28,551**
Financial assets designated at fair value through profit or loss	**-**	**-**	**1,015**	**3,502**	**146,894**	**-**	**151,411**
Loans and advances to customers	**-**	**-**	**2,263,518**	**2,049,789**	**2,014,458**	**358,212**	**6,685,977**
Loans and advances to related parties	**-**	**-**	**12,037**	**147**	**-**	**-**	**12,184**
Bank acceptances	**-**	**-**	**142,442**	**52,033**	**3,162**	**-**	**197,637**
Financial investments – available - for - sale	**-**	**-**	**330,796**	**1,137,038**	**3,768,588**	**153,086**	**5,389,508**
Financial assets classified as loans and receivables	**-**	**-**	**575,524**	**1,010,255**	**6,847,706**	**2,454,175**	**10,887,660**
Financial investments- held-to-maturity	**-**	**-**	**88,491**	**109,594**	**282,668**	**322,285**	**803,038**
Total undiscounted financial assets	**2,594,037**	**33,544**	**8,896,376**	**4,951,465**	**14,964,965**	**3,304,982**	**34,745,369**
Financial liabilities							
Due to banks and financial institutions	**305,063**	**-**	**332,859**	**2,963**	**43,965**	**32,365**	**717,215**
Net settled derivatives liabilities	**-**	**23,526**	**-**	**-**	**-**	**-**	**23,526**
Customers' deposits	**3,665,254**	**-**	**20,867,948**	**1,985,703**	**503,053**	**28,501**	**27,050,459**
Related parties' Deposits	**-**	**-**	**230,869**	**57**	**-**	**-**	**230,926**
Engagements by acceptances	**-**	**-**	**142,442**	**52,033**	**3,162**	**-**	**197,637**
Total undiscounted financial liabilities	**3,970,317**	**23,526**	**21,574,118**	**2,040,756**	**550,180**	**60,866**	**28,219,763**
Net undiscounted financial assets / (liabilities)	**(1,376,280)**	**10,018**	**(12,677,742)**	**2,910,709**	**14,414,785**	**3,244,116**	**6,525,606**

	31 December 2008						
	On demand LL million	Trading derivatives LL million	Less than 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	Over 5 years LL million	Total LL million
Financial liabilities							
Due to banks and financial institutions	334,911	-	797,276	24,102	90,360	-	1,246,649
Net settled derivative liabilities	-	32,830	-	-	-	-	32,830
Customers' deposits	2,632,131	-	18,581,026	1,363,312	171,019	23,499	22,770,987
Related parties deposits	-	-	160,693	-	-	-	160,693
Engagements by acceptances	-	-	155,289	46,922	-	-	202,211
Total undiscounted financial liabilities	2,967,042	32,830	19,694,284	1,434,336	261,379	23,499	24,413,370

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments:

	2009					
	On demand LL million	Less than 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	Over 5 years LL million	Total LL million
Commitments issued to financial institutions	**17,805**	**-**	**-**	**-**	**-**	**17,805**
Commitments issued to customers	**-**	**330,711**	**-**	**-**	**-**	**330,711**
Guarantees issued to financial institutions	**209,040**	**-**	**-**	**-**	**-**	**209,040**
Guarantees issued to customers	**505,602**	**-**	**-**	**-**	**-**	**505,602**
Foreign currencies to receive	**-**	**3,699,067**	**-**	**-**	**-**	**3,699,067**
Other commitment	**-**	**173,810**	**-**	**-**	**-**	**173,810**
Commitments to lend	**2,658,602**	**-**	**-**	**-**	**-**	**2,658,602**
Commitments on term financial instruments	**-**	**-**	**1,110,062**	**-**	**-**	**1,110,062**
Total	**3,391,049**	**4,203,588**	**1,110,062**	**-**	**-**	**8,704,699**

