

## Description of the Preferred Shares

### Issuance and Offering

#### *Issuer and number of Preferred Shares to be issued*

Bank of Beirut SAL (the “Bank” or the “Issuer”), a duly organized joint stock company under the laws of the Republic of Lebanon, proposes to issue 4,000,000 Non-Cumulative Perpetual Redeemable Series “K” Preferred Shares (the “Preferred Shares”), pursuant to the provisions of Law n. 308 dated April 3, 2001 (“Law 308/2001”) and the Central Bank of Lebanon (the “CBL”) Decisions.

#### *Offering*

The Capital Markets Authority (“CMA”) has approved the issuance and offering of the Preferred Shares by virtue of its Board decision n. 11/2/16 dated 22 February 2016.

The offering by the Issuer of the Preferred Shares (the “Offering”) will be for an aggregate amount of - US\$100,000,000, distributed over 4,000,000 Preferred Shares, at an issue price of US\$25 (United States Dollars Twenty Five) per Preferred Share (the “Issue Price”). The Issue Price will consist, for each Preferred Share, of a par value of LBP1,460 (US\$0.9685), and the difference between the Issue Price and the par value shall constitute an issue premium (the “Issue Premium”) and shall be maintained in U.S. Dollars.

It is expected that the Issue Price, consisting of the par value and the Issue Premium in excess thereof, will qualify to constitute Tier I Capital, as defined in the CBL’s Decision n. 6939 dated 25 March 1998 (as amended).

The Preferred Shares will be offered:

- to any persons, whether individuals or institutions, existing or new shareholders, other than (i) a U.S. citizen; (ii) the Bank’s Chairman General Manager, Deputy General Manager, General Managers, members of the Board of Directors and the spouses and minor children of such persons; and (iii) any person to whom it is not allowed to be offered or to own the Preferred Shares; and
- only in units (each a “Unit” and collectively the “Units”). Each Unit shall represent 100 Preferred Shares, or an aggregate amount of US\$2,500. A Unit represents the minimum subscription per investor.

The CMA will not, at any time and for any reason whatsoever, be held responsible for any implications and/or outcome that may result from the decision of any investor to subscribe to the Series “K” Preferred Shares.

#### *Preferential right to holders of Series “G”, “H”, “I” and “J” Preferred Shares previously issued by the Bank*

Holders of Series “G”, Series “H”, Series “I” and Series “J” Preferred Shares issued by the Bank shall have a preferential right to subscribe to Series “K” Preferred Shares, pro rata respectively to their participation through preferred shares in the Bank’s capital.

#### *Restrictions on subscriptions – Restrictions on Board of Directors membership*

The Bank’s Board of Directors members, Deputy General Manager and General Managers, their spouses and dependent children are restricted by law from purchasing or subscribing to Preferred Shares issued by the Bank. In the same respect, the Bank, its affiliates and associate entities are not allowed to subscribe to, acquire or finance the subscription or acquisition of Preferred Shares, whether directly or indirectly.

Holders of Series “K” Preferred Shares are not allowed to assume the functions of member of the Bank’s Board of Directors.

#### *Closing*

The closing of the Offering shall be deemed occurring on the date of the Bank’s Extraordinary General Meeting of shareholders that will verify the validity and ascertain the payment of the capital increase related to the Offering (the “Closing Date”), provided that the Bank shall have obtained the approval of each of (a) the CBL on the Bank’s capital increase by way of issue of the Series “K” Preferred Shares, following the Extraordinary General Meeting of the Bank’s shareholders that will resolve such increase and amend the Bank’s by-laws accordingly, and (b) the CMA on the issue and offering of such Shares; the above conditions being all cumulative. The closing is expected to occur before the end of July 2016.

## **Terms and conditions of the Preferred Shares**

### *Ownership and registration*

The Preferred Shares will be recorded in the name of the holders of such Preferred Shares (the “Preferred Shareholders”) and will be evidenced by the records of Midclear s.a.l. (“Midclear”), in its capacity as Central Depository for banks shares in Lebanon pursuant to Law n. 308/2001. Such records will constitute legal evidence of the ownership of the Preferred Shares for all purposes, including but not limited to, future transfers and redemptions of such Preferred Shares, as well as for the purposes of payment of the Annual Dividend (as defined hereinafter).

### *Listing*

All of the Series “K” Preferred Shares will be listed on the Beirut Stock Exchange, after the obtaining of all required regulatory approvals on such listing.

### *Transfer of rights and obligations attached to the Series “K” Preferred Shares*

The rights and obligations attached to the Series “K” Preferred Shares shall be exercised by, and be incumbent upon, the holders of such Series “K” Preferred Shares and all subsequent transferees whose names shall be recorded from time to time in Midclear’s records. The ownership of one or more Series “K” Preferred Shares necessarily implies acceptance of all the terms and conditions of the Series “K” Preferred Shares.

### *Ranking*

Series “K” Preferred Shares shall rank (i) *pari passu* to Series “G”, Series “H”, Series “I” and Series “J” Preferred Shares issued by the Bank in respect of the right to receive dividends and the right to receive payments out of the assets of the Bank upon any voluntary or involuntary liquidation, dissolution or winding up of the Bank; (ii) senior to the Bank’s common shares (which include, for the avoidance of doubt, the priority shares issued by the Bank) in respect of the aforementioned rights; and (iii) subordinated to the Bank’s depositors and/or creditors, including investors in subordinated loans and bonds, and in other instruments included in the Bank’s Tier Two Capital.

The Preferred Shares are not secured or covered by any guarantee from the Bank or from any entity related to the Bank (mother company, affiliates, subsidiaries, sister companies, or other related entities), and do not benefit from any legal or financial privileges or arrangement or side agreement that enhance the preference or seniority of their claims, or their ranking towards the Bank’s depositors and/or remaining creditors.

### *Dividends*

The Series “K” Preferred Shares shall earn an annual dividend (the “Annual Dividend”) equal to 6.50% as shall be finally determined by the “EGM” per year of the Issue Price (subject to adjustment in case of stock split or reverse stock split), provided that the following conditions are met: (i) there are enough Declared Net Profits to allow the payment of such Annual Dividend; (ii) the Bank is in compliance with all ratios imposed by the CBL and the Banking Control Commission (the “BCC”) in relation to the regulations applicable to capital adequacy; and (iii) the Bank’s Ordinary General Meeting of shareholders resolves the distribution of the Annual Dividend. It is the intention of the Board of Directors to declare annual distributions in respect of the Preferred Shares, subject to availability of sufficient net income for the concerned financial year, and to recommend to the Bank’s Ordinary General Meeting of shareholders that it resolves such distribution; it being noted that the General Meeting must resolve such distribution when sufficient Declared Net Profits are available, unless a legal or regulatory reason prevents said distribution. For the avoidance of doubt, and without prejudice to the above mentioned conditions required for the payment of the Annual Dividend, if the Declared Net Profits for any relevant year are not sufficient to allow the payment of all amounts that are due with respect to the outstanding preferred shares of various series issued by the Bank and then outstanding, the Bank’s General Meeting of shareholders will resolve the distribution to the holders of such preferred shares, including the holders of Series “K” Preferred Shares, the available Declared Net Profits, on a pro rata basis between the holders of the preferred shares of all series then outstanding.

For the purpose hereof, “Declared Net Profits” shall mean the Bank’s unconsolidated audited net profits, as approved by the Ordinary General Meeting of the Bank’s shareholders, after tax and after deduction of the legal and statutory reserves and all reserves required by the CBL and the BCC applicable regulations.

Following the fulfilment of the Annual Dividend's payment conditions, the payment of such Annual Dividend shall be made annually within a period of 15 days following the date of the relevant Ordinary General Meeting of shareholders during which (i) the Bank's annual audited accounts for the relevant financial year are approved; and (ii) the Annual Dividend distribution is declared. The Annual Dividend of 6.50% being stated for a full fiscal year, it shall be adjusted, on a pro rata basis of the relevant period, for the fraction of year during which the issuance of the Preferred Shares occurs. In case of redemption of the Series "K" Preferred Shares as described below, the Annual Dividend due to the holders of such Preferred Shares for the year during which redemption occurs (the "Redemption Year") shall be paid, for the full Redemption Year, during the year following the Redemption Year, within a period of 15 days following the date of the Ordinary General Meeting of shareholders during which (i) the Bank's annual audited accounts for the Redemption Year are approved; and (ii) the corresponding Annual Dividend distribution is declared.

The right to payment of the Annual Dividend on the Series "K" Preferred Shares shall not be cumulative. If, further to the non-fulfilment of the payment conditions of the Annual Dividend, such Annual Dividend is not declared in any given year, or if the amount of the Annual Dividend declared and paid is, without prejudice to the adjustment provided for the fraction of year as mentioned here above, less than 6.50% of the Issue Price, the holders of Series "K" Preferred Shares will not be entitled to subsequently receive such Annual Dividend or the balance thereof, in whole or in part as the case may be, whether or not funds are or subsequently become available.

The Bank shall not be liable to the holders of Series "K" Preferred Shares for interest on any unclaimed or unpaid Annual Dividend.

So long as any Preferred Shares of Series "G", "H", "I", "J" and/or "K" shall be outstanding, the Bank shall not declare or pay any dividend upon its common shares during any fiscal year, unless and until all distributions in respect of said preferred shares have been made, for each Series in accordance with its terms and conditions.

Any remaining dividends after the payment of the Annual Dividend (and after payment of the distributions due on the Series "G", Series "H", Series "I" and Series "J" Preferred Shares issued by the Bank) shall be shared on a pro rata basis exclusively among the holders of the common shares of the Bank.

#### *Tax on Annual Dividend*

Annual Dividend distributions are subject to withholding tax, currently at the rate of 5%. The tax on distribution will be borne by the holders of Series "K" Preferred Shares and withheld from the Annual Dividend distributions, as per the applicable laws and regulations.

#### *Liquidation preference upon winding-up of the Bank*

In the event of a dissolution, winding-up or liquidation of the Bank, each holder of Series "K" Preferred Shares shall be entitled to receive out of the assets of the Bank, in priority to any payment to the holders of the Bank's common shares but *pari passu* with holders of other preferred shares then outstanding, an amount equal to the Issue Price multiplied by the number of Series "K" Preferred Shares held by such holder of Series "K" Preferred Shares (subject to adjustment to reflect the occurrence of a stock split or reverse stock split affecting the Preferred Shares), in addition to any Annual Dividend, if any, the distribution of which has been decided by the Bank's General Meeting of shareholders, but the payment of which has not actually been made yet.

#### *Right of holders of Series "K" Preferred Shares to subscribe to subsequent offerings*

Holders of Series "K" Preferred Shares shall have a preferential right to subscribe to all capital increases of the Bank made by issuance of other preferred shares, should the Bank issue such securities, pro rata to the percentage that their Series "K" Preferred Shares represent towards the entire capital of the Bank. However, holders of Series "K" Preferred Shares will not have any preferential right to subscribe to capital increases of the Bank when such capital increases are made by way of issuance of common shares.

#### *Restrictions on the participation to the Bank's reserves*

Without prejudice to the rights devolving on the Preferred Shares as specifically mentioned herein, holders of Series "K" Preferred Shares shall not be entitled to participate to the Bank's reserves or to benefit from any distributions resulting from the capital increase of the Bank by way of conversion of the Bank's reserves and/or retained earnings into capital.

### *Redemption*

Subject to the obtaining of the CBL's approval and to the Bank's abidance by the ratios and regulations of the CBL and the BCC, the Bank shall have the right, in its sole discretion, to redeem on each Redemption Date (as defined hereinafter) all or part of the Series "K" Preferred Shares (but not less than 25% of the total number of such Preferred Shares, on pro rata basis between the Series "K" Preferred Shareholders). "Redemption Date" shall mean (i) for the first time, the last Business Day of the financial year during which falls the 5th anniversary of the Extraordinary General Meeting of the Bank's shareholders which will ascertain the validity and payment of the capital increase by virtue of which the Preferred Shares are issued; (ii) the corresponding Business Day every consecutive 2 years thereafter; and (iii) any date determined by the Bank after the date of issuance of the Preferred Shares, in case of occurrence of any event, the result of which is to prevent the Bank from booking the value of the Preferred Shares as Tier One Capital or from keeping the Issue Premium in foreign currency.

To exercise its call option, the Bank shall, at least 60 Business Days prior to the Redemption Date, inform all holders of Preferred Shares by way of publication in two local newspapers of its firm and irrevocable intent to redeem all or part of the Preferred Shares, as the case may be. Should the Bank exercise this call option, holders of the Series "K" Preferred Shares will be obliged to transfer to the Bank their Preferred Shares, and the Bank, in exchange thereof, shall pay to the holders, on the Redemption Date, a consideration equal only to the Issue Price of the redeemed Preferred Shares, i.e., US\$25 per Preferred Share (the "Redemption Price", which will be subject to adjustment in case of stock split or reverse stock split), irrespectively of any increase in the value of such Preferred Share, but without prejudice to the right of the holders to receive the distribution payments for the Redemption Year as more fully described herein, and any Annual Dividend that the General Meeting of the Bank's shareholders has resolved to distribute but that has not been actually paid yet.

Following the redemption of the Preferred Shares, the redeemed Preferred Shares will be cancelled and the Bank's Extraordinary General Meeting of shareholders will take all necessary measures to keep the Bank's capital unchanged, and to amend the Bank's by-laws accordingly.

Holders of Series "K" Preferred Shares shall not have the right, under any circumstances and for any reason whatsoever, to request that the Bank redeems or purchases the Preferred Shares.

### *Voting rights*

Holders of Series "K" Preferred Shares do not have the right to participate in discussions and to vote at the Bank's General Meetings of shareholders.

Notwithstanding the above, and pursuant to the provisions of the Law n. 308/2001:

- Holders of Series "K" Preferred Shares may participate in discussions and vote in the General Meetings relating exclusively to the change of the Bank's object or form, the payment of its capital increase in kind, its dissolution before term, or to merger or amalgamation transactions in which the Bank is a party.
- Holders of Series "K" Preferred Shares acquire the right to vote in General Meetings in case of application of the provisions of article 2, paragraph 5 - b of the Law n. 308/2001. In this case, this voting right remains in full force and effect until the end of the financial year during which all Annual Dividends, the payment conditions of which are met pursuant to the terms and conditions of the Series "K" Preferred Shares, are paid to the holders of these Preferred Shares.
- Holders of Series "K" Preferred Shares also acquire the right to vote in General Meetings if the Bank fails to provide the Series "K" Preferred Shares with the various privileges, rights or priorities given to them, and this right remains in full force and effect as long as the said given privileges, rights or priorities are not made available to their beneficiaries.

### *Time barring*

Any holder of Series "K" Preferred Shares who has failed to claim any amount due as Annual Dividend, for a period exceeding five years as of the date on which the same was made available for payment by the Bank, shall not thereafter be able to claim such amount or other property or right which shall be forfeited and shall, after payment of any taxes due, revert to the Bank. The statutes of limitation as regards the other rights or property of the holders of Series "K" Preferred Shares, including the right to receive the Issue Price upon Redemption, is ten years as of the due date for any such right or property.

*Governing law and documents*

The Series “K” Preferred Shares shall be governed by (i) Law n. 308/2001 and Law n. 161/2011; (ii) the CBL and the CMA Decisions, (iii) the by-laws of the Bank and (iv) the resolutions of the Extraordinary General Meeting of the Bank’s shareholders that will be held to resolve the issuance and to determine the terms and conditions of the Series “K” Preferred Shares.

**Holders of Series “K” Preferred Shares Supervisory Board. Meetings and voting**

As per Law 308/2001, the Bank shall convene the holders of the Series “K” Preferred Shares to an Extraordinary Meeting, which will elect one or more representatives to serve as members of the Supervisory Board.

The Supervisory Board, on behalf of the holders of Series “K” Preferred Shares, shall be entitled to receive notice of and to attend the General Meetings of the Bank’s shareholders, and shall be entitled to express the views of the holders of Series “K” Preferred Shares on issues to be decided by vote, but without exercising any voting right.

Notwithstanding anything contained herein, and unless:

- (a) the consent of all of the holders of Series “K” Preferred Shares; or
- (b) the prior sanction of a special resolution passed at a separate meeting of the holders of Series “K” Preferred Shares by holders of not less than 75% of Series “K” Preferred Shares;

is obtained, the Bank may not vary the terms of the Series “K” Preferred Shares.