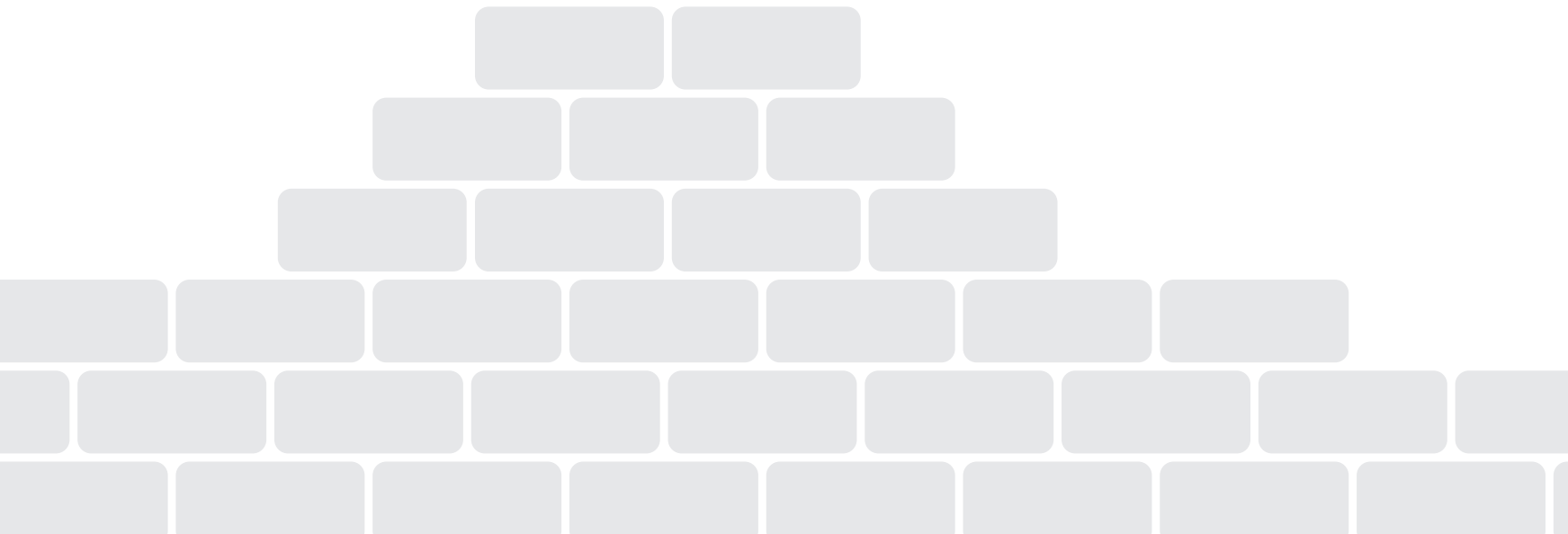


Annual Report 2010

Building on our achievements



...to serve you better



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Chairman's Letter



During 2010, FNB maintained its exponential growth and reached a significant milestone by joining the Alpha Group of Banks, classified by a minimum deposit threshold of USD 2 billion. This growth was achieved in spite of a relative slowdown of the Lebanese real economic sector. This achievement, though symbolic in nature, is a result of the bank's strategy to expand its footprint within the Lebanese banking sector. FNB truly believes that size alone does not automatically lead to quality, but it is a prerequisite to securing critical mass and access to resources necessary for delivering quality banking services.

Furthermore, this growth embodies management's intentions to present FNB as a group of entities providing universal banking services including but not limited to corporate, retail, private, and investment banking within a total quality management environment. This reflects a customer centric approach adopted by the group to meet the needs of its retail and corporate clients by offering a holistic set of services catering to the two sides of the balance sheet of our clients.

The financial results of the FNB group on a consolidated basis including MECG (the investment arm) and CFC (the consumer finance arm) outperformed the banking sector by the end of year 2010, whereby assets grew by approximately 17% compared to 12% in the sector. The growth in assets was mainly funded by customer deposits which rose by 21.6% compared to the sector's increase of 11.9%, while loans and advances posted an increase of approximately 41% compared to 23% in the banking sector. Furthermore, this growth in the balance sheet was not merely an increase in size, but was also translated into superior growth in net profits of approximately 66% compared to a growth rate of 23.97% for the Alpha Group. This growth at FNB, compared to the other banks in the Alpha Group, places FNB in the top quartile in regard to several key performance indicators including but not limited to deposits, loans and advances, net spread, net operating income, net income, and return on average equity.

This annual report will be issued and read by the bank's constituencies in the midst of geopolitical turmoil, not to mention the term tsunami, still unclear in its impact on the economic financial health of the region. Though we cannot predict the future, we can always prepare for it. Accordingly, the FNB group is moving forward and focusing on maintain-

“2010 WAS A YEAR OF EXCEPTIONAL GROWTH FOR FNB,”

ing its quality services and strengthening its internal front by enhancing internal controls and transparency, thus striking a balance between adding value to its shareholders through revenue generation and prudently managing several types of business risks. In this respect, efforts will be directed towards generating revenue from the main core of our business (especially the non-interest portion) and enhancing alternative sources of income generating initiatives in areas such as corporate and structured finance and private banking.

Finally, despite the different challenges in the region, the management of FNB looks ahead to the future of the bank with faith, determination, and strong resolve. FNB will continue to serve its stakeholders in the best manner possible under the leadership of the Board of Directors, the commitment of qualified staff, and the trust and loyalty of our valued clients.

Corporate Governance



08 STATUTORY BODY

08 Chairman

08 Board of Directors

10 MANAGEMENT

10 Board of Directors

10 General Management

10 Legal Advisors

10 Foreign Affairs

10 Auditors

10 Head Office Managers

11 Branch Managers

STATUTORY BODY

The corporate governance framework at First National Bank specifies the structure of the bank's authorities by delegating responsibilities and job profiles. The management pyramid is headed by a Board of Directors who governs the policies and procedures applied throughout the organization structure. The bank's performance and implementation of the internal and external growth strategy are closely observed and monitored by top and middle management personnel contributing to remarkable divisional performance of a qualitative and quantitative nature.

Chairman

The Chairman and Vice Chairman's nominations are given by the authority of the Board of Directors who appoints one of its members for a three-year renewable term. The Deputy General Manager and Assistant Managers are endorsed by the Board upon recommendation of the Chairman. Their substantive role is to assist the chairman in the daily operations. The Chairman has extensive powers to execute resolutions adopted by the shareholders at either an Ordinary or Extraordinary General Assembly and to represent the bank in its commercial activities. The Chairman may delegate some or all of his authority to another person or persons who operate under his supervision, but remains responsible for the acts and performance of his delegates.

Board of Directors

The Board of Directors consists of nine elected members and is chaired by Mr. Rami El Nimer. The election of the members takes place at the Annual General Assembly of Shareholders for a three-year term. The shareholders are empowered to remove the Directors by way of a resolution adopted at an Ordinary or Extraordinary General Assembly of Shareholders. Board members need General Assembly authorization to be elected members in other entities with similar business activities. The renewal of this authorization is mandatory at each Annual General Assembly of Shareholders.

The Board of Directors of First National Bank is composed of the following 9 members:

Mr. Rami Refaat El Nimer is an experienced banker who has many notable achievements in the banking industry. He has served as a Director and Chairman for the bank since March 2001. Additionally, Mr. El Nimer holds other corporate responsibilities within the business community.

Mr. Khaled Abdallah Al Sagar is the Vice-Chairman of the bank. He has been a Director at FNB since June 1996. Mr. Al Sagar held the role of Chairman for the bank for a three-year term starting April 3, 1998 until March 23, 2001. He is an active member of the Al Sagar Group, a leading merchant and industrial conglomerate in Kuwait.

Promotion des Investissements S.A.L. (Holding) has been represented on the board of the bank through its Chairman since April 2000. It is a Lebanese holding company that primarily invests its financial and industrial concerns in Lebanon.

Mr. Abdallah Saoud Al Humaidhi has been a member of the board of the bank since June 1996. He is also a member of the Board of Directors of the Arab Banking Corporation in Bahrain, representing the government of Kuwait. Mr. Al Humaidhi is the Chairman and Managing Director of Commercial Facilities Company K.S.C., and a Board Member of the Chamber of Industry & Commerce in Kuwait, in addition to other Kuwaiti organizations.

Mr. Arfan Khalil Ayass has been a member of the board of the bank since August 2009. He is a member of the American Institute of Certified Public Accountants, the Lebanese Society of Certified Public Accountants and the Arab Society of Accountants. Mr. Ayass is currently a faculty member of the Lebanese University and Hariri Canadian University and a member of the Audit Committee in International Monetary Fund (IMF).

Mr. Tamim Saleh Al Sahli has been a member of the board of the bank since April 2000. He is a Lebanese businessman.

Mr. Roland Elias Haraoui has been a member of the board of the bank since December 2001 and an executive board member since August 2004. He is a Lebanese businessman with exceptional leadership profile.

United Investments Company (Lebanon) S.A.L. (Holding) has been elected through its representative as a board member at the bank since 2004. It is a Lebanese holding company that invests its financial and industrial concerns in Lebanon.

Invest Bank P.S.C has been represented at the board of the bank since February 2007. Invest Bank is a commercial bank that has been based in the Emirate of Sharjah since 1975. The bank's shares are 100% publicly owned and they are listed and traded on the Abu Dhabi Securities Market.

MANAGEMENT

Board of Directors

Mr. Rami Refaat El Nimer
Chairman

Mr. Khaled Abdallah Al Sagar
Vice-Chairman

Mr. Abdallah Saoud Al Humaidhi
Member

Mr. Tamim Saleh Al Sahli
Member

Mr. Arfan Khalil Ayass
Member

Mr. Roland Elias Haraoui
Member

Invest Bank P.S.C
Member

Promotion Des Investissements s.a.l. (Holding)
Member

United Investment Company (Lebanon) s.a.l. (Holding)
Member

General Management

Mr. Rami Refaat El Nimer
(Chairman - General Manager)

Mr. George Nassib Aouad
(Deputy General Manager)

Mr. Elias Salim Baz
(Deputy General Manager)

Mr. Ghaithan Subhi Tayara
(Assistant General Manager)

Mr. Mahmoud Gerge Francis
(Assistant General Manager -
Branch Management Department)

Mr. Tony Wannas Dabbaghian
(Assistant General Manager)

Legal Advisors

Abou Sleiman & Partners

Saadé, Debs & Partners

Me. Sakhr C. El Hashem

Me. Rawi B. Kanaan

Foreign Affairs

Mr. Nabil Soubra
Chairman's Advisor

Auditors

Deloitte & Touche
Fiduciaire du Moyen-Orient

Managers

Head Quarters - Senior Managers

Mr. Imad R. Al-Fata
(Corporate Credit Department)

Mr. Robert H. El Haddad
(Internal Audit Department)

Mr. Adam H. Mansour
(Compliance & Review Department)

Mr. Antoine C. Wakim
(Chief Financial Officer)

Mr. Raymond N. Yazbeck
(Credit Administration Department)

Head Quarters - Managers

Mr. George F. Abi Hanna
(Human Resources Department)

Mr. George K. Abi Karam
(Legal Department)

Mrs. Amina H. Bizri

(AML Department)

Mr. John N. Chalouhi

(Risk Management Department)

Mr. Wassim M. Daouk

(Small & Medium Enterprises Department)

Ms. Nada F. El Zein

(Credit Review Department)

Mr. Joseph E. Estephan

(Recovery & Restructuring Department)

Mrs. Soumaya Y. Haris

(Treasury - Capital Markets Department)

Mr. Salim L. Karroum

(Operations Department)

Mr. Marwan B. Khawand

(Information Technology Department)

Mr. Maher G. Mezher

(Marketing Department)

Mr. Elie M. Rahal

(Trade Finance Department)

Mr. Assaad K. Saliba

(Treasury - Foreign Exchange Department)

Branch Managers

Mr. Firas Abi Farraj

(Aley Branch)

Mr. Ghassan R. Abou Zahr

(Saida Branch)

Mr. Wajih S. Akkari

(Verdun Branch)

Mr. Joseph M. Azoury

(Jounieh Branch)

Mr. Khalil M. Amhaz

(Mazraa Branch)

Mr. Ziad A. Baadarani

(Tarik El Jdideh - Sabra Branch)

Mr. Mahmoud A. Berjawi

(Haret Hreik Branch)

Mr. Abed S. Chami

(Halba Branch)

Mr. Jean G. Chehadeh

(Hazmieh Branch)

Mr. Mohamad H. Chokr

(Chtoura Branch)

Mr. Youssef H. El Zoghbi

(Jdeideh Branch)

Mr. Hussein G. Fakhreddine

(Jnah Branch)

Mr. Issam H. Ghosn

(Nabatieh Branch)

Mr. Antoine G. Hafez

(Allenby Branch - Main Branch)

Mr. Ahmad Saoud A. Hajar

(Tripoli Branch)

Mr. Fouad H. Hamadeh

(Choueifat Branch)

Mr. Ziad E. Kanaan

(Antelias Branch)

Mr. Elie H. Khalil

(Zouk Mousbeh Branch)

Mr. Nabil H. Serhan

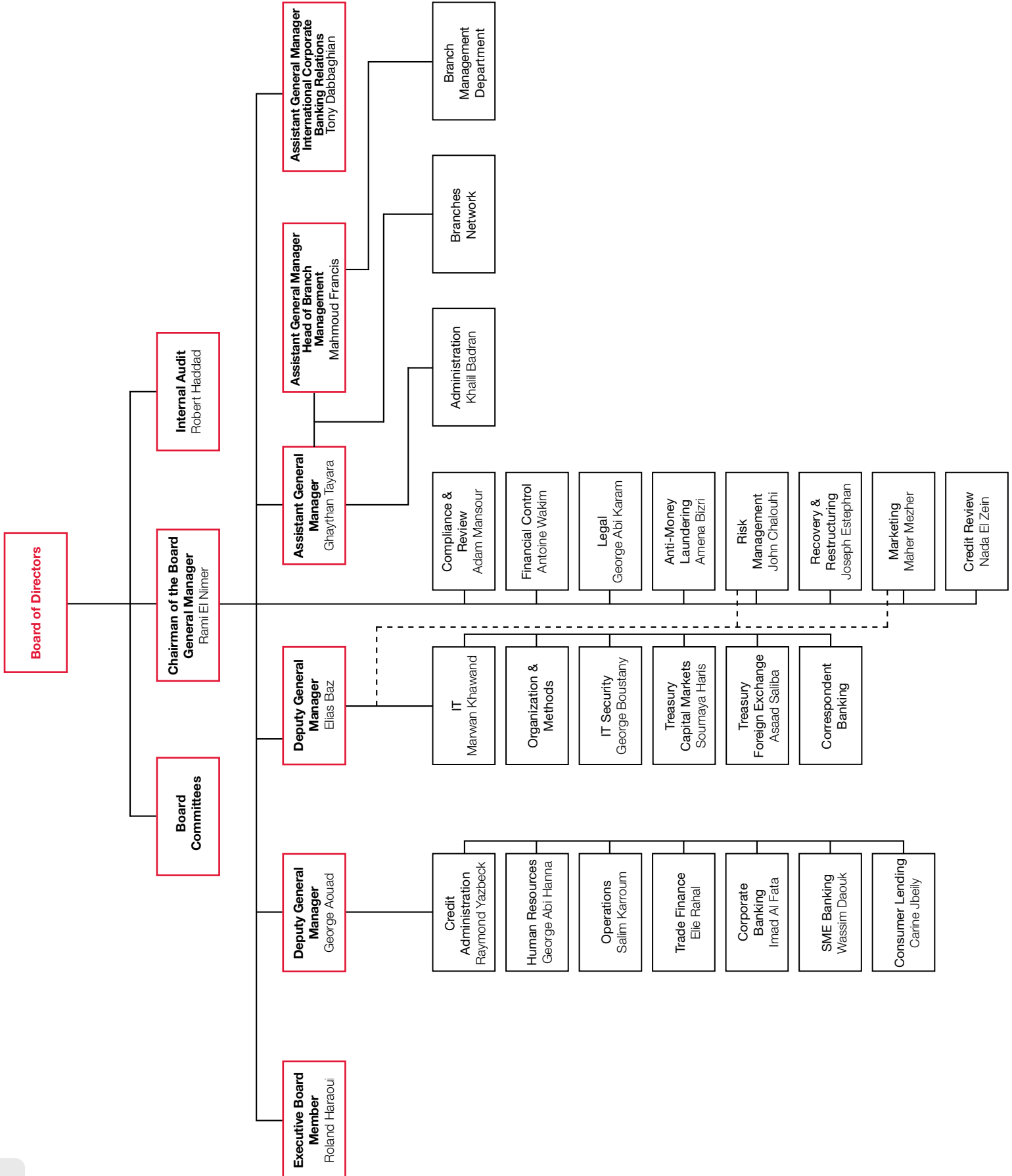
(Mais El Jabal Branch)

Mr. Erik P. Vasdekis

(Achrafieh Branch)

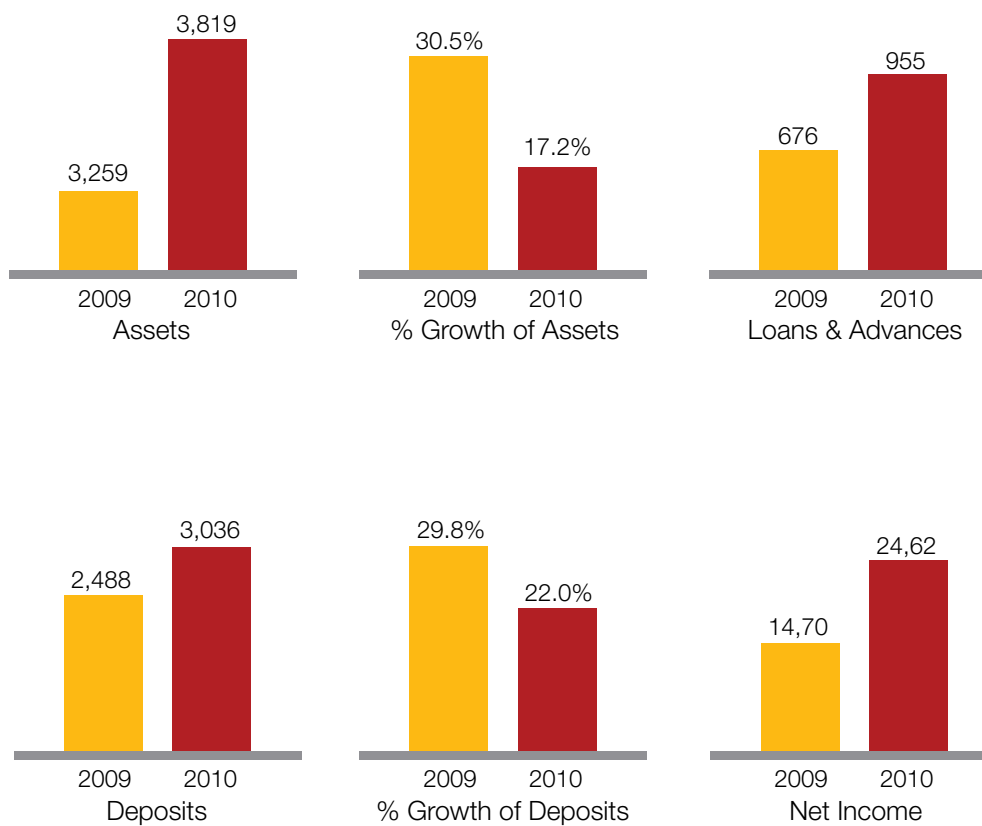
Mrs. Rola S. Zaghloul

(Hamra Branch)



KEY FIGURES OF FNB GROUP

in billions of LBP



Achievements & Awards



The devotion and accomplishments of FNB's marketing department in 2010 were recognized with a number of awards.

The Best Innovative Banking Product for the Fertility Loan, the Best Product Design in Retail Banking and the Pan Arab Best Website Structure Award.

BEST INNOVATIVE RETAIL BANKING PRODUCT FOR THE FERTILITY LOAN

Emerging as one of our most innovative retail products while grasping the world's attention and admiration, the Fertility Loan received high profile recognition from the Lebanon Opportunities National Achievement Awards for banking as the Best New Retail Product or Service for 2010. It is worth noting that only six banks in Lebanon, including ourselves, received recognition at the mentioned event.



BEST PRODUCT DESIGN IN RETAIL BANKING

As a pioneer of innovation in retail banking, the Fertility Loan was granted the Best Product Design Award from Capital Issues as the most innovative and humanitarian Retail Product in the banking sector for 2010.



PAN ARAB BEST WEBSITE STRUCTURE AWARD

Our newly developed website launched in 2010 www.fnb.com.lb was honored with the Best Pan Arab Structure Award from the Pan Arab Web Awards Academy in its 2010 Banking Web Awards. Banks and financial institutions competed nationally and regionally in countries like the United Arab Emirates, Kingdom of Saudi Arabia, Kingdom of Bahrain, Sultanate of Oman, State of Qatar, and many others.



Management Discussion & Analysis



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The management discussion and analysis highlights key information regarding the bank. The terms “the bank,” “FNB,” “we,” “us,” and “our,” used here without other qualifying description, will refer to First National Bank S.A.L. The term “group” will refer to FNB consolidated (with Middle East Capital Group “MECG” and Capital Finance Company “CFC”). All statements of financial position are consolidated, unless otherwise stated, and are based on the audited consolidated statements of the external auditors.

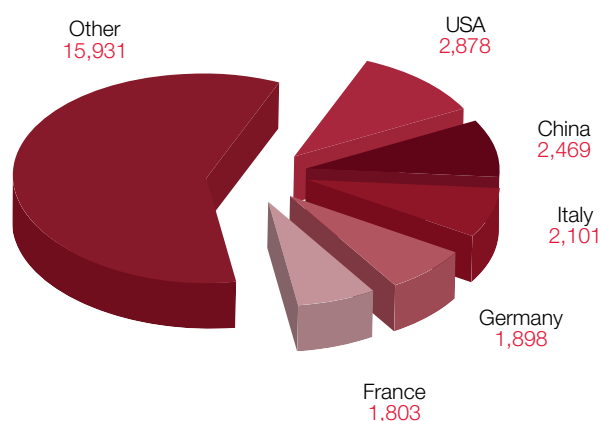
OPERATING ENVIRONMENT

Economic Indicators

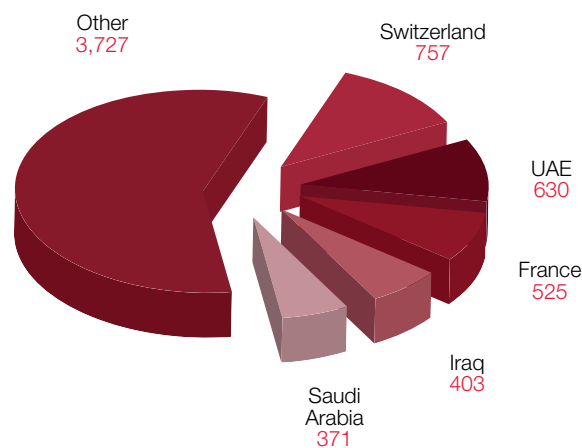
The year 2010 has shown significant economic growth despite the ongoing domestic turmoil. The diagnosis of the annual economic performance trend is indicated by the BDL coincident indicator that reached 255.4 in December 2010 compared to 240.5 in December 2009. There were many considerable increases during 2010, including the volume of cement deliveries by 6.7%, construction permits by 22.79%, the tourism sector passenger flow growth of 11.4%, the total value of cleared checks by 21.54% in Lebanese pounds and 19.04% in foreign currencies, and electricity production with a positive variation of 4.54% in 2010. On the contrary, freight at the port of Beirut dropped by 0.35% with a volume totaling 6.5 million tons. Foreign trade was quite active in 2010 with an increase in imports of 6.6% and exports of 33.9%. According to figures released by the Ministry of Finance, net total public debt reached LBP 67,876 billion at the end of 2010, registering a yearly growth rate of 1.9% compared to 6.3% in 2009.

Lebanon witnessed a healthy performance through a period of political tension that was marked by a real GDP growth of 7% by year end. The inflation rate rose to 6.2% in 2010 compared to 4.2% in 2009.

Imports by Origin in 2010
in billions LBP



Exports by Destination in 2010
in billions LBP

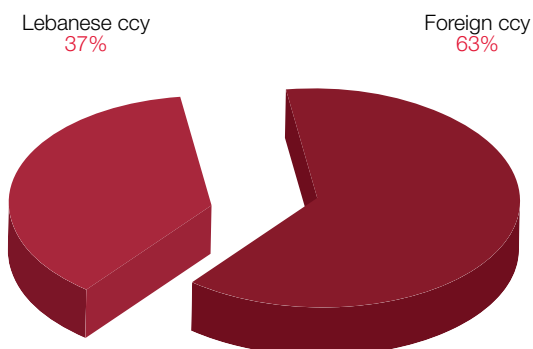


Source: BDL Monthly Bulletin, December 2010

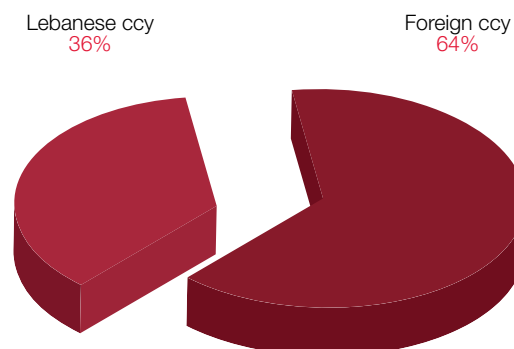
Banking Sector

The consolidated statement of financial position of commercial banks recorded a rise of 11.9% in 2010 compared to 22.3% in 2009 to reach LBP 194,355 billion. Resident and non-resident private sector deposits reached LBP 161.6 billion, increasing by 11.9% by end-December 2010, compared with 23.1% in 2009. As for the dollarization rate of bank deposits, it regressed slightly to 63% by end-December 2010 from 64% at end 2009.

Deposits by currency in 2010

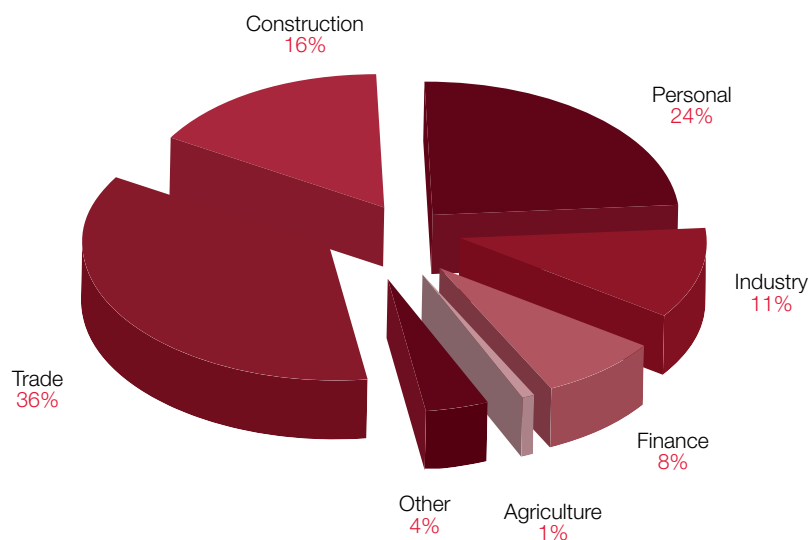


Deposits by currency in 2009



Similarly, loans and advances to the private sector increased by an annual 23.1% versus 13.3% in 2009, amounting to LBP 52,656 billion in 2010, as a result of the Banque du Liban incentives and the liquidity abundance in the Lebanese banking sector.

Loans & Advances by Sector in 2010



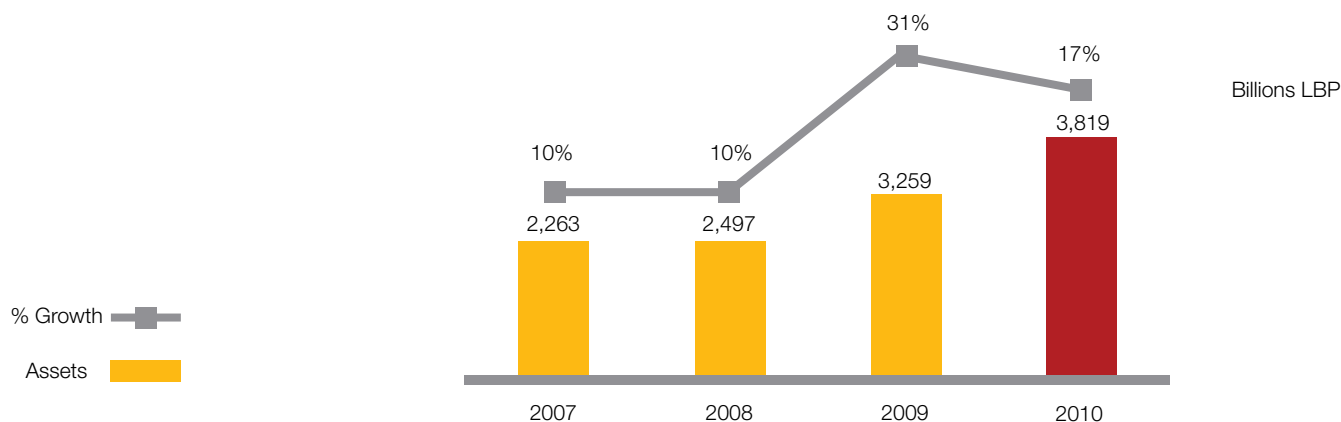
Source: BDL Monthly Bulletin, December 2010

FNB GROUP PERFORMANCE

In thousands of LBP	2007	2008	2009	2010
Assets	2,263,434,611	2,496,946,024	3,258,722,095	3,818,725,634
Loans and advances to customers	497,808,996	561,398,553	676,055,390	954,522,772
Customers' deposits	1,675,453,347	1,915,861,304	2,487,720,953	3,035,712,315
Shareholders' equity	139,554,887	157,971,466	244,660,670	291,553,068
Net income	10,561,362	13,312,260	14,702,909	24,617,005
Number of branches	18	18	19	21
Number of staff	339	357	425	529
Ratios				
Loans to deposits	29.71%	29.30%	27.18%	31.44%
Net doubtful loans/Total loans	3.23%	3.44%	2.42%	0.31%
Loan loss provisions/Gross loans	11.36%	10.98%	10.14%	8.95%
Net doubtful loans/Equity	11.52%	12.22%	6.67%	1.00%
Gross doubtful loans/Gross loans	14.22%	14.04%	12.31%	9.23%
Average equity to assets	4.89%	6.25%	7.00%	7.58%
Efficiency:				
Interest received to av. assets	6.93%	6.37%	6.02%	5.91%
Interest paid to av. assets	5.51%	4.81%	4.67%	4.15%
Interest paid to interest received	79.57%	75.54%	77.56%	70.21%
Spread	1.42%	1.56%	1.35%	1.76%
Cost to net financial income	68.16%	66.68%	68.82%	61.89%
Profitability:				
ROAA	0.49%	0.56%	0.51%	0.70%
ROAE	9.99%	9.38%	7.84%	9.18%

Total Assets

The consolidated assets of FNB Group as of December 31, 2010 amounted to approximately LBP 3,819 billion (USD 2.53 billion), showing an increase of 17.2% from LBP 3,258 billion as of December 31, 2009.

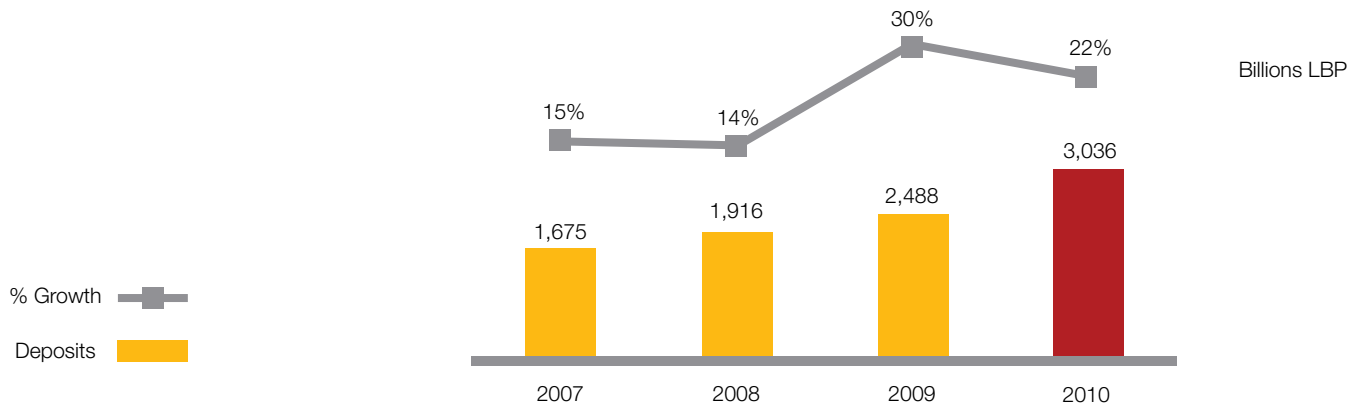


SOURCES OF FUNDS

The FNB Group's source of funding comes mainly from deposits from customers representing 80% of total sources. Other sources of funds are from banks and financial institutions which represent 11%, equity 7.5% and other sources 1.5%.

Deposits from Customers

On December 31, 2010, the group had accumulated sums of LBP 3,036 billion (USD 2,014 million) in customers' deposits as compared to LBP 2,488 billion (USD 1,650 million) in 2009, reflecting a growth rate of 22%.



Dollarization

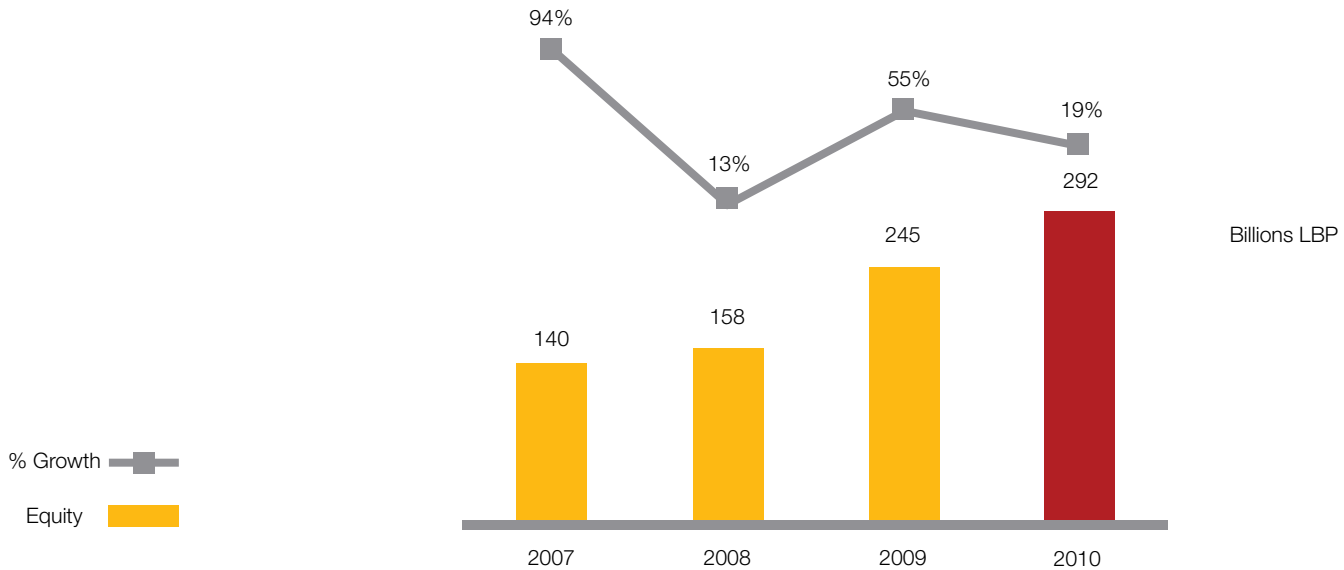
Deposits in Lebanese pounds increased by 24% in 2010, from LBP 918 billion as of December 31, 2009 to LBP 1,136 billion as of December 31, 2010, while deposits in foreign currency increased by 21% from LBP 1,569 billion as of December 31, 2009 to LBP 1,900 billion as of December 31, 2010. The dollarization ratio in 2010 remained the same as in 2009, approximately equal to 63%.

Banks and Financial Institutions

As of December 31, 2010, deposits and borrowings from banks and financial institutions equaled LBP 432 billion including the soft loan from the Central Bank maturing in January 2011.

Equity

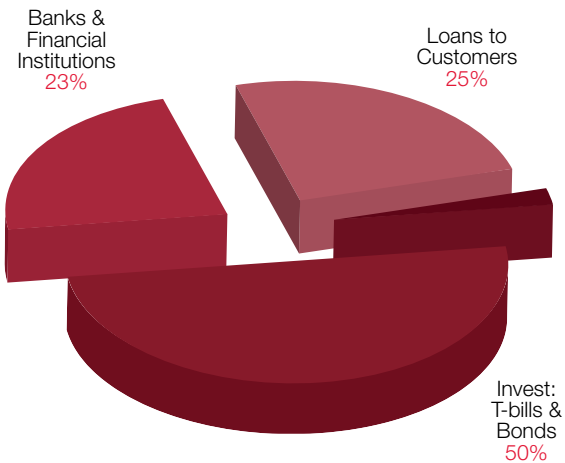
As of December 31, 2010, the group Shareholders' Equity stood at LBP 292 billion (USD 193 million) compared to LBP 245 billion (USD 162 million) as of December 31, 2009.



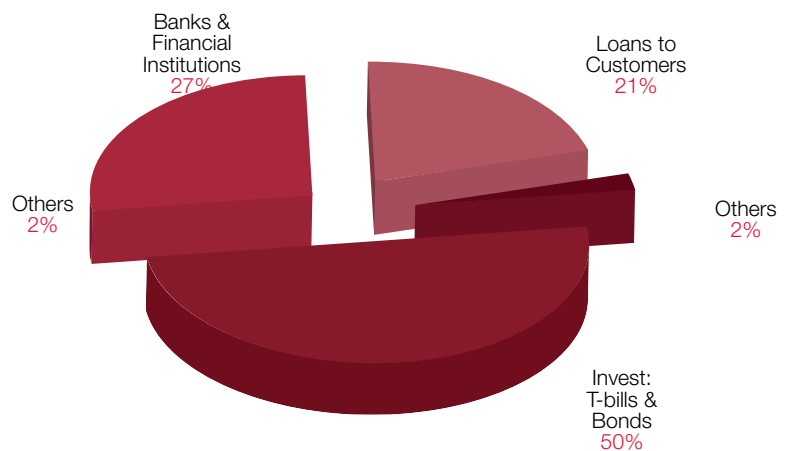
USES OF FUNDS

The FNB group use of funding is classified in 3 main categories: Investments (T-bills & Bonds), Banks and Financial Institutions, and Loans and Advances to Customers.

Uses of funds in 2010

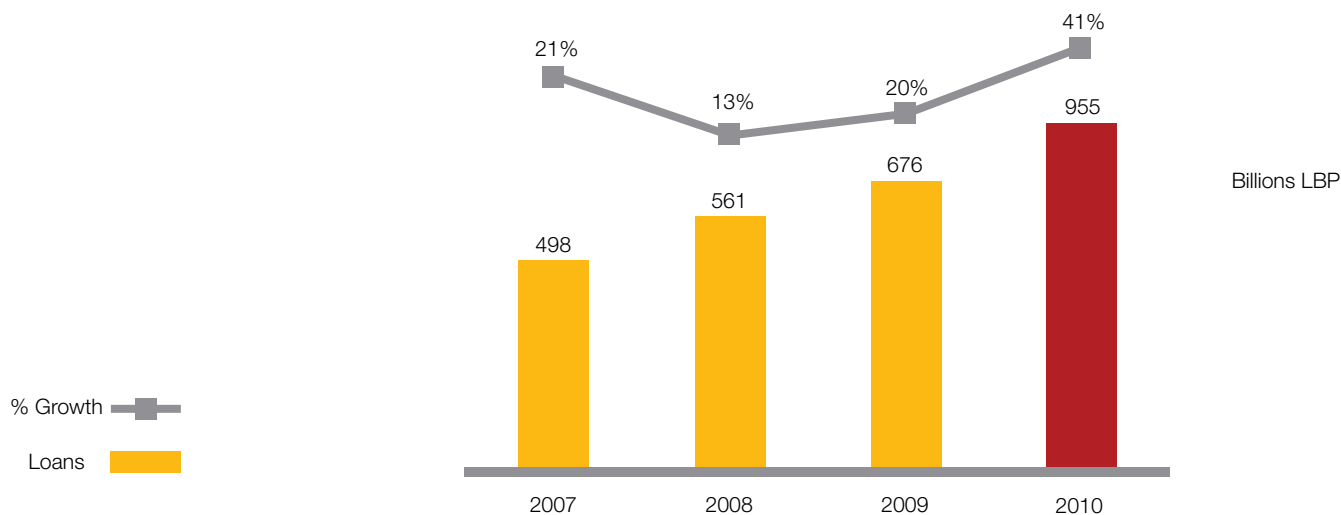


Uses of funds in 2009

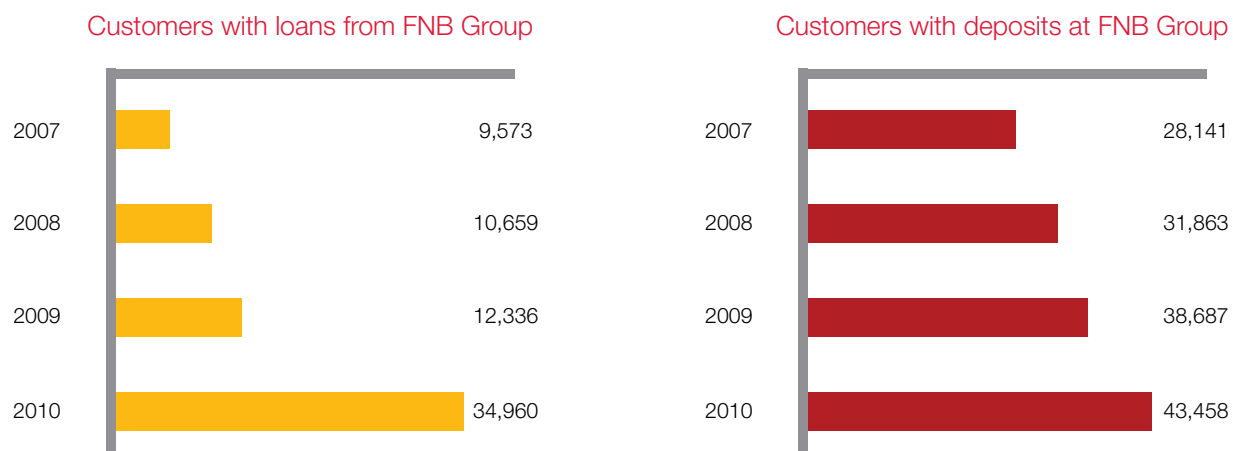


Loans and Advances to Customers

The group was also successful in developing its retail and commercial lending sector. Loans and Advances to Customers increased by LBP 279 billion (USD 185 million) during 2010 to reach LBP 955 billion (USD 633 million) as of December 31, 2010, reflecting a growth rate of 41%.



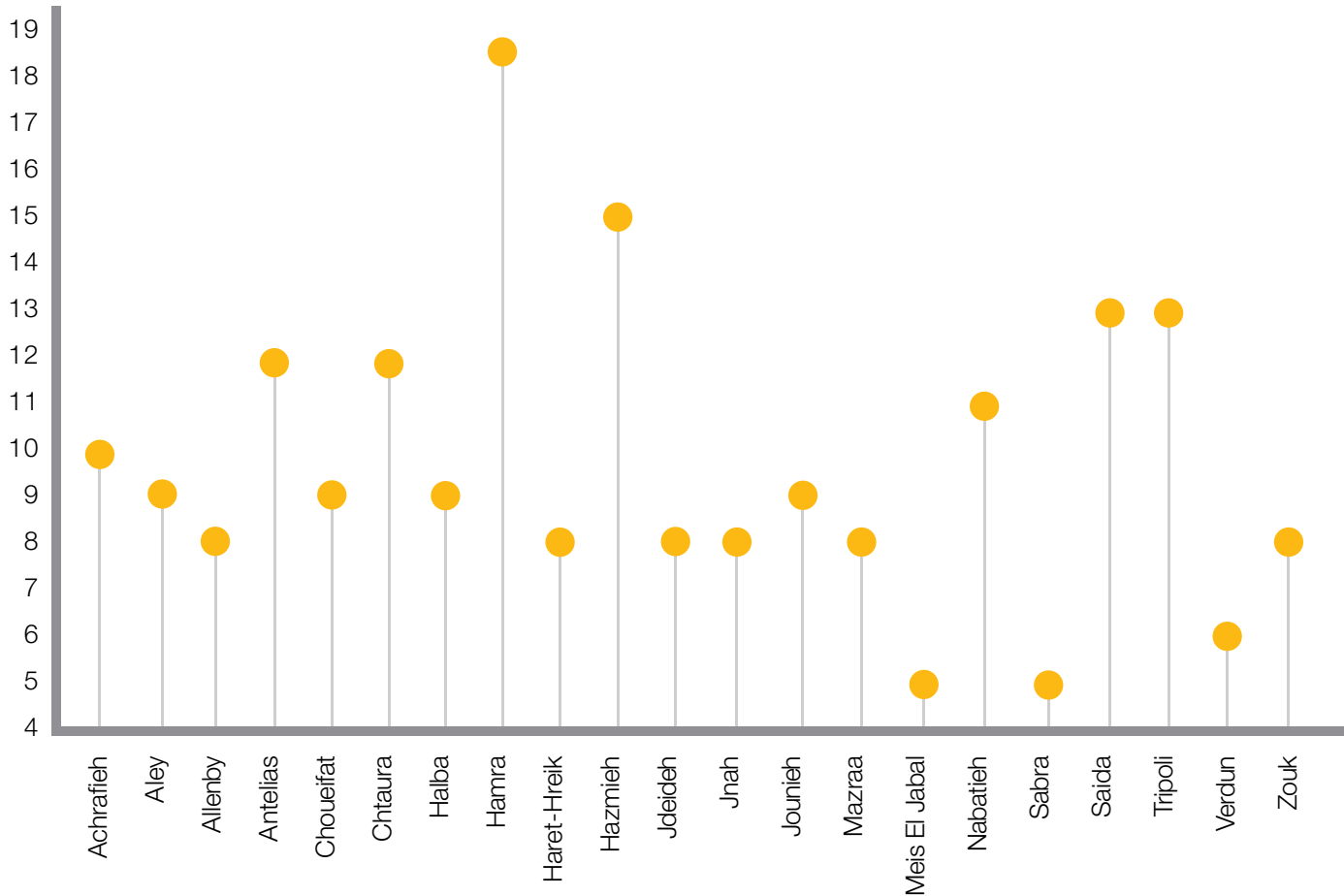
a. Number of Customers at the End of 2010



b. Branches and ATM's

The bank operates 22 ATMs within the 21 branches and 12 additional free-standing ATMs in order to allow banking access throughout Lebanon.

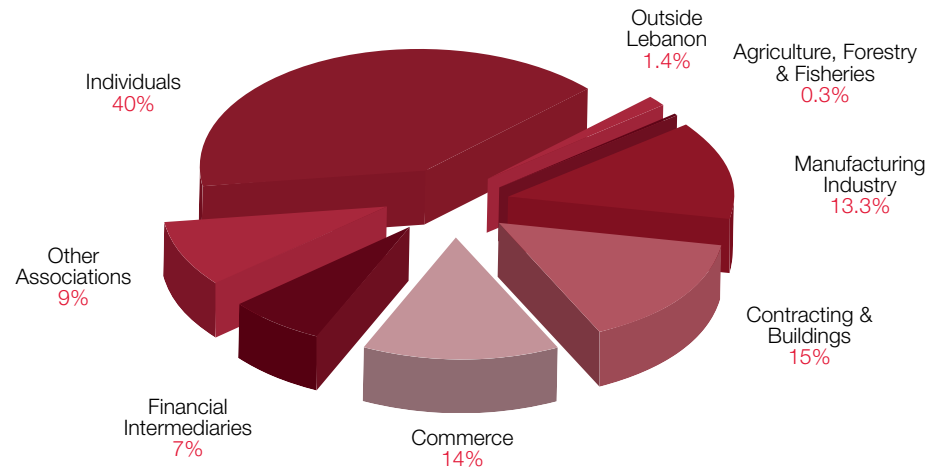
Branches by number of employees



List of free-standing ATM's

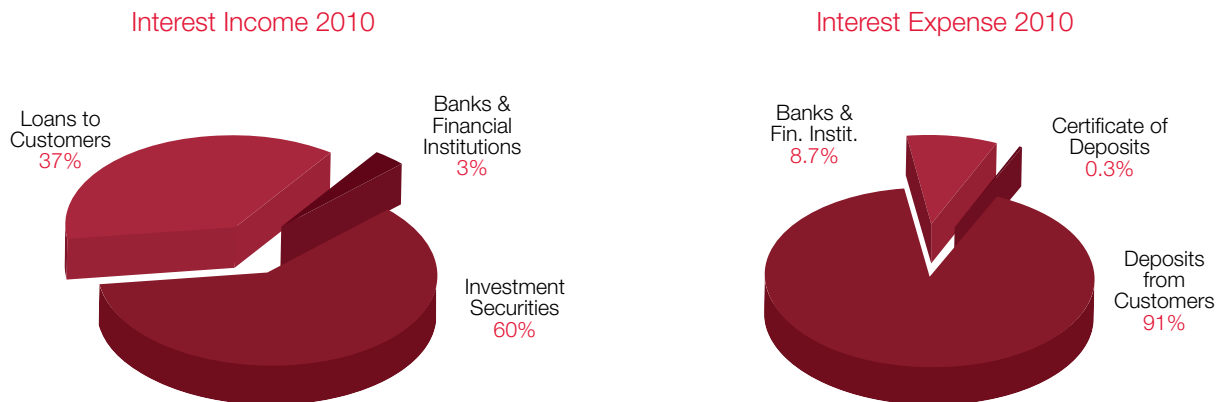
Zouk	(EDL) Electricité Du Liban
Kadicha	(EDL) Electricité Du Liban
Gemayze	(EDL) Electricité Du Liban
Tabarja	Aquamarina 2
Aintoura	Aintoura School
Riyak	Riyak Hospital
Saida	Riad el Solh Sq.
Mekalles	OTV Bldg
Mathaf	General Security
Aadlieh	General Security
Hamra	Makdessi St.
Raouche	Riviera Hotel

c. Loan Portfolio by Economic Sector in 2010



PROFITABILITY

As of December 31, 2010, the group reported a net income of LBP 24.62 billion (USD 16.3 million) as compared to LBP 14.70 billion (USD 9.8 million) at the end of 2009, reflecting an annual growth rate of 67%. The distribution of both interest income and interest expense is illustrated below:



Non-interest operating income contributed to the growth of net income. Net Fees and Commissions reached LBP 4.3 billion as of December 31, 2010. In addition, operating income reached LBP 12 billion as of December 31, 2010 compared to LBP 7 billion as of December 31, 2009, with a yearly increase of 73%.

CAPITAL MEASUREMENT

The FNB Group complies with the capital requirements set forth by the Central Bank of Lebanon, the bank's main regulator, to preserve the bank's liabilities and to monitor and maintain a strong capital base.

Risk weighted assets and capital are examined periodically to assess the quantum of capital available to support growth and optimally deploy capital to achieve targeted returns.

	2010	2009
Capital adequacy ratio Basel II	9.48%	9.94%

FINANCIAL AND NON-FINANCIAL DEVELOPMENTS

Branch Management

2010 was a very productive year for Branch Management. After acquiring CFC, the Branch Management Department successfully headed a major integration along with all concerned parties. New processes were implemented and branch staff members completed a rigorous and intensive training program. These projects are carried out through one vision, a unified culture, and a well defined strategy adopted by the bank.

By the end of 2010, our branches reached their targets and the main objective of joining the Alpha Group had been met.

Compliance and Review

The Compliance and Review Department (CRD), established in 2009, centralizes the control and review processes at FNB to aid the organization in achieving its mission and profitability goals. The CRD regulates the policies, processes, and tasks of the organization to ensure efficiency of operations, quality of reporting, and compliance with applicable laws and regulations.

Compliance and Review consists of four interrelated components. These are:

Control Environment: sets the tone of the organization, influencing the control consciousness of its employees.

Control Activities: monitors policies and procedures that ensure management directives are met. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities such as approvals, authorizations, verifications, reconciliations, reviews of operating performance, asset security, and segregation of duties.

Information and Communication: identifies pertinent information that must be analyzed, assessed, and communicated in an efficient form and timeframe. Information systems produce reports containing operational, financial, and compliance-related information that enables it to properly

The Branch Management Department remains focused on continuous commitment to increasing shareholder profitability, offering a high level of customer service and professionalism, as well as reinforcing integrity and trust among FNB's employees.

The local branch network is continuously being expanded. The Zouk and Tarik el Jdideh branches became operational this past year, while the licensing authorization for two additional branches was approved and obtained.

function and control the business. They manage not only internally generated data, but also information regarding external events that affect the business, activities, and conditions necessary to conduct informed decision-making and external reporting.

Monitoring: occurs through the observation of internal control systems via a process that assesses the quality of the system's performance over a period of time. This is accomplished through ongoing monitoring activities, separate evaluations, or a combination of the two procedures. Ongoing monitoring occurs in the standard course of operations. Internal control is most effective when controls are built into the entity's infrastructure and are a part of the foundation of the enterprise. Built-in controls support quality and empowerment initiatives, avoid unnecessary costs, and enable quick responses to changing conditions.

The CRD is comprised of the following units:

- 1- Treasury Review Unit
- 2- Reconciliation Unit
- 3- Credit Monitoring and Review Unit
- 4- Regulatory Compliance Unit
- 5- Branch Review and Control Unit
- 6- Operations and Review Unit

Corporate Banking

The main objective of the Corporate Banking Division at First National Bank S.A.L. is to develop and maintain a mutual long-lasting banking relationship with its customers while pursuing growth, security, and profitability for the bank, depositors, and shareholders.

The Corporate Banking Division maintains the ultimate level of satisfaction for its distinguished corporate clients by providing tailor-made financial solutions for their increasingly sophisticated financial needs.

Designated relationship managers, committed and dedicated to developing and maintaining strong and close relationships with each corporate customer, craft innovative financial solutions using a full range of customer-focused products. The client's risk profile and specific needs are always carefully considered.

During the past year, the Corporate Banking Division extended its services in the region in order to attract new customers from other countries while maintaining and expanding its existing relationship with local customers.

FICB

The Financial Institutions and Correspondent Banking Department (FICB) at First National Bank Group is responsible for relationships with banks and financial institutions in Lebanon and overseas. It offers comprehensive support and guidance with a strategic focus on financing foreign trade. The FICB uses a wide network of correspondent banks, along with business relationships in emerging markets, to support the group's foreign trade worldwide. In addition, it assists other units with their international activities. The First National Bank Group provides a dedicated team of professionals to serve its clients with a complete range of correspondent banking needs.

Special services offered to FNB clients include:

- Liquidity and Capital Markets Solutions
- Check Collection Services
- Foreign Currency Services
- International Trade – Letters of Credit

The strategic objective for FICB is to gain market share in the foreign trade business as well as nurture long-term relationships with other financial institutions and focus on service excellence and reliability.

Marketing

In line with its continuous commitment to innovation and improvement, the Marketing Department celebrated several achievements throughout 2010.

In order to meet the growing retail needs of clients, the department launched two new loans. The Educational Loan aids university students in settling their tuitions, while the Subsidized Housing Loan (with BDL) enables and facilitates the purchase of apartments. In addition, subsequent to the acquisition of CFC, the department also conducted the necessary market studies and competitors' analysis in order to solidify and ensure FNB's continuous presence in the banking sector.

Following the fast-paced growth of technology, the Marketing Department adopted the chip-enabled card strategy in order to simplify and ease various banking transactions. It also launched the SAFRATI travel insurance plan which offers customers a full package covering any unexpected travel costs.

With the purpose of delivering superior customer service and enhancing the bank's image, the department conducted a full renovation of FNB's website and completed the installation of new dynamic LCDs in all its branches.

As part of the bank's corporate social responsibility, and to further portray its belief in and support for cultural and humanitarian activities, FNB sponsored a variety of events throughout the year. Some of the more notable events included the Annual Walk with Al Yonbuh, a national campaign on waste recycling with Beeatouna, the Chess Championship, the Spring of Beirut with the Samir Kassir Foundation, and a race organized by the Lebanese Army.

In addition, two significant awards were bestowed upon FNB this past year. FNB won the Best Retail Banking Innovative Product national achievement award for its Fertility Loan, as well as the Best Pan Arab Website Structure award, thus demonstrating the Marketing Department's commitment to creativity and development.

Information Technology

Throughout 2010, the Information Technology Department underwent many significant achievements and faced many challenges. It focused mainly on building and strengthening the department's infrastructure, and upgrading the software, hardware, and network platforms.

The IT team upgraded and stabilized the Equation Branch Automation EBA 2.2HF11 software to version 2.3HF21, and implemented new products such as TI Plus 1.4 (for Trade Finance Business) and the Message Manager for swift interface. New modules and interfaces were also developed including Central Bank ITRS management, interface to CFC (the bank's retail lending arm subsidiary) for granting loans and payments, interface with Lebanese International University to collect student tuition fees, and SMS Push to notify customers about their banking transactions. The internal development life cycle was enhanced and implemented among the different bank's business entity requirements.

In addition, the 6 Sigma Risk & Credit Management System and SunGard Operational Risk System were installed. The ATM EuroNet application was upgraded from version 2.9 to 4.1 in order to benefit from the new functionalities (such as the Card Management System web access) and to replace the Maestro debit cards with the MasterCard unembossed chip embedded debit cards used worldwide. All branch servers and the bank active directory were upgraded to Windows 2008R2. The new branch applications were installed on a virtual environment (using Microsoft Hyper-V) thus providing better resource utilization and faster recovery. An internal advertisement application was published on LCDs installed at the branches.

Treasury

FNB Treasury and Capital Markets provide a wide range of financial advisory, securities brokerage, trading activities and Capital Markets offerings while maintaining the code of ethics: integrity, objectivity, confidentiality and competency.

The Treasury Department provides innovative solutions, professional services, and full access to the world's Money Market & Capital Markets, as well as FX through prime international banks and financial institutions. The bank is considered a market maker in trading Lebanese Government Eurobonds. It is also active in the GCC and International

Simultaneously, FNB branches conducted major renovations from infrastructure (cabling, power, bandwidth increase, and communication line redundancy) to hardware projects (new servers with energy saving and old Diebold ATM machines replacement). All bank ATMs were upgraded to become EMV compliant. A new ATM surveillance system was acquired to record videos and/or snapshots in addition to card/transaction details for every customer transaction made on the ATM. The video conferencing and IP camera installation projects will be addressed during the coming year.

The IT Department took essential security measures during 2010 in redesigning the internet security structure by installing the Barracuda Web Application Firewall (WAF) and TippingPoint Security Management System (SMS) that will allow secure internal hosting for the bank website, in addition to protecting the internet banking application. The communication lines connected to external companies are being secured in DMZ zones (Reuters, AEG Swift and CSC). Internal and external security measures will continue to be improved during 2011 by restructuring and re-enforcing the active directory policies, acquiring Rights Management Services (RMS) for documents and email access, and implementing back-up and recovery solutions.

In addition, two contingency sites were fully equipped and a replication of critical applications was implemented. Furthermore, a complete training center and a virtual branch environment were set up at the Jdeideh office.

fixed income markets.

Our creative Treasury services and solutions are customer centric, designed to help minimize clients' foreign exchange risks while offering competitive rates for a wide range of foreign currency products. It is no surprise that the foreign exchange market can often be highly volatile, thereby presenting substantial risk to the portfolios. As a result, we have assembled a dedicated team of analysts, specialized solely in foreign exchange, to assist clients in mitigating several types of related risks embedded within the different commercial transactions.

Human Resources

2010 was another year of improvement and accomplishments for the Human Resources Department.

During the year, our main area of concentration was enhancing the HR service delivery to our internal clients, and amplifying people's learning and technical skills, thus strengthening team spirit within the organization.

Accordingly, our learning records for 2010 reveal that 62 banking-related training sessions were conducted for about 57% of the FNB staff.

Moreover, our core focus was on developing partnership with the business through specialized and in-house training sessions, and linking individual performance to the overall business performance. As a result, this partnership improved

the bank's culture and made FNB a better environment to work in.

In addition, we continued the redeployment of our workforce by executing the job rotation technique through promoting talented employees and assigning them higher responsibilities.

For the third consecutive year, we took part in the most valuable salary surveys in the local banking sector which helped us in choosing a reasonable benchmark for our pay structure.

As part of encouraging future generations, we have enrolled more than 120 students in our internship program and regarded some of them as future potential resources in our growing business.

Internal Audit

Role

The Internal Audit Department plays the vital role of providing an internal mechanism of checks and balances with comprehensive and independent professional audit services throughout all divisions and entities within the bank. They assist management in maintaining proper controls over the bank's assets while displaying uniformity, comparability, and transparency, adding to the overall business performance. In addition, they ensure adherence to sound policies, procedures, overall control, compliance, and corporate governance within the bank.

The Internal Audit Department uses a risk-based audit approach that includes compliance audit, financial audit, controls audit, transactional flow audit, performance audit, and procedural audit. The department has extensive experience and knowledge concerning auditing techniques, and is composed of dynamic, well-informed, and skilled staff.

While the Internal Audit function is guided mainly by the Central Bank regulations, the Internal Audit coverage exceeds these requirements and rigorously complies with international auditing standards, the Internal Audit Charter, and related professional organizations. The Internal Audit Charter is regularly updated and clearly specifies the reporting level, mission, and scope of work of the Internal Audit.

Organization

The Internal Audit Department is independent of the management of the bank and is supervised by the Head of the Internal Audit Department who, in turn, reports to the Audit Committee. The Department is structured around specialized audit sections that audit the activities of business units. These sections include the Branch Audit, Departmental Audit, and IT Audit; they also include the audit of FNB subsidiaries. The Audit Section Heads manage teams of senior and junior auditors, and report to the Head of the Internal Audit Department.

The staff and management of the Internal Audit stay abreast of the constant changes in the audit and control fields through internal and external training sessions pertaining to different business and banking topics. They regularly study new areas in which to introduce improvements to the existing controls at the bank and to the audit methodology. Employees of the Internal Audit Department are authorized to have unrestricted access to all functions, records, property, and personnel.

Consolidated Financial
Statements and Auditors' Report



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INDEPENDENT AUDITOR'S REPORT

Year Ended December 31, 2010

To the Shareholders
First National Bank S.A.L.
Beirut, Lebanon

We have audited the accompanying consolidated financial statements of First National Bank S.A.L. and its Subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2010, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements, within the framework of banking laws in Lebanon. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated

financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of First National Bank S.A.L. and its Subsidiaries as of December 31, 2010, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Beirut, Lebanon, May 9, 2011


Deloitte & Touche


Fiducial du Moyen-Orient

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31

ASSETS	Notes	2010 LBP'000	2009 LBP'000
Cash and central bank	5	512,617,089	426,857,374
Deposits with banks and financial institutions	6	358,829,543	424,005,286
Trading assets	7	3,973,484	4,201,285
Available-for-sale investment securities	8	1,092,481,272	1,012,919,855
Held-to-maturity investment securities	8	807,179,737	629,746,924
Loans to banks	9	7,670,127	18,637,981
Loans and advances to customers	10	954,522,772	676,055,390
Customer's liability under acceptances	11	9,153,012	15,787,640
Investment in an associate	13	1,099,904	909,148
Assets acquired in satisfaction of loans	14	4,961,411	4,351,549
Property and equipment	15	32,600,193	30,503,270
Other assets	16	11,671,278	10,729,903
Regulatory blocked fund	17	1,500,000	1,500,000
Intangible assets	18	86,156	116,490
Goodwill	12	<u>20,379,656</u>	<u>2,400,000</u>
Total assets		<u>3,818,725,634</u>	<u>3,258,722,095</u>
FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK			
Guarantees and standby letters of credit	37	94,232,835	56,767,131
Documentary and commercial letters of credit	37	23,107,511	24,603,010
Forward exchange contracts	37	58,100,512	48,374,963
FIDUCIARY ASSETS	38	267,821,323	394,192,638

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31

LIABILITIES	Notes	2010 LBP'000	2009 LBP'000
Deposits and borrowings from banks and financial institutions	19	387,498,273	423,150,363
Customer's deposits at amortized cost	20	3,035,712,315	2,487,720,953
Liability under acceptances	11	9,153,012	15,787,640
Certificates of deposit	21	5,795,808	12,065,617
Soft loan from Central Bank of Lebanon	22	44,843,983	44,850,747
Other liabilities	23	37,984,716	26,319,627
Provisions	24	<u>6,184,459</u>	<u>4,166,478</u>
Total liabilities		<u>3,527,172,566</u>	<u>3,014,061,425</u>
EQUITY			
Share capital	25	131,439,820	115,000,000
Additional paid-in capital	25	28,173,355	17,293,563
Preferred shares	26	22,605,000	22,605,000
Legal reserve	27	4,321,792	2,885,758
Reserve for general banking risks	27	13,918,280	9,791,276
Reserve for assets acquired in satisfaction of loans	14	1,180,991	548,263
Cumulative change in fair value of investment securities	28	41,876,512	41,359,575
Retained earnings		23,014,484	20,067,846
Profit for the year		<u>24,608,867</u>	<u>14,699,223</u>
Equity attributable to owners of the Bank		291,139,101	244,255,504
Non-controlling interest		<u>413,967</u>	<u>405,166</u>
Total Equity		<u>291,553,068</u>	<u>244,660,670</u>
Total Liabilities and Equity		<u>3,818,725,634</u>	<u>3,258,722,095</u>

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME

Year ended December 31

	Notes	2010 LBP'000	2009 LBP'000
Interest income	30	209,043,775	173,380,300
Interest expense	31	<u>(146,766,456)</u>	<u>(134,471,830)</u>
Net interest income		<u>62,277,319</u>	<u>38,908,470</u>
Fee and commission income	32	9,505,357	8,397,250
Fee and commission expense	33	<u>(5,181,136)</u>	<u>(2,132,101)</u>
Net fee and commission income		<u>4,324,221</u>	<u>6,265,149</u>
Net interest and gain and loss on trading assets	34	183,837	<u>1,109,857</u>
Other operating income (net)	35	<u>12,322,965</u>	<u>7,102,934</u>
Net financial revenues		79,108,342	53,386,410
Provision for impairment of loans and advances to customers (net)	10	(4,911,582)	(262,429)
Write-off of doubtful loans and advances to customers		(10,164)	(3,257)
Negative goodwill	12	2,406,432)	-
Provision for decline in value of Available-for-sale securities	28	-	<u>(1,200,000)</u>
Net financial revenues after impairment charge		<u>76,593,028</u>	<u>51,920,724</u>
Staff costs		(27,515,979)	(19,960,769)
Administrative expenses		(16,353,394)	(12,761,949)
Depreciation and amortization	36	(3,290,166)	(2,982,253)
Other expenses	28	<u>(241,317)</u>	(148,537)
Net gain on disposal of property and equipment and assets acquired in satisfaction of loans		<u>892,012</u>	<u>1,784,112</u>
Profit before income tax		30,084,184	17,851,328
Income tax expense		(5,467,179)	(3,298,419)
Deffered tax revenue		-	<u>150,000</u>
Profit for the year		<u>24,617,005</u>	<u>14,702,909</u>
Attributable to:			
Equity holders to the Bank		<u>24,608,867</u>	14,699,223
Non-controlling interest		<u>8,138</u>	<u>3,686</u>
		<u>24,617,005</u>	<u>14,702,909</u>

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31

	2010 LBP'000	2009 LBP'000
Profit for the year	<u>24,617,005</u>	<u>14,702,909</u>
Other comprehensive income:		
Net change in fair value of available-for-sale securities	9,265,658	62,608,188
Net change in fair value recycled to profit and loss	(8,717,444)	(3,986,122)
Amortization of change in fair value of securities reclassified to held to maturity	46,743	219,828
Provision for decline in fair value of available-for-sale securities	-	1,200,000
Deferred tax	<u>(75,330)</u>	<u>(7,225,004)</u>
Other comprehensive income	<u>519,627</u>	<u>52,816,890</u>
Total comprehensive income	<u>25,136,632</u>	<u>67,519,799</u>
Attributable to:		
Equity owners of the Bank	25,125,804	67,514,040
Non-controlling interest	<u>10,828</u>	<u>5,759</u>
	<u>25,136,632</u>	<u>67,519,799</u>

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Equity Attributable to Owners of the Group

	Share Capital	Blocked Deposit for Capital Increase	Preferred Shares	Additional Paid-in- Capital	Legal Reserve	Reserve for General Banking Risks
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Balance at January 1, 2009	100,000,000	15,000,000	-	17,298,563	1,717,266	6,218,134
Transfer from blocked deposit to share capital	15,000,000	(15,000,000)	-	-	-	-
Allocation of 2008 profit	-	-	-	-	1,168,492	3,573,142
Dividends paid	-	-	-	-	-	-
Insurance of preferred shares	-	-	22,605,000	-	-	-
Reserve for foreclosed assets	-	-	-	-	-	-
Total Comprehensive income 2009	-	-	-	-	-	-
Other	-	-	-	-	-	-
Balances at December 31, 2009	115,000,000	-	22,605,000	17,298,563	2,885,758	9,791,276
Capital increase	16,439,820	-	-	-	-	-
Additional Paid in Capital	-	-	-	10,874,792	-	-
Allocation of 2009 profit	-	-	-	-	1,436,034	4,127,004
Dividends paid	-	-	-	-	-	-
Reserve for foreclosed assets	-	-	-	-	-	-
Write Back of provision for foreclosed assets	-	-	-	-	-	-
Total comprehensive income 2010	-	-	-	-	-	-
Other	-	-	-	-	-	-
Balances at December 31, 2010	<u>131,439,820</u>	<u>-</u>	<u>22,605,000</u>	<u>28,173,355</u>	<u>4,321,792</u>	<u>13,918,280</u>

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Reserves for Assets Acquired in Satisfaction of Debts	Cumulative Change in fair value of Investment Securities	Change in Retained Earning	Income for the year	Attributable to the Bank	Non-controlling Interest	Total Equity
LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
517,257	(11,455,242)	15,425,269	12,864,273	157,585,520	385,946	157,971,466
-	-	-	-	-	-	-
-	-	8,122,639	(12,864,273)	-	-	-
-	-	(3,450,000)	-	(3,450,000)	-	(3,450,000)
-	-	-	-	22,605,000	-	22,605,000
31,006	-	(31,006)	-	-	-	-
-	52,814,817	-	14,699,223	67,514,040	5,759	67,519,799
-	-	944	-	944	13,461	14,405
548,263	41,359,575	20,067,846	14,699,223	244,255,504	405,166	244,660,670
-	-	-	-	16,439,820	-	16,439,820
-	-	-	-	10,874,792	-	10,874,792
-	-	9,136,185	(14,699,223)	-	-	-
-	-	(5,561,034)	-	(5,561,034)	-	(5,561,034)
1,034,987	-	(1,034,987)	-	-	-	-
(402,259)	-	402,259	-	-	-	-
-	516,937	-	24,608,867	25,125,804	10,828	25,136,632
-	-	4,215	-	4,215	(2,027)	2,188
<u>1,180,991</u>	<u>41,876,512</u>	<u>23,014,484</u>	<u>24,608,867</u>	<u>291,139,101</u>	<u>413,967</u>	<u>291,553,068</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31

	Notes	2010 LBP'000	2009 LBP'000
Cash flow from operating activities:			
Profit for the year		24,617,005	14,702,909
Adjustments for:			
Depreciation and amortization		3,290,166	2,982,253
Amortization of change in fair value of securities reclassified as held to maturity		(46,743)	(219,828)
Provision for write-off of impaired loans and advances to customers		4,921,746	265,686
(Gain) on sale of property and equipment		(576,943)	(98,145)
(Gain) on sale of assets acquired in satisfaction of loans		(315,069)	(1,685,967)
Change in fair value and gain on sale of trading assets	34	228,167	(762,662)
Provisions		1,608,426	827,179
Share in profit/loss of an associate		(190,757)	5,868
Provision for decline in value of available-for-sale securities		-	1,200,000
Net change in loans to banks		10,967,854	(779,388)
Net change in loans and advances to customers		(195,884,653)	(117,036,669)
Net change in customers' deposits		547,991,362	571,859,649
Net change in trading securities		-	1,500,756
Net change in placements with banks		544,030,664	(9,517,381)
Net change in other assets and intangible assets		485,629	(97,208)
Net change in other liabilities		1,563,370	(3,929,974)
Settlement of provisions		(446,990)	(236,149)
Deposits and borrowings from banks and financial institutions		<u>(86,387,866)</u>	<u>(87,687,089)</u>
Net cash generated by operating activities		<u>459,244,807</u>	<u>371,293,840</u>
Cash flows from investing activities:			
Net change in investment securities		(256,355,586)	(452,571,566)
Acquisition of subsidiary	12	(30,780,700)	-
Purchase of property and equipment		(3,751,133)	(11,089,914)
Proceeds from disposal of property and equipment		166,685	42,809
Proceeds from disposal of assets acquired in satisfaction of loans		<u>3,996,311</u>	<u>5,519,969</u>
Net cash used in investing activities:		<u>(286,724,423)</u>	<u>(458,098,702)</u>
Cash flows from financing activities:			
Certificates of deposits		(6,269,809)	-
Preferred shares		-	22,605,000
Dividend distribution		<u>(5,561,034)</u>	(3,450,000)
Net cash used in financing activities		<u>(11,830,843)</u>	<u>19,155,000</u>
Net change in cash and cash equivalents		160,689,541	(67,649,862)
Cash and cash equivalents - Beginning of year		(19,850,703)	47,799,159
Cash from acquired subsidiary	12	<u>11,248,812</u>	-
Cash and cash equivalents - End of year	41	<u>152,087,650</u>	<u>(19,850,703)</u>

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

First National Bank S.A.L. (the “Bank”) is a Lebanese joint stock company registered in the Commercial Register under the Number 67480 and in the Central Bank of Lebanon list of banks under number 108. The Bank carries out a full range of banking services through a network of twenty one branches in various Lebanese regions. The consolidated financial statements of the Bank as at December 31, 2010 comprise the Bank and its subsidiaries, Middle East Capital Group and its Subsidiaries (“MECG”) and Capital Finance Company S.A.L. (“CFC”) and are hereafter referred to as (the “Group”).

The Group’s headquarters are located in Beirut, Lebanon.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

Standards and Interpretations effective for the current period with no effect on the consolidated financial statements

The following new and revised standards, interpretations have been adopted in the current period with no material impact on the disclosures and amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements:

-Amendments to IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions.

The amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.

- IFRS 3 (revised) Business Combinations and consequential amendments to IAS 27 (revised) Consolidated and Separate Financial Statements, IAS 28 (revised) Investments in Associates and IAS 31 (revised) Interests in Joint Ventures.

IFRS 3 (revised) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interest either at fair value or at the non-controlling interest’s share of recognized identifiable net assets of the acquiree. Contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognized against the cost of acquisition only to the extent that they arise from new information obtained within the measurement period about the fair value at the date of acquisition. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognized in profit or loss. All acquisition-related costs are expensed. IAS 27 (revised in 2008) requires that transactions with non-controlling interests to be recognized within equity, with no impact on goodwill or profit or loss.

- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.

- IFRIC 17 Distributions of Non-cash Assets to Owners

The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.

- IFRIC 18 Transfers of Assets from Customers

The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from 'customers' and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit being recognised as revenue in accordance with IAS 18 Revenue.

- Improvements to IFRSs issued in 2009 (those that are mandatory for the first time for the financial year beginning January 1, 2010)

- Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations.

- Amendments to IFRS 8 Operating Segments – Disclosure of information about segment assets.

- Amendments to IAS 1 Presentation of Financial Statements- Current/non-current classification of convertible instruments.

- Amendments to IAS 7 Statement of Cash Flows – Classification of expenditures on unrecognized assets.

- Amendments to IAS 17 Leases – Classification of leases of land and buildings.

- Amendments to IAS 36 Impairment of Assets – Unit of accounting for goodwill impairment test.

- Amendments to IAS 38 Intangible Assets – Additional consequential amendments arising from revised IFRS 3. Measuring the fair value of an intangible asset acquired in a business combination.

- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Treating loan prepayment penalties as closely related embedded derivatives. Scope exemption for business combination contracts. Cash flow hedge accounting.

- IFRIC 9 Reassessment of Embedded Derivatives - Scope of IFRIC 9 and revised IFRS 3.

- IFRIC 16 Hedges of a Net Investment in a Foreign Operation – Amendment to the restriction on the entity that can hold hedging instruments.

Standards and Interpretations in issue but not yet effective

The Group has not applied the following new standards, amendments and interpretations that have been issued but not yet effective:

	Effective for Annual Periods Beginning on or After
- Amendments to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters.	July 1, 2010
- Amendments to IFRS 7 Disclosures – Transfers of Financial Assets increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. Currently, the Group has not entered into such transactions.	July 1, 2011
- IFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition. IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other debt investments and equity investments are measured at their fair values. At initial recognition, an entity may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading. The gain or loss that is presented in the consolidated other comprehensive income includes any related foreign exchange component. Dividends on such investments are recognized in the consolidated statement of income in accordance with IAS 18 Revenue unless the dividend clearly represents a recovery of part of the cost of the investment. Amounts presented in consolidated other comprehensive income shall not be subsequently transferred to the consolidated statement of income. However, the entity may transfer the cumulative gain or loss within equity.	Early adoption decided by the Group effective January 1, 2011

Effective for
Annual Periods
Beginning on or After

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of the issuer. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of the issuer is recognized in consolidated other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in consolidated other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to the consolidated statement of income.

The directors anticipate that IFRS 9 will be early adopted in the Group's consolidated financial statements for the annual period beginning January 1, 2011 and that its application will have an impact on amounts reported in respect of the Group's financial assets as summarized under section 2.3 below.

- IAS 24 Related Party Disclosures (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities. The disclosure exemptions introduced in IAS 24 (as revised in 2009) do not affect the Group because it is not a government-related entity. However, disclosures regarding related party transactions and balances in these financial statements may be affected when the revised version of the Standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the Standard.

January 1, 2011

- The amendments to IAS 32 titled Classification of Rights Issues address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments.

February 1, 2010

	Effective for Annual Periods Beginning on or After
- Amendment to IFRIC 14 - Prepayments of a Minimum Funding Requirement. The amendments correct an unintended consequence of IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.	January 1, 2011
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. In particular equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognized in profit or loss. To date, the Group has not entered into transactions of this nature.	July 1, 2010
- Improvements to IFRSs issued in 2010 - Amendments to: IFRS 3; IFRS 7; IAS1; IAS 27; IAS34; IFRIC 13.	Most of the amendments are effective for annual periods beginning on or after January 1, 2011

Impact of the adoption of IFRS 9 effective January 1, 2011 on the amounts reported

As discussed in section 2.2 above, the directors anticipate that IFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning January 1, 2011. Management preliminary assessment of the impact of the application of IFRS 9 is summarized as follows:

- In accordance with the provisions of IFRS 9, adoption by the Group in 2011 will be applied retrospectively and comparative amounts will not be restated as permitted by IFRS 9.
- Effective January 1, 2011 the Group's available-for-sale financial assets under IAS 39 will be classified as financial assets through profit or loss and as amortized cost. Accordingly it is expected that the cumulative fair value gains in relation to these available-for-sale financial assets amounting to LBP41.88billion will be reclassified to retained earnings to the extent of approximately LBP4.75billion and the remaining amount (along with the cumulative deferred tax charge) of approximately LBP37.13billion will be offset against those financial assets which will be classified as amortized cost.
- Effective January 1, 2011 part of the Group's financial assets classified as amortized cost (loans & receivable and held-to-maturity) under IAS 39 will be classified as amortized cost as at January 1, 2011.

3. SIGNIFICANT ACCOUNTING POLICIES

A. Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

and are presented in an approximate order that reflects their relative liquidity.

B. Basis of Measurement

The consolidated financial statements are prepared on the historical cost basis with the exception of the measurement at fair value of certain financial instruments in line with International Accounting Standard No. 39 (IAS39), especially financial assets and liabilities at fair value through profit and loss and available-for-sale financial assets measured at fair value.

Assets and liabilities are grouped according to their nature

C. Basis of Consolidation

The consolidated financial statements of First National Bank S.A.L. incorporate the financial statements of the Bank and enterprises controlled by the Bank (Subsidiaries). The Bank and its subsidiaries (the "Group") have the same financial reporting year and use consistent accounting policies. Control is achieved when, among other things, the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The consolidated subsidiaries as at December 31, 2010 comprise:

Company Name	Country of Incorporation	Date of Incorporation/ Acquisition	Percentage of Ownership	Business Activity
Middle East Capital Group Limited (MECG Group)	Guernsey	December 8, 1995	98.92%	Finance
Subsidiaries of MECG Group:				
MECG Holding S.A.L	Lebanon	December 1, 1995	100%	Holding Company
MECG S.A.L	Lebanon	August 3, 1996	100%	Finance
MECG Offshore S.A.L	Lebanon	July 22, 1996	100%	Finance
Middle East Capital Asset Management Limited	Guernsey	March 19, 1999	100%	Dormant Company
MECG Development S.A.L	Lebanon	July 28, 2005	99%	Management Company
Capital Finance Company S.A.L	Lebanon	January 8, 2010	100%	Retail loans

Income and expenses of subsidiaries acquired during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition as appropriate. Total comprehensive income of subsidiaries is attributed to controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions balances, income and expenses are eliminated in full on consolidation. Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interest consists of the amount of those interests at the date of the original business combination and the non-controlling's share of changes in net assets equity since the date of the combination.

D. Business Combinations

The acquisition of subsidiaries is accounted for using the acquisition method as at acquisition date, which is the date on which control is transferred to the Group. The cost of the business combination is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, no more allowed under the raised standard. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognized at their fair values at the acquisition date, except for non-current assets (or business units to be disposed of) that are classified as held for sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, which are recognized and measured at fair value less costs to sell.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The amount of any non-controlling interest; plus
- The fair value of any previously-held equity interest in the acquiree in case the business combination is achieved in stage; less
- The fair value of the identifiable net assets of the acquiree

When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

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.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

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 or groups of units.

E. Investments in Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates, except where the Group has control over the associates' financial and operating policies, are incorporated in the consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 Non-current Assets Held-for-Sale and Discontinued Operations. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognized.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in the income statement.

Temporary investments in non-consolidated subsidiaries, which the management intends to dispose of within one year from the consolidated statement of financial position date, are reflected in the consolidated statement of financial position at fair value that is equivalent to its net realizable value as determined on the date of the consolidated financial statements.

F. Foreign Currencies

The consolidated financial statements are presented in Lebanese Pound ("LBP") which is the Group's reporting currency. However, the primary currency of the economic environment in which the Group operates (functional currency) is the U.S. Dollar ("USD").

In preparing the financial statements of the individual entities, transactions in foreign currencies are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks, and exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Lebanese Pounds using exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as other comprehensive income and recognized in the Group's retained earnings. Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

G. Financial Assets and Liabilities

Recognition and Derecognition

The Group initially recognizes loans and advances, deposits and debt securities issued on the date that they are originated. All other financial assets and liabilities are initially recognized on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which all the risks and rewards of ownership of the financial asset are transferred.

Debt securities exchanged against securities with longer maturities with similar risks, and issued by the same issuer, are not derecognized because they do not meet the conditions

for derecognition. Premiums and discounts derived from the exchange of said securities are deferred to be amortized as a yield enhancement on a time proportionate basis, over the period of the extended maturities.

When the Group enters into transactions whereby it transfers assets recognized on its financial position and retains all risks and rewards of the transferred assets, then the transferred assets are not derecognized, for example, securities lending and repurchase transactions.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Offsetting

Financial assets and liabilities are set off and the net amount is presented in the financial position when, and only when, the Group has a legal right to set off the amounts or intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Fair Value Measurement

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities and those traded in inactive markets (excluding derivative instruments) are determined either based on quoted prices adjusted downward for factors related to illiquidity or in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions, as applicable; and
- the fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

Impairment of Financial Assets

Financial assets, other than those at "fair value through profit and loss", are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that as a result of one or more observable loss events, including significant or prolonged decline in fair

value beyond one business cycle that occurred after the initial recognition of the financial asset or group of financial assets, the estimated future cash flows of the investment have been impaired.

For financial assets carried at amortized cost, the amount of the impairment loss or specific provision for credit losses on non-performing loans and advances to customers, is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate, taking into consideration, for non-performing loans and advances to customers, the liquidating value of any security on hand.

In addition to specific provision for credit losses on non-performing loans and advances to customers, provision for collective impairment is made on a portfolio basis for credit losses where there is objective evidence that unidentified losses exist at the reporting date. This provision is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Group has had in dealing with a borrower or group of borrowers and available historical default information.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of available-for-sale equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in the consolidated statement of other comprehensive income.

H. Investment Securities

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through the income statement, incremental direct transaction costs, and subsequently accounted for depending on their classification

as either held-to-maturity or available-for-sale.

Held-to-Maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale.

Held-to-maturity investments are carried at amortized cost using the straight line method where results approximate those resulting from the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

Available-for-Sale

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value and unrealized gains or losses are included in the consolidated statement of other comprehensive income and accumulated under equity. Foreign exchange gains or losses on available-for-sale debt security investments are recognized in the consolidated statement of income.

I. Trading Securities

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near future; or
- It is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

Financial assets held-for trading are stated at fair value, with any resultant gain or loss recognized in profit or loss. Fair value is determined in the manner described in note 3(F).

Subsequent to their initial recognition, trading securities are not reclassified except when they meet the qualifying conditions of IAS 39 amendments on fair value.

J. Loans and Advances to Customers:

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the foreseeable future.

Loans and receivables are initially measured at fair value plus incremental direct transaction costs and subsequently measured at amortized cost using the straight line method where results approximate those resulting from the effective interest method, less impairment.

Non-performing loans and advances to customers are stated net of unrealized interest and provision for credit loss because of doubts and the probability of non-collection of principal and/or interest.

K. Derivative Financial Instruments

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognized in the consolidated statement of income immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded Derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognized in the consolidated statement of income.

Hedge Accounting

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Fur-

thermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Fair Value Hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement immediately, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the income statement relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to the income statement from that date.

Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the income statement, and is included in the "other gains and losses" line of the income statement.

Amounts previously recognized in other comprehensive income and accumulated in equity are recycled to profit or loss in the periods when the hedged item is recognized in the income statement, in the same line of the income statement as the recognized hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected

to occur, the cumulative gain or loss that was deferred in equity is recognized immediately in the income statement.

L. Financial Liabilities and Equity Instruments Issued by the Group

Classification as Debt or Equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

Financial Guarantee Contract Liabilities

Financial guarantee contracts are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. These contracts can have various judicial forms (guarantees, letters of credit, credit-insurance contracts).

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies set out below.

Other Financial Liabilities

Other financial liabilities, including customers' deposits, money market and borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost, with interest expense recognized on an effective yield basis.

M. Property and Equipment

Property and equipment are stated at historical cost, less

accumulated depreciation and impairment loss, if any.

Depreciation of property and equipment, other than land and advance payments on capital expenditures is calculated systematically using the straight-line method over the estimated useful lives of the related assets using the following annual rates:

Buildings	2%
Office improvements and installations	15%
Furniture, equipment and computers	8%
Vehicles	10%

N. Intangible Assets other than Goodwill

Intangible assets consisting of computer software are amortized over a period of three years and are subject to impairment testing. Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are expensed as incurred.

O. Goodwill

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

The impairment loss is charged to the consolidated statement of income.

P. Assets Acquired in Satisfaction of Loans:

Assets have been acquired through the enforcement of security over loans and advances. These assets are measured at cost less any accumulated impairment losses. The acquisition of such assets is regulated by the local banking authorities who require the liquidation of these assets within 2 years from acquisition. In case of default of liquidation the Group's lead regulator requires an appropriation of a special reserve from the yearly net income that is reflected under equity.

Q. Impairment of Tangible and Intangible Assets

At each reporting date, the carrying amounts of tangible and intangible assets are reviewed to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount is estimated in order to determine the extent of impairment provision required, if any.

R. Provision for Employees' End-of-Service Indemnities

The provision for staff termination indemnities is based on the liability that would arise if the employment of all the staff were voluntary terminated at the statement of financial position date. This provision is calculated in accordance with the directives of the Lebanese Social Security Fund and Labor laws based on the number of years of service multiplied by the monthly average of the last 12 months remunerations and less contributions paid to the Lebanese Social Security National Fund and interest accrued by the Fund. This provision is recognized as an expenses on a current basis.

S. Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provision is measured at the best estimate of the consideration required to settle the obligation at the reporting date.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

T. Revenue and Expense Recognition

Interest income and expense are recognized on an accrual basis, taking account of the principal outstanding and the rate applicable, except for non-performing loans and advances for which interest income is only recognized upon realization. Interest income and expense include the amortization discount or premium.

Interest income and expense presented in the income statement include:

- Interest on financial assets and liabilities at amortized cost.
- Interest on available-for-sale investment securities.

Net trading income presented in the income statement includes:

- Interest income and expense on the trading portfolio.
- Dividend income on the trading equities.
- Realized and unrealized gains and losses on the trading portfolio.

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability (i.e. commissions and fees earned on the loan book) are included under interest income and expense.

Other fees and commission income are recognized as the related services are performed.

Dividend income is recognized when the right to receive payment is established.

U. Fiduciary Deposits

All fiduciary deposits are held on a non-discretionary basis and related risks and rewards belong to the account holders. Accordingly, they are reflected as off-balance sheet accounts.

V. Income Tax

Income tax expense represents the sum of the tax currently payable and deferred tax. Income tax is recognized in the consolidated statement of income except to the extent that it relates to items recognized in other comprehensive income (OCI), in which case it is recognized in OCI.

Current tax is the expected tax payable on the taxable income for the year, using rates enacted at the statement of financial position date. Income tax payable is reflected in the consolidated statement of financial position net of taxes previously settled in the form of withholding tax.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

W. Operating Lease Agreements

Lease agreements which do not transfer substantially all the risks and benefits incidental to ownership of the leased items are classified as operating leases. Operating lease payments are recorded in the consolidated statement of income on a straight line basis over the lease term.

X. Cash and Cash Equivalents

Cash and cash equivalents comprise balances with maturities of a period of three months or less including: cash and balances with the Central Banks, deposits with Banks and financial institutions, and deposits due to banks and financial institutions.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

A. Critical Accounting Judgments in Applying the Group's Accounting Policies:

Classification of Financial Assets

The Group's accounting policies provide scope for investment securities to be designated on inception into different categories in certain circumstances based on specific conditions. In classifying investment securities as held-to-maturity, the Group has determined that it has both the positive intent and ability to hold these assets until their maturity as required in accounting policy under note 3H.

B. Key Sources of Estimation Uncertainty:

The following are the key assumptions concerning the future,

and other key sources of estimation uncertainty at the financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Allowances for Credit Losses - Loans and Advances to Customers

Specific impairment for credit losses is determined by assessing each case individually. This method applies to classified loans and advances and the factors taken into consideration when estimating the allowance for credit losses include the counterparty's credit limit, the counterparty's ability to generate cash flows sufficient to settle his advances and the value of collateral and potential repossession.

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.

Determining Fair Values

The determination of fair value for financial assets for which there is no observable market price requires the use of valuation techniques as described in Note 3G. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Where available, management has used market indicators in its mark to model approach for the valuation of the Lebanese government debt securities and Central Bank Certificates of Deposits at fair value. The IFRS fair value hierarchy allocates the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities, and the lowest priority to unobservable inputs. The fair value hierarchy used in the determination of fair value consists of three levels of input data for determining the fair value of an asset or liability.

Level 1. quoted prices for identical items in active, liquid and visible markets such as stock exchanges,
Level 2. observable information for similar items in active or inactive markets,

Level 3. unobservable inputs used in situations where markets either do not exist or are illiquid.

Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective should remain the same; that is, an exit price from the perspective of a market participant that holds the asset or owes the liability. Unobservable inputs are developed based on the best information available in the circumstances, which may include the reporting entity's own data. Where practical, the discount rate used in the mark to model approach included observable data collected from market participants, including risk free interest rates and credit default swap rates for pricing of credit risk (both own and counter party), and a liquidity risk factor which is added to the applied discount rate. Changes in assumptions about any of these factors could affect the reported fair value of the Lebanese Government debt Securities and Central Bank certificates of deposits.

Impairment of Goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Impairment of Available For-Sale Equity Investments

The Group determines that available for sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination requires judgment. In making this judgment the Group evaluates among other factors, the normal volatility in share price. In addition, the Group considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

5. CASH AND CENTRAL BANK

December 31

	2010 LBP'000	2009 LBP'000
Cash on hand	20,913,394	17,925,295
Current accounts with Central Bank of Lebanon	122,192,880	102,759,485
Term placements with Central Bank of Lebanon	369,074,100	306,022,500
Accrued interest receivable	<u>436,715</u>	<u>150,094</u>
	<u>512,617,089</u>	<u>426,857,374</u>

Current accounts at Central Bank of Lebanon include non-interest earning cash compulsory reserves in Lebanese Pound in the amount of LBP87billion (LBP89billion as of December 31, 2009) computed on the basis of 25% and 15% of the weekly average of demand deposits and term deposits in Lebanese Pound respectively, in accordance with local banking regulations. This compulsory reserve is not available for use in the daily banking activities.

Term placements with Central Bank of Lebanon include the equivalent in foreign currencies of LBP369billion (LBP306billion in 2009) deposited in accordance with local banking regulations which require banks to maintain interest earning placements in foreign currency to the extent of 15% of customers' deposits in foreign currencies, certificates of deposit and loans acquired from non-resident financial institutions with remaining maturity of less than one year.

Term placements with Central Bank of Lebanon bear the following maturities:

December 31, 2010

Maturity	LBP Base Accounts		F/Cy Base Accounts	
	Amount LBP'000	Average Interest Rate %	Amount LBP'000	Average Interest Rate %
2011	15,000,000	2,82	263,624,100	0.81
2012	-		45,225,000	1.16
2014	-		<u>45,225,000</u>	1.15
	<u>15,000,000</u>		<u>354,074,100</u>	

**December 31, 2009
F/Cy Base Accounts**

Maturity	Amount LBP'000	Average Interest Rate %
2010	155,272,500	0.46
2011	60,300,000	1.15
2012	45,225,000	1.16
2014	<u>45,225,000</u>	1.15
	<u>306,022,500</u>	

Interest rates on term placements with the Central Bank of Lebanon are reset periodically.

6. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

December 31

	2010 LBP'000	2009 LBP'000
Checks in course of collection	6,087,525	16,855,295
Cash margin against facilities	7,404,070	7,165,954
Current accounts with banks and financial institutions	104,223,801	46,066,947
Term placements with banks and financial institutions	240,481,841	346,927,533
Discounted documentary letters of credit	207,476	1,863,430
Accrued interest receivable	<u>424,830</u>	<u>5,126,127</u>
	<u>358,829,543</u>	<u>424,005,286</u>

Term placements bear the following maturities:

December 31, 2010

Maturity	LBP Base Accounts		F/Cy Base Accounts	
	Amount LBP'000	Average Interest Rate %	Amount LBP'000	Average Interest Rate %
2011	29,961,408	5,42	183,770,433	1.51
2012	<u>26,750,000</u>	5,78	-	
	<u>56,711,408</u>		<u>183,770,433</u>	

December 31, 2009

Maturity	LBP Base Accounts		F/Cy Base Accounts	
	Amount LBP'000	Average Interest Rate %	Amount LBP'000	Average Interest Rate %
2010	<u>63,300,283</u>	7.61	<u>283,627,250</u>	2.59
	<u>63,300,283</u>		<u>283,627,250</u>	

Discounted letters of credit in the amount of LBP207million as of December 31, 2010 (LBP1.8billion as of December 31, 2009), represent the amount of import letters of credit discounted in favor of the Group.

Cash margin against facilities represents cash margin against trade finance and foreign exchange transactions with non-resident banks. This margin bears a floating interest rate.

7. TRADING ASSETS

December 31

	2010 LBP'000	2009 LBP'000	Change in Fair Value During 2010 LBP'000
Lebanese treasury bills	3,032,999	3,120,000	(87,001)
Accrued interest receivable	<u>93,495</u>	<u>93,129</u>	-
	3,126,494	3,213,129	(87,001)
Quoted equity securities	<u>846,990</u>	<u>988,156</u>	(141,166)
Total	<u>3,973,484</u>	<u>4,201,285</u>	<u>(228,167)</u>

The change in fair value on held-for-trading securities (unrealized loss) in the amount of LBP228million is booked under "Net interest and gain and loss on trading portfolio" in the consolidated statement of income (LBP382million unrealized gain for the year 2009) (Note 34).

8. INVESTMENT SECURITIES

This caption consists of the following:

December 31

	2010			2009		
	LBP LBP'000	Counter Value of F/Cy LBP'000	Total LBP'000	LBP LBP'000	Counter Value of F/Cy LBP'000	Total LBP'000
Available-for-sale securities	537,038,631	534,075,670	1,071,114,301	535,457,094	454,438,053	989,895,147
Accrued interest receivable	<u>12,807,503</u>	<u>8,559,468</u>	<u>21,366,971</u>	<u>13,595,720</u>	<u>9,428,988</u>	<u>23,024,708</u>
	<u>549,846,134</u>	<u>542,635,138</u>	<u>1,092,481,272</u>	<u>549,052,814</u>	<u>463,867,041</u>	<u>1,012,919,855</u>
Held-to-maturity securities	364,137,182	429,169,728	793,306,910	232,363,271	387,603,146	619,966,417
Accrued interest receivable	<u>6,916,509</u>	<u>6,956,318</u>	<u>13,872,827</u>	<u>2,826,126</u>	<u>6,954,381</u>	<u>9,780,507</u>
	<u>371,053,691</u>	<u>436,126,046</u>	<u>807,179,737</u>	<u>235,189,397</u>	<u>394,557,527</u>	<u>629,746,924</u>

A. Available-for-sale investment securities

This caption consists of the following:

December 31, 2010

	LBP			Foreign Currencies			Total carrying Fair Value LBP' 000
	Amortized Cost LBP'000	Carrying Fair Value LBP'000	Cumulative Change in Fair Value LBP'000	Amortized Cost LBP'000	Carrying Fair Value LBP'000	Cumulative Change in Fair Value LBP'000	
Quoted equity securities	-	-	-	30,072,994	29,428,603	(644,391)	29,428,603
Unquoted equity securities at cost	34,167	34,167	-	7,881,689	7,881,689	-	7,915,856
Funds	-	-	-	3,045,150	2,237,733	(807,417)	2,237,733
Lebanese treasury bills	293,741,101	307,261,144	13,520,043	-	-	-	307,261,144
Lebanese Government bonds	-	-	-	299,119,109	304,588,915	5,469,806	304,588,915
Corporate bonds	-	-	-	73,390,952	71,835,791	(1,555,161)	71,835,791
Foreign Government Bonds	-	-	-	4,892,591	4,777,750	(114,841)	4,777,750
Certificates of deposits issued by Central Bank of Lebanon	205,047,661	229,743,320	24,695,659	81,062,143	87,600,429	6,538,286	317,343,749
Certificate of deposit issued by local banks	-	-	-	<u>25,171,573</u>	<u>25,724,760</u>	<u>553,187</u>	<u>25,724,760</u>
	<u>498,822,929</u>	<u>537,038,631</u>	<u>38,215,702</u>	<u>524,636,201</u>	<u>534,075,670</u>	<u>9,439,469</u>	<u>1,071,114,301</u>

December 31, 2009

	LBP			Foreign Currencies			
	Amortized Cost	Carrying Fair Value	Cumulative Change in Fair Value	Amortized Cost	Carrying Fair Value	Cumulative Change in Fair Value	Total Carrying Fair Value
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Quoted equity securities	-	-	-	11,190,374	10,933,577	(256,797)	10,933,577
Unquoted equity securities at cost	34,167	34,167	-	7,877,668	7,877,668	-	7,911,835
Funds	-	-	-	3,045,150	1,997,739	(1,047,411)	1,997,739
Subordinated convertible bonds	-	-	-	1,507,500	1,507,500	-	1,507,500
Lebanese Treasury bills	322,323,670	341,684,160	19,360,490	-	-	-	341,684,160
Lebanese Government bonds	-	-	-	245,651,678	256,332,717	10,681,039	256,332,717
Foreign government bonds	-	-	-	2,903,413	2,912,773	9,360	2,912,773
Corporate bonds	-	-	-	73,723,059	65,644,643	(8,078,416)	65,644,643
Certificates of deposits issued by Central Bank of Lebanon	170,950,521	193,738,767	22,788,246	78,142,725	81,598,894	3,456,169	275,337,661
Certificate of deposit issued by Lebanese banks	-	-	-	<u>25,378,401</u>	<u>25,632,542</u>	<u>254,141</u>	<u>25,632,542</u>
	<u>493,308,358</u>	<u>535,457,094</u>	<u>42,148,736</u>	<u>449,419,968</u>	<u>454,438,053</u>	<u>5,018,085</u>	<u>989,895,147</u>

As of December 31, 2009 the Group had available-for-sale corporate bonds issued by non-resident banks amounting to LBP18 billion (LBP21 billion as of December 31, 2009) pledged against borrowings from the same non-resident bank reflected under sale and repurchase agreements (Note 19).

During 2008, the Group signed a subordinated convertible loan agreement with a third party for a total limit of USD5,000,000 out of which USD1,000,000 (LBP1.5 billion) was used up to December 31, 2009. The loan bears interest at an annual rate of 6%. This loan matured in March 2010. Upon maturity, the loan and related interest were fully paid.

Fixed income securities classified as available-for-sale mature as follows:

December 31, 2010

Remaining Period to Maturity	LBP			Counter Value of F/Cy		
	Nominal Value LBP'000	Amortized Cost LBP'000	Net Carrying Fair Value LBP'000	Nominal Value LBP'000	Amortized Cost LBP'000	Net Carrying Fair Value LBP'000
Lebanese Treasury Bills:						
Up to one year	254,000,000	254,457,515	265,654,263	-	-	-
1 year to 3 years	36,100,000	36,367,983	38,684,208	-	-	-
3 years to 5 years	<u>2,800,000</u>	<u>2,915,603</u>	<u>2,922,673</u>	-	-	-
	<u>292,900,000</u>	<u>293,741,101</u>	<u>307,261,144</u>	-	-	-
Lebanese Government Bonds:						
Up to one year	-	-	-	35,780,513	35,973,245	35,967,893
1 year to 3 years	-	-	-	61,295,966	62,878,420	62,718,188
3 years to 5 years	-	-	-	39,899,003	40,579,861	42,320,955
5 years to 10 years	-	-	-	121,419,704	128,268,417	133,029,724
Beyond 10 years	-	-	-	<u>28,464,616</u>	<u>31,419,166</u>	<u>30,552,155</u>
	-	-	-	<u>286,859,801</u>	<u>299,119,109</u>	<u>304,588,915</u>
Foreign Government Bonds:						
3 years to 5 years	-	-	-	<u>4,974,750</u>	<u>4,892,591</u>	<u>4,777,750</u>
	-	-	-	<u>4,974,750</u>	<u>4,892,591</u>	<u>4,777,750</u>
Corporate Bonds:						
1 year to 3 years	-	-	-	19,179,300	19,211,753	18,616,175
3 years to 5 years	-	-	-	6,261,875	6,354,762	5,757,082
5 years to 10 years	-	-	-	45,111,938	44,309,567	44,092,978
Beyond 10 years	-	-	-	<u>3,495,520</u>	<u>3,514,870</u>	<u>3,369,556</u>
	-	-	-	<u>74,048,633</u>	<u>73,390,952</u>	<u>71,835,791</u>
Certificates of Deposit Issued by Central Bank of Lebanon:						
1 year to 3 years	109,000,000	112,540,751	124,568,164	30,150,000	30,198,703	30,264,570
3 years to 5 years	86,000,000	86,197,534	98,662,350	48,631,950	50,863,440	57,335,859
Beyond 10 years	<u>6,000,000</u>	<u>6,309,376</u>	<u>6,512,806</u>	-	-	-
	<u>201,000,000</u>	<u>205,047,661</u>	<u>229,743,320</u>	<u>78,781,950</u>	<u>81,062,143</u>	<u>87,600,429</u>
Certificates of Deposit Issued by Local Banks:						
1 year to 3 years	-	-	-	<u>25,212,938</u>	<u>25,171,573</u>	<u>25,724,760</u>
	-	-	-	<u>25,212,938</u>	<u>25,171,573</u>	<u>25,724,760</u>
	<u>493,900,000</u>	<u>498,788,762</u>	<u>537,004,464</u>	<u>469,878,072</u>	<u>483,636,368</u>	<u>494,527,645</u>

December 31, 2009

Remaining Period to Maturity	LBP			Counter Value of F/Cy		
	Nominal Value LBP'000	Amortized Cost LBP'000	Net Carrying Fair Value LBP'000	Nominal Value LBP'000	Amortized Cost LBP'000	Net Carrying Fair Value LBP'000
Subordinated Convertible Bonds:						
Up to one year	-	-	-	1,507,500	1,507,500	1,507,500
Lebanese Treasury Bills:						
Up to one year	41,621,890	41,846,741	44,111,830	-	-	-
1 year to 3 years	278,600,000	280,476,929	297,572,330	-	-	-
	320,221,890	322,323,670	341,684,160	-	-	-
Lebanese Government Bonds:						
Up to one year	-	-	-	16,445,963	16,458,101	16,437,808
1 year to 3 years	-	-	-	33,486,098	33,498,725	34,226,276
3 years to 5 years	-	-	-	74,856,853	74,876,876	76,417,433
5 years to 10 years	-	-	-	86,071,905	89,632,906	95,959,366
Beyond 10 years	-	-	-	31,043,173	31,185,070	33,291,834
	-	-	-	241,903,992	245,651,678	256,332,717
Foreing Government bonds:						
5 years to 10 years	-	-	-	3,015,000	2,903,413	2,912,773
	-	-	-	3,015,000	2,903,413	2,912,773
Corporate Bonds:						
1 year to 3 years	-	-	-	17,520,950	17,555,677	17,703,396
3 years to 5 years	-	-	-	22,612,500	22,612,500	21,663,378
5 years to 10 years	-	-	-	33,761,557	33,554,882	26,277,869
	-	-	-	73,895,007	73,723,059	65,644,643
Certificates of Deposit Issued by Central Banks of Lebanon:						
1 year to 3 years	-	-	-	30,150,000	30,221,290	31,431,784
3 years to 5 years	170,000,000	170,950,521	193,738,767	-	-	-
5 years to 10 years	-	-	-	44,968,725	47,921,435	50,167,110
	170,000,000	170,950,521	193,738,767	75,118,725	78,142,725	81,598,894
Certificates of deposit issued by local banks:						
Up to one year	-	-	-	226,125	250,478	227,986
1 year to 3 years	-	-	-	25,212,938	25,127,923	25,404,556
	-	-	-	25,439,063	25,378,401	25,632,542
Total	490,221,890	493,274,191	535,422,927	420,879,287	427,306,776	433,629,069

Certificates of deposit issued by Central Bank of Lebanon and classified as available-for-sale include certificates of deposit of aggregate fair value of LBP54.94billion (USD36,444,122) as at December 31, 2010 (LBP50.17billion c/v USD33,278,348 as at December 31, 2009) maturing in 2015 with a put option exercisable at an early redemption value of 91.63% of par in year 2012. The Group follows the policy of providing for the difference of 8.37% between the nominal value and the early redemption value in 2012. Provision set up to 2010 year-end is reflected under "Other liabilities" and amounted to LBP2.4billion as at December

31, 2010 (LBP1.2billion for 2009) (Note 23).

During 2009, the Group provided for the decline in fair value of certain available-for-sale securities for the amount of LBP1.2billion which was reclassified from cumulative change in fair value to the consolidated statement of income. Deferred tax income for an amount of LBP150million was recorded in the consolidated income statement for the year ended December 31, 2009 against other liabilities as a result of the set up of this provision. (Note 23)

B. Held-to-maturity investment securities

December 31, 2010

	LBP		Foreign Currencies	
	Amortized Cost LBP'000	Fair Value LBP'000	Amortized Cost LBP'000	Fair Value LBP'000
Lebanese treasury bills	300,178,463	313,178,620	-	-
Lebanese Government bonds	-	-	313,235,402	322,093,393
Corporate bonds	-	-	37,687,500	41,528,761
Certificates of deposit issued by Central Bank of Lebanon	63,958,719	64,773,347	77,922,678	74,933,485
Certificates of deposit issued by Local banks	-	-	324,148	340,607
	<u>364,137,182</u>	<u>377,951,967</u>	<u>429,169,728</u>	<u>438,896,246</u>

December 31, 2009

	LBP		Foreing Currencies	
	Amortized Cost LBP'000	Fair Value LBP'000	Amortized Cost LBP'000	Fair Value LBP'000
Lebanese treasury bills	216,749,393	224,449,410	-	-
Lebanese Government bonds	-	-	279,767,348	285,734,231
Corporate bonds	-	-	97,987,500	102,787,983
Certificates of deposit issued by Central Bank of Lebanon	15,613,878	15,100,070	-	-
Certificates of deposit issued by Local banks	-	-	9,848,298	9,828,283
	<u>232,363,271</u>	<u>239,549,480</u>	<u>387,603,146</u>	<u>398,350,497</u>

As of December 31, 2010, the Group had held-to-maturity Lebanese Government bonds amounting to LBP47.36billion (LBP48.36billion for year 2009) pledged against a soft loan granted by the Central Bank of Lebanon (Note 22).

As of December 31, 2010, the Group had held-to-maturity corporate bonds issued by non-resident banks amounting to LBP61.81billion (USD41million) (LBP68billion in 2009)

pledged against repurchase agreements with non-resident banks (Note 19).

As of December 31, 2009, the Group had held-to-maturity Lebanese Government Eurobonds amounting to LBP57.28billion (USD38million) pledged against repurchase agreements with non-resident banks in the amount of LBP30.15billion (USD20million). During 2010, the agreements matured and the pledge was cancelled.

Held-to-maturity investments are segregated over remaining period to maturity as follows:

Remaining Period to Maturity	December 31, 2010					
	LBP			Counter Value of F/Cy		
	Redemption Value LBP'000	Carrying Value LBP'000	Fair Value LBP'000	Redemption Value LBP'000	Carrying Value LBP'000	Fair Value LBP'000
Lebanese treasury bills:						
Up to one year	57,609,520	57,620,390	62,331,141	-	-	-
1 year to 3 years	144,500,000	146,079,914	152,299,009	-	-	-
3 years to 5 years	81,500,000	83,083,194	87,185,959	-	-	-
5 years to 10 years	<u>13,350,000</u>	<u>13,394,965</u>	<u>11,362,511</u>	-	-	-
	<u>296,959,520</u>	<u>300,178,463</u>	<u>313,178,620</u>	-	-	-
Lebanese Government bonds:						
Up to 1 year	-	-	-	45,021,488	45,773,768	45,249,178
1 year to 3 years	-	-	-	73,457,485	73,192,374	74,603,271
3 years to 5 years	-	-	-	6,122,848	5,897,926	6,117,180
5 years to 10 years	-	-	-	130,115,340	131,471,603	136,691,552
Beyond 10 years	-	-	-	<u>55,867,950</u>	<u>56,899,731</u>	<u>59,432,212</u>
	-	-	-	<u>310,585,111</u>	<u>313,235,402</u>	<u>322,093,393</u>
Corporate bonds:						
Up to one year	-	-	-	15,075,000	15,075,000	15,150,375
3 years to 5 years	-	-	-	<u>22,612,500</u>	<u>22,612,500</u>	<u>26,378,386</u>
	-	-	-	<u>37,687,500</u>	<u>37,687,500</u>	<u>41,528,761</u>
Certificates of deposit issued by Central Bank of Lebanon:						
1 year to 3 years	26,000,000	28,054,987	29,821,728	-	-	-
3 years to 5 years	15,000,000	15,059,629	15,671,917	66,330,000	77,922,678	74,933,485
5 years to 10 years	<u>20,000,000</u>	<u>20,844,103</u>	<u>19,279,702</u>	-	-	-
	<u>61,000,000</u>	<u>63,958,719</u>	<u>64,773,347</u>	<u>66,330,000</u>	<u>77,922,678</u>	<u>74,933,485</u>
Certificates of deposit issued by local banks:						
1 year to 3 years	-	-	-	<u>301,500</u>	<u>324,148</u>	<u>340,607</u>
	-	-	-	<u>301,500</u>	<u>324,148</u>	<u>340,607</u>
Total	<u>357,959,520</u>	<u>364,137,182</u>	<u>377,951,967</u>	<u>414,904,111</u>	<u>429,169,728</u>	<u>438,896,246</u>

December 31, 2009

Remaining Period to Maturity	LBP			Counter Value of F/Cy		
	Redemption Value LBP'000	Carrying Value LBP'000	Fair Value LBP'000	Redemption Value LBP'000	Carrying Value LBP'000	Fair Value LBP'000
Lebanese Treasury Bills:						
Up to one year	76,423,910	76,574,602	79,198,137	-	-	-
1 year to 3 years	110,000,000	112,192,671	116,604,070	-	-	-
3 years to 5 years	<u>28,000,000</u>	<u>27,982,120</u>	<u>28,647,203</u>	-	-	-
	<u>214,423,910</u>	<u>216,749,393</u>	<u>224,449,410</u>	-	-	-
Lebanese Government Bonds:						
Up to one year	-	-	-	54,052,840	53,942,261	53,981,004
1 year to 3 years	-	-	-	70,543,462	71,262,965	70,957,819
3 years to 5 years	-	-	-	29,904,318	29,144,034	30,117,016
5 years to 10 years	-	-	-	92,412,765	91,030,564	95,109,888
Beyond 10 years	-	-	-	<u>33,255,450</u>	<u>34,387,524</u>	<u>35,568,504</u>
	-	-	-	<u>280,168,835</u>	<u>279,767,348</u>	<u>285,734,231</u>
Corporate bonds:						
Up to one year	-	-	-	60,300,000	60,300,000	60,995,862
1 year to 3 years	-	-	-	15,075,000	15,075,000	15,242,333
5 years to 10 years	-	-	-	<u>22,612,500</u>	<u>22,612,500</u>	<u>26,549,788</u>
	-	-	-	<u>97,987,500</u>	<u>97,987,500</u>	<u>102,787,983</u>
Certificates of Deposit Issued by Central Bank of Lebanon:						
3 years to 5 years	5,000,000	5,000,000	5,826,531	-	-	-
5 years to 10 years	<u>10,000,000</u>	<u>10,613,878</u>	<u>9,273,539</u>	-	-	-
	<u>15,000,000</u>	<u>15,613,878</u>	<u>15,100,070</u>	-	-	-
Certificates of deposit issued by local banks:						
Up to one year	-	-	-	<u>9,798,750</u>	<u>9,848,298</u>	<u>9,828,283</u>
	-	-	-	<u>9,798,750</u>	<u>9,848,298</u>	<u>9,828,283</u>
Total	<u>229,423,910</u>	<u>232,363,271</u>	<u>239,549,480</u>	<u>387,955,085</u>	<u>387,603,146</u>	<u>398,350,497</u>

9. LOANS TO BANKS

Loans to banks are reflected at amortized cost and consist of the following:

	December 31	
	2010 LBP'000	2009 LBP'000
Loans to banks	7,615,000	18,467,500
Accrued interest receivable	<u>55,127</u>	<u>170,481</u>
	<u>7,670,127</u>	<u>18,637,981</u>

Loans to banks mature as follows:

Maturity	December 31, 2010			
	F/Cy Accounts LBP'000		LBP Accounts	
	Amount LBP'000	Average Interest Rate %	Amount LBP'000	Average Interest Rate %
2011	3,015,000	1.01	-	-
Beyond 5 years	<u>-</u>		<u>4,600,000</u>	5.31
	<u>3,015,000</u>		<u>4,600,000</u>	

	December 31, 2009	
	LBP LBP'000	Interest Rate %
2010	3,768,750	7.65
2011	6,406,875	7.68
2012	3,391,875	7.83
Beyond 5 years	<u>4,900,000</u>	5.32
	<u>18,467,500</u>	

10. LOANS AND ADVANCES TO CUSTOMERS

December 31

	2010 LBP'000	2009 LBP'000
Loans to customers	721,072,926	573,870,430
Loans and advances to related parties	92,110,282	69,378,591
Bills discounted (Net)	126,636,575	6,281,885
Creditors accidentally debtors	9,436,962	14,102,914
Substandard loans (net of unearned interest)	1,928,996	2,661,530
Bad and doubtful debts (net of unrealized interest)	37,242,136	35,086,879
Less: Allowance for impairment	(20,796,779)	(16,679,881)
Provision for impairment of collectively assessed loans	<u>(7,398,821)</u>	<u>(2,079,970)</u>
	960,232,277	682,622,378
Less: Escrow account to cover shortage in provision	<u>(5,709,505)</u>	<u>(6,566,988)</u>
	<u>954,522,772</u>	<u>676,055,390</u>

Loans and advances to customers are reflected at amortized cost and consist of the following as at December 31:

December 31, 2010

	Gross Amount LBP'000	Unrealized Interest LBP'000	Impairment Allowance LBP'000	Carrying Amount LBP'000
Corporate customers	642,148,378	-	-	642,148,378
Retail customers:				
Car loans	83,622,449	-	-	83,622,449
Credit cards	19,434,025	-	-	19,434,025
Mortgage loans	85,315,912	-	-	85,315,912
Overdrafts	4,730,320	-	-	4,730,320
Personal loans and other	114,005,661	-	-	114,005,661
Substandard loans	4,114,616	(2,185,620)	-	1,928,996
Doubtful loans	103,525,454	(66,283,318)	(20,796,779)	16,445,357
Less: Provisions for collectively assessed loans	-	-	<u>(7,398,821)</u>	<u>(7,398,821)</u>
	<u>1,056,896,815</u>	<u>(68,468,938)</u>	<u>(28,195,600)</u>	<u>960,232,277</u>

December 31, 2009

	Gross Amount LBP'000	Unrealized Interest LBP'000	Impairment Allowance LBP'000	Carrying Amount LBP'000
Corporate customers	510,905,669	-	-	510,905,669
Retail customers:	21,595,508	-	-	21,595,508
Car loans	5,780,850	-	-	5,780,850
Credit cards	60,947,446	-	-	60,947,446
Mortgage loans	13,906,121	-	-	13,906,121
Overdrafts	50,498,226	-	-	50,498,226
Personal loans and other	4,662,444	(2,000,914)	-	2,661,530
Substandard loans	92,648,981	(57,562,102)	(16,679,881)	18,406,998
Doubtful loans	-	-	(2,079,970)	(2,079,970)
Less: Provisions for collectively assessed loans	-	-	(2,079,970)	(2,079,970)
	<u>760,945,245</u>	<u>(59,563,016)</u>	<u>(18,759,851)</u>	<u>682,622,378</u>

The approximate movement of unrealized interest during 2010 and 2009 is summarized as follows:

2010

	Substandard LBP'000	Doubtful LBP'000
Balance, January 1	2,000,914	57,562,102
Acquisition of subsidiary	-	577,242
Additions	532,541	11,941,729
Settlements/recoveries	(205,107)	(3,940,483)
Transfers	<u>(142,728)</u>	<u>142,728</u>
Balance, December 31	<u>2,185,620</u>	<u>66,283,318</u>

2009

	Substandard LBP'000	Doubtful LBP'000
Balance, January 1	1,731,568	50,652,390
Additions	403,644	10,914,707
Settlements/recoveries	<u>(134,298)</u>	<u>(4,004,995)</u>
Balance, December 31	<u>2,000,914</u>	<u>57,562,102</u>

The approximate movement of allowance for impairment on loans is summarized as follows:

	2010 LBP'000	2009 LBP'000
Balance, January 1		18,561,685
Acquisition of subsidiary,	18,759,851	-
Additions	4,507,465	-
Recoveries	5,841,973	2,248,743
Write off	(628,891)	(1,986,314)
Transfer to off-balance sheet	(97,789)	(64,263)
Effect of exchange rates fluctuations	(170,758)	-
Balance, December 31	<u>(16,251)</u>	<u>-</u>
	<u>28,195,600</u>	<u>18,759,851</u>

The movement of escrow accounts, which represents cash provisions from former shareholders, to cover any shortage in the allowance for impairment on certain classified loans and advances is summarized as follows:

	2010 LBP'000	2009 LBP'000
Balance, January 1	6,566,988	6,518,774
Additions of interest recorded under "interest expense" caption	286,710	321,094
Settlements	(842,693)	(272,880)
Write-back to income	<u>(301,500)</u>	<u>-</u>
Balance, December 31	5,709,505	6,566,988

11. CUSTOMERS' LIABILITY UNDER ACCEPTANCES

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

12. GOODWILL

This caption consists of the following:

	December 31,	
	2010 LBP'000	2009 LBP'000
Goodwill on acquisition of Societe Bancaire du Liban (SBL") (Note 16)	2,400,000	2,400,000
Goodwill on acquisition on Capital Finance Company S.A.L.	<u>17,979,656</u>	-
	<u>20,379,656</u>	<u>2,400,000</u>

The extraordinary general assembly of the Bank's shareholders held on January 8, 2010 approved the acquisition of 100% equity stake in Capital Finance Company S.A.L. for LBP72.6billion.

The fair value of the assets, liabilities and goodwill as at the date of acquisition, June 30, 2009 amounted to:

	LBP'000
Cash and deposits with banks	11,248,812
Loans to customers	104,346,656
Assets acquired in satisfaction of loans, property and equipment and other assets	4,570,314
Deposits and borrowing from banks	(653,712)
Account payable, other liabilities, provisions for income tax and provision for end of service indemnity	(10,876,172)
Term loan	<u>(54,016,342)</u>
Fair value for net stockholders equity	54,619,556
Goodwill	<u>17,979,656</u>
Acquisition price	72,599,212
Less: Settlement of loans pertaining to the group of companies of the main shareholder of the subsidiary	(14,503,900)
Increase in capital and additional paid in capital of the subsidiary	<u>(27,314,612)</u>
Amount paid at acquisition	30,780,700
Cash and deposits with banks	<u>(11,248,812)</u>
Net cash from acquisition	19,531,888

Furthermore, as a result of the acquisition, negative goodwill in the amount of LBP2.4billion representing the net results of the acquired subsidiary for the second half of the year 2009 as the recognition of the acquisition was delayed due to the delay in obtaining the approval of the Central Bank of Lebanon.

13. INVESTMENT IN AN ASSOCIATE

This section consists of an investment in Park View Realty Company S.A.L. representing 12.77% equity stake as at December 31, 2010 and 2009:

	December 31,	
	2010 LBP'000	2009 LBP'000
Capital investment	598,134	598,134
Cumulative income	<u>496,633</u>	<u>305,877</u>
	<u>1,094,767</u>	<u>904,011</u>
Accrued interest receivable	<u>5,137</u>	<u>5,137</u>
Total	<u>1,099,904</u>	<u>909,148</u>

The investment in Park View Realty S.A.L. is classified as an investment in an associate since the Group is represented on the investee's Board of Directors and significant influence is demonstrated in 2010 and 2009.

The movement of the investment in Park View Realty S.A.L. was as follows:

	2010 LBP'000	2009 LBP'000
Balance, January 1	904,011	<u>909,879</u>
Share in gains (losses) - Note 35	<u>190,756</u>	<u>(5,868)</u>
Balance, December 31	<u>1,094,767</u>	<u>904,011</u>

On January 18, 2008, the Board of Directors of Park View Realty Company S.A.L. resolved to redeem the bonds with their related accrued interest and settled the Group the nominal amount plus the outstanding accrued interest. Bonds were subject to an interest rate of 10%. A balance of LBP5million remained unsettled up to December 31, 2010.

14. ASSETS ACQUIRED IN SATISFACTION OF LOANS

Assets acquired in satisfaction of loans represent real estate properties and vehicles that have been acquired through enforcement of security over loans and advances to customers.

The movement of assets acquired in satisfaction of loans during 2010 and 2009 was as follows:

	2010 LBP'000	2009 LBP'000
Cost:		
Balance at January 1	4,407,432	6,730,288
Acquisition of subsidiary	2,278,020	-
Additions	1,940,281	1,511,146
Disposals	<u>(3,608,439)</u>	<u>(3,834,002)</u>
Balance at December 31	<u>5,017,294</u>	<u>4,407,432</u>
Accumulated allowance for impairment:		
Balance at December 31	<u>(55,883)</u>	<u>(55,883)</u>
Carrying amount at December 31	<u>4,961,411</u>	<u>4,351,549</u>

The acquisition of assets in settlement of loans is regulated by the banking regulatory authorities and these should be liquidated within 2 years. In case of default of liquidation, a regulatory reserve should be appropriated in from the yearly net profits after deduction of legal reserves and reserves for general banking risk over a period of 5 years and accumulated under equity. This reserve is reduced to 5% when certain conditions linked to the restructuring of non performing loan's portfolio are met. During 2010, the Bank appropriated LBP1.03billion from 2009 profits (LBP31million in 2009 from 2008 profits).

During 2010, the Group sold assets previously acquired in satisfaction of loans for an aggregate amount of LBP3.92billion resulting in net gains of LBP314million recorded under "Net gain on disposal of property and equipment and assets acquired in satisfaction of loans" in the consolidated income statement for the year ended December 31, 2010.

During 2009, the Group sold assets previously acquired in satisfaction of loans for an aggregate amount of LBP5.52billion resulting in gains of LBP1.69billion recorded under "Net gain on disposal of property and equipment and assets acquired in satisfaction of loans" in the consolidated income statement for the year ended December 31, 2009.

15. PROPERTY AND EQUIPMENT

The movement of property and equipment during 2010 and 2009 was as follows:

2010

	Balance as at January 1, 2010 LBP'000	Acquisition of Subsidiary January 1, 2010 LBP'000	Additions/ Transfer from Advance Payments LBP'000	Retirements LBP'000	Balance as at December 31, 2010 LBP'000
Cost:					
Land	7,145,596	-	387,716	-	7,533,312
Buildings	13,357,338	-	184,056	(379,150)	13,162,244
Furniture, equipment and computer	19,098,864	990,382	2,245,364	(95,442)	22,239,168
Vehicles	447,619	-	193,094	(83,406)	557,307
Office improvements & installations	<u>8,214,271</u>	<u>271,575</u>	<u>1,214,941</u>	<u>-</u>	<u>9,700,787</u>
	<u>48,263,688</u>	<u>1,261,957</u>	<u>4,225,171</u>	<u>(557,998)</u>	<u>53,192,818</u>
Accumulated Depreciation:					
Buildings	(2,487,752)	-	(317,989)	142,816	(2,662,925)
Furniture, equipment and computer	(11,430,489)	(536,274)	(1,615,319)	68,166	(13,513,916)
Vehicles	(173,842)	-	(43,486)	68,350	(148,978)
Office improvements & installations	<u>(4,600,073)</u>	<u>(252,696)</u>	<u>(561,712)</u>	<u>-</u>	<u>(5,414,481)</u>
	<u>(18,692,156)</u>	<u>(788,970)</u>	<u>(2,538,506)</u>	<u>279,332</u>	<u>(21,740,300)</u>
Net book value	29,571,532				31,452,518
Advance payment	<u>931,738</u>				<u>1,147,675</u>
	<u>30,503,270</u>				<u>32,600,193</u>

2009

	Balance as at January 1, 2009	Additions/ Transfer from Advance Payments	Retirements	Balance as at December 31, 2009
	LBP'000	LBP'000	LBP'000	LBP'000
Cost:				
Land	-			7,145,596
Buildings	13,357,338	7,145,596	-	13,357,338
Furniture, equipment and computer	16,826,827	-	-	19,098,864
Vehicles	501,472	2,557,596	(285,559)	447,619
Office improvements & installations	<u>6,896,978</u>	69,429	(123,282)	<u>8,214,271</u>
	<u>37,582,615</u>	<u>1,317,293</u>	-	<u>48,263,688</u>
		<u>11,089,914</u>	<u>(408,841)</u>	
Accumulated Depreciation:				
Buildings	<u>(2,170,302)</u>			(2,487,752)
Furniture, equipment and computer	<u>(10,219,058)</u>	(317,450)	-	(11,430,489)
Vehicles	<u>(259,458)</u>	(1,436,642)	225,211	(173,842)
Office improvements & installations	<u>(4,160,849)</u>	(37,292)	122,908	<u>(4,600,073)</u>
	<u>(16,809,667)</u>	<u>(439,224)</u>	-	<u>(18,692,156)</u>
		<u>(2,230,608)</u>	<u>348,119</u>	
Net book value	<u>20,772,948</u>			<u>29,571,532</u>
Advance payment	<u>815,664</u>			<u>931,738</u>
	<u>21,588,612</u>			<u>30,503,270</u>

In September 2009, the Group signed an agreement to purchase plots 4151 and 4152 in Achrafieh for USD4,715,000 (LBP7.11 billion) in addition to registration fees for approximately LBP38million. During 2010, the Group settled additional registration fees in the amount of LBP385 million.

Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2010 LBP'000	2009 LBP'000
Less than 1 year	406,350	397,578
Between 1 and 5 years	1,429,991	1,488,038
More than 5 years	<u>792,419</u>	<u>1,140,722</u>
	<u>2,628,760</u>	<u>3,026,338</u>

16. OTHER ASSETS

December 31,

	2010 LBP'000	2009 LBP'000
Deferred charges	564,782	137,860
Commissions receivable	583,424	-
Prepaid expenses	3,304,993	2,401,390
Refundable guarantee deposits	166,561	161,261
Stamps	81,805	45,986
Negative change in fair value of forward exchange contracts	341,945	1,267,820
Deferred charges on acquired bank	1,444,596	2,165,906
Other debit balances	(5,850,282)	5,216,790
Provision for doubtful receivables	<u>(667,110)</u>	<u>(667,110)</u>
	<u>11,671,278</u>	<u>10,729,903</u>

Deferred charges on acquired bank represent losses related to a bank (SBL) that was merged in the previous years. These losses were compensated in the form of a soft loan from the Central Bank of Lebanon at a reduced interest rate. The Group amortizes these losses over the life of the soft loan against the net present value of the net future interest deferential earned (being the net of the interest earned on the mortgaged treasury bills against the interest paid on the soft loan). The movement of deferred charges was as follows:

	LBP'000
Excess of acquisition cost over the acquired assets and liabilities of SBL	11,219,688
Transfer to goodwill (Note 12)	(2,400,000)
Accumulated amortization up to 2008 year-end	<u>(5,932,456)</u>
	2,887,232
Amortization for 2009 (Note 36)	<u>(721,326)</u>
	2,165,906
Amortization for 2010 (Note 36)	<u>721,326</u>
	<u>1,444,596</u>

17. REGULATORY BLOCKED FUND

Regulatory blocked fund represents a non-interest earning compulsory deposit placed with the Lebanese Treasury upon establishment of "First National Bank S.A.L.". This deposit is refundable in case of cease of operations, according to article 132 of the Money and Credit law.

18. INTANGIBLE ASSETS

December 31,

	2010 LBP'000	2009 LBP'000
Net key money (Bank's branches) and other costs	<u>86,156</u>	<u>116,490</u>
	86,156	116,490

19. DEPOSITS AND BORROWINGS FROM BANKS AND FINANCIAL INSTITUTIONS

Deposits and borrowings from banks and financial institutions are reflected at amortized cost and consist of the following:

December 31,

	2010 LBP'000	2009 LBP'000
Central Bank- Arab country	1,646,813	1,646,820
Current deposits of banks and financial institutions	15,146,683	127,439,170
Money market deposits – A	277,186,244	210,473,443
Short term borrowings – B	45,431,078	3,785,663
Borrowings under sale and repurchase agreements – C	45,225,000	75,375,000
Other short term borrowings – D	1,193,289	2,652,180
Accrued interest payable	<u>1,669,166</u>	<u>1,778,087</u>
	<u>387,498,273</u>	<u>423,150,363</u>

A. The maturities of money market deposits are as follows:

December 31, 2010

Maturity	LBP Base Accounts		F/Cy Base Accounts	
	Amount LBP'000	Average Interest Rate %	Amount LBP'000	Average Interest Rate %
1st quarter of 2011	<u>22,187,911</u>	5.01	<u>254,998,333</u>	1.29
	22,187,911		<u>254,998,333</u>	

December 31, 2009

Maturity	LBP Base Accounts		F/Cy Base Accounts	
	Amount LBP'000	Average Interest Rate %	Amount LBP'000	Average Interest Rate %
1st quarter of 2010	<u>24,190,127</u>	5.69	<u>186,283,316</u>	1.04

B. The maturities of short term borrowings are as follows:

December 31, 2010

Maturity	LBP Base Accounts		F/Cy Base Accounts	
	Amount LBP'000	Average Interest Rate %	Amount LBP'000	Average Interest Rate %
2011	<u>3,450,000</u>	6.24	<u>41,981,078</u>	1.86

December 31, 2009

Maturity	F/Cy Base Accounts	
	Amount LBP'000	Average Interest Rate %
2010	<u>3,785,663</u>	1.49

Short term borrowings include LBP4.66billion as at December 31, 2010 (LBP3.78billion for 2009) represent withdrawals from the Arab Trade Finance Program. This credit facility has a limit to the extent of USD5million as at December 31, 2010 (USD-4million as at December 31, 2009) granted to the Group and maturing in the following year. The facility can be utilized by the Group to finance imports and exports among Arab countries.

Short term borrowings also include LBP22.6billion as at December 31, 2010 (Nil in 2009) bearing an average rate of 0.76% and maturing in January 2011.

C. Borrowings under sale and repurchase agreements comprise the following:

	December 31,	
	2010 LBP'000	2009 LBP'000
Repurchase agreement contract with a non-resident bank (C1)	-	30,150,000
Repurchase agreement contract with a non-resident bank (C2)	<u>45,225,000</u>	<u>45,225,000</u>
	<u>45,225,000</u>	<u>75,375,000</u>

C.1 As of December 31, 2009, the Group had a repurchase agreement contract with a non-resident bank that matured on September 30, 2010 in the amount of LBP30.15billion (C/V USD20,000,000) bearing an interest rate of 6.3% against pledged Lebanese Government bonds with a nominal value of USD38,000,000 (LBP57.28billion). The Group settled the loan and the pledge on the Government bonds was cancelled.

C.2 Repurchase agreement contract with a non-resident bank maturing on March 20, 2013 in the amount of LBP45.23billion (C/V USD30,000,000) bearing an interest rate of 6.68% against pledged debt securities with a nominal value of USD53,000,000 (LBP79.90billion) detailed as follows:

Corporate Bonds Nominal Value USD	Maturity	Interest Rate %	Classification in Financial Statements
16,000,000	March 2017	9.00	Held-to-maturity
15,000,000	August, 2015	8.96	Held-to-maturity
6,000,000	April, 2021	8.25	Held-to-maturity
4,000,000	january, 2016	8.50	Held-to-maturity
<u>12,000,000</u>	June, 2016	7.50	Available- for-sale
<u>53,000,000</u>			

D. Other short term borrowings:

Other short borrowings represent loans managed by the Central Bank of Lebanon and financed by the European Investment Bank upon the agreement signed between the Lebanese Republic and the European Investment Bank on December 14, 1999. The purpose of these loans is to finance projects in the industry sector.

The maturities of other short term borrowings are as follows:

December 31, 2010			
F/Cy Base Accounts			
Maturity	Amount LBP'000	Average Interest Rate %	
2012	230,026	4.35	
2020	<u>957,263</u>	3.34	
	<u>1,193,289</u>		

December 31, 2009			
F/Cy Base Accounts			
Maturity	Amount LBP'000	Average Interest Rate %	
2012	346,314	4.35	
2013	1,348,603	5.87	
2020	<u>957,263</u>	3.34	
	<u>2,652,180</u>		

20. CUSTOMERS' DEPOSITS AT AMORTIZED COST

Deposits from customers are stated at amortized cost and are detailed as follows:

December 31,		
	2010 LBP'000	2009 LBP'000
Current / demand deposits	248,389,554	204,814,153
Term deposits	425,268,564	356,687,123
Saving accounts	1,865,119,285	1,537,261,870
Related party deposits	85,966,658	56,526,152
Collateral against loans and advances - Related parties	88,569,064	58,853,158
Collateral against loans and advances - Customers	204,948,787	175,090,884
Fiduciary accounts	77,266,223	62,477,031
	14,916,227	14,153,456
Margins for irrevocable letters of credit	<u>9,106,368</u>	<u>7,102,224</u>
Margins on letters of guarantee	3,019,550,730	2,472,696,051
	<u>16,161,585</u>	<u>15,024,902</u>
Accrued interest payable	<u>3,035,712,315</u>	<u>2,487,720,953</u>

Deposits are allocated by brackets as follows:

December 31, 2010

	Deposits in LBP		Deposits in F/Cy	
	Total Deposits LBP'000	% to Total Deposits	Total Deposits LBP'000	% to Total Deposits
Related parties	41,509,120	3.65	133,029,621	7.00
Customers:				
Less than LBP 200million	317,714,838	27.96	347,339,263	18.28
Between LBP 200 million and LBP1.5billion	384,347,488	33.83	585,109,441	30.8
More than LBP1.5billion	<u>392,567,118</u>	34.55	<u>834,095,426</u>	43.91
	<u>1,136,138,564</u>		<u>1,899,573,751</u>	

December 31, 2009

	Deposits in LBP		Deposits in F/Cy	
	Total Deposits LBP'000	% to Total Deposits	Total Deposits LBP'000	% to Total Deposits
Related Parties	5,876,171	2.10	110,409,300	7.00
Customers:				
Less than LBP200million	236,070,184	25.70	239,577,712	15.10
Between LBP200 million to LBP1.5billion	309,808,244	33.70	459,128,909	29.00
More than LBP1.5billion	<u>353,458,024</u>	38.50	<u>773,392,409</u>	48.90
	<u>905,212,623</u>		<u>1,582,508,330</u>	

Customers' deposits include coded accounts as at December 31, 2010 amounting to LBP57billion (LBP25billion as at December 31, 2009). These accounts are subject to the provisions of Article 3 of the Banking Secrecy Law dated September 3, 1956. Under the provisions of this article, the Group's management cannot reveal the identities of the depositors to third parties, including its independent auditors.

The average balances of deposits and related cost of funds over the last three years were as follows:

Year	Average Balance of Deposits LBP'000	Allocation of Deposits		Cost of Funds LBP'000	Average Interest Rate %
		LBP %	F/Cy. %		
2010	2,722,006,040	37	63	133,415,457	4.87
2009	2,154,896,676	35	65	117,915,225	5.47
2008	1,681,461,367	32	68	95,481,376	5.68

Customers' deposits include an escrow account deposited by the former shareholders of Société Bancaire du Liban S.A.L. ("SBL") to cover any shortage in the transferred allowance for bad and doubtful debts accounts or for those accounts that needed to be downgraded at the merger date. The balance of this pledged deposit as at December 31, 2010 and 2009 amounted to USD207,000 equivalent to LBP312million. There has been no transfer to "Escrow account to cover shortage in provisions" under "Loans and advances" during the year. This escrow account earned interest at the rate of 3.26% during 2010 (4% during 2009).

21. CERTIFICATES OF DEPOSIT

	December 31, 2010		December 31, 2009	
	USD	C/V in LBP'000	USD	C/V in LBP'000
Nominal value	3,750,000	5,653,125	8,000,000	12,060,000
Accrued interest payable	<u>94,649</u>	<u>142,683</u>	<u>3,726</u>	<u>5,617</u>
Carrying amount	<u>3,844,649</u>	<u>5,795,808</u>	<u>8,003,726</u>	<u>12,065,617</u>

During 2007, the Group issued certificates of deposit amounting to USD8million that matured on April 15, 2010. On February 20, 2010, the Group issued certificates of deposit with a nominal value amounting to USD10million (C/V LBP-15billion) maturing on February 20, 2013, and bearing a fixed interest rate of 6.25% per annum, of which USD3.75million (C/V LBP5.65billion) were subscribed into. Interest expense amounted to LBP435million for the year ended December 31, 2010 (LBP1.03billion for the year ended December 31, 2009).

22. SOFT LOAN FROM CENTRAL BANK OF LEBANON

On December 19, 2002, the Central Bank of Lebanon approved the merger between First National Bank S.A.L. and Société Bancaire du Liban S.A.L. and granted the bank on January 23, 2003, an eight year soft loan in the amount of LBP44.84billion with the following details:

	2010	2009
Soft loan amount	LBP44.84billion	LBP44.84billion
Maturity date	January 24,2011	January 24, 2011
Settlement in one lump sum on maturity		
Average interest rate applied on loan during the year	3.198%	4.314%
Interest expense on the loan for the year ended December 31(Note 30)	LBP1.45billion	LBP1.92billion
Pledged assets (Note 8)	Lebanese Treasury Bills	Lebanese Treasury Bills
Pledged assets nominal amount (Note 8)	LBP48.36billion	LBP47.36billion
Unearned interest on one year pledged treasury bills as at December 31	LBP83million	LBP119million
Average interest rate applied on pledged treasury bills during the year	5.33%	7.19%
Interest income on pledged treasury bills for the year ended December 31	LBP2.56billion	LBP3.37billion

23. OTHER LIABILITIES

December 31

	2010 LBP'000	2009 LBP'000
Withheld taxes and other taxes payable	1,307,272	1,295,991
Income tax payable	1,207,970	61,691
Due to the National Social Security Fund	418,227	201,771
Checks and incoming payment orders in course of settlement	7,465,946	9,774,021
Accrued expenses	3,914,266	2,895,180
Provision for early redemption of investment securities (Note 8)	2,396,347	1,167,204
Deferred tax liability	6,999,674	7,075,004
Deferred income	3,336,577	80,769
Commitment on subscribed capital – Equity participation classified available-for-sale	52,763	<u>52,763</u>
Due to insurance companies and collectors of bills	6,426,811	-
Sundry accounts payable	<u>4,458,863</u>	<u>3,715,233</u>
	<u>37,984,716</u>	<u>26,319,627</u>

Deferred tax liability consists of the following:

	December 31	
	2010 LBP'000	2009 LBP'000
Deferred tax on provision for decline in value of available-for-sale securities (Note 8)	(150,000)	(150,000)
Deferred tax on change in fair value of available-for-sale securities (Note 8)	<u>7,149,674</u>	<u>7,225,004</u>
	<u>6,999,674</u>	<u>7,075,004</u>

The maturity of the dues to insurance companies and collectors of bills are allocated based on the maturity of the related outstanding loans and is as follows:

	December 31, 2010			
	Less than 1 year LBP'000	Between 1 and 2 years LBP'000	More than 2 years LBP'000	Total LBP'000
Insurance companies	2,194,182	1,498,504	1,201,561	4,894,247
Collectors of bills	924,400	324,469	239,625	1,488,494
Selling parties	38,402	-	-	38,402
Other payables	<u>5,668</u>	<u>-</u>	<u>-</u>	<u>5,668</u>
Total	<u>3,162,652</u>	<u>1,822,973</u>	<u>1,441,186</u>	<u>6,426,811</u>

Deferred income includes unearned commission on insurance policies related to outstanding loans of a subsidiary maturing after December 31, 2010. These unearned commissions are recognized to income over the term of the related loans. Furthermore, they include file fees and difference on collection charges that are recognized as yield adjustment over the loan repayment period.

During 2010, the Bank's tax returns for the fiscal years 2006 through 2008 were examined by the tax authorities. Furthermore, the Bank's social declarations for the fiscal years 2007 through 2010 were examined by the National Social Security Fund. The final outcome of these reviews is not yet known, and management does not anticipate any material additional charges as a result of these reviews.

The bank's tax returns for the years 2009 and 2010 remain subject to examination and final tax assessment by the tax authorities. The Lebanese subsidiaries' tax returns for fiscal years 2006 through 2010 are still subject to examination and final tax assessment by the tax authorities.

The Group's management does not anticipate any material additional tax liability as a result of this review.

24. PROVISIONS

Provisions consist of the following:

	December 31	
	2010 LBP'000	2009 LBP'000
Provision for staff end-of-service indemnities	5,654,657	3,927,294
Provision for contingencies	523,612	234,360
Provision for foreign currency fluctuations	<u>6,190</u>	<u>4,824</u>
	<u>6,184,459</u>	<u>4,166,478</u>

The movement of provision for staff end-of-service indemnities is as follows:

	2010 LBP'000	2009 LBP'000
Balance, January 1	3,927,294	3,370,659
Acquisition of subsidiary	521,937	-
Additions	1,317,808	789,368
Settlements	<u>(112,382)</u>	<u>(232,733)</u>
Balance, December 31	<u>5,654,657</u>	<u>3,927,294</u>

The movement of the provision for contingencies was as follows:

	2010 LBP'000	2009 LBP'000
Balance, January 1	210,046	196,549
Additions	<u>313,566</u>	37,811
Balance, December 31	<u>523,612</u>	<u>234,360</u>

25. SHARE CAPITAL

Capital consists of 13,143,982 shares of par value of LBP10,000 each as at December 31, 2010 (11,500,000 shares of par value LBP10,000 as at December 31, 2009).

The Extraordinary General Assembly held on January 30, 2009 approved the increase of capital from LBP100billion to LBP115billion through the transfer from “Blocked deposits for capital increase” of LBP15billion against issuing 1,500,000 nominal shares for LBP10,000 each.

The Extraordinary General Assembly held on February 11, 2010 approved the increase of capital from LBP115billion to LBP131billion through the issuance of 1,643,982 nominal shares for LBP10,000 each. Moreover, the additional paid in capital on these shares were released for USD4.388 per share equivalent to an aggregate amount of LBP10.87billion.

This increase in capital was executed upon the full acquisition of Capital Finance Company S.A.L. shares approved by the Extraordinary General Assembly meeting held on January 8, 2010 (Note 12).

26. PREFERRED SHARES

The Extraordinary General Assembly held on November 23, 2009 approved the issuance of 150,000 non-cumulative perpetual redeemable series 1 Preferred shares, with a nominal value of LBP10,000 each, and a premium of USD14million. Amount was paid in cash by the subscribers according to the terms and conditions set by the extraordinary General Assembly meeting held on May 8, 2009.

The preferred shares earn dividends of USD4.25 each for the year 2009 and USD8.25 for the years thereafter.

27. RESERVES

The legal reserve is constituted in conformity with the requirements of the Lebanese Money and Credit Law on the basis of 10% of net profit. This reserve is not available for distribution.

The reserve for general banking risks is constituted according to local banking regulations, from net profit, on the basis of a minimum of 2 per mil and a maximum of 3 per mil of the total risk weighted assets, off-balance sheet risk and global exchange position as defined for the computation of the solvency ratio at year-end. This reserve is not available for distribution.

28. CUMULATIVE CHANGE IN FAIR VALUE OF INVESTMENT SECURITIES

This caption comprises the following:

	December 31,	
	2010 LBP'000	2009 LBP'000
Cumulative change in fair value of investment securities:		
- Securities purchased and originally classified as available-for-sale	48,855,171	48,366,821
- Securities originally classified as available-for-sale and transferred during 2004 to held-to-maturity	171,015	217,758
Deferred tax asset (Note 23)	<u>(7,149,674)</u>	<u>(7,225,004)</u>
	<u>41,876,512</u>	<u>41,359,575</u>

29. NON-CONTROLLING INTEREST

December 31,

	2010 LBP'000	2009 LBP'000
Capital	436,211	436,211
Cumulative change in fair value of available-for-sale investment securities	2,690	2,073
Reserves and accumulated losses	<u>(24,934)</u>	<u>(33,118)</u>
	<u>413,967</u>	<u>405,166</u>

30. INTEREST INCOME

	2010 LBP'000	2009 LBP'000
Interest income from:		
Term deposits with Central Bank	2,458,760	1,772,128
Deposits with Banks and financial institutions	4,303,478	4,236,904
Investment securities	124,733,465	118,418,549
Loans to banks	239,478	272,432
Loans and advances to customers	77,240,034	48,589,278
Loans and advances to related parties	<u>68,560</u>	<u>91,009</u>
	<u>209,043,775</u>	<u>173,380,300</u>

31. INTEREST EXPENSE

	2010 LBP'000	2009 LBP'000
Interest expenses on:		
Deposits and borrowings from banks and financial institutions	11,462,131	13,610,889
Soft loan from Central Bank (Note 22)	1,454,101	1,920,617
Customer's deposits	127,299,027	112,589,779
Related parties' deposits	6,116,430	5,325,445
Certificates of deposit (Note 21)	<u>434,767</u>	<u>1,025,100</u>
	<u>146,766,456</u>	<u>134,471,830</u>

32. FEE AND COMMISSION INCOME



This caption consists of the following:

	2010 LBP'000	2009 LBP'000
Commission and documentary credits	393,823	654,004
Commission and letters of guarantee	997,358	909,411
Commission on certificates of deposits	22,208	14,068
Service fees on customers' transactions	6,561,025	5,856,833
Brokerage fees	1,249,625	419,285
Commission on transactions with banks	<u>281,318</u>	<u>543,649</u>
	<u>9,505,357</u>	<u>8,397,250</u>

33. FEE AND COMMISSION EXPENSE



This caption consists of the following:

	2010 LBP'000	2009 LBP'000
Commission on transactions with banks	4,896,575	1,888,990
Commission on private banking transactions	<u>284,561</u>	<u>243,111</u>
	<u>5,181,136</u>	<u>2,132,101</u>

34. NET INTEREST AND GAIN ON TRADING PORTFOLIO



	2010 LBP'000	2009 LBP'000
Interest income	412,000	347,195
Unrealized loss/gain on trading portfolio (net) – (Note 7)	(228,167)	381,886
Net realized gain on sale of trading securities	<u>-</u>	<u>380,776</u>
	<u>183,837</u>	<u>1,109,857</u>

35. OTHER OPERATING INCOME

This caption consists of the following:

	2010 LBP'000	2009 LBP'000
Gain on sale of available-for-sale investment securities	8,717,444	3,986,122
Dividends received	306,096	431,260
Management and consulting fees income	525,985	-
Share in gain/(losses)of an associate (Note 13)	190,757	(5,868)
Net exchange gain	1,917,329	1,796,553
Other	<u>665,354</u>	<u>894,867</u>
	<u>12,322,965</u>	<u>7,102,934</u>

36. DEPRECIATION AND AMORTIZATION

This caption consists of the following:

	2010 LBP'000	2009 LBP'000
Depreciation of property and equipment (Note 15)	2,538,506	2,230,608
Amortization of deferred accounts for merged bank (Note 16)	721,326	721,326
Amortization of intangible assets	<u>30,334</u>	<u>30,335</u>
	<u>3,290,166</u>	<u>2,982,253</u>

37. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS

The guarantees and standby letters of credit and the documentary and commercial letters of credit represent financial instruments with contractual amounts representing credit risk. The guarantees and standby letters of credit represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties and are not different from loans and advances on the balance sheet. However, documentary and commercial letters of credit, which represent written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments documents of goods to which they relate and, therefore, have significantly less risks.

Forward exchange contracts outstanding as of December 31, 2010 and 2009 represent positions held for customers' accounts and at their risk. The Group entered into such instruments to serve the needs of customers, and these contracts are fully hedged by the Group.

38. FIDUCIARY ASSETS

Fiduciary assets are invested as follows:

December 31, 2010

	Resident LBP'000	Non-Resident LBP'000	Total LBP'000
Deposits with financial institutions	2,789,369	2,021,118	4,810,487
Debt securities	68,482,776	2,540,823	71,023,599
Equity securities	<u>90,194,078</u>	<u>101,793,159</u>	<u>191,987,237</u>
	<u>161,466,223</u>	<u>106,355,100</u>	<u>267,821,323</u>

December 31, 2009

	Resident LBP'000	Non-Resident LBP'000	Total LBP'000
Deposits with financial institutions	99,934,134	-	99,934,134
Debt securities	164,080,196	20,624,455	184,704,651
Equity securities	<u>98,248,757</u>	<u>11,305,096</u>	<u>109,553,853</u>
	<u>362,263,087</u>	<u>31,929,551</u>	<u>394,192,638</u>

39. BALANCES/TRANSACTIONS WITH RELATED PARTIES

December 31,

Shareholders, directors and other key management personnel and close family members:	2010 LBP'000	2009 LBP'000
Direct facilities and credit balances:		
Secured loans and advances	87,040,397	66,546,451
Unsecured loans and advances	5,069,885	2,832,140
Deposits	174,535,722	116,285,471
Indirect facilities	1,749,768	590,664

Interest rates charged on balances outstanding are the same rates that would be charged in an arm's length transaction. Secured loans and advances are covered by pledged deposits of the respective borrowers to the extent of LBP95billion (LBP45billion as of December 31, 2009). In addition, loans and advances were covered by real estate mortgage to the extent of LBP3.72billion as of December 31, 2010 (LBP1.71billion as of December 31, 2009).

Directors' and senior staff remuneration amounted to LBP2.62million during 2010 (LBP2.28billion during 2009).

40. DIVIDENDS PAID

	2010 LBP'000	2009 LBP'000
Preferred shares - Series 1	961,034	-
Ordinary shares	<u>4,600,000</u>	<u>3,450,000</u>
	<u>5,561,034</u>	<u>3,450,000</u>

The general assembly held on June 24, 2010 approved the dividends distribution of LBP400 for each common share outstanding as at January 1, 2010 and USD4.25 (c/v LBP6,407) for each preferred share - Series 1.

41. CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the purpose of the statement of cash flows, consist of the following:

	December 31,	
	2010 LBP'000	2009 LBP'000
Cash	20,913,394	17,925,295
Current accounts with Central Bank of Lebanon	35,394,832	14,081,777
Time deposits with Central Bank of Lebanon	158,212,500	82,147,202
Current accounts with banks and financial institutions and purchased checks	110,311,326	62,922,242
Time deposits with banks and financial institutions	166,666,416	146,417,877
Demand deposits from banks	(16,793,496)	(129,085,990)
Time deposits from banks	<u>(322,617,322)</u>	<u>(214,259,106)</u>
	<u>152,087,650</u>	<u>(19,850,703)</u>

Time deposits with and from Central Bank of Lebanon and banks and financial institutions included above represent inter-bank placements and borrowings with an original term of 90 days or less.

The following operating, investment and financing activities, which represent non-cash items were excluded from the consolidated statement of cash flows as follows:

- a. Increase in assets acquired in satisfaction of loans in the amount of LBP1.9billion against loans and advances to customers for the year ended December 31, 2010 (LBP1.5billion for the year ended December 31, 2009).
- b. Increase in cumulative change in fair value of available-for-sale securities for the amount of LBP517million for the year ended December 31, 2010 against increase in available-for-sale securities amounting to LBP652million, deferred tax liability amounting to LBP77million.
- c. Increase in other assets in the amount of LBP398million against decrease in loans and advances to customers for the year ended December 31, 2010 (LBP603million for the year ended December 31, 2009).

42. CAPITAL MANAGEMENT

The Group manages its capital to comply with the capital adequacy requirements set by Central Bank of Lebanon, the Group's lead regulator. The subsidiaries of the Group operating abroad are also required to respect particular ratios according to the competent authorities of supervisions.

Central Bank of Lebanon requires each bank or banking group to hold a minimum level of regulatory capital of LBP10billion for the head office and LBP500million for each branch in Lebanon and LBP1.5billion for each branch outside Lebanon. In addition, the Group is required to observe the minimum capital adequacy ratio set by the regulator at 12% (Basel II Ratio).

The Group's capital is split as follows:

Tier I capital: Comprises share capital after deduction of treasury shares, shareholders' cash contribution to capital, reserves from appropriation of profits, retained earnings (exclusive of current year's net profit) and minority interest.

Tier II capital: Comprises qualifying subordinated liabilities and cumulative change in fair value of available-for-sale securities.

Investments in associates are deducted from Tier I and Tier II capital.

Also, various limits are applied to the elements of capital base: Qualifying Tier II capital cannot exceed Tier I capital and qualifying short term subordinated loan capital may not exceed 50% of Tier I capital.

The Group's capital adequacy ratio (Basel II) was as follows:

	2010 In millions of LBP	2009 In millions of LBP
Total regulatory capital	<u>224,340</u>	<u>205,179</u>
Credit risk	2,249,048	1,970,976
Market risk	14,850	10,882
Operational risk	<u>103,517</u>	<u>81,644</u>
Risk-weighted assets and risk-weighted off-balance sheet items	<u>2,367,415</u>	<u>2,063,502</u>
Capital adequacy ratio	<u>9.48%</u>	<u>9.94%</u>

43. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

A. Credit Risk

Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to discharge an obligation. Financial assets that are mainly exposed to credit risk are deposits with banks, loans and advances and investment securities. Credit risk also arises from off-balance sheet financial instruments such as letters of credit and letters of guarantee.

Concentration of credit risk arises when a number of counterparties are engaged 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 of credit risk indicate the relative sensitivity of the Group's performance affecting a particular industry or geographical location.

1. Management of credit risk

The Board of Directors has the responsibility to approve the Group's general credit policy as recommended by the Credit Committee. The Credit Committee has the responsibility for the development of the credit function strategy and implementing principles, frameworks, policies and limits.

2. Measurement of credit risk

Policies and principles that the Group follows on loans and advances are included in "Management of Credit Risk" which stipulates the Group's general credit policy.

In measuring credit risk of loans and advances, the Group considers the following:

a. Managing credit risk based on the risk profile of the borrower, repayment source and the nature of the underlying collateral given current events and conditions.

b. Measuring credit risk through reviewing the following:

- Ability of the counterparty to honor its contractual obligations based on the account's performance, recurring overdues and related reasons, the counterparty's financial position and effect thereto of the economic environment and market conditions;
- Exposure levels of the counterparty and unutilized credit limits granted;
- Exposure levels of the counterparty with other banks;
- Purpose of the credit facilities granted to the counterparty and conformity of utilization by the counterparty.

In accordance with Central Bank of Lebanon circular No.58 the Group's customers are categorized into five classifications as described below:

Classification	Description	
1	Standard monitoring	Indicates that borrowers are able to honor their commitments and there is no reason to doubt their ability to repay principal and interest in full and in a timely manner. Some of the indicators related to this category are: continuous cash inflows, timely submission of financial statements and / or sufficient collateral.
2	Special monitoring (Watch list)	Indicates that borrowers are able to honor their current commitments, although repayment may be adversely affected by specific factors. Such borrowers are subject to special monitoring. Major characteristics of this category are: inadequate loan information such as annual financial statements availability, condition of and control over collateral held is questionable and/or declining profitability.

3	Substandard	Indicates that borrowers' ability to serve their commitments is in question. In this context, borrowers cannot depend on their normal business revenues to pay back principal and interest, i.e. losses may occur. The main characteristics of this category are severe decline in profitability and in cash inflows. In this case, the Group considers interests and commissions as unrealized but does not establish an allowance for impairment.
4	Doubtful	Indicates that borrowers cannot honor their commitments in full and on time. Significant losses will be incurred even collateral held is invoked due to payment overdues. The net realizable value of collateral held is insufficient to cover payment of principal and interest. In this case, the Group considers interests and commissions as unrealized and established an allowance for impairment accordingly.
5	Bad	Indicates that commitments cannot be covered even after taking all possible measures and resorting to necessary legal procedures. Some signals of this category would be inexistence of collateral, low value of collateral and / or, losing contact with the borrower. In this case, the bank considers interests and commissions as unrealized, ceases their accumulation, and provides the whole amount of the exposure's balance.

If the debtor's default on the loan is temporary, management of the Group identifies and manages to work a plan to reschedule the payments due and/or obtain additional collateral before downgrading the loan to substandard or doubtful.

3. Risk mitigation policies

The Group mainly employs collateral to mitigate credit risk. The principal collateral types for loans and advances are:

- Pledged deposits
- Mortgages over real estate properties (land, commercial and residential properties)
- Bank guarantees
- Business other assets (such as inventories and accounts receivable)

4. Financial assets with credit risk exposure and related concentrations

a. Exposure to credit risk and concentration by counterparty:

The tables below reflect the allocation of loans and advances to customers by bracket of exposure (escrow account excluded)

December 31, 2010

Bracket	LBP Base Accounts Amount LBP'000	F/Cy Base Accounts Amount LBP'000
Related Party Customers:	<u>3,723,338</u>	<u>88,386,944</u>
Customers:		
Less than LBP 200 million	144,048,329	187,187,739
From LBP 200 million to LBP 1.5 billion	62,416,425	117,378,824
Over LBP 1.5 billion	<u>86,900,937</u>	<u>270,189,740</u>
	<u>293,365,691</u>	<u>574,756,303</u>
	<u>297,089,029</u>	<u>663,143,248</u>

December 31, 2009

Bracket	LBP Base Accounts Amount LBP'000	F/Cy Base Accounts Amount LBP'000
Related Party Customers:	<u>1,130,993</u>	<u>68,247,598</u>
Customers:		
Less than LBP 200 million	95,402,514	70,052,821
From LBP 200 million to LBP 1.5 billion	23,102,623	122,338,517
Over LBP 1.5 billion	<u>38,473,625</u>	<u>263,873,687</u>
	<u>156,978,762</u>	<u>456,265,025</u>
	<u>158,109,755</u>	<u>524,512,623</u>

Loans and advances above LBP 200 million relate to approximately 3% of the Group's customers.

Below are the details of the Group's exposure to credit risk with respect to loans and advances to customers:

December 31, 2010

	Net Exposure LBP'000	Provision and Escrow Accounts LBP'000	Net Exposure LBP'000
Loans and advances (Regular and watch list)	<u>940,263,933</u>	<u>-</u>	<u>940,263,933</u>
Overdue loans and advances (Regular and watch list):			
Between 30 and 60 days	806,446	-	806,446
Between 60 and 90 days	2,351,821	-	2,351,821
Between 90 and 180 days	1,051,510	-	1,051,510
More than 180 days	<u>4,783,035</u>	<u>-</u>	<u>4,783,035</u>
	<u>8,992,812</u>	<u>-</u>	<u>8,992,812</u>
Loans individually impaired			
Substandard	1,928,996	-	1,928,996
Doubtful	<u>37,242,136</u>	<u>(20,796,779)</u>	<u>16,445,357</u>
	<u>39,171,132</u>	<u>(20,796,779)</u>	<u>18,374,353</u>
Provision for impairment of collectively assessed loans and escrow accounts	<u>-</u>	<u>(13,108,326)</u>	<u>(13,108,326)</u>
	<u>988,427,877</u>	<u>(33,905,105)</u>	<u>54,522,772</u>

Guarantees Received

Real Estate Mortgage LBP'000	Pledged Funds LBP'000	Bank and personal Guarantees LBP'000	Other Guarantees LBP'000	Total LBP'000
<u>237,288,600</u>	<u>184,185,238</u>	<u>81,912,075</u>	<u>436,878,020</u>	<u>940,263,933</u>
428,651	2,723	33,282	237,664	702,320
1,672,863	68,575	82,849	448,176	2,272,463
749,662	10,347	65,639	225,862	1,051,510
<u>3,018,810</u>	<u>43,763</u>	<u>122,050</u>	<u>1,781,896</u>	<u>4,966,519</u>
<u>5,869,986</u>	<u>125,408</u>	<u>303,820</u>	<u>2,693,598</u>	<u>8,992,812</u>
1,896,764	353,706	426,190	(747,664)	1,928,996
<u>17,133,583</u>	<u>401,254</u>	<u>867,290</u>	<u>(1,956,770)</u>	<u>16,445,357</u>
<u>19,030,347</u>	<u>754,960</u>	<u>1,293,480</u>	<u>(2,704,434)</u>	<u>18,374,353</u>
-	-	-	-	-
<u>262,188,933</u>	<u>185,065,606</u>	<u>83,509,375</u>	<u>436,867,184</u>	<u>967,631,698</u>

December 31, 2009

	Net Exposure LBP'000	Provision and Escrow Accounts LBP'000	Net Exposure LBP'000
Loans and advances (Regular and watch list)	<u>655,987,789</u>	-	<u>655,987,789</u>
Overdue loans and advances (Regular and watch list):			
Between 30 and 60 days	560,165	-	560,165
Between 60 and 90 days	2,214,850	-	2,124,850
Between 90 and 180 days	1,277,910	-	1,277,910
More than 180 days	<u>3,683,106</u>	-	<u>3,683,106</u>
	<u>7,646,031</u>	-	<u>7,646,031</u>
Loans individually impaired			
Substandard	2,661,530	-	2,661,530
Doubtful	<u>35,086,879</u>	<u>(16,679,881)</u>	<u>18,406,998</u>
	<u>37,748,409</u>	<u>(16,679,881)</u>	<u>21,068,528</u>
Provision for impairment of collectively assessed loans and escrow accounts	-	<u>(8,646,958)</u>	<u>(8,646,958)</u>
	<u>701,382,229</u>	<u>(25,326,839)</u>	<u>676,055,390</u>

Guarantees Received

Real Estate Mortgage LBP'000	Pledged Funds LBP'000	Bank and Personal Guarantees LBP'000	Other Guarantees LBP'000	Total LBP'000
<u>237,063,168</u>	<u>184,127,548</u>	<u>81,912,075</u>	<u>152,884,998</u>	<u>655,987,789</u>
428,651	2,723	33,282	95,509	560,165
1,672,863	68,575	82,849	300,563	2,124,850
749,662	10,347	65,639	452,262	1,277,910
<u>3,018,810</u>	<u>43,763</u>	<u>122,050</u>	<u>498,483</u>	<u>3,683,106</u>
<u>5,869,986</u>	<u>125,408</u>	<u>303,820</u>	<u>1,346,817</u>	<u>7,646,031</u>
2,255,556	<u>353,706</u>	<u>379,564</u>	(327,296)	2,661,530
<u>18,933,834</u>	<u>414,364</u>	<u>10,192,118</u>	<u>(11,133,318)</u>	<u>18,406,998</u>
<u>21,189,390</u>	<u>768,070</u>	<u>10,571,682</u>	<u>(11,460,614)</u>	<u>21,068,528</u>
-	-	-	-	-
<u>264,122,544</u>	<u>185,021,026</u>	<u>92,787,577</u>	<u>142,771,201</u>	<u>684,702,348</u>

b. Concentration of financial assets and liabilities by geographical area:

December 31, 2010

	Lebanon LBP'000	Middle East & Africa LBP'000	North America LBP'000	Europe LBP'000	Other LBP'000	Total LBP'000
Financial Assets						
Cash and central bank	512,617,089	-	-	-	-	512,617,089
Deposits with banks and financial institutions	140,446,840	43,730,177	23,257,916	150,576,805	817,805	358,829,543
Trading assets	3,973,484	-	-	-	-	3,973,484
Available-for-sale investment securities	1,009,094,883	7,812,579	5,264,445	70,309,365	-	1,092,481,272
Held-to-maturity investment securities	768,642,628	-	-	38,537,109	-	807,179,737
Loans to banks	4,652,081	-	-	3,018,046	-	7,670,127
Loans and advances to customers	926,225,716	21,878,958	5,535	6,330,288	82,275	954,522,772
Customer's liability under acceptance	9,153,012	-	-	-	-	9,153,012
Other assets	<u>5,525,117</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,525,117</u>
Total	<u>3,380,330,850</u>	<u>73,421,714</u>	<u>28,527,896</u>	<u>268,771,613</u>	<u>900,080</u>	<u>3,751,952,153</u>
Financial Liabilities						
Deposits and borrowings from banks and financial institutions	56,856,315	260,711,514	178,699	69,751,745	-	387,498,273
Customers' deposits at amortized cost	2,710,609,539	239,827,147	9,812,435	40,512,992	34,950,202	3,035,712,315
Liability under acceptance	9,153,012	-	-	-	-	9,153,012
Certificates of deposit	5,795,808	-	-	-	-	5,795,808
Soft loan from Central Bank of Lebanon	44,843,983	-	-	-	-	44,843,983
Other liabilities	<u>13,819,143</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,819,143</u>
Total	<u>2,841,077,800</u>	<u>500,538,661</u>	<u>9,991,134</u>	<u>110,264,737</u>	<u>34,950,202</u>	<u>3,496,822,534</u>

December 31, 2009

	Lebanon LBP'000	Middle East & Africa LBP'000	North America LBP'000	Europe LBP'000	Other LBP'000	Total LBP'000
Financial Assets						
Cash and central bank	426,857,374	-	-	-	-	426,857,374
Deposits with banks and financial institutions	227,722,082	42,855,542	27,737,963	122,327,148	3,362,551	424,005,286
Trading assets	4,201,285	-	-	-	-	4,201,285
Available-for-sale investment securities	932,480,461	1,010,990	12,173,468	67,254,936	-	1,012,919,855
Held-to-maturity investment securities	531,759,424	-	-	97,987,500	-	629,746,924
Loans to banks	18,637,981	-	-	-	-	18,637,981
Loans and advances to customers	651,877,207	19,031,730	5,951	5,101,315	39,187	676,055,390
Customer's liability under acceptance	15,787,640	-	-	-	-	15,787,640
Other assets	<u>5,817,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,817,500</u>
Total	<u>2,815,140,954</u>	<u>62,898,262</u>	<u>39,917,382</u>	<u>292,670,899</u>	<u>3,401,738</u>	<u>3,214,029,235</u>
Financial Liabilities						
Deposits and borrowings from banks and financial institutions	44,475,768	300,472,371	1,030	78,201,194	-	423,150,363
Customers' deposits at amortized cost	2,195,107,674	186,020,239	3,757,962	46,706,922	56,128,156	2,487,720,953
Liabilities under acceptances	15,787,640	-	-	-	-	15,787,640
Certificates of deposit	12,065,617	-	-	-	-	12,065,617
Soft loan from Central Bank of Lebanon	44,850,747	-	-	-	-	44,850,747
Other liabilities	<u>5,274,686</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,274,686</u>
Total	<u>2,317,562,132</u>	<u>486,492,610</u>	<u>3,758,992</u>	<u>124,908,116</u>	<u>56,128,156</u>	<u>2,988,850,006</u>

B. Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately.

1. Management of liquidity risk

Liquidity management involves maintaining ample and diverse funding capacity, liquid assets and other sources of cash to accommodate fluctuations in asset and liability levels. Through ALCO, the Board of Directors is responsible for establishing the liquidity policy which includes:

- Day-to-day funding managed by monitoring future cash flows to ensure that requirements can be met;
- Maintenance of a portfolio of liquid and marketable assets;
- Diversification of funding; and
- Maintenance of adequate contingency plans.

2. Exposure to liquidity risk

The Group ensures that its local entities are in compliance with the liquidity limits in Lebanese Pound and foreign currencies as established by the Central Bank of Lebanon.

The tables below show the Group's assets and liabilities in Lebanese Pounds and foreign currencies base accounts segregated by maturity:

December 31, 2010

	Lebanese Pounds Base Accounts						
	Not Subject to Maturity LBP'000	Up to 3 Months LBP'000	3 to 12 Months LBP'000	1 to 3 Years LBP'000	3 to 5 Years LBP'000	Over 5 Years LBP'000	TOTAL LBP'000
Financial Assets							
Cash and central bank	101,667,017	15,000,000	-	-	-	-	116,667,017
Deposits with banks and financial institutions	3,628,196	28,106,779	2,250,000	23,750,000	3,030,493	-	60,765,468
Trading assets	-	-	-	-	3,104,093	-	3,104,093
Available-for-sale investment securities	12,841,670	62,363,958	203,290,305	163,252,372	101,585,023	6,512,806	549,846,134
Held-to-maturity investment securities	6,916,509	5,003,959	52,616,431	174,134,901	98,142,823	34,239,068	371,053,691
Loans to banks	51,893	-	-	-	-	4,600,000	4,651,893
Loans and advances to customers	(17,432,441)	49,127,560	32,017,766	47,928,327	18,715,831	165,589,427	295,946,470
Other assets	<u>4,734,498</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,734,498</u>
Total	<u>112,407,342</u>	<u>159,602,256</u>	<u>290,174,502</u>	<u>409,065,600</u>	<u>224,578,263</u>	<u>210,941,301</u>	<u>1,406,769,264</u>
Financial Liabilities							
Deposits and borrowings from banks and financial institutions	4,324,780	23,756,113	-	-	-	-	28,080,893
Customers' deposits at amortized cost	14,077,082	990,487,521	100,001,042	31,572,919	-	-	1,136,138,564
Soft loan Central from Bank of Lebanon	3,983	44,840,000	-	-	-	-	44,843,983
Other liabilities	<u>8,539,654</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,539,645</u>
Total	<u>26,945,499</u>	<u>1,059,083,634</u>	<u>100,001,042</u>	<u>31,572,919</u>	<u>-</u>	<u>-</u>	<u>1,217,603,094</u>
Maturity Gap	<u>85,461,843</u>	<u>(899,481,378)</u>	<u>190,173,460</u>	<u>377,492,681</u>	<u>224,578,263</u>	<u>210,941,301</u>	<u>189,166,170</u>

December 31, 2010

	Foreign Currency Base Accounts						
	Not Subject to Maturity LBP'000	Up to 3 Months LBP'000	3 to 12 Months LBP'000	1 to 3 Years LBP'000	3 to 5 Years LBP'000	Over 5 Years LBP'000	TOTAL LBP'000
Financial Assets							
Cash and central bank Deposits with banks and financial institutions	41,875,972	203,324,100	60,300,000	45,225,000	45,225,000	-	395,950,072
Trading assets	66,191,653	221,156,119	10,716,303	-	-	-	298,064,075
Available-for-sale investment securities	869,391	-	-	-	-	-	869,391
Held-to-maturity investment securities	48,107,493	-	35,967,893	137,323,693	105,413,896	215,822,163	542,635,138
Loans to banks	6,956,318	-	60,848,768	73,516,522	106,433,104	188,371,334	436,126,046
Loans and advances to customers	3,234	-	3,015,000	-	-	-	3,018,234
Customers' liability under acceptances	(67,671,022)	426,613,584	122,942,222	107,087,935	47,224,712	22,378,871	658,576,302
Other assets	9,153,012	-	-	-	-	-	9,152,012
Total	<u>790,619</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>790,619</u>
Total	<u>106,276,670</u>	<u>851,093,803</u>	<u>293,790,186</u>	<u>363,153,150</u>	<u>304,296,712</u>	<u>426,572,368</u>	<u>2,345,182,889</u>
Financial Liabilities							
Deposits and borrowings from banks and financial institutions	18,773,160	291,232,017	2,993,913	45,461,027	-	957,263	359,417,380
Customers' deposits at amortized cost	69,399,118	1,487,498,675	267,491,905	73,902,678	1,281,375	-	1,899,573,751
Liability under acceptance	9,153,012	-	-	-	-	-	9,153,012
Certificates of deposit	142,683	-	-	5,653,125	-	-	5,795,808
Other liabilities	<u>5,279,489</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,279,489</u>
Total	<u>102,747,462</u>	<u>1,778,730,692</u>	<u>270,485,818</u>	<u>125,016,830</u>	<u>1,281,375</u>	<u>957,263</u>	<u>2,279,219,440</u>
Maturity Gap	<u>3,529,208</u>	<u>(927,636,889)</u>	<u>23,304,368</u>	<u>238,136,320</u>	<u>303,015,337</u>	<u>425,615,105</u>	<u>65,963,449</u>

December 31, 2009

	Lebanese Pounds Base Accounts						
	Not Subject to Maturity LBP'000	Up to 3 Months LBP'000	3 to 12 Months LBP'000	1 to 3 Years LBP'000	3 to 5 Years LBP'000	Over 5 Years LBP'000	TOTAL LBP'000
Financial Assets							
Cash and central bank	99,530,705	-	-	-	-	-	99,530,705
Deposits with banks and financial institutions	6,089,033	57,125,986	6,174,297	-	-	-	69,389,316
Trading assets	3,120,000	-	-	-	-	-	3,120,000
Available-for-sale investment securities	13,629,887	-	44,111,830	297,572,330	193,738,767	-	549,052,814
Held-to-maturity investment securities	2,826,126	-	76,574,602	112,192,671	32,982,120	10,613,878	235,189,397
Loans to banks	62,302	-	-	-	-	4,900,000	4,962,302
Loans and advances to customers	24,752,394	1,213,434	12,036,637	31,679,248	23,623,319	63,657,030	156,962,062
Other assets	<u>5,718,840</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,718,840</u>
Total	<u>155,729,287</u>	<u>58,339,420</u>	<u>138,897,366</u>	<u>441,444,249</u>	<u>250,344,206</u>	<u>79,170,908</u>	<u>1,123,925,436</u>
Financial Liabilities							
Deposits and borrowings from banks	306,442	24,190,127	-	-	-	-	24,496,569
Customers' deposits at amortized cost	156,420,109	701,500,713	59,002,538	1,523,413	-	-	918,446,773
Soft loan from Central Bank of Lebanon	10,747	-	-	44,840,000	-	-	44,850,747
Other liabilities	<u>4,921,548</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,921,548</u>
Total	<u>161,658,846</u>	<u>725,690,840</u>	<u>59,002,538</u>	<u>46,363,413</u>	<u>-</u>	<u>-</u>	<u>992,715,637</u>
Maturity Gap	<u>(5,929,559)</u>	<u>(667,351,420)</u>	<u>79,894,828</u>	<u>395,080,836</u>	<u>250,344,206</u>	<u>79,170,908</u>	<u>131,209,799</u>

December 31, 2009

	Foreign Currency Base Accounts						
	Not Subject to Maturity LBP'000	Up to 3 Months LBP'000	3 to 12 Months LBP'000	1 to 3 Years LBP'000	3 to 5 Years LBP'000	Over 5 Years LBP'000	TOTAL LBP'000
Financial Assets							
Cash and central bank Deposits with banks and financial institutions	21,304,169	49,747,500	105,525,000	105,525,000	45,225,000	-	327,326,669
Trading assets	68,966,369	265,900,851	19,748,750	-	-	-	354,615,970
Available-for-sale investment securities	1,081,285	-	-	-	-	-	1,081,285
Held-to-maturity investment securities	30,237,972	16,437,808	1,735,486	108,766,012	98,080,811	208,608,952	463,867,041
Loans to banks	6,954,381	57,222,490	66,868,069	86,337,965	29,144,034	148,030,588	394,557,527
Loans and advances to customers	108,179	-	-	9,798,750	3,768,750	-	13,657,679
Customer's liability under acceptance	312,004,662	22,187,220	36,181,924	70,397,514	56,802,210	20,889,798	519,093,328
Other assets	15,787,640	-	-	-	-	-	15,787,640
Total	<u>98,660</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>98,660</u>
	<u>456,543,317</u>	<u>412,125,869</u>	<u>230,059,229</u>	<u>380,825,241</u>	<u>233,020,805</u>	<u>377,529,338</u>	<u>2,090,103,799</u>
Financial Liabilities							
Deposits and borrowings from banks and financial institutions	130,544,874	186,283,317	33,948,423	45,571,314	1,348,603	957,263	398,653,794
Customers' deposits at amortized cost	371,284,434	935,622,786	225,444,055	36,922,905	-	-	1,569,274,180
Liabilities under acceptance	15,787,640	-	-	-	-	-	15,787,640
Certificates of deposits	5,617	-	12,060,000	-	-	-	12,065,617
Other liabilities	<u>353,138</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>353,138</u>
Total	<u>517,975,703</u>	<u>1,121,906,103</u>	<u>271,452,478</u>	<u>82,494,219</u>	<u>1,348,603</u>	<u>957,263</u>	<u>1,996,134,369</u>
Maturity Gap	<u>(61,432,386)</u>	<u>(709,780,234)</u>	<u>(41,393,249)</u>	<u>298,331,022</u>	<u>231,672,202</u>	<u>376,572,075</u>	<u>93,969,430</u>

C. Market Risk

The market risk is the risk that the fair value or future cash flows of a financial instrument will be affected because of changes in market prices such as interest rate, equity prices, foreign exchange and credit spreads.

1. Currency Risk

The Group carries on exchange risk associated with the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Bank takes preventive measures against this risk on setting up limits on the level of exposure by currency and in total for both overnight and intra-day positions in line with the limits authorized by the regulatory authorities.

Below is the carrying of assets and liabilities segregated by major currencies to reflect the Group's exposure to foreign currency exchange risk at year end.

December 31, 2010

	LBP LBP'000	USD LBP'000	Euro LBP'000	Other LBP'000	Total LBP'000
Assets					
Cash and central bank	116,667,017	360,909,557	33,435,312	1,605,203	512,617,089
Deposits with banks and financial institutions	60,765,468	124,515,870	107,403,651	66,144,554	358,829,543
Trading assets	3,104,093	869,391	-	-	3,973,484
Available-for-sale investment securities	549,846,134	505,449,286	33,386,716	3,799,136	1,092,481,272
Held-to-maturity investment securities	371,053,691	415,717,022	20,409,024	-	807,179,737
Loans to banks	4,651,983	3,018,234	-	-	7,670,127
Loans and advances to customers	295,946,470	628,567,314	24,892,867	5,116,121	954,522,772
Customers' Liability under acceptances	-	5,960,438	3,192,574	-	9,153,012
Investment in an associate	-	1,099,904	-	-	1,099,904
Assets acquired in satisfaction of loans	-	4,961,411	-	-	4,961,411
Property and equipment	32,346,049	254,114	-	-	32,600,193
Other assets	6,387,499	(7,704,591)	8,665,013	3,981,412	11,329,333
Regulatory blocked fund	1,500,000	-	-	-	1,500,000
Intangible assets	86,156	-	-	-	86,156
Goodwill	<u>20,379,656</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,379,656</u>
Total Assets	<u>1,462,734,126</u>	<u>2,043,617,980</u>	<u>231,385,157</u>	<u>80,646,426</u>	<u>3,818,383,689</u>
Liabilities					
Deposits and borrowings from banks and financial institutions	28,080,983	286,016,229	65,528,174	7,872,977	387,498,273
Customers' deposits at amortized cost	1,136,138,564	1,701,814,264	144,601,419	53,158,068	3,035,712,315
Liability under acceptances	-	5,960,438	3,192,574	-	9,153,012
Certificates of deposit	-	5,795,808	-	-	5,795,808
Soft loan from Central Bank of Lebanon	44,843,983	-	-	-	44,843,983
Other liabilities	16,651,588	21,030,952	235,896	66,280	37,984,716
Provisions	<u>6,110,501</u>	<u>73,958</u>	<u>-</u>	<u>-</u>	<u>6,184,459</u>
Total Liabilities	<u>1,231,825,529</u>	<u>2,020,691,649</u>	<u>213,558,063</u>	<u>61,097,325</u>	<u>3,527,172,566</u>
Currencies to be received	<u>150,750</u>	4,758,649	18,356,474	35,176,586	58,442,459
Currencies to be delivered	<u>-</u>	<u>(17,762,143)</u>	<u>(9,707,558)</u>	<u>(30,630,813)</u>	<u>(58,100,514)</u>
	<u>150,750</u>	<u>(13,003,494)</u>	<u>8,648,916</u>	<u>4,545,773</u>	<u>341,945</u>
Net Assets	<u>231,059,347</u>	<u>9,922,837</u>	<u>26,476,010</u>	<u>24,094,874</u>	<u>291,553,068</u>

December 31, 2009

	LBP LBP'000	USD LBP'000	Euro LBP'000	Other LBP'000	Total LBP'000
Assets					
Cash and central bank	99,530,705	323,709,756	2,324,148	1,292,765	426,857,374
Deposits with banks and financial institutions	68,389,316	211,074,106	98,503,192	46,038,672	424,005,286
Trading assets	3,120,000	1,081,285	-	-	4,201,285
Available-for-sale investment securities	549,052,814	425,659,052	34,076,191	4,131,798	1,012,919,855
Held-to-maturity investment securities	235,189,397	372,840,800	21,716,727	-	629,746,924
Loans to banks	4,962,302	13,675,679	-	-	18,637,981
Loans and advances to customers	156,762,062	491,380,920	21,795,939	6,116,469	676,055,390
Customers' acceptance Liability	-	12,103,811	3,445,692	238,137	15,787,640
Investment in an associate	-	909,148	-	-	909,148
Assets acquired in satisfaction of loans	-	4,351,549	-	-	4,351,549
Property and equipment	23,395,408	7,107,862	-	-	30,503,270
Other assets	2,637,277	(11,946,568)	16,037,044	2,734,330	9,462,083
Regulatory blocked fund	1,500,000	-	-	-	1,500,000
Intangible assets	<u>2,516,490</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,516,490</u>
Total assets	<u>1,147,055,771</u>	<u>1,851,947,400</u>	<u>197,898,933</u>	<u>60,552,171</u>	<u>3,257,454,275</u>
Liabilities					
Deposits and borrowings from banks and financial institutions	24,496,569	333,045,022	57,626,760	7,982,012	423,150,363
Customers' accounts at amortized cost	918,446,773	1,427,393,860	104,005,889	37,874,431	2,487,720,953
Liability under acceptances	-	12,103,811	3,445,692	238,137	15,787,640
Certificates of deposit	-	12,065,617	-	-	12,065,617
Soft loan from Central Bank of Lebanon	44,850,747	-	-	-	44,850,747
Other liabilities	13,970,844	12,004,220	261,741	82,822	26,319,627
Provisions	<u>4,166,478</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,166,478</u>
Total Liabilities	<u>1,005,931,411</u>	<u>1,796,612,530</u>	<u>165,340,082</u>	<u>46,177,402</u>	<u>3,014,061,425</u>
Currencies to be received	5,718,840	30,107,775	9,377,877	4,438,291	49,642,783
Currencies to be delivered	<u>-</u>	<u>(15,888,684)</u>	<u>(25,329,734)</u>	<u>(7,156,545)</u>	<u>(48,374,963)</u>
	<u>5,718,840</u>	<u>14,219,091</u>	<u>(15,951,857)</u>	<u>(2,718,254)</u>	<u>1,267,820</u>
Net Assets	<u>146,843,200</u>	<u>69,553,961</u>	<u>16,606,994</u>	<u>11,656,515</u>	<u>244,660,670</u>

2. Exposure to Interest Rate Risk:

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies regularly reviewed by the asset and liability committee.

Below is a summary of the Group's interest gap position on assets and liabilities reflected at carrying amounts at year end segregated between floating and fixed interest rate earning or bearing and between Lebanese Pound and foreign currencies base accounts:

December 31, 2010
Lebanese Pound

	Fixed Interest Rate				
	Not Subject to maturity LBP'000	Up to 3 Months LBP'000	3 to 12 Months LBP'000	1 to 3 Years LBP'000	3 to 5 Years LBP'000
Financial Assets					
Cash and central bank	101,667,017	15,000,000	-	-	-
Deposits with banks and financial institutions	3,628,196	28,106,779	2,250,000	23,750,000	3,030,493
Trading assets	-	-	-	-	3,104,093
Available-for-sale investment securities	12,841,670	62,363,958	203,290,305	163,252,372	101,585,023
Held-to-maturity investment securities	6,916,509	5,003,959	52,616,431	174,134,901	98,142,823
Loans to banks	51,893	-	-	-	-
Loans and advances to customers	(17,432,441)	48,402,032	16,579,980	30,946,448	10,137,480
Other assets	<u>4,734,498</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>112,407,342</u>	<u>158,876,728</u>	<u>274,736,716</u>	<u>392,083,721</u>	<u>215,999,912</u>
Financial Liabilities					
Deposits and borrowings from banks and financial institutions	4,324,780	23,756,113	-	-	-
Customers' deposits at amortized cost	14,077,082	990,487,521	100,001,042	31,572,919	-
Soft loan from Central Bank of Lebanon	3,983	44,840,000	-	-	-
Other liabilities	<u>8,539,654</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>26,945,499</u>	<u>1,059,083,634</u>	<u>100,001,042</u>	<u>31,572,919</u>	<u>-</u>
Interest rate gap position	<u>85,461,843</u>	<u>(900,206,906)</u>	<u>174,735,674</u>	<u>360,510,802</u>	<u>215,999,912</u>

Floating Interest Rate

Over 5 Years LBP'000	Total LBP'000	Up to 3 Months LBP'000	3 to 12 Months LBP000	1 to 3 Years LBP'000	3 to 5 Years LBP'000	Over 5 Years LBP'000	Total LBP'000
-	15,000,000	-	-	-	-	-	-
-	57,137,272	-	-	-	-	-	-
-	3,104,093	-	-	-	-	-	-
6,512,806	537,004,464	-	-	-	-	-	-
34,239,068	364,137,182	-	-	-	-	-	-
4,600,000	4,600,000	-	-	-	-	-	-
70,269,453	176,335,393	725,528	15,437,786	16,981,879	8,578,351	95,319,974	137,043,518
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>115,621,327</u>	<u>1,157,318,404</u>	<u>725,528</u>	<u>15,437,786</u>	<u>16,981,879</u>	<u>8,578,351</u>	<u>95,319,974</u>	<u>137,043,518</u>
-	23,756,113	-	-	-	-	-	-
-	1,122,061,482	-	-	-	-	-	-
-	44,840,000	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>1,190,657,595</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>115,621,327</u>	<u>(33,339,191)</u>	<u>725,528</u>	<u>15,437,786</u>	<u>16,981,879</u>	<u>8,578,351</u>	<u>95,319,974</u>	<u>137,043,518</u>

December 31, 2010
Foreign Currencies

	Fixed Interest Rate				
	Not subject to maturity LBP'000	Up to 3 Months LBP'000	3 to 12 Months LBP'000	1 to 3 Years LBP'000	3 to 5 Years LBP'000
Financial Assets					
Cash and central bank	41,875,972	203,324,100	-	-	-
Deposits with banks and financial institutions	66,191,653	221,156,119	10,716,303	-	-
Trading assets	869,391	-	-	-	-
Available-for-sale investment securities	48,107,493	-	35,967,893	122,248,693	105,413,896
Held-to-maturity investment securities	6,956,318	-	45,773,768	73,516,522	106,433,104
Loans to banks	3,234	-	-	-	-
Loans and advances to customers	(67,671,022)	424,511,269	93,174,347	67,526,327	24,617,230
Customers' liability under acceptances	9,153,012)	-	-	-	-
Other assets	<u>790,619</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>106,276,670</u>	<u>848,991,488</u>	<u>185,632,311</u>	<u>263,291,542</u>	<u>236,464,230</u>
Financial Liabilities					
Deposits and borrowings from banks and financial institutions	18,773,160	291,232,017	2,993,913	45,461,027	-
Customers' deposits at amortized cost	68,626,774	1,487,498,675	267,491,905	73,902,678	1,281,375
Liability under acceptance	9,153,012	-	-	-	-
Certificates of deposits	142,683	-	-	5,653,125	-
Other liabilities	<u>5,279,489</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>101,975,118</u>	<u>1,778,730,692</u>	<u>270,485,818</u>	<u>125,016,830</u>	<u>1,281,375</u>
Interest rate gap position	<u>4,301,552</u>	<u>(929,739,204)</u>	<u>(84,853,507)</u>	<u>138,274,712</u>	<u>235,182,855</u>

Floating Interest Rate

Over 5 Years LBP'000	Total LBP'000	Up to 3 Months LBP'000	3 to 12 Months LBP000	1 to 3 Years LBP'000	3 to 5 Years LBP'000	Over 5 Years LBP'000	Total LBP'000
-	203,324,100	60,300,000	-	45,225,000	45,225,000	-	150,750,000
-	231,872,422	-	-	-	-	-	-
-	-	-	-	-	-	-	-
215,822,163	479,452,645	-	-	15,075,000	-	-	15,075,000
188,371,334	414,094,728	-	15,075,000	-	-	-	15,075,000
-	-	-	3,015,000	-	-	-	3,015,000
2,274,968	612,104,141	2,102,315	29,767,875	39,561,608	22,607,482	20,103,903	114,143,183
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>406,468,465</u>	<u>1,940,848,036</u>	<u>62,402,315</u>	<u>47,857,875</u>	<u>99,861,608</u>	<u>67,832,482</u>	<u>20,103,903</u>	<u>298,058,183</u>
957,263	340,644,220	-	-	-	-	-	-
-	1,830,174,633	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	5,653,125	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>957,263</u>	<u>2,176,471,978</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>405,511,202</u>	<u>(235,623,942)</u>	<u>62,402,315</u>	<u>47,857,875</u>	<u>99,861,608</u>	<u>67,832,482</u>	<u>20,103,903</u>	<u>298,058,183</u>

December 31, 2009
Lebanese Pound

	Fixed Interest Rate				
	Not subject to maturity LBP'000	Up to 3 Months LBP'000	3 to 12 Months LBP'000	1 to 3 Years LBP'000	3 to 5 Years LBP'000
Financial Assets					
Cash and central bank	99,530,705	-	-	-	-
Deposits with banks and financial institutions	6,089,033	57,125,986	6,174,297	-	-
Trading assets	3,120,000	-	-	-	-
Available-for-sale investment securities	13,629,887	-	44,111,830	297,572,330	193,788,767
Held-to-maturity investment securities	2,826,126	-	76,574,602	112,192,671	32,982,120
Loans to banks and financial institutions	62,302	-	-	-	-
Loans and advances to customers	24,752,394	1,131,389	6,040,627	27,455,068	2,759,598
Other assets	<u>5,718,840</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>155,729,287</u>	<u>58,257,375</u>	<u>132,901,356</u>	<u>437,220,069</u>	<u>229,530,485</u>
Financial Liabilities					
Deposits and borrowings from banks and financial institutions	306,442	24,190,127	-	-	-
Customers' deposits at amortized cost	156,420,109	701,500,713	59,002,538	1,523,413	-
Soft loan from Central Bank of Lebanon	10,747	-	-	44,840,000	-
Other liabilities	<u>4,921,548</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>161,658,846</u>	<u>725,690,840</u>	<u>59,002,538</u>	<u>46,363,413</u>	<u>-</u>
Interest rate gap position	<u>(5,929,559)</u>	<u>(667,433,465)</u>	<u>73,898,818</u>	<u>390,856,656</u>	<u>229,530,528</u>

Floating Interest Rate

Over 5 Years LBP'000	Total LBP'000	Up to 3 Months LBP'000	3 to 12 Months LBP000	1 to 3 Years LBP'000	3 to 5 Years LBP'000	Over 5 Years LBP'000	Total LBP'000
-	-	-	-	-	-	-	-
-	63,300,283	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	535,472,927	-	-	-	-	-	-
10,613,878	232,363,271	-	-	-	-	-	-
4,900,000	4,900,000	-	-	-	-	-	-
8,201,650	45,588,332	82,044	5,996,010	4,224,216	20,863,721	55,455,379	86,621,370
-	-	-	-	-	-	-	-
<u>23,715,528</u>	<u>881,624,813</u>	<u>82,044</u>	<u>5,996,010</u>	<u>4,224,216</u>	<u>20,863,721</u>	<u>55,455,379</u>	<u>86,621,370</u>
-	24,190,127	-	-	-	-	-	-
-	762,026,664	-	-	-	-	-	-
-	44,840,000	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>-</u>	<u>831,056,791</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>23,715,528</u>	<u>50,568,022</u>	<u>82,044</u>	<u>5,996,010</u>	<u>4,224,216</u>	<u>20,863,721</u>	<u>55,455,379</u>	<u>86,621,370</u>

December 31, 2009
Foreign Currencies

	Fixed Interest Rate				
	Not Subject to Maturity LBP'000	Up to 3 Months LBP'000	3 to 12 Months LBP'000	1 to 3 Years LBP'000	3 to 5 Years LBP'000
Financial Assets					
Cash and central bank	21,304,169	49,747,500	105,525,000	-	-
Deposits with banks and financial institutions	68,966,369	273,066,806	19,748,750	-	-
Trading assets	1,081,285	-	-	-	-
Available-for-sale investment securities	30,237,972	16,437,808	1,735,486	96,706,012	83,005,811
Held-to-maturity investment securities	6,954,381	57,222,490	6,568,069	71,262,965	29,144,034
Loans to banks and financial institutions	108,180	-	-	-	-
Loans and advances to customers	312,004,663	17,800,813	16,136,818	38,097,601	19,299,171
Customers' liability under acceptances	15,787,640	-	-	-	-
Other assets	<u>98,660</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>456,543,319</u>	<u>414,275,417</u>	<u>149,714,123</u>	<u>206,066,578</u>	<u>131,449,016</u>
Financial Liabilities					
Deposits and borrowings from banks and financial institutions	130,544,874	186,283,316	33,948,423	47,892,413	-
Customers' accounts at amortized cost	371,284,435	949,065,743	225,444,055	36,922,905	-
Liabilities under acceptance	15,787,640	-	-	-	-
Certificates of deposit	5,617	-	12,060,000	-	-
Other liabilities	<u>353,138</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>517,975,704</u>	<u>1,135,349,059</u>	<u>271,452,478</u>	<u>84,815,318</u>	<u>-</u>
Interest rate gap position	<u>(61,432,385)</u>	<u>(721,073,642)</u>	<u>(121,738,355)</u>	<u>121,251,260</u>	<u>131,449,016</u>

Floating Interest Rate

Over 5 Years LBP'000	Total LBP'000	Up to 3 Months LBP'000	3 to 12 Months LBP000	1 to 3 Years LBP'000	3 to 5 Years LBP'000	Over 5 Years LBP'000	Total LBP'000
-	155,272,500	-	-	105,525,000	45,225,000	-	150,750,000
-	292,815,556	-	-	-	-	-	-
-	-	-	-	-	-	-	-
208,608,952	406,494,069	-	-	12,060,000	15,075,000	-	27,135,000
148,030,588	312,228,146	-	60,300,000	15,075,000	-	-	75,375,000
-	-	-	-	9,798,750	3,768,750	-	13,567,500
1,936,191	93,270,594	5,016,407	20,045,106	32,699,877	37,503,039	18,953,608	114,218,037
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>358,575,731</u>	<u>1,260,080,865</u>	<u>5,016,407</u>	<u>80,345,106</u>	<u>175,158,627</u>	<u>101,571,789</u>	<u>18,953,608</u>	<u>381,045,537</u>
-	268,124,152	-	-	-	-	-	-
-	1,211,432,703	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	12,060,000	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	<u>1,491,616,855</u>	-	-	-	-	-	-
<u>358,575,731</u>	<u>(231,535,990)</u>	<u>5,016,407</u>	<u>80,345,106</u>	<u>175,158,627</u>	<u>101,571,789</u>	<u>18,953,608</u>	<u>381,045,537</u>

45. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The Group's classification of each class of financial assets and liabilities and their fair values are as follows:

December 31, 2010

	Trading LBP'000	Available for-Sale LBP'000	Held-to-Maturity LBP'000
Financial Assets			
Cash and central bank	-	-	-
Deposits with banks and financial institutions	-	-	-
Trading assets	3,973,484	-	-
Available-for-sale investment securities	-	1,092,481,272	-
Held-to-maturity investment securities	-	-	807,179,737
Loans to banks	-	-	-
Loans and advances to customers	-	-	-
Customers' liability under acceptance	-	-	-
Other assets	-	-	-
Total	<u>3,973,484</u>	<u>1,092,481,272</u>	<u>807,179,737</u>
Financial Liabilities			
Deposits and borrowings from banks and financial institutions	-	-	387,498,273
Customers' deposits at amortized cost	-	-	-
Certificates of deposit	-	-	5,795,808
Liability under acceptance	-	-	-
Soft loan from Central Bank of Lebanon	-	-	44,843,983
Other liabilities	-	-	-
Total	<u>-</u>	<u>-</u>	<u>438,138,064</u>

Loans and Receivables LBP'000	Amortized Cost LBP'000	Carrying Value LBP'000	Fair Value LBP'000
512,617,089	-	512,617,089	512,617,089
358,829,543	-	358,829,543	358,829,543
-	-	3,973,484	3,973,484
-	-	1,092,481,272	1,092,481,272
-	-	807,179,737	817,050,052
7,670,127	-	7,670,127	7,670,127
954,522,772	-	954,522,772	722,626,950
-	9,153,012	9,153,012	9,153,012
-	<u>5,525,117</u>	<u>5,525,117</u>	<u>5,525,117</u>
<u>1,833,639,531</u>	<u>14,678,129</u>	<u>3,751,952,153</u>	<u>3,529,926,646</u>
-	-	387,498,273	387,498,273
-	3,035,712,315	3,035,712,315	3,035,712,315
-	-	5,795,808	5,795,808
9,153,012	-	9,153,012	9,153,012
-	-	44,843,983	44,843,983
-	<u>13,819,143</u>	<u>13,819,143</u>	<u>13,819,143</u>
<u>9,153,012</u>	<u>3,049,531,458</u>	<u>3,496,822,534</u>	<u>3,496,822,534</u>

December 31, 2009

	Trading LBP'000	Available for-Sale LBP'000	Held-to-Maturity LBP'000
Financial Assets			
Cash and central bank	-	-	-
Deposits with banks and financial institutions	-	-	-
Trading assets	4,201,285	-	-
Available-for-sale investment securities	-	1,012,919,855	-
Held-to-maturity investment securities	-	-	629,746,924
Loans to banks and financial institutions	-	-	-
Loans and advances to customers	-	-	-
Customers' liability under acceptance	-	-	-
Other assets	-	-	-
Total	<u>4,201,285</u>	<u>1,012,919,855</u>	<u>629,746,924</u>
Financial Liabilities			
Deposits and borrowings from banks and financial institutions	-	-	423,150,363
Customers' deposits at amortized cost	-	-	-
Liabilities under acceptances	-	-	-
Certificates of deposit	-	-	12,065,617
Soft loan from Central Bank of Lebanon	-	-	44,850,747
Other assets	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>480,066,727</u>

Loans and Receivables LBP'000	Amortized Cost LBP'000	Carrying Value LBP'000	Fair Value LBP'000
426,857,374	-	426,857,374	426,857,374
424,005,286	-	424,005,286	424,005,286
-	-	4,201,285	4,201,285
-	-	1,012,919,855	1,012,919,855
-	-	629,746,924	647,680,484
18,637,981	-	18,637,981	18,637,981
676,055,390	-	676,055,390	656,988,099
-	15,787,500	15,787,500	15,787,500
-	<u>5,817,500</u>	<u>5,817,500</u>	<u>5,817,500</u>
<u>1,545,556,031</u>	<u>21,605,000</u>	<u>3,214,029,095</u>	<u>3,212,895,364</u>
-	-	423,150,363	423,150,363
-	2,487,720,953	2,487,720,953	2,487,720,953
-	15,787,500	15,787,500	15,787,500
-	-	12,065,617	12,065,617
-	-	44,850,747	44,850,747
-	<u>5,817,500</u>	<u>5,817,500</u>	<u>5,817,500</u>
-	<u>2,509,325,953</u>	<u>2,989,392,680</u>	<u>2,989,392,680</u>

The following table provides an analysis of financial instruments that are measured subsequently to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

December 31, 2010

	Level 1 LBP'000	Level 2 LBP'000	Level 3 LBP'000	Total LBP'000
Trading Assets:				
Lebanese treasury bills	-	3,126,494	-	3,126,494
Quoted equity securities	<u>846,990</u>	<u>-</u>	<u>-</u>	<u>846,990</u>
	846,990	3,126,494	-	3,973,484
Available-for-sale investment securities:				
Quoted equity securities	29,428,603	-	-	29,428,603
Funds	-	2,237,733	-	2,237,733
Lebanese treasury bills	-	307,261,144	-	307,261,144
Lebanese Government bonds	-	-	304,588,915	304,588,915
Foreign Government bonds	4,777,750	-	-	4,777,750
Corporate bonds	71,835,791	-	-	71,835,791
Certificates of deposit issued by Lebanese banks	-	-	25,724,760	25,724,760
Certificates of deposit issued by the Central Bank of Lebanon	<u>-</u>	<u>229,743,320</u>	<u>87,600,429</u>	<u>317,343,749</u>
	106,042,144	539,242,197	417,914,104	1,063,198,445
Unquoted equity securities at cost				7,915,856
				<u>1,071,114,301</u>

The basis for the determination of the estimated fair values with respect to financial instruments carried at amortized cost and for which quoted market prices are not available is summarized as follows:

a. Deposits with Central Bank and financial institutions:

The fair value of current deposits (including non-interest earning compulsory deposits with Central Banks), and overnight deposits is their carrying amount. The estimated fair value of fixed interest earning deposits with maturities or interest reset dates beyond one year from the balance sheet date is based on the discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

b. Loans and advances to customers and to banks:

The estimated fair value of loans and advances to customers is based on the discounted amount of expected future cash flows determined at current market rates.

c. Held-to-maturity investment securities:

The estimated fair value of held-to-maturity investment securities is based on current yield curve appropriate for the remaining period to maturity.

d. Deposits and borrowings from banks and customers' deposits:

The fair value of deposits with current maturity or no stated maturity is their carrying amount. The estimated fair value on other deposits is based on the discounted cash flows using interest rates for new deposits with similar remaining maturity.

e. Other borrowings and certificates of deposit:

The estimated fair value of other borrowings and certificates of deposits is the discounted cash flow based on a current yield curve appropriate for the remaining period to maturity.

46. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended December 31, 2010 were approved by the Board of Directors in its meeting held on May 5, 2011.

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Baalbeck

Under establishment

Correspondent Banks

Correspondent	Country	Currency
Bank of New York - Frankfurt am Main	Germany	EUR
Bank of New York - New York	USA	USD
Bank of New York - Tokyo	Japan	JPY
Banque SBA - Paris	France	EUR & USD
Barclays Bank PLC - London	UK	GBP
Cairo Amman Bank - Amman	Jordan	JOD & USD
Commerz Bank - Frankfurt am Main	Germany	EUR
Credit Suisse - Zurich	Switzerland	CHF
Danske Bank - Copenhagen	Denmark	DKK
DNB Nor Bank ASA - Oslo	Norway	NOK
Gulf Bank K.S.C. - Kuwait	Kuwait	KWD & USD
ING Belgium NV/SA - Brussels	Belgium	EUR
Intesa Sanpaolo SPA - Milan	Italy	EUR
Investbank PSC - Sharjah	UAE	AED
Iraqi Middle East Investment Bank - Baghdad	Iraq	USD
JP Morgan AG - Frankfurt am Main	Germany	EUR
JP Morgan Chase Bank - New York	USA	USD
MashreqBank - New York	USA	USD
MashreqBank PSC - Dubai City	UAE	AED
People's Bank - Colombo	Srilanka	USD
Qatar National Bank - Doha	Qatar	QAR & USD
Royal Bank of Canada - Toronto	Canada	CAD
Saudi Hollandi Bank - Riyadh	Saudi Arabia	SAR & USD
Skandinaviska Enskilda Banken AB - Stockholm	Sweden	SEK
Standard Chartered- New York	USA	USD
Wells Fargo Co. - New York	USA	USD
Westpac Banking Corporation - Sydney	Australia	AUD