	2008					
	On demand LL million	Less than 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	Over 5 years LL million	Total LL million
Commitments issued to financial institutions	35,517	-	-	-	-	35,517
Commitments issued to customers	-	449,489	-	-	-	449,489
Guarantees issued to financial institutions	260,675	-	-	-	-	260,675
Guarantees issued to customers	525,271	-	-	-	-	525,271
Foreign currencies to receive	-	2,064,698	7,953	-	-	2,072,651
Other commitment	-	159,144	-	-	-	159,144
Commitments to lend	2,347,564	-	-	-	-	2,347,564
Commitments on term financial instruments	-	-	77,325	-	-	77,325
Total	3,169,027	2,673,331	85,278	-	-	5,927,636

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

45 RISK MANAGEMENT (continued)

45-3 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. Market risks arise from open positions in interest rate and currency rate as well as equity positions, 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 and foreign exchange rates.

Group Risk Management is responsible for generating internal reports quantifying the Group's earnings at risk due to extreme movements in interest rates, while daily monitoring the sensitivity of the Group's trading portfolio of fixed income securities to changes in market prices and / or market parameters. Interest rate sensitivity gaps are reported to executive management and to the Banking Control Commission unconsolidated on a monthly basis and consolidated (Group level) on a semi- annual basis. The Bank's Asset and Liability Management (ALM) policy assigns authority for its formulation, revision and administration to the Asset / Liability Management Committee (ALCO) of BLOM Bank SAL. Group Risk Management is responsible for monitoring compliance with all limits set in the ALM policy ranging from core foreign currency liquidity to liquidity mismatch limits to interest sensitivity gap limits. The Bank is implementing an Asset and Liability Management system "Focus ALM" in the process of automating the risk measurement of the Bank's assets and liabilities from a static and dynamic perspectives including stress testing and extensive scenario analysis.

45-3-1 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities and off-financial position items that mature or reprice in a given period. The Group manages this risk by matching the repricing of assets and liabilities through risk management strategies.

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's income statement or statement of changes in equity.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate on non-trading financial assets and financial liabilities held at the year end, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the available-for-sale investments, based on the assumption that there are parallel shifts in the yield curve.

The sensitivity of equity is analyzed by maturity of the assets or cash flow hedge swaps. All the non-trading book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in local currency. The sensitivity analysis does not take account of action by the Group that might be taken to mitigate the effect of such changes.

2009

			Sensitivity of equity				
Currency	*Increase in basis points*	*Sensitivity of net interest income LL million*	*0 to 6 months LL million*	*6 months to 1 year LL million*	*(1 – 5) years LL million*	*More than 5 years LL million*	*Total LL million*
Lebanese Lira	**+0.5%**	**(16,234)**	**(7,389)**	**(7,047)**	**(14,864)**	**(6)**	**(29,306)**
United States Dollar	**+0.5%**	**5,485**	**(572)**	**(436)**	**(1,612)**	**(277)**	**(2,897)**
Euro	**+0.25%**	**1,581**	**(7)**	**-**	**-**	**-**	**(7)**
Others	**+0.25%**	**1,660**	**(2,585)**	**(2,585)**	**(10,065)**	**(976)**	**(16,211)**

2009

			Sensitivity of equity				
Currency	*Decrease in basis points*	*Sensitivity of net interest income LL million*	*0 to 6 months LL million*	*6 months to 1 year LL million*	*(1 – 5) years LL million*	*More than 5 years LL million*	*Total LL million*
Lebanese Lira	**-0.5%**	**16,234**	**7,037**	**6,687**	**13,756**	**6**	**27,486**
United States Dollar	**-0.5%**	**(5,485)**	**660**	**509**	**1,988**	**381**	**3,538**
Euro	**-0.25%**	**(1,581)**	**10**	**-**	**-**	**-**	**10**
Others	**-0.25%**	**(1,660)**	**2,637**	**2,638**	**10,284**	**990**	**16,549**

45 RISK MANAGEMENT (continued)

45-3 Market risk (continued)

45-3-1 Interest rate risk (continued)

Interest rate sensitivity (continued)

2008

Currency	*Increase in basis points*	*Sensitivity of net interest income LL million*	*Sensitivity of equity* *0 to 6 months LL million*	*6 months to 1 year LL million*	*(1 – 5) years LL million*	*More than 5 years LL million*	*Total LL million*
Lebanese Lira	0.50%	(9,677)	(7,814)	(6,775)	(19,688)	-	(34,277)
United States Dollar	0.50%	3,051	(229)	(207)	(527)	(115)	(1,078)
Euro	0.25%	1,378	-	-	-	-	-
Others	0.25%	947	(154)	(150)	(1,117)	(296)	(1,717)

2008

Currency	*Decrease in basis points*	*Sensitivity of net interest income LL million*	*Sensitivity of equity* *0 to 6 months LL million*	*6 months to 1 year LL million*	*(1 – 5) years LL million*	*More than 5 years LL million*	*Total LL million*
Lebanese Lira	-0.50%	9,677	8,722	6,943	20,059	-	35,724
United States Dollar	-0.50%	(3,051)	208	184	509	120	1,021
Euro	-0.25%	(1,378)	-	-	-	-	-
Others	-0.25%	(947)	176	169	1,248	301	1,894

Interest rate sensitivity gap

The table below analyses the Group's interest rate risk exposure on non-trading financial assets and liabilities. The Group's assets and liabilities are included at carrying amount and categorized by the earlier of contractual repricing arrangements or maturity dates.

2009

	Up to 1 month LL million	*1 to 3 months LL million*	*3 months to 1 year LL million*	*(1 – 2) years LL million*	*(2 – 5) years LL million*	*More than 5 years LL million*	*Non interest sensitive LL million*	*Total LL million*
ASSETS								
Cash and balances with central banks	810,099	37,237	11,041	489,938	1,302,481	95,199	1,947,979	4,693,974
Due from banks and financial institutions	4,256,373	359,345	516,698	81,332	-	-	573,369	5,787,117
Derivative financial instruments	-	-	-	-	-	-	33,544	33,544
Financial assets held-for-trading	-	662	1,322	869	3,305	2,371	16,234	24,763
Financial assets designated at fair value through profit or loss	-	-	-	73,097	65,848	-	457	139,402
Loans and advances to customers	1,980,322	399,140	1,760,140	734,126	718,608	255,309	198,956	6,046,601
Loans and advances to related parties	11,522	-	-	-	-	-	-	11,522
Bank acceptances	-	-	-	-	-	-	197,637	197,637
Financial investments – available-for-sale	45,575	200,033	829,055	1,745,176	1,541,075	122,110	211,197	4,694,221
Financial assets classified as loans and receivables	18,938	247,112	490,613	631,558	4,317,752	1,758,176	736,098	8,200,247
Financial investments – held-to-maturity	58,425	90,951	113,818	3,845	203,999	269,127	34,832	774,997
TOTAL ASSETS	**7,181,254**	**1,334,480**	**3,722,687**	**3,759,941**	**8,153,068**	**2,502,292**	**3,950,303**	**30,604,025**
LIABILITIES								
Due to banks and financial institutions	306,644	18,964	-	-	36,180	-	343,650	705,438
Derivative financial instruments	-	-	-	-	-	-	23,526	23,526
Customers' deposits	18,422,323	5,155,646	1,862,967	211,581	227,051	25,387	954,096	26,859,051
Related parties` deposits	228,432	-	-	-	-	-	2,122	230,554
Engagements by acceptances	-	-	-	-	-	-	197,637	197,637
Other liabilities	-	-	-	-	-	-	491,522	491,522
TOTAL LIABILITIES	**18,957,399**	**5,174,610**	**1,862,967**	**211,581**	**263,231**	**25,387**	**2,012,553**	**28,507,728**
Total interest rate sensitivity gap	**(11,776,145)**	**(3,840,130)**	**1,859,720**	**3,548,360**	**7,889,837**	**2,476,905**	**1,937,750**	**2,096,297**

45 RISK MANAGEMENT (continued)

45-3 Market risk (continued)

45-3-1 Interest rate risk (continued)

Interest rate sensitivity gap (continued)

2008

	Up to 1 month LL million	*1 to 3 months LL million*	*3 months to 1 year LL million*	*(1 – 2) years LL million*	*(2 – 5) years LL million*	*More than 5 years LL million*	*Non interest sensitive LL million*	*Total LL million*
ASSETS								
Cash and balances with central banks	32,022	-	75,375	180,901	1,617,546	-	1,674,623	3,580,467
Due from banks and financial institutions	4,288,765	637,647	78,888	317,745	20,332	-	474,005	5,817,382
Derivative financial instruments	-	-	-	-	-	-	39,867	39,867
Financial assets held-for-trading	3,470	-	276	60	1,912	39	8,507	14,264
Financial assets designated at fair value through profit or loss	-	-	-	41,005	40,702	-	248	81,955
Loans and advances to customers	1,598,365	423,219	1,395,898	476,192	905,540	166,027	265,206	5,230,447
Loans and advances to related parties	6,926	-	-	-	-	-	-	6,926
Bank acceptances	-	-	-	-	-	-	202,211	202,211
Financial investments - available-for-sale	3,708	177,672	1,025,758	775,376	2,510,125	140,750	58,597	4,691,986
Financial assets classified as loans and receivables	59,602	-	313,070	1,349,996	2,254,738	2,011,188	105,638	6,094,232
Financial investments - held-to-maturity	83,040	53,730	89,172	119,818	31,495	252,449	4,602	634,306
TOTAL ASSETS	6,075,898	1,292,268	2,978,437	3,261,093	7,382,390	2,570,453	2,833,504	26,394,043
LIABILITIES								
Due to banks and financial institutions	764,536	47,586	31,893	-	45,225	-	307,506	1,196,746
Derivative financial instruments	-	-	-	-	-	-	56,779	56,779
Customers' deposits	17,741,602	2,828,639	1,336,392	80,542	67,741	21,308	559,871	22,636,095
Related parties` deposits	140,278	-	-	-	-	-	-	140,278
Engagements by acceptances	-	-	-	-	-	-	202,211	202,211
Other liabilities	-	-	-	-	-	-	430,211	430,211
TOTAL LIABILITIES	18,646,416	2,876,225	1,368,285	80,542	112,966	21,308	1,556,578	24,662,320
Total interest rate sensitivity gap	(12,570,518)	(1,583,957)	1,610,152	3,180,551	7,269,424	2,549,145	1,276,926	1,731,723

45-3-2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rate. The Bank protects its capital and reserves by holding a foreign currency position in US Dollars representing 60% of its shareholders' equity after adjustment according to specific requirements set by the Bank of Lebanon. The Bank is also allowed to hold a net trading position not to exceed 1 percent of its net shareholders' equity, as long as the global foreign position does not exceed, at the same time, 40 percent of its net shareholders' equity, and that the related banks are abiding in a timely and consistent manner with the required solvency rate (Bank of Lebanon circular number 32).

The table below indicates the consolidated statement of financial position detailed by currency.

The following consolidated statement of financial position as of 31 December 2009, is detailed in Lebanese Lira (LL) and foreign currencies, translated into LL.

		Foreign currencies in Lebanese Lira				
	LL million	*US Dollars in LL million*	*Euro in LL million*	*Other foreign currencies LL million*	*Total foreign currencies LL million*	*Total LL million*
ASSETS						
Cash and balances with central banks	**902,039**	**2,222,384**	**84,959**	**1,484,592**	**3,791,935**	**4,693,974**
Due from banks and financial institutions	**51,223**	**2,791,059**	**1,638,576**	**1,306,259**	**5,735,894**	**5,787,117**
Derivative financial instruments	**9,909**	**-**	**-**	**23,635**	**23,635**	**33,544**
Financial assets held-for-trading	**-**	**20,502**	**-**	**4,261**	**24,763**	**24,763**
Financial assets designated at fair value through profit or loss	**-**	**139,402**	**-**	**-**	**139,402**	**139,402**
Loans and advances to customers	**599,775**	**3,296,484**	**234,755**	**1,915,587**	**5,446,826**	**6,046,601**
Loans and advances to related parties	**350**	**3,842**	**2,597**	**4,733**	**11,172**	**11,522**
Bank acceptances	**-**	**149,400**	**23,263**	**24,974**	**197,637**	**197,637**
Non-current assets held for sale	**(3,258)**	**7,523**	**-**	**25,581**	**33,104**	**29,846**
Financial investments – available-for-sale	**3,916,778**	**348,299**	**13,768**	**415,376**	**777,443**	**4,694,221**
Financial assets classified as loans and receivables	**3,385,441**	**4,687,842**	**120,861**	**6,103**	**4,814,806**	**8,200,247**
Financial investments – held-to-maturity	**-**	**444,675**	**-**	**330,322**	**774,997**	**774,997**
Investment properties	**-**	**-**	**618**	**-**	**618**	**618**
Property and equipment	**189,216**	**1,482**	**380**	**183,772**	**185,634**	**374,850**
Intangible assets	**1,170**	**4**	**194**	**5,359**	**5,557**	**6,727**
Other assets	**45,547**	**28,046**	**4,745**	**51,172**	**83,963**	**129,510**
Goodwill	**-**	**-**	**-**	**63,268**	**63,268**	**63,268**
TOTAL ASSETS	**9,098,190**	**14,140,944**	**2,124,716**	**5,844,994**	**22,110,654**	**31,208,844**
LIABILITIES						
Due to banks and financial institutions	**1,525**	**268,947**	**274,002**	**160,964**	**703,913**	**705,438**
Derivative financial instruments	**-**	**-**	**-**	**23,526**	**23,526**	**23,526**
Customers' deposits	**7,810,887**	**12,986,461**	**1,618,084**	**4,443,619**	**19,048,164**	**26,859,051**
Related parties` deposits	**56,559**	**114,060**	**3,862**	**56,073**	**173,995**	**230,554**
Engagements by acceptances	**-**	**149,400**	**23,263**	**24,974**	**197,637**	**197,637**
Current tax liabilities	**30,708**	**-**	**3,055**	**14,825**	**17,880**	**48,588**
Other liabilities	**129,721**	**257,803**	**28,541**	**75,457**	**361,801**	**491,522**
Provisions for risks and charges	**15,775**	**13,554**	**-**	**9,092**	**22,646**	**38,421**
Retirement obligation benefits	**26,121**	**2,305**	**-**	**10,132**	**12,437**	**38,558**
Total liabilities	**8,071,296**	**13,792,530**	**1,950,807**	**4,818,662**	**20,561,999**	**28,633,295**
NET EXPOSURE	**1,026,894**	**348,414**	**173,909**	**1,026,332**	**1,548,655**	**2,575,549**

45 RISK MANAGEMENT (continued)

45-3 Market risk (continued)

45-3-2 Currency risk (continued)

The following consolidated statement of financial position as of 31 December 2008, is detailed in Lebanese Lira (LL) and foreign currencies, translated into LL.

		Foreign currencies in Lebanese Lira				
	LL million	*US Dollars in LL million*	*Euro in LL million*	*Other foreign currencies LL million*	*Total foreign currencies LL million*	*Total LL million*
ASSETS						
Cash and balances with central banks	646,219	2,103,557	85,323	745,368	2,934,248	3,580,467
Due from banks and financial institutions	66,234	2,996,367	1,610,988	1,143,793	5,751,148	5,817,382
Derivative financial instruments	8,907	-	1,353	29,607	30,960	39,867
Financial assets held-for-trading	-	10,683	111	3,470	14,264	14,264
Financial assets designated at fair value through profit or loss	-	81,955	-	-	81,955	81,955
Loans and advances to customers	433,889	2,872,684	242,594	1,681,280	4,796,558	5,230,447
Loans and advances to related parties	87	4,279	1,890	670	6,839	6,926
Bank acceptances	-	139,138	38,775	24,298	202,211	202,211
Non-current assets held for sale	(2,667)	10,372	-	19,856	30,228	27,561
Financial investments – available-for-sale	4,090,268	127,305	7,814	466,599	601,718	4,691,986
Financial assets classified as loans and receivables	1,117,938	4,811,009	150,314	14,971	4,976,294	6,094,232
Financial investments – held-to-maturity	-	428,586	-	205,720	634,306	634,306
Investment properties	-	-	581	-	581	581
Property and equipment	167,050	9,637	464	147,425	157,526	324,576
Intangible assets	574	916	146	3,671	4,733	5,307
Other assets	34,450	33,596	4,029	93,525	131,150	165,600
Goodwill	-	-	-	63,145	63,145	63,145
TOTAL ASSETS	6,562,949	13,630,084	2,144,382	4,643,398	20,417,864	26,980,813
LIABILITIES						
Due to banks and financial institutions	12,819	264,065	706,893	212,969	1,183,927	1,196,746
Derivative financial instruments	27,399	-	-	29,380	29,380	56,779
Customers' deposits	5,557,359	12,278,646	1,464,325	3,335,765	17,078,736	22,636,095
Related parties` deposits	36,457	58,790	18,082	26,949	103,821	140,278
Engagements by acceptances	-	139,138	38,775	24,298	202,211	202,211
Current tax liabilities	33,302	1,591	1,322	16,944	19,857	53,159
Other liabilities	85,880	204,900	21,945	117,486	344,331	430,211
Provisions for risks and charges	23,232	358	47	7,844	8,249	31,481
Retirement obligation benefits	24,199	1,833	208	8,294	10,335	34,534
Total liabilities	5,800,647	12,949,321	2,251,597	3,779,929	18,980,847	24,781,494
NET EXPOSURE	762,302	680,763	(107,215)	863,469	1,437,017	2,199,319

The table below indicates the extent to which the Group was exposed to currency risk at 31 December 2009 on its foreign currency positions. The analysis calculates the effects of a reasonably possible movement of the currency rate against the Lebanese Lira, with all other variables held constant, including the effect of hedging instruments, on the consolidated income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges). The effect on equity is not significant. A negative amount in the table reflects a potential net reduction in consolidated income statement or equity, while a positive amount reflects a net potential increase.

Currency	***Change in currency rate % 2009***	***Effect on profit before tax 2009 LL million***	*Change in currency rate % 2008*	*Effect on profit before tax 2008 LL million*
USD	**± 1%**	± 174	± 1%	± 6,068
EUR	**± 3%**	± 14,187	± 3%	± 717

45-3-3 Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate housing loans when interest rate falls. The fixed rate assets of the Group are not significant compared to the total assets. Moreover, other market conditions causing prepayment is not significant in the markets in which the Group operates. Therefore, the Group considers the effect of prepayment on net interest income is not material after taking into account the effect of any prepayment penalties.

45 RISK MANAGEMENT (continued)

45-4 Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

46 CAPITAL MANAGEMENT

The Bank maintains an actively managed capital base to cover risks, inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Bank of Lebanon and the Banking Control Commission.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

Banks should maintain a required capital adequacy ratio (not less than 8%) based on their capital funds over the total risk weighted assets. The Bank complies in full with all its externally imposed capital requirements (2008: the same).

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years; however, it is under constant scrutiny of the Board.

Regulatory capital

At 31 December 2009 and 2008, the capital consists of the following:

	2009 LL million	*2008 LL million*
Tier 1 capital	**2,156,828**	1,901,875
Tier 2 capital	**43,591**	(7,782)
Total capital	**2,200,419**	1,894,093
Risk weighted assets		
Credit risk	**14,139,893**	13,552,886
Market risk	**322,026**	213,936
Operational risk	**1,298,738**	1,120,450
Total risk weighted assets	**15,760,657**	14,887,272

46 CAPITAL MANAGEMENT (continued)

Regulatory capital (continued)

The capital adequacy ratio as of 31 December (including profit for the year less proposed dividends) is as follows:

Tier 1 capital ratio	**13.68%**	12.78%
Total capital ratio	**13.96%**	12.72%

47 COMPARATIVE INFORMATION

Insurance premiums' commissions were reclassified from "other operating income" and "other operating expenses" to "fee and commission income".

Comparative figures amounting to LL 57,069 million and LL 39,511 million were reclassified accordingly.