BYBLOS BANK SAL

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2007

BYBLOS BANK SAL
CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BYBLOS BANK SAL

We have audited the accompanying consolidated financial statements of Byblos Bank SAL (the Bank) and its subsidiaries (the Group), which comprise the consolidated balance sheet as of 31 December 2007 and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

Semaan, Gholam & Co.

18 April 2008
Beirut, Lebanon

CONSOLIDATED BALANCE SHEET
At 31 December 2007

	Notes	***2007 LL million***	*2006 LL million*
ASSETS			
Cash and balances with central banks	5	**2,612,812**	2,506,877
Lebanese and other governmental treasury bills and bonds	6	**4,265,036**	4,174,808
Bonds and financial instruments with fixed income	7	**122,316**	86,383
Shares, securities and financial instruments with variable income	8	**117,867**	38,648
Banks and financial institutions	9	**3,242,599**	2,368,851
Loans and advances to customers (*)	10	**3,366,013**	2,637,722
Bank acceptances	11	**265,415**	284,106
Tangible fixed assets	12	**243,737**	189,398
Intangible assets	13	**1,199**	1,324
Other assets	14	**2,733**	3,091
Regularisation accounts and other debit balances	15	**56,175**	55,550
TOTAL ASSETS		**14,295,902**	12,346,758
(*) Including:			
- Substandard loans (gross amount)		**35,495**	47,049
- Unrealized interest on substandard, doubtful and bad loans		**(87,122)**	(107,385)
- Provision for doubtful and bad loans		**(107,591)**	(147,724)
OFF BALANCE SHEET ITEMS			
Engagements received from financial intermediaries		**4,288**	9,843
Engagements received from customers		**5,351,780**	4,563,024
Bad loans fully provided for	10	**113,690**	45,423
Foreign currencies to deliver against foreign currencies to recieve	35	**398,463**	398,072

The consolidated financial statements were authorized for issue in accordance with the Board of Directors resolution on 17 April 2008.

Dr Francois Bassil
Chairman/ General Manager

Mr Alain Wanna
Financial and Administrative Manager

CONSOLIDATED BALANCE SHEET
At 31 December 2007

	Notes	**2007 LL million**	2006 LL million
LIABILITIES AND EQUITY			
Due to central banks	16	**60,950**	77,085
Banks and financial institutions	17	**1,008,162**	876,875
Customers' deposits	18	**10,931,048**	9,461,489
Engagements by acceptances	11	**265,415**	284,106
Liabilities under financial instruments	19	**269,872**	273,519
Other liabilities	20	**161,042**	155,559
Regularisation accounts and other credit balances	21	**50,799**	37,490
Provisions for risks and charges	22	**65,510**	46,718
Subordinated loans	23	**331,145**	47,835
TOTAL LIABILITIES		**13,143,943**	11,260,676
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital	25	**494,456**	494,456
Treasury Shares	25	**(947)**	(366)
Revaluation variance of fixed assets	24	**5,689**	5,689
Reserve for general banking risks	26	**56,916**	48,159
Other reserves and premiums	27	**389,121**	343,592
Retained earnings		**11,127**	18,824
Net results of the financial period - profit	30	**142,550**	115,389
Cumulative changes in fair values	28	**(46,244)**	(12,250)
Foreign currency translation difference		**21,669**	11,638
		1,074,337	1,025,131
MINORITY INTERESTS	29	**77,622**	60,951
TOTAL EQUITY		**1,151,959**	1,086,082
TOTAL LIABILITIES AND EQUITY		**14,295,902**	12,346,758
OFF BALANCE SHEET ITEMS			
Signature commitments given	34	**1,159,288**	829,135
Financing commitments given	34	**553,901**	541,477
Assets under management and fiduciary deposits	34	**177,875**	148,900
Assets in custody	34	**2,066,134**	944,137
Foreign currencies to receive against foreign currencies to deliver	35	**398,492**	397,634

The consolidated financial statements were authorized for issue in accordance with the Board of Directors resolution on 17 April 2008.

Dr Francois Bassil
Chairman/ General Manager

Mr Alain Wanna
Financial and Administrative Manager

The attached notes 1 to 51 form part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

	Notes	***2007 LL million***	*2006 LL million*
Interest and similar income		**924,687**	811,188
Lebanese and other governmental treasury bills and bonds	6	360,924	321,600
Deposits and similar accounts with banks and financial institutions	5 & 9	309,254	292,849
Bonds and financial instruments with fixed income	7	10,032	6,267
Loans and advances to customers		242,220	190,139
Loans and advances to related parties		2,257	333
Interest and similar charges		**(657,862)**	(584,265)
Deposits and similar accounts from banks and financial institutions	16 & 17	(51,782)	(49,092)
Deposits from customers and other credit balances		(575,101)	(504,099)
Deposits from related parties		(5,331)	(1,773)
Subordinated loans	23	(8,669)	(12,492)
Liabilities under financial instruments	19	(16,979)	(16,809)
Net provisions less recoveries on loans and advances	30	**(4,761)**	(10,282)
Provisions for loans and advances		(13,808)	(18,885)
Recovery of provisions for loans and advances		9,047	8,603
Net interest received		**262,064**	216,641
Revenues from shares, securities and financial instruments with variable income	8	**1,581**	990
Net commissions	30	**93,029**	79,393
Commissions received		104,989	85,156
Commissions paid		(11,960)	(5,763)
Profit from financial operations		**32,588**	46,370
Profit from trading and non-trading investments		18,078	35,071
Profit from foreign exchange operations		14,510	11,299
Loss on financial operations		**(4,789)**	(21,512)
Loss on trading and non-trading investments		(2,508)	(19,022)
Loss on foreign exchange operations		(2,281)	(2,490)
Net profit from financial operations	30	**27,799**	24,858
Other operating income		**3,885**	4,047
Excess of group's interest in the fair value of net asset of acquired subsidiary over cost	4	**870**	-
Other operating expenses		**(6,052)**	(10,838)
General and administrative expenses		**(179,548)**	(150,769)
Salaries and related benefits	30	(98,366)	(81,978)
General operating expenses	30	(81,182)	(68,791)
Depreciation and amortization of tangible and intangible fixed assets		**(18,536)**	(17,963)
Profit before tax		**185,092**	146,359
Income tax expense		**(35,574)**	(27,672)
Profit for the year		**149,518**	118,687
Attributable to:			
Equity holders of the parent		**142,550**	115,389
Minority interests		**6,968**	3,298
		149,518	118,687
Earnings per share			
Basic, for profit for the year attributable to ordinary equity holders of the parent – Common shares	32	**LL 278.73**	LL 212.51
Basic, for profit for the year attributable to ordinary equity holders of the parent – Priority shares	32	**LL 326.73**	LL 260.51

The attached notes 1 to 51 form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

	Notes	2007 LL million	2006 LL million
OPERATING ACTIVITIES			
Profit before tax and minority interest		**185,092**	146,359
Adjustments for:		**-**	
Depreciation of tangible assets		**13,660**	12,170
Amortization of intangible assets		**125**	125
Impairment provision for assets acquired in recovery of debts		**4,751**	5,668
Profit on disposal of tangible fixed assets		**(399)**	(46)
Profit on disposal of assets acquired in recovery of debts		**(602)**	(2,344)
Loss (profit) on sale of treasury bills held for trading		**938**	(3,348)
Profit on sale of non-trading treasury bills		**(77)**	(12,354)
Loss on sale of bonds held for trading		**65**	223
Loss on sale of non-trading bonds		**-**	705
Profit on sale of shares held for trading		**(5,285)**	(4,221)
Profit on sale of certificates of deposits with the Central Bank		**(11,776)**	(12,904)
Excess of group's interest in the net fair value of net assets of acquired subsidiary over cost		**(870)**	-
Changes in fair value of treasury bills held for trading		**1,123**	11,165
Changes in fair value of shares held for trading		**(503)**	4,639
Changes in fair value of bonds for trading		**(55)**	46
Provision for doubtful debts (net of recoveries)		**726**	6,013
Provision for doubtful banks and financial institutions (net of recoveries)		**-**	(35)
Provision for other debtors (net of recoveries)		**(104)**	253
General provision (net of recoveries)		**3,929**	3,253
Provision for country risk (net of recoveries)		**54**	228
Bad debts written off		**156**	570
Provision for end of service indemnities		**4,888**	1,819
Provision for foreign currency differences		**6**	12
Provision for risk and charges (recoveries)		**(3)**	1,486
Technical reserves of insurance company		**14,784**	8,297
		210,623	167,779
Changes in operating assets and liabilities			
Lebanese and other governmental treasury bills and bonds- held for trading		**314,202**	768,883
Bonds and financial instruments with fixed income- held for trading		**1,337**	72,782
Shares, securities and financial instruments with variable income – held for trading		**1,613**	(2,389)
Due from Central Bank		**(281,147)**	479,304
Due from Banks and Financial Institutions		**(24,098)**	(50,509)
Loans and advances to customers		**(723,122)**	(411,990)
Other assets		**562**	(277)
Regularization and other debit balances		**64**	(24,370)
Due to Central Banks		**(19,020)**	32,539
Due to Banks and Financial Institutions		**37,892**	118,376
Customer deposits		**1,460,280**	953,017
Other liabilities		**379**	30,610
Regularization and other credit balances		**13,309**	13,111
End of Service Benefits Paid		**(883)**	(969)
Taxes paid		**(30,724)**	(26,901)
Cash from operating activities		**961,267**	2,118,996
INVESTING ACTIVITIES			
Lebanese and other governmental treasury bills and bonds- not held for trading		**(440,403)**	(1,300,769)
Bonds and financial instruments with fixed income- not held for trading		**(35,584)**	(2,566)
Shares, securities and financial instruments with variable income – not held for trading		**(75,285)**	(52)
Purchase of tangible fixed assets		**(50,246)**	(25,648)
Properties acquired in settlement of debt		**(19,089)**	(24,247)
Proceeds from sale of tangible fixed assets		**1,103**	390
Proceeds from sale of properties acquired in settlement of debt		**3,569**	9,959
Acquisition of a subsidiary, net of cash acquired	4	**(8,530)**	-
Cash from investing activities		**(624,465)**	(1,342,933)
FINANCING ACTIVITIES			
Due to Central Bank		**2,885**	(50,020)
Liabilities under financial instruments		**(3,647)**	6,699
Subordinated loans		**304,119**	(105,153)
Treasury shares		**(581)**	(366)
Dividends paid		**(92,962)**	(52,980)
Change in minority interest		**9,980**	892
Cash from financing activities		**219,794**	(200,928)
Effect of exchange rates:			
Effect of exchange rates on fixed assets		**(1,593)**	(652)
Foreign currency translation differences		**10,031**	7,058
Effect of exchange rates on reserves and premiums		**3,353**	2,389
Net effect of foreign exchange rates		**11,791**	8,795
INCREASE IN CASH AND CASH EQUIVALENTS		**568,387**	583,930
Cash and cash equivalents at 1 January		**2,882,923**	2,298,993
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	31	**3,451,310**	2,882,923

The attached notes 1 to 51 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

	Attributable to equity holders of the parent																*Minority interests*	*Total equity*
	Share capital				*Other reserves and premiums*													
	Ordinary shares LL million	*Preferred shares LL million*	*Priority shares LL million*	*Treasury shares LL million*	*Legal reserve LL million*	*Reserves appropriated for capital increase LL million*	*Premium on issuance of preferred shares LL million*	*General reserve LL million*	*Equity component of convertible subordinated loans LL million*	*Reserve for general Banking Risks LL million*	*Revaluation reserve LL million*	*Cumulative changes in fair values LL million*	*Retained earnings LL million*	*Net results of the financial period - profit LL million*	*Foreign currency translation differences LL million*	*Total LL million*	*LL million*	*LL million*
Balance at 1 January 2006	246,028	1,200	247,228	-	65,662	19,755	149,550	79,542	-	39,859	5,689	21,190	4,704	102,094	4,580	987,081	56,761	1,043,842
Net movement in cummulative changes in fair values	-	-	-	-	-	-	-	-	-	-	-	(33,660)	-	-	-	(33,660)	-	(33,660)
Translation difference	-	-	-	-	422	-	-	1,748	-	-	-	220	219	-	7,058	9,667	2,342	12,009
Total income and expense for the year recognized directly in equity	-	-	-	-	422	-	-	1,748	-	-	-	(33,440)	219	-	7,058	(23,993)	2,342	(21,651)
Net profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	115,389	-	115,389	3,298	118,687
Total income and expenses for the year	-	-	-	-	422	-	-	1,748	-	-	-	(33,440)	219	115,389	7,058	91,396	5,640	97,036
Transfer to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	102,094	(102,094)	-	-	-	-
Transfer to reserves and premiums	-	-	-	-	11,172	255	-	15,486	-	8,300	-	-	(35,213)	-	-	-	-	-
Dividends paid - subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,450)	(1,450)
Equity dividends paid	-	-	-	-	-	-	-	-	-	-	-	-	(52,980)	-	-	(52,980)	-	(52,980)
Treasury shares	-	-	-	(366)	-	-	-	-	-	-	-	-	-	-	-	(366)	-	(366)
Balance at 31 December 2006	**246,028**	**1,200**	**247,228**	**(366)**	**77,256**	**20,010**	**149,550**	**96,776**	**-**	**48,159**	**5,689**	**(12,250)**	**18,824**	**115,389**	**11,638**	**1,025,131**	**60,951**	**1,086,082**
Net movement in cummulative changes in fair values	-	-	-	-	-	-	-	-	-	-	-	(34,132)	-	-	-	(34,132)	(277)	(34,409)
Translation difference	-	-	-	-	380	-	-	2,845	-	-	-	138	128	-	10,031	13,522	2,600	16,122
Total income and expense for the year recognized directly in equity	-	-	-	-	380	-	-	2,845	-	-	-	(33,994)	128	-	10,031	(20,610)	2,323	(18,287)
Net profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	142,550	-	142,550	6,968	149,518
Total income and expenses for the year	-	-	-	-	380	-	-	2,845	-	-	-	(33,994)	128	142,550	10,031	121,940	9,291	131,231
Transfer to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	115,389	(115,389)	-	-	-	-
Transfer to reserves and premiums	-	-	-	-	12,488	274	-	8,733	-	8,757	-	-	(30,252)	-	-	-	-	-
Equity component of convertible subordinated loans (note 23)	-	-	-	-	-	-	-	-	20,809	-	-	-	-	-	-	20,809	-	20,809
Minority interests in capital increase of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	1
Minority interests attributable of acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,411	9,411
Dividends paid – subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,032)	(2,032)
Equity dividends paid	-	-	-	-	-	-	-	-	-	-	-	-	(92,962)	-	-	(92,962)	-	(92,962)
Treasury shares	-	-	-	(581)	-	-	-	-	-	-	-	-	-	-	-	(581)	-	(581)
Balance at 31 December 2007	**246,028**	**1,200**	**247,228**	**(947)**	**90,124**	**20,284**	**149,550**	**108,354**	**20,809**	**56,916**	**5,689**	**(46,244)**	**11,127**	**142,550**	**21,669**	**1,074,337**	**77,622**	**1,151,959**

The attached notes 1 to 51 form part of these consolidated financial statements.

1 CORPORATE INFORMATION

Byblos Bank SAL (the "Bank"), a Lebanese joint stock company, was incorporated in 1961 and registered under No 14150 at the commercial registry of Beirut and under No 39 on the banks' list published by the Bank of Lebanon. The Bank's head office is located in Ashrafieh, Elias Sarkis Street, Beirut, Lebanon.

The Bank, together with its affiliated banks and subsidiaries, provides a wide range of banking and insurance services, through its headquarters and branches in Lebanon and 8 locations abroad (Limassol, Brussels, London, Paris, Damascus, Khartoum, Erbil and Yerevan) (Collectively the "Group").

2 ACCOUNTING POLICIES

Basis of preparation
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and circulars issued by the Bank of Lebanon and the Banking Control Commission.

The consolidated financial statements have been prepared under the historical cost basis except for the measurement at fair value of derivative financial instruments and investment securities other than held to maturity investments and for the revaluation of freehold buildings as accepted by the Bank of Lebanon under provisions of law no 282 dated 30 December 1993.

The consolidated financial statements are presented in Lebanese Lira (LL) which is the functional and presentation currency of the Bank.

Changes in accounting policies
The accounting policies adopted are consistent with those used in the previous financial year except as follows:

IFRS 7 – "Financial Instruments Disclosures"
The objective of this IFRS is to require entities to provide disclosures in their financial statements that enable users to evaluate:

- the significance of financial instruments for the Group's financial position and performance; and
- the nature and extent of risks arising from financial instruments to which the Group is exposed during the period and at the reporting date, and how those risks are managed.

Amendments to IAS 1 – "Presentation of Financial Statements concerning Capital Disclosures"
These amendments require disclosures of information enabling evaluation of the Group's objectives, policies and processes for managing capital.

New and amended standards and interpretations issued but not yet effective
The following represents the International Financial Reporting Standards issued but not yet effective for the year ended 31 December 2007:

IAS 1 (Revised): Presentation of financial Statements
IAS 23: Borrowing costs
IFRIC 11: IFRS 2 – Group and Treasury Share Transactions
IFRIC 12: Services Concession Arrangements
IFRIC 13: Customer Loyalty Programs
IFRIC 14: IAS 19 – the Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction
IFRS 8: Operating Segment
IFRIC 9: Reassessment of Embedded Derivatives

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation
The consolidated financial statements comprise the financial statements of Byblos Bank SAL and its subsidiaries drawn up to 31 December each year. The financial statements of subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

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

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

The consolidated financial statements comprise the financial statements of Byblos Bank SAL and the following subsidiaries:

Subsidiary	*Percentage of ownership*		*Principal activity*	*Country of incorporation*
	2007	*2006*		
	%	%		
Byblos Bank Europe SA	**99.95**	99.95	Banking activities through its head office in Brussels (Belgium) and two branches in London and Paris	Belgium
Adonis Insurance and Reinsurance Co. (ADIR) SAL	**63.95**	63.95	Insurance activities	Lebanon
Adonis Brokerage House SAL	**99.40**	99.40	Insurance brokerage	Lebanon
Byblos Invest Bank SAL	**99.99**	99.99	Investment banking activities	Lebanon
Byblos Bank Africa	**65.00**	65.00	Banking activities	Sudan
Byblos Bank Syria S.A.	**41.50**	41.50	Banking activities	Syria
Byblos Bank Armenia cjsc	**100.00**	-	Banking activities	Armenia
Adonis Insurance and Reinsurance (ADIR) Syria	**76.00**	-	Insurance activities	Syria

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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.

Financial instruments – initial recognition and subsequent measuremenrt

Trade and settlement date accounting
All "regular way" purchases and sales of financial assets are recognized on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations.

Initial recognition of financial instruments
The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

Held for trading financial investments
Financial assets or financial liabilities held for trading, comprising financial instruments held for trading other then derivatives, are recorded in the balance sheet at fair value. Changes in fair value are recognised in the consolidated income statement as profit or loss from financial operations.

Non-trading investments and financial assests
Financial assets within the scope of IAS 39 are classified as follows:

- Held to maturity
- Investments carried at fair value through profit and loss
- Investments carried at amortised cost (Loans and receivables)
- Available for sale

Held-to-maturity financial investments
Held-to-maturity financial investments are those which carry fixed or determinable payments and have fixed maturities and which the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in "Interest and similar income" or "interest expense and similar charges" in the consolidated income statement. The losses arising from impairment of such investments are recognized in the consolidated income statement as "Impairment losses on financial investments".

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-trading investments and financial assests (continued)

Fair value through profit or loss financial investments

Financial assets and financial liabilities classified in this category are designated on initial recognition when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise form measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivate does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the consolidated balance sheet at fair value. Changes in fair value are recorded in the consolidated income statement as profit or loss on financial operations, interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract.

Investments carried at amortized cost

These investments include banks and financial institutions and loans and advances. These investments represent financial assets not quoted in an active market and have a fixed or determinable payments. These assets are carried at amortized cost using the effective interest rate method less provision for impairment in value and interest in suspense. Gains and losses resulting from sale of these assets or from impairment in value are recognised in the consolidated income statement.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified to any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement. In the case of available for sale equity investments reversal of previously recognised impairment losses are no longer recorded through the consolidated income statement but as increases in cumulative changes in fair value.

Derecognition of financial assets and financial liabilities

Financial assets

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Repurchase and reverse repurchase agreements
Securities sold under agreements to repurchase at a specified future date ("repos") are not derecognised from the consolidated balance sheet. The corresponding cash received, including accrued interest, is recognised on the consolidated balance sheet reflecting its economic substances as a loan to the Group. The difference between the sale and repurchase prices is treated in the consolidated income statement as interest expense and is accrued over the life of the agreement using the effective interest rate method.

Conversely, securities purchased under agreements to resell at a specified future date ("reverse repos") are not recognised on the consolidated balance sheet. The corresponding cash paid, including accrued interest is recognised on the consolidated balance sheet. The difference between the purchase and resale prices is treated in the consolidated income statement as interest income and is accrued over the life of the agreement using the effective interest are method.

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

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

Impairment is determined as follows:
(a) for assets carried at amortised cost, impairment is based on estimated cash flows discounted at the original effective interest rate.
(b) for assets carried at fair value, impairment is the difference between the carrying value and fair value.
(c) for assets carried at cost, impairment is present value of future cash flows discounted at the current market rate of return for a similar financial asset.

For available for sale equity investments a reversal of impairment loss is recorded as an increase in cumulative changes in fair value in shareholders' equity. On the other hand, a reversal of impairment loss on an available for sale debt instrument is recorded in the consolidated income statement.

In addition, a provision is made to cover impairment for specific groups of assets where there is a measurable decrease in estimated future cash flows.

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

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

For all other financial instruments not listed in an active market, fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Deposits with banks and financial institutions and other money market placements
Deposits with banks, financial institutions and other money market placements are stated at cost less any amounts written off and provision for impairment.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Tangible and intangible assets
Tangible and intangible assets are initially recorded at cost less accumulated depreciation and amortization and any impairment in value. Depreciation and amortisation are provided on a straight line basis on all tangible and intangible assets. The rates of depreciation and amortisation are based upon the assets' estimated useful lives as follows:

Buildings	**2%**
Office equipment and furniture	**8-15%**
Computer equipment and softwares	**20-30%**
General installations	**20%**
Vehicles	**25%**
Key money	**20%**

The carrying values of tangible and intangible fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists where the carrying values exceeds the estimated recoverable amount, the assets are written down to their recoverable amount.

Expenditure incurred to replace a component of an item of tangible assets that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases the future economic benefits of the related item of tangible assets. All other expenditure is recognised in the consolidated income statement as the expense is incurred.

Collateral pending sale
The Group occasionally acquires real estate in settlement of certain loans and advances in accordance with the Bank of Lebanon's regulations. Such real estate is stated at the lower of the net realizable value of the related loans and advances and the current fair value of such assets based on the instructions of the Banking Control Commission. Gains or losses on disposal and revaluation losses are recognized in the consolidated income statement for the period.

Liabilities under financial instruments
Liabilities under financial instruments represent certificates of deposit, index linked notes, commodity linked notes, and equity linked notes which are recorded at nominal value after the deduction of issuance costs and the addition of accrued interest and unamortized premiums up to the balance sheet date. Issuance costs and premiums are amortized on straight line basis to their maturities in the case of the certificates of deposit and using effective interest rate in the case of the index linked notes, equity linked notes, and commodity liked notes and are taken to the consolidated income statement.

Subordinated loans
Subordinated notes issued by the Bank are recorded at the principal amount in foreign currencies after deduction of issuance costs and the addition of accrued interest up to the balance sheet date. Premiums and discounts are amortized on straight-line basis to their maturities and are taken to the statement of income.

Convertible subordinated loans is a compound financial instrument, that contains both liability and equity elements which are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue that are an integral part of the effective interest rate.

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

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

End-of-service benefits for employees at foreign branches and subsidiaries are accrued for in accordance with the laws and regulations of the respective countries in which the branches and subsidiaries are located.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Revenue recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Interest and similar income and expense
For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts thought the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense. Interest income generated from sub-standard, doubtful and bad debts is recorded as a contra – asset account in the consolidated balance sheet.

Fee and commission income
Fees earned for the provision of services over a period of time are accrued over that period. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income
Revenue is recognised when the Group's right to receive the payment is established.

Net profit from financial operations
Net profit from financial operations includes gains and losses from re-evaluation of financial instruments classified as fair value through profit or loss and gains or losses from sale of financial instruments.

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

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

Cash and cash equivalents
Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, current account with central banks and amounts due from banks on demand or with an original maturity of three months or less.

Fiduciary assets
Assets held in a fiduciary capacity are not treated as assets of the Group and accordingly are recorded as off-balance sheet items.

Hedge accounting
For the purposes of hedge accounting, hedges are classified into two categories:

(a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and
(b) cash flow hedges which hedge the exposure to variability in cash flows of a recognised asset or liability or a forecasted transaction

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Hedge accounting (continued)
In relation to effective fair value hedges any gain or loss from remeasuring the hedging instrument to fair value, as well as related changes in fair value of the item being hedged, are recognised immediately in the consolidated income statement.

In relation to effective cash flow hedges, the gain or loss on the hedging instrument is recognised initially in equity and is transferred to the consolidated statement of income for the period in which the hedged transaction impacts the statement of income, or included as part of the cost of the related asset or liability.

For hedges which do not qualify for hedge accounting, any gain or loss arising from changes in the fair value of the hedging instrument are taken directly to the consolidated income statement for the period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. For fair value hedges of financial instruments with fixed maturities any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur the net cumulative gain or loss recognised in equity is transferred to the consolidated statement of income.

Off balance sheet items
Off balance sheet balances include commitments which may take place in the Group's normal operations such as letters of guarantees, and letters of credit, without deducting the margins collected and related to these commitments.

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

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

Monetary assets and liabilities denominated in foreign currencies are translated into Lebanese Lira or other functional currencies at rates of exchange prevailing at the balance sheet date. Any gains or losses are taken to the consolidated income statement.

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

Group companies
As at the reporting date, the assets and liabilities of subsidiaries and overseas branches are translated into the Bank's presentation currency (Lebanese Lira) at the rate of exchange ruling at the balance sheet date, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity as foreign currency translation differences. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

Following are the exchange rates used to translate assets, liabilities and statement of income items of foreign branches and subsidiaries:

	2007		*2006*	
	Year end rate LL	***Average rate LL***	*Year end rate LL*	*Average rate LL*
US Dollar	**1,507.50**	**1,507.50**	1,507.50	1,507.50
Euro	**2,212.56**	**2,077.55**	1,982.81	1,903.12
Sudanese Dinar (2006: Sudanese Pound)	**734.435**	**746.97**	7.11	6.903
Syrian Lira	**31.37**	**30.24**	29.53	29.03
Armenian Dram	**4.96**	**4.85**	-	-

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the balance sheet.

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

(i) Current tax
Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

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

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

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements
In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect in the amounts recognised in the financial statements:

Classification of investments
Management decides on acquisition of an investment whether it should be classified as held to maturity, held for trading, carried at fair value through profit and loss account, or available for sale.

For those deemed to be held to maturity management ensures that the requirements of IAS 39 (revised) are met and in particular the Group has the intention and ability to hold these to maturity.

The Group classifies investments as trading if they are acquired primarily for the purpose of making a short term profit by the dealers.

Classification of investments as fair value through profit and loss account depends on how management monitor the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are classified as fair value through profit and loss.

All other investments are classified as available for sale.

Impairment of investments
The Group treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Estimation uncertainty
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment losses on loans and advances
The Group reviews its problem loans and advances on a regular basis to assess whether a provision for impairment should be recorded in the income statement. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty, and actual results may differ resulting in future changes to such provisions.

Collective impairment provisions on loans and advances
In addition to specific provisions against individually significant loans and advances, the Group also makes a collective impairment provision against loans and advances which although not specifically identified as requiring a specific provision have a greater risk of default than when originally granted. This collective provision is based on any deterioration in the internal grade of the loan since it was granted. The amount of the provision is based on the historical loss pattern for loans within each grade and is adjusted to reflect current economic changes.

These internal gradings take into consideration factors such as any deterioration in country risk, industry, technological obsolescence as well as identified structural weaknesses or deterioration in cash flows.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Valuation of unquoted equity investments
Valuation of unquoted equity investments is normally based on one of the following:
- Recent arm's length market transactions;
- Current fair value of another instrument that is substantially the same;
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- Other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. There are a number of investments where this estimation cannot be reliably determined, and as a result these investments are carried at cost. The Group calibrates the valuation techniques periodically and tests these for validity using either prices from observable current market transactions in the same instrument or other available observable market data.

4 BUSINESS COMBINATION

On 31 August 2007, the Group completed its acquisition of 100% of the share capital of Byblos Bank Armeni cjsc (formerly International Trade Bank cjsc) specializing in banking activities, for a total consideration of LL 15,408 million (US$ 10,221,000).

The fair value of the identifiable assets and liabilities of Byblos Bank Armenia cjsc as of 31 August 2007 were as follows:

	Recognized on acquisition LL million	*Carrying value LL million*
Assets		
Cash and balances with central bank	**7,407**	**7,407**
Amounts receivable under reverse repurchase agreement	**781**	**781**
Bonds and financial instruments with fixed income	**1,509**	**1,509**
Shares, securities and financial instruments with variable income	**40**	**40**
Banks and financial institutions	**1,068**	**1,068**
Loans and advances to customers	**10,034**	**10,034**
Tangible fixed assets	**5,297**	**2,602**
Other assets	**204**	**204**
Total assets	**26,340**	**23,645**
Liabilities		
Banks and financial institutions	**529**	**529**
Customers' deposits	**9,279**	**9,279**
Other liabilities	**254**	**254**
Total liabilities	**10,062**	**10,062**
Fair value of net assets	**16,278**	**13,583**
Groups' interest	**16,278**	-
Cost of acquisition	**(15,408)**	-
Excess of group's interest in the net fair value of identifiable assets and liabilities over cost	**870**	-

The excess of the Group's interest in the fair value of net assets over cost was recognized in the consolidated income statement.

4 BUSINESS COMBINATION (continued)

Cash outflow on acquisition of the subsidiary is as follows:

	2007
	LL million
Net cash acquired with the subsidiary	**6,878**
Cash paid	**(15,408)**
Net cash outflow	**(8,530)**

From the date of acquisition, the above entity incurred losses amounted to LL 287 million which was accounted for in the determination of the Group's net profit.

The cost of acquisition includes directly attributable costs including legal, audit and other professional fees.

5 CASH AND BALANCES WITH CENTRAL BANKS

	2007	*2006*
	LL million	*LL million*
Cash on hand	**98,164**	71,002
Balances with central banks:		
Bank of Lebanon:		
- Current accounts	**284,270**	263,750
- Time deposits	**1,250,574**	1,024,306
- Certificates of deposit at amortized cost – Loans and receivables	**759,666**	1,020,267
- Certificates of deposit – available for sale	**30,214**	-
	2,324,724	2,308,323
Balances with central banks in other countries	**150,114**	89,424
Certificates of deposits from central banks in other countries – available for sale	**2,950**	-
Accrued interest receivable	**36,860**	38,128
Total	**2,612,812**	2,506,877
Interest income for the year	**160,146**	171,170
Gain from sale of certificates of deposit reflected under net profit from financial operations (Note 30)	**11,776**	12,904
	171,922	184,074
Percentage of cash and balances with Central Banks to total assets	**18.27%**	20.3%

In accordance with the Bank of Lebanon's rules and regulations, banks operating in Lebanon are required to deposit with the Bank of Lebanon an obligatory reserve denominated in Lebanese Lira and calculated on the basis of 25% of sight commitments and 15% of term commitments denominated in Lebanese Lira.

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

Deposits with the Bank of Lebanon in coverage of obligatory reserve are as follows:

	2007			*2006*
		Foreign currencies	*Total*	*Total*
	LL million	*C/V LL million*	*LL million*	*LL million*
Current accounts	**223,104**	**45,728**	**268,832**	263,242
Time deposits	**80,000**	**1,170,574**	**1,250,574**	959,524
	303,104	**1,216,302**	**1,519,406**	1,222,766

5 CASH AND BALANCES WITH CENTRAL BANKS (continued)

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

Balances with the central banks in other countries
Balances with the Central Banks in other countries include an amount of LL 5,910 million (2006: LL 5,752 million) as non-interest bearing legal blocked fund at the Central Bank of Syria in accordance with the requirements of the Syrian Law.

6 LEBANESE AND OTHER GOVERNMENTAL TREASURY BILLS AND BONDS

	2007	*2006*
	LL million	*LL million*
At amortized cost:		
Held to maturity:		
- Treasury bills pledged to the Bank of Lebanon in guarantee of soft loans (*)	**40,458**	40,450
- Other treasury bills and bonds	**1,605,761**	1,758,991
	1,646,219	1,799,441
- Accrued interest receivable	**46,501**	54,137
	1,692,720	1,853,578
At fair value:		
- Held for trading	**787,967**	1,097,240
- Accrued interest receivable	**20,104**	27,094
	808,071	1,124,334
- Available for sale	**1,729,875**	1,171,204
- Accrued interest receivable	**34,370**	25,692
	1,764,245	1,196,896
Total Lebanese and other governmental treasury bills and bonds	**4,265,036**	4,174,808
Percentage of treasury bills to total assets	**29.83%**	33.81%
Income for the year:		
- Reflected under interest and similar income:		
- Held for trading	**74,810**	140,380
- Available for sale	**126,362**	52,368
- Held to maturity	**159,752**	128,852
	360,924	321,600
- Reflected under net profit from financial operations and resulting from disposals and fair value changes (Note 30)	**(1,984)**	4,537

(*) These treasury bills are pledged in guarantee of soft loans granted to the Bank by the Bank of Lebanon following the acquisition of other banks (Note 16).

6 LEBANESE AND OTHER GOVERNMENTAL TREASURY BILLS AND BONDS (continued)

The maturity profile of treasury bills as at 31 December 2007 and 2006 is as follows:

	Nominal value			
31 December 2007	***Held to maturity LL million***	***Available for sale LL million***	***Held for trading LL million***	***Total LL million***
Between one and three months	**-**	**63,697**	**287,482**	**351,179**
Between three months and one year	**593,381**	**2,213**	**17,496**	**613,090**
Between one and five years	**950,993**	**904,352**	**410,999**	**2,266,344**
More than five years	**111,707**	**831,763**	**69,820**	**1,013,290**
Total	**1,656,081**	**1,802,025**	**785,797**	**4,243,903**

	Nominal value			
31 December 2006	*Held to maturity LL million*	*Available for sale LL million*	*Held for trading LL million*	*Total LL million*
Less than one month	24,683	-	-	24,683
Between one and three monts	453	-	96,307	96,760
Between three months and one year	292,183	37,960	2,000	332,143
Between one and five years	1,423,827	936,386	901,457	3,261,670
More than five years	62,074	212,872	94,277	369,223
Total	1,803,220	1,187,218	1,094,041	4,084,479

Valuation of Lebanese and other governmental treasury bills portfolio at 31 December 2007 and 2006 is as follows:

31 December 2007	***Nominal value LL million***	***Amortized cost LL million***	***Fair value LL million***	***Book value LL million***
Held to maturity	**1,656,081**	**1,646,219**	**1,658,936**	**1,646,219**
Held for trading	**785,797**		**787,967**	**787,967**
Available for sale	**1,802,025**	**1,778,000**	**1,729,875**	**1,729,875**
	4,243,903		**4,176,778**	**4,164,061**
Accrued interest receivable	**100,975**		**100,975**	**100,975**
	4,344,878		**4,277,753**	**4,265,036**

31 December 2006	*Nominal value LL million*	*Amortized cost LL million*	*Fair value LL million*	*Book value LL million*
Held to maturity	1,803,220	1,799,441	1,806,221	1,799,441
Held for trading	1,094,041		1,097,240	1,097,240
Available for sale	1,187,218	1,185,340	1,171,204	1,171,204
	4,084,479		4,074,665	4,067,885
Accrued interest receivable	106,923		106,923	106,923
	4,191,402		4,181,588	4,174,808

Cumulative changes in fair values of available for sale treasury bills

Cumulative changes in fair values of available for sale Lebanese and other governmental treasury bills and bonds as of 31 December were as follows:

	2007 LL million	*2006 LL million*
Fair value of available for sale treasury bills – end of year	**1,729,875**	1,171,204
Less: amortized cost – end of year	**(1,778,000)**	(1,185,340)
Cumulative changes in fair values – end of year (Note 28)	**(48,125)**	(14,136)

7 BONDS AND FINANCIAL INSTRUMENTS WITH FIXED INCOME

	2007	*2006*
	LL million	*LL million*
Amortized cost:		
- Held to maturity	**611**	302
- Accrued interest receivable	**3**	8
	614	310
At fair value:		
- Available for sale	**118,301**	82,747
- Accrued interest receivable	**3,248**	1,826
	121,549	84,573
- Held for trading	**148**	1,477
- Accrued interest receivable	**5**	23
	153	1,500
Total bonds and financial instruments with fixed income	**122,316**	86,383
Income (loss) for the year:		
- Reflected under interest and similar income:		
- Held for trading	**94**	2,038
- Available for sale	**9,938**	4,229
	10,032	6,267
- Reflected under net profit from financial instruments:		
Resulting from disposals and valuation difference (Note 30)	**(10)**	(974)

Valuation of bonds and financial instruments with fixed income at 31 December 2007 and 2006 is as follows:

31 December 2007	***Nominal value LL million***	***Amortized cost LL million***	***Fair value LL million***	***Book value LL million***
Held to maturity	**603**	**611**	**653**	**611**
Held for trading	**151**		**148**	**148**
Available for sale	**125,807**	**125,016**	**118,301**	**118,301**
	126,561		**119,102**	**119,060**
Accrued interest receivable	**3,256**		**3,256**	**3,256**
	129,817		**122,358**	**122,316**

31 December 2006	*Nominal value LL million*	*Amortized cost LL million*	*Fair value LL million*	*Book value LL million*
Held to maturity	302	302	309	302
Held for trading	1,387		1,477	1,477
Available for sale	89,779	89,649	82,747	82,747
	91,468		84,533	84,526
Accrued interest receivable	1,857		1,857	1,857
	93,325		86,390	86,383

7 BONDS AND FINANCIAL INSTRUMENTS WITH FIXED INCOME (continued)

The maturity profile of bonds and financial instruments with fixed income as at 31 December 2007 and 2006 is as follows:

31 December 2007	***Nominal value***			
	Held to maturity LL million	***Available for sale LL million***	***Held for trading LL million***	***Total LL million***
Between three months and one year	**-**	**34,659**	**-**	**34,659**
Between one and five years	**603**	**91,148**	**151**	**91,902**
	603	**125,807**	**151**	**126,561**

31 December 2006	*Nominal value*			
	Held to maturity LL million	*Available for sale LL million*	*Held for trading LL million*	*Total LL million*
Between one and three months	-	4,893	-	4,893
Between three months and one year	-	34,667	1,387	36,054
Between one and five years	302	50,219	-	50,521
	302	89,779	1,387	91,468

Cumulative changes in fair values of available for sale bonds and financial instruments with fixed income

	2007 LL million	*2006 LL million*
Fair value of available for sale bonds and financial instruments – end of year	**118,301**	82,747
Less: amortized cost - end of year	**(125,016)**	(89,649)
Cumulative changes in fair values – end of year (Note 28)	**(6,715)**	(6,902)

8 SHARES, SECURITIES AND FINANCIAL INSTRUMENTS WITH VARIABLE INCOME

	2007 LL million	*2006 LL million*
At fair value:		
- Available for sale securities	**89,320**	14,276
- Trading securities	**28,547**	24,372
	117,867	38,648
Income for the year:		
- reflected under revenues from shares, securities and financial instruments with variable income	**1,581**	990
- reflected under net profit from financial operations and resulting from fair value changes and gain on disposal (note 30):		
- Profit on disposal	**5,285**	4,221
- Profit (loss) on revaluation	**503**	(4,639)
	5,788	(418)

8 SHARES, SECURITIES AND FINANCIAL INSTRUMENTS WITH VARIABLE INCOME (continued)

Valuation of shares, securities and financial instruments with fixed income as of 31 December 2007 and 2006 is as follows:

	2007			*2006*		
	Cost LL million	***Fair value LL million***	***Book value LL million***	*Cost LL million*	*Fair value LL million*	*Book value LL million*
Available for sale	**80,813**	**89,320**	**89,320**	5,488	14,276	14,276
Trading	**26,418**	**28,547**	**28,547**	28,218	24,372	24,372
	107,231	**117,867**	**117,867**	33,706	38,648	38,648

9 BANKS AND FINANCIAL INSTITUTIONS – DEBIT

	2007 LL million	*2006 LL million*
Commercial banks:		
- Current accounts	**165,686**	119,454
- Time deposits	**2,795,747**	1,998,037
- Pledged deposits	**81,512**	-
- Certificates of deposit at amortized cost – loans and receivables	**15,685**	46,482
- Certificates of deposits – available for sale	**21,625**	-
- Loans granted	**68,662**	55,602
- Discounted bills and purchased checks	**69,576**	140,949
- Accrued interest receivable	**13,061**	7,649
- Interest received in advance	**(3,421)**	(3,298)
- Doubtful bank accounts	**10,657**	10,633
Less: Provision for doubtful bank accounts	**(10,657)**	(10,633)
	3,228,133	2,364,875
Financial institutions:		
- Current accounts	**4,897**	603
- Time deposits	**3,090**	3,211
- Accrued interest receivable	**19**	21
	8,006	3,835
Registered exchange companies:		
- Current accounts	**6,460**	141
- Doubtful accounts	**2,259**	2,259
Less: Provision for doubtful accounts	**(2,259)**	(2,259)
	6,460	141
	3,242,599	2,368,851
Interest and similar income for the year	**149,108**	121,679
Percentage of balances due from banks and financial institutions to total assets	**22.68%**	19.19%

Pledged deposits amounting to LL 81,512 million as at 31 December 2007 represent blocked deposits with foreign banks against the bank's customers trading transactions.

9 BANKS AND FINANCIAL INSTITUTIONS – DEBIT (continued)

Breakdown by geographic location

	2007		2006	
	LL million	%	LL million	%
Lebanon	**337,368**	**10**	124,090	5
O.E.C.D. countries	**1,638,599**	**51**	1,774,448	75
Saudi Arabia	**406,599**	**13**	45,412	2
Other countries	**860,033**	**26**	424,901	18
	3,242,599	**100**	2,368,851	100

Doubtful banks and registered exchange companies

Following is the movement in the balances of doubtful banks and registered exchange companies and related provisions during the year:

	2007		2006	
	Loan balance LL million	Provision LL million	Loan balance LL million	Provision LL million
Balance at 1 January	**12,892**	**12,892**	13,284	13,284
Amount collected on behalf of the shareholders of Banque Beirut Pour le Commerce SAL (bank merged previously) from the loan due by BCCI bank	**-**	**-**	(413)	(413)
Amount collected and the related provision recovered during the year (Note 30)	**-**	**-**	(35)	(35)
Exchange difference	**24**	**24**	194	194
Write off	**-**	**-**	(138)	(138)
Balance at 31 December	**12,916**	**12,916**	12,892	12,892
Out of which				
- banks	**10,657**	**10,657**	10,633	10,633
- registered exchange companies	**2,259**	**2,259**	2,259	2,259
	12,916	**12,916**	12,892	12,892

Cumulative changes in fair values of available for sale certificates of deposits

Cumulative changes in fair values of available for sale certificates of deposit as at 31 December were as follows:

	2007 LL million	2006 LL million
Fair value of available for sale certificates of deposits – end of year	**21,625**	-
Less: amortized cost – end of year	**(21,499)**	-
Cumulative changes in fair values – end year (Note 28)	**126**	-

10 LOANS AND ADVANCES TO CUSTOMERS

Following is a comparison of loans and advances at 31 December 2007 and 2006:

	2007	*2006*
	LL million	*LL million*
Gross loans and advances	**3,607,568**	2,923,070
Accrued interest receivable	**6,518**	6,841
Interest received in advance	**(53,360)**	(37,080)
	3,560,726	2,892,831
Unrealized interest on substandard loans	**(14,114)**	(15,118)
Unrealized interest on doubtful and bad loans	**(73,008)**	(92,267)
Specific provision on doubtful and bad loans	**(65,690)**	(108,552)
General provisions	**(37,203)**	(35,010)
Provision for country risk	**(4,698)**	(4,162)
	3,366,013	2,637,722

	2007	*2006*
	LL million	*LL million*
Commercial loans	**2,666,200**	2,056,833
Other loans to customers	**751,604**	618,867
Bad and doubtful loans (net)	**29,281**	37,078
Loans to related parties	**21,785**	9,473
Unrealized interest on substandard loans	**(14,114)**	(15,118)
Accrued interest receivable	**6,518**	6,841
Less: Interest received in advance	**(53,360)**	(37,080)
	3,407,914	2,676,894
Less:		
- General provision for loans and advances	**(37,203)**	(35,010)
- Provision for country risk	**(4,698)**	(4,162)
	3,366,013	2,637,722
Percentage of loans and advances to total assets	**23.54%**	21.36%
Bad loans transferred to off balance sheet accounts:		
- Gross balance	**113,690**	45,423
- Percentage of bad loans off balance sheet to total loans (before deduction of provisions and unrealized interest)	**3.15%**	1.55%
Percentage of bad and doubtful loans to total loans:		
- Excluding off balance sheet accounts	**4.66%**	8.37%
- Including off balance sheet accounts	**7.81%**	9.77%

Breakdown by economic sector

	2007	*2006*
	LL million	*LL million*
Commercial	**1,041,522**	856,223
Manufacturing	**638,231**	449,262
Agriculture	**84,051**	96,215
Services	**526,617**	327,624
Construction	**440,958**	437,977
Retail	**765,175**	607,943
Other	**111,014**	147,826
	3,607,568	2,923,070

10 LOANS AND ADVANCES TO CUSTOMERS (continued)

The loans and advances are classified in accordance with the Bank of Lebanon main circular No. 58 as follows:

	2007					2006				
	Gross balance LL million	*Unrealized interest LL million*	*Specific provision LL million*	*General provision LL million*	*Net balance LL million*	*Gross balance LL million*	*Unrealized interest LL million*	*Specific provision LL million*	*General provision LL million*	*Net balance LL million*
- Good loans	**3,122,415**	**-**	**-**	**-**	**3,122,415**	2,387,049	-	-	-	2,387,049
- Watch loans	**281,679**	**-**	**-**	**-**	**281,679**	251,075	-	-	-	251,075
	3,404,094	**-**	**-**	**-**	**3,404,094**	2,638,124	-	-	-	2,638,124
- Substandard loans	**35,495**	**(14,114)**	**-**	**-**	**21,381**	47,049	(15,118)	-	-	31,931
- Doubtful loans	**113,968**	**(49,472)**	**(35,215)**	**-**	**29,281**	170,048	(63,406)	(69,564)	-	37,078
- Bad loans	**54,011**	**(23,536)**	**(30,475)**	**-**	**-**	67,849	(28,861)	(38,988)	-	-
	3,607,568	**(87,122)**	**(65,690)**	**-**	**3,454,756**	2,923,070	(107,385)	(108,552)	-	2,707,133
Less:										
- General provision to be allocated	**-**	**-**	**-**	**(37,203)**	**(37,203)**	-	-	-	(35,010)	(35,010)
- Provision for country risk	**-**	**-**	**-**	**(4,698)**	**(4,698)**	-	-	-	(4,162)	(4,162)
Accrued interest receivable	**6,518**	**-**	**-**	**-**	**6,518**	6,841	-	-	-	6,841
Less: Interest received in advance	**(53,360)**	**-**	**-**	**-**	**(53,360)**	(37,080)	-	-	-	(37,080)
	3,560,726	**(87,122)**	**(65,690)**	**(41,901)**	**3,366,013**	2,892,831	(107,385)	(108,552)	(39,172)	2,637,722

In accordance with the Banking Control Commission Circular No. 240, bad loans and related provisions and unrealized interest which fulfill certain requirements have been transferred to off balance sheet accounts. The gross balance of these loans amounted to LL 113,690 million as of 31 December 2007 (2006: LL 45,423 million).

10 LOANS AND ADVANCES TO CUSTOMERS (continued)

Bad and doubtful loans (net)

	2007 ***LL million***	*2006* *LL million*
Balance sheet accounts:		
Gross amount of bad and doubtful loans	**167,979**	237,897
Unrealized interest	**(73,008)**	(92,267)
Specific provision	**(65,690)**	(108,552)
Net amount of bad and doubtful loans	**29,281**	37,078

Movement of unrealized interest on doubtful and bad loans during the year

	2007		
	Commerical loans ***LL million***	***Other customers loans*** ***LL million***	***Total*** ***LL million***
Balance at 1 January	**89,973**	**2,294**	**92,267**
Add (less):			
- Unrealized interest on doubtful and bad loans	**13,054**	**160**	**13,214**
- Recovery of unrealized interest	**(3,083)**	**(20)**	**(3,103)**
- Unrealized interest used to write off doubtful and bad loans	**(1,365)**	**(24)**	**(1,389)**
- Transfer from substandard loans	**1,190**	**-**	**1,190**
- Transfer to substandard loans	**(9)**	**(2)**	**(11)**
- Recovery of unrealized interest on bad loans previously transferred to off balance sheet	**1,146**	**17**	**1,163**
- Unrealized interest relating to loans transferred to off balance sheet accounts	**(30,747)**	**(182)**	**(30,929)**
- Difference of exchange	**606**	**-**	**606**
Balance at 31 December	**70,765**	**2,243**	**73,008**

	2006		
	Commerical loans *LL million*	*Other customers loans* *LL million*	*Total* *LL million*
Balance at 1 January	94,699	2,141	96,840
Add (less):			
- Unrealized interest on doubtful and bad loans	14,139	206	14,345
- Recovery of unrealized interest	(1,591)	(36)	(1,627)
- Unrealized interest used to write off doubtful and bad loans	(18,458)	(3)	(18,461)
- Transfer from substandard loans	1,322	-	1,322
- Recovery of unrealized interest on bad loans previously transferred to off balance sheet	954	9	963
- Unrealized interest relating to loans transferred to off balance sheet accounts	(1,812)	(23)	(1,835)
- Difference of exchange	720	-	720
Balance at 31 December	89,973	2,294	92,267

10 LOANS AND ADVANCES TO CUSTOMERS (continued)

Movement of provision for doubtful and bad loans

	2007		
	Commerical loans LL million	***Other customers loans LL million***	***Total LL million***
Balance at 1 January	**96,322**	**12,230**	**108,552**
Add (less):			
- Transfer from general provisions	**474**	**1,301**	**1,775**
- Provisions recorded during the year (Note 30)	**7,247**	**2,372**	**9,619**
- Provision relating to loans transferred to off balance sheet accounts	**(38,844)**	**(3,491)**	**(42,335)**
- Provisions used to write off doubtful and bad loans	**(6,312)**	**(455)**	**(6,767)**
- Recovery of provisions (Note 30)	**(7,011)**	**(1,033)**	**(8,044)**
- Recoveries of provisions on bad loans previously transferred to off balance sheet accounts	**757**	**373**	**1,130**
- Difference of exchange	**1,760**	**-**	**1,760**
Balance at 31 December	**54,393**	**11,297**	**65,690**

	2006		
	Commerical loans LL million	*Other customers loans LL million*	*Total LL million*
Balance at 1 January	99,447	12,316	111,763
Add (less):			
- Provisions recorded during the year (Note 30)	14,190	391	14,581
- Provision relating to loans transferred to off balance sheet accounts	(105)	-	(105)
- Provisions used to write off doubtful and bad loans	(12,219)	(218)	(12,437)
- Recovery of provisions (Note 30)	(8,219)	(349)	(8,568)
- Recoveries of provisions on bad loans previously transferred to off balance sheet accounts	2,161	90	2,251
- Difference of exchange	1,067	-	1,067
Balance at 31 December	96,322	12,230	108,552

The fair value of the collateral held against individually impaired loans as at 31 December 2007 amounted to LL 45,413 million (2006: LL 59,915 million):

General provision for credit losses

	2007 LL million	*2006 LL million*
Provisions accounted for by Byblos Bank SAL approved by the Banking Control Commission:		
- Retail loans portfolio	**20,630**	19,948
- To be allocated to specific customers	**-**	3,306
	20,630	23,254
Provisions constituted by Byblos Bank Africa	**9,310**	5,320
Provisions constituted by Byblos Bank Europe SA	**7,182**	6,436
Provisions constituted by Byblos Bank Armenia	**81**	-
Total	**37,203**	35,010

10 LOANS AND ADVANCES TO CUSTOMERS (continued)

Movement of general provision during the year

	2007 *LL million*	*2006* *LL million*
Balance at 1 January	**35,010**	30,480
Add (less):		
- Provisions constituted during the year (Note 30)	**3,929**	3,253
- General provisions recovered during the year (Note 30)	**(849)**	-
- General provisions brought forward allocated to specific clients during the year	**(1,775)**	-
- General provisions transferred from unrealized interest on substandard loans	**-**	240
- Difference of exchange	**888**	1,037
Balance at 31 December	**37,203**	35,010

Provision for country risk

	2007 *LL million*	*2006* *LL million*
Balance at 1 January	**4,162**	3,531
Provision constituted during the year (Note 30)	**54**	228
Difference of exchange	**482**	403
Balance at 31 December	**4,698**	4,162

Bad loans transferred to off balance sheet accounts in accordance with Banking Control Commission Circular No. 240

	Loan amount LL million	*Specific provision LL million*	*Unrealized interest LL million*	*Net balance LL million*
Balance at 1 January 2007	**45,423**	**22,201**	**23,222**	**-**
Loans settled during the year	**(2,293)**	**(1,130)**	**(1,163)**	**-**
Loans written off during the year	**(2,814)**	**(2,100)**	**(714)**	**-**
Bad loans transferred to off balance sheet during the year	**73,264**	**42,335**	**30,929**	**-**
Difference of exchange	**110**	**55**	**55**	**-**
Balance at 31 December 2007	**113,690**	**61,361**	**52,329**	**-**

11 BANK ACCEPTANCES

	2007 *LL million*	*2006* *LL million*
Letters of credit payable by the Group on behalf of its customers:		
- Acceptances discounted by the Group without recourse to the beneficiary, reflected also under loans and advances	**22,278**	22,311
- Other acceptances	**243,137**	261,795
	265,415	284,106

Customers' acceptances represent documentary credits, which the Group has committed to settle on behalf of its clients, against commitments by those clients (acceptances). The commitments resulting from these acceptances are stated as a liability in the balance sheet for the same amount.

12 TANGIBLE FIXED ASSETS

Movement of tangible fixed assets and related depreciation during the years 2007 and 2006 is as follows:

	Buildings LL million	*Motor vehicles LL million*	*Furniture and equipment LL million*	*Deposits LL million*	*Advance payments LL million*	*Fixed assets acquired in settlemet of debt LL million*	*Total LL million*
Cost and Revaluation:							
At 1 January 2007	**125,257**	**2,392**	**76,013**	**392**	**24,444**	**40,018**	**268,516**
Additions during the year	**20,247**	**675**	**19,465**	**18**	**9,841**	**19,089**	**69,335**
Acquisition of subsidiary	**4,692**	**245**	**556**	**-**	**-**	**-**	**5,493**
Transfers	**22,153**	**-**	**2,444**	**-**	**(24,597)**	**-**	**-**
Disposal of fixed assets fully depreciated	**(795)**	**-**	**(1,228)**	**-**	**-**	**-**	**(2,023)**
Disposal of other fixed assets	**(419)**	**(326)**	**(1,775)**	**-**	**-**	**(2,967)**	**(5,487)**
Impairment provision on assets taken in settlement of debt	**-**	**-**	**-**	**-**	**-**	**(4,751)**	**(4,751)**
Foreign exchange difference	**1,330**	**46**	**810**	**10**	**153**	**-**	**2,349**
At 31 December 2007	**172,465**	**3,032**	**96,285**	**420**	**9,841**	**51,389**	**333,432**
Depreciation:							
At 1 January 2007	**21,533**	**1,397**	**56,188**	**-**	**-**	**-**	**79,118**
Depreciation during the year	**3,032**	**357**	**10,271**	**-**	**-**	**-**	**13,660**
Related to disposal of fixed assets fully depreciated	**(795)**	**-**	**(1,228)**	**-**	**-**	**-**	**(2,023)**
Related to disposals of other fixed assets	**-**	**(226)**	**(1,590)**	**-**	**-**	**-**	**(1,816)**
Foreign exchange difference	**105**	**11**	**640**	**-**	**-**		**756**
At 31 December 2007	**23,875**	**1,539**	**64,281**	**-**	**-**	**-**	**89,695**
Net carrying value:							
At 31 December 2007	**148,590**	**1,493**	**32,004**	**420**	**9,841**	**51,389**	**243,737**

	Buildings LL million	*Motor vehicles LL million*	*Furniture and equipment LL million*	*Deposits LL million*	*Advance payments LL million*	*Fixed assets acquired in settlemet of debt LL million*	*Total LL million*
Cost and Revaluation:							
At 1 January 2006	113,358	2,236	69,387	317	21,639	29,054	235,991
Additions during the year	5,515	152	9,415	66	10,500	24,247	49,895
Transfers	6,364	-	1,465	-	(7,829)	-	-
Disposal of fixed assets fully depreciated	-	(44)	(4,652)	-	-	-	(4,696)
Disposal of other fixed assets	(435)	-	(213)	-	-	(7,615)	(8,263)
Impairment provision on Assets taken in settlement of debt	-	-	-	-	-	(5,668)	(5,668)
Foreign exchange difference	455	48	611	9	134	-	1,257
At 31 December 2006	125,257	2,392	76,013	392	24,444	40,018	268,516
Depreciation:							
At 1 January 2006	18,847	1,199	51,297	-	-	-	71,343
Depreciation during the year	2,745	230	9,195	-	-	-	12,170
Related to disposal of fixed assets fully depreciated	-	(44)	(4,652)	-	-	-	(4,696)
Related to disposals of other fixed assets	(126)	-	(178)	-	-	-	(304)
Foreign exchange difference	67	12	526	-	-	-	605
At 31 December 2006	21,533	1,397	56,188	-	-	-	79,118
Net book value:							
At 31 December 2006	103,724	995	19,825	392	24,444	40,018	189,398

12 TANGIBLE FIXED ASSETS (continued)

The cost of buildings at 31 December 2007 and 2006 include the revaluation differences of properties valued during prior years in accordance with law 282 dated 30 December 1993, and approved by the Central Committee of the Bank of Lebanon.

Revaluation differences are reflected in equity as follows:

	2007	*2006*
	LL million	*LL million*
- Revaluation difference recognized in the complementary shareholders' equity (Tier II) (Note 24)	**1,978**	1,978
- Revaluation difference of other fixed assets (Note 24)	**3,711**	3,711
	5,689	5,689

13 INTANGIBLE ASSETS

	Key money
	LL million
31 December 2007	
Cost:	
At 1 January and 31 December 2007	**1,637**
Accumulated amortization:	
At 1 January 2007	**313**
Amortization expense for the year	**125**
At 31 December 2007	**438**
Net book value:	
At 31 December 2007	**1,199**
31 December 2006	
Cost:	
At 1 January and 31 December 2006	1,637
Accumulated amortization:	
At 1 January 2006	188
Amortization expense for the year	125
At 31 December 2006	313
Net book value:	
At 31 December 2006	1,324

14 OTHER ASSETS

	2007 LL million	2006 LL million
Miscellaneous assets	**483**	841
Obligatory financial assets	**2,250**	2,250
	2,733	3,091

Obligatory financial assets consist of a deposit amounting to 15% of the share capital of a subsidiary bank that was blocked at incorporation as a guarantee with the Lebanese Treasury Department. This deposit shall be returned to the subsidiary bank without any interest upon liquidation of its activities.

15 REGULARISATION ACCOUNTS AND OTHER DEBIT BALANCES

	2007 LL million	2006 LL million
Doubtful debtor accounts	**8,796**	8,223
Less: Provision on doubtful debtor accounts	**(8,774)**	(8,188)
	22	35
Prepaid rent	**1,548**	970
Printings and stationery	**2,564**	3,215
Withdrawals due from the automated teller machines (ATM)	**709**	4,116
Credit card balances due from customers	**3,879**	1,913
Fair value at year end of the index, commodity and equity products linked to the notes issued by Byblos Bank SAL and Byblos Invest Bank SAL (Note 21)	**15,060**	14,325
Reconciling items between the head office and subsidiaries	**4,006**	-
Insurance premiums receivable	**2,385**	1,773
Reinsurers' share of technical reserve of subsidiary insurance company	**6,947**	5,346
Revaluation variance of structural position (Note 22)	**15**	15
Revaluation variance on foreign exchange contracts	**158**	-
Payment for the establishment of a new branch in Iraq (Erbil area)	**-**	7,256
Deposits for participation in auctions	**716**	450
Cash in the automated teller machines (ATM)	**16,490**	14,276
Other debit balances	**1,676**	1,860
	56,153	55,515
	56,175	55,550

15 REGULARISATION ACCOUNTS AND OTHER DEBIT BALANCES (continued)

Doubtful debtors accounts

	Loan Balance LL million	*Provision LL million*
Balance at 1 January 2007	**8,323**	8,188
Add (less):		
Doubtful debtor accounts during the year	**750**	-
Loans classified doubtful and provisions constituted during the year (Note 30)	-	50
Provision constituted against fraud	-	759
Write off	**(69)**	(69)
Loans recovered and provisions released (Note 30)	**(208)**	(154)
Balance at 31 December 2007	**8,796**	8,774

16 DUE TO CENTRAL BANKS

	2007 LL million	*2006 LL million*
Soft loan from the Bank of Lebanon	**40,000**	40,000
Less: Difference from valuation at net present value of the soft loan and the treasury bills financed by the soft loan amortised on a straight line basis over the loan period (81 months) in monthly installments of LL 165 million each	**(3,465)**	(5,445)
	36,535	34,555
Current account due to Bank of Syria	**16,364**	35,651
Current account due to Bank of Sudan	**7,146**	6,879
Loan due to the Central Bank of Armenia	**905**	-
	24,415	42,530
Total	**60,950**	77,085
Interest and similar charges for the year:		
- Loans interest expenses	**1,750**	2,613
- Amortization of the difference on valuation of the soft loan and the corresponding treasury bills	**1,980**	1,980
	3,730	4,593

The loan from the Bank of Lebanon is secured by one-year Lebanese treasury bill with a nominal value of LL million 43,090 (2006: same) (Note 6).

LL 40 Billion Loan

This loan represents facilities granted on 15 November 2001 by the Central Committee of the Bank of Lebanon to the Bank following its acquisition of Wedge Bank Middle East SAL. The 8-year loan matures on 15 November 2009.

This loan was originally secured by the pledge of two-year Lebanese treasury bills renewed on each maturity with an interest rate equivalent to 60% of the notional interest on one-year treasury bills acquired in the primary market. Interest is fixed in the first two years after utilization of the loan. At the beginning of the third year onward, interest is determined according to the effective yield of one-year treasury bills traded in the primary market less 6.326%, provided that the interest rate does not fall below 60% of the notional interest on one-year Lebanese treasury bills traded in the international markets. Interest is capitalized and paid quarterly till maturity.

17 BANKS AND FINANCIAL INSTITUTIONS - CREDIT

	2007	*2006*
	LL million	*LL million*
Commercial banks:		
- Current accounts	**194,938**	168,096
- Time deposits	**535,630**	500,538
- Medium term loans:		
Loan balance	**134,572**	135,706
Less: Difference on valuation amortized over loan period	**(13)**	(14)
	865,127	804,326
Accrued interest payable	**5,384**	5,315
	870,511	809,641
Financial institutions:		
- Current account	**1,530**	-
- Term loans	**129,502**	64,018
- Accrued interest payable	**2,899**	877
- Less: Cost to be amortized over the loan period	**(1,441)**	(144)
	132,490	64,751
Registered exchange companies:		
- Current accounts	**1,574**	952
- Time deposits	**3,579**	1,500
- Interest Payable	**8**	31
	5,161	2,483
	1,008,162	876,875
Interest and similar charges for the year	**48,052**	44,499

Breakdown by geographic location

	2007		*2006*	
	LL million	*%*	*LL million*	*%*
Lebanon	**188,594**	**18**	145,902	17
O.E.C.D. countries	**236,962**	**23**	188,516	21
Other non-resident banks	**581,579**	**58**	541,411	61
Saudi Arabia	**1,027**	**1**	1,046	1
	1,008,162	**100**	876,875	100

18 CUSTOMERS' DEPOSITS

	2007	*2006*
	LL million	*LL million*
Current accounts	**1,319,668**	1,099,296
Time deposits	**2,681,474**	2,290,636
Saving accounts:		
- Sight	**324,936**	291,271
- Term	**6,458,910**	5,635,611
Blocked deposits	**57**	49,799
Related parties' deposits	**86,590**	40,773
Accrued interest payable	**59,413**	54,103
	10,931,048	9,461,489
Percentage of customers' deposits to total balance sheet footing at year end	**76.46%**	76.63%

19 LIABILITIES UNDER FINANCIAL INSTRUMENTS

	2007 *LL million*	*2006* *LL million*
Certificates of deposit issued by the Bank		
Nominal value: US$ (000) 77,921 (2006: US$ (000) 77,954)	**117,466**	117,515
Accrued interest payable: US$ (000) 2,553 (2006: US$ (000) 2,555)	**3,849**	3,851
Issuing cost to be amortized: US$ (000) 147 (2006: US$ (000) 243)	**(222)**	(366)
	121,093	121,000
Index linked notes		
Issuance value: US$ (000) 49,441 (2006: US$ (000) 49,780)	**74,533**	75,043
Discount to be amortized over the period of the notes: US$ (000) 4,482 (2006: US$ (000) 3,672)	**(6,756)**	(5,535)
Accrued interest payable: US$ (000) 767 (2006: US$ (000) 764)	**1,157**	1,151
	68,934	70,659
Equity linked notes		
Issuance value: US$ (000) 49,410 (2006: US$ (000) 49,690)	**74,486**	74,908
Accrued interest payable: US$ (000) 1,676 (2006: US$ (000) 1,666)	**2,527**	2,511
Discount to be amortized over the period of the notes: US$ (000) 3,893 (2006: US$ (000) 3,083)	**(6,005)**	(4,648)
	71,008	72,771
Commodity linked notes		
Issuance value: US$ (000) 6,367 (2006: US$ (000) 6,363)	**9,599**	9,592
Discount to be amortized over the period of the notes: US$ (000) 533 (2006: US$ (000) 362)	**(804)**	(545)
Accrued Interest payable: US$ (000) 28 (2006: US$ (000) 28)	**42**	42
	8,837	9,089
	269,872	273,519
Charges for the year:		
- Certificates of deposit:		
- Interest: US$ (000) 5,065 (2006: US$ (000) 5,067)	**7,635**	7,638
- Add: Amortization of issuing cost: US$ (000) 98 (2006: US$ (000) 97)	**149**	147
	7,784	7,785
- Index linked notes:		
- Interest: US$ (000) 3,477 (2006: US$ (000) 3,490)	**5,241**	5,261
- Less: Amortization of Bank's gain resulting from the perfect hedge of the index linked notes: US$ (000) 813 (2006: US$ (000) 767)	**(1,226)**	(1,156)
	4,015	4,105
- Equity linked notes:		
Interest: US$ (000) 3,983 (2006: US$ (000) 3,989)	**6,005**	6,014
Less: amortization of the Bank's gain resulting from perfect hedge of the equity linked notes: US$ (000) 888 (2006: US$ (000) 832)	**(1,339)**	(1,254)
	4,666	4,760
- Commodity linked notes:		
Interest US$ (000) 519 (2006: US$ (000) 157)	**782**	237
Less: amortization of the Bank's gain resulting from perfect hedge of the commodity linked notes: US$ (000) 178 (2006: US$ (000) 52)	**(268)**	(78)
	514	159
Total charges reflected in the statement of income under interest paid on liabilities under financial instruments	**16,979**	16,809

19 LIABILITIES UNDER FINANCIAL INSTRUMENTS (continued)

Certificates of deposit issued by the Bank

On 1 July 2004, Byblos Bank SAL issued certificates of deposit in the amount of US$ (000) 78,054. The certificates of deposit are subject to the following conditions:

Interest: Fixed at an annual rate of 6.5% payable every six months with the first interest due on 1 January 2005, not subject to withholding taxes.

Maturity: 1 July 2009

The cost of issuing the certificates amounted to US$ (000) 490, to be amortized until maturity, of which US$ (000) 98 was amortized during 2007 (2006: US$ (000) 97).

Index Linked Notes
The Index Linked Notes issued on 8 October 2004 amounted to US$ 50 million. The Index Linked Notes are subject to the following conditions:

- The notes mature on 9 October 2009,
- The notes benefit during the period of the investment from interest at an annual rate of 7% exempted from taxes and payable every six months during the first four years,
- 95% of the initial investment is guaranteed at maturity in addition to an unlimited potential return representing 50% of the positive performance of a portfolio of 6 international markets indices.

The Bank perfectly hedged the Index Linked Notes. The cost of the hedge amounted to US$ (000) 1,873 and the cost of issuing the Index Linked Notes amounted to US$ (000) 250.

The gain from the perfect hedge transaction amounted to US$ (000) 467 to be amortized with the interest over the period of the notes (5 years). Accordingly, the effective annual interest rate of the Index Linked Notes is 5.83%.

Equity Linked Notes
The Equity Linked Notes issued on 1 August 2005 by Byblos Invest Bank SAL amounted to US$ 50 million are subject to the following conditions:

- The notes mature on 4 August 2010,
- The notes benefit during the period of the investment from interest at an annual rate of 8% exempted from taxes and payable every six months during the first four years,
- 95% of the initial investment is guaranteed at maturity in addition to an unlimited potential return representing 50% of the positive performance of a portfolio of stocks.

The Bank perfectly hedged the Equity Linked Notes. The cost of the hedge amounted to US$ (000) 1,764 and the cost of issuing the Equity Linked Notes amounted to US$ (000) 169.

The gain from the perfect hedge transaction amounted to US$ (000) 567 to be amortized with the interest over the period of the notes (5 years). Accordingly, the effective annual interest rate of the Equity Linked Notes is 6.67%.

Commodity Linked Notes
The Commodity Linked Notes issued on 12 September 2006 by the Bank amounted to US$ (000) 6,563. The Commodity Linked Notes are subject to the following conditions:

- The notes mature on 12 September 2009,
- The notes benefit during the period of the investment from interest at an annual rate of 8% exempted from taxes and payable quarterly during the first two years starting 12 December 2006,
- 95% of the initial investment is guaranteed at maturity, with an interest rate of 16% for the third year if the performance of the index of five commodities is positive.

19 LIABILITIES UNDER FINANCIAL INSTRUMENTS (continued)

The Bank perfectly hedged the Commodity Linked Notes. The cost of the hedge amounted to US$ (000) 299 and the cost of issuing the Commodity Linked Notes amounted to US$ (000) 14.

The gain of the Bank from the perfect hedge transaction amounted to US$ (000) 15 to be amortized with the interest over the period of the notes (3 years). Accordingly, the effective annual interest rate of the Commodity Linked Notes is 5.68%.

20 OTHER LIABILITIES

		2007	*2006*
		LL million	*LL million*
Payables to National Social Security Fund		**944**	763
Government and public sector	a	**25,400**	21,037
Other creditors	b	**29,319**	28,821
Due to shareholders		**516**	507
Margins against documentary credits and acceptances		**101,910**	103,252
Other accounts		**2,953**	1,179
		161,042	155,559

a) Government and Public Sector

	2007	*2006*
	LL million	*LL million*
Taxes payable:		
- Income tax on profit	**17,942**	15,487
- Tax on services	**216**	158
- Taxes and fees related to the insurance company	**931**	700
- Tax on salaries and wages	**1,351**	991
- Tax on Board of Directors’ attendance fees	**49**	38
- Tax on interest	**3,740**	3,305
- Value added tax	**64**	129
- Other taxes	**1,107**	229
	25,400	21,037

	2007	*2006*
	LL million	*LL million*
Taxes taken from current year profit	**22,039**	14,912
Tax paid on interest received, reflected in the statement of income under income tax	**13,535**	12,760
Income tax expense	**35,574**	27,672

20 OTHER LIABILITIES (continued)

b) *Other Creditors*

	2007 ***LL million***	*2006* *LL million*
Payables to fixed assets suppliers	**1,372**	769
Incoming transfers for settlement	**2,526**	1,875
Partial settlement on past due programmed advances	**7,887**	9,446
Insurance premiums received in advance from customers	**-**	365
Payables to credit card companies	**5,994**	3,923
Checks deposited by customers for collection	**2,197**	-
Advances received on sale of properties acquired in settlement of debt	**2,139**	1,997
Other creditors - subsidiary banks and companies	**5,276**	4,888
Other credit balances	**1,928**	2,910
Collections from customers due to the Ministry of Finance	**-**	2,648
	29,319	28,821

21 REGULARISATION ACCOUNTS AND OTHER CREDIT BALANCES

	2007 ***LL million***	*2006* *LL million*
Interest and commissions received in advance	**5,737**	4,596
Other accrued charges	**20,863**	5,730
Revaluation variance on foreing exchange contracts	**-**	428
Revaluation difference on structural positions	**220**	1,236
Fair value of the index to be settled to the owners of the Index Linked Notes, Commodity Linked Notes and Equity Linked Notes (Note 15)	**15,060**	14,325
Reconciling items between the head office and subsidiaries	**8,919**	11,175
	50,799	37,490

22 PROVISIONS FOR RISKS AND CHARGES

		2007 ***LL million***	*2006* *LL million*
Provision for foreign currency fluctuation	a	**454**	440
Provision for employees end of service benefits	b	**20,575**	16,578
Provision for contingencies		**486**	489
Technical reserves of insurance company		**43,980**	29,196
Provision for revaluation difference on structural position (Note 15)		**15**	15
		65,510	46,718

a. *Provision for foreign currency fluctuation*

According to the Bank of Lebanon's main circular No 32, the net trading foreign exchange position should not exceed 1% of the Bank's Tier I capital. In addition, the Bank should set up a provision to cover the potential loss on the net trading position calculated at 5% of the net trading foreign exchange position. The provision set up in 2007 amounted to LL 14 million (2006: LL 12 million).

22 PROVISIONS FOR RISKS AND CHARGES (continued)

b. Provision for employees end of service benefits

	2007 LL million	*2006 LL million*
Provision at 1 January	**16,578**	15,728
Add (less):		
Provision constituted during the year (Note 30)	**4,888**	1,819
End of service benefits paid during the year	**(891)**	(969)
Provision at 31 December	**20,575**	16,578

23 SUBORDINATED LOANS

		2007 LL million	*2006 LL million*
Convertible subordinated notes	a	**283,235**	-
Subordinated notes	b	**47,910**	47,835
Total		**331,145**	47,835

a) Convetible subordinated notes

On 20 November 2007, the Bank signed a US$ 200 million subordinated loan agreement with an international financial institution, whereby the latter acted as an issuer of US$ 200 million subordinated notes convertible into Byblos Bank SAL shares or GDR's according to the following terms:

Number of notes:	200
Note's issue price:	US$ 1,000,000
Note's nominal value:	US$ 1,000,000
Date of issue:	20 November 2007
Maturity:	30 November 2012, subject to the earlier conversion of these notes, in whole or in part, into Byblos Bank SAL shares or GDR's at a price of US$ 2.25 per share.
Interest rate:	Contractual interest rate of 6.5% payable semi-annually.
Rights of holders:	The noteholder has the right the convert all or portion of the subordinated notes into Byblos Bank SAL shares or GDR's on any quarterly conversion date falling on 31 March, 30 June, 30 September or 31 December at a conversion price of US$ 2.25 per share.

The convertible notes have been recorded as follows:

	2007		*2006*	
	LL million	***USD (000)***	*LL million*	*USD (000)*
Initial recognition:				
Nomial value of the convertible notes	**301,500**	**200,000**	-	-
Equity component	**(20,809)**	**(13,804)**	-	-
Liability component at 20 November	**280,691**	**186,196**	-	-
Add:				
- Accrued interest payable	**2,242**	**1,488**	-	-
- Amortization of discount	**302**	**200**	-	-
Amortized cost at 31 December	**283,235**	**187,884**	-	-

The equity component of the convertible subordinated bonds is recorded in equity under "Other reserves and premiums".

23 SUBORDINATED LOANS (continued)

b) Subordinates notes

On 1 July 2002, the Bank issued 100,000 notes each maturing on 30 June 2012 with an annual yield not to exceed 15% of the principal amount, detailed as follows:

- Annual yield of 9% computed and paid quarterly, starting 1st July 2002
- 5% of the Bank's net income, after adding the provision constituted to settle this balance and deducting taxes

In accordance with the decision of the ordinary general assembly held on 20 April 2006, the Bank redeemed 68,831 subordinated notes on 7 June 2006 for a consideration of US Dollars 1,060 per note, i.e. with a premium of US Dollars 60 per note constituting 6% of the nominal value.

Accordingly, as of 31 December 2007 and 2006 there was 31,169 notes outstanding totaling to US$ (000) 31,169.

	2007 ***LL million***	*2006* *LL million*
Interest and similar charges for the year:		
- Interest on subordinated notes	**6,136**	12,492
- Interest on convertible subordinated notes and amortization of its related discount	**2,533**	-
Total subordinated loan charges	**8,669**	12,492
Costs of redemption of 68,831 subordinated note reflected under other operating expenses (2006: USD (000) 4,636).	**-**	7,003

Subsequent conversion of subordinated notes into shares

During January 2008, a subordinated notes holder exercised his option and converted notes amounting to US$ 27 million into Byblos Bank SAL ordinary shares at a price of US$ 2.25 per share. As such, an extraordinary general assembly was held on 24 January 2008 and decided to increase the Bank's capital from LL 494,456,935,200 to LL 508,963,536,000 or an increase of LL 14,506,600,800 through the issuance of 12,088,834 ordianry shares with a nominal value of LL 1,200 per share. The excess amount over the nominal value of the shares was accounted for as a premium on issuance of ordinary shares. On 13 February 2008, the Central Committee of the Bank of Lebanon approved the capital increase.

24 REVALUATION VARIANCE OF FIXED ASSETS

	2007 ***LL million***	*2006* *LL million*
Revaluation variance recognized in the complementary equity		
Variance resulting from the revaluation in 1996 of the Bank's owned real estate according to law 282 dated 30 December 1993	**2,577**	2,577
Less: Decrease in the value of the assets revalued in prior years	**(599)**	(599)
	1,978	1,978
Revaluation variance of other fixed assets	**3,711**	3,711
Total revaluation variance of fixed assets	**5,689**	5,689

25 SHARE CAPITAL

	2007		2006	
	No of Shares	LL million	No of Shares	LL million
Issued shares				
Ordinary shares	**205,023,723**	**246,028**	205,023,723	246,028
Preferred shares	**1,000,000**	**1,200**	1,000,000	1,200
Priority shares	**206,023,723**	**247,228**	206,023,723	247,228
	412,047,446	**494,456**	412,047,446	494,456

The capital of the Bank is divided into 412,047,446 shares of LBP 1,200 each fully paid.

Priority shares
On 10 December 2005, the Bank issued 206,023,723 Priority shares which have the same rights and obligations as ordinary shares, and benefit from an additional yearly distribution of 4% of the priority share's nominal value representing non-cumulative distribution of the non-consolidated net profits. Such right is established after dividends distribution to the preferred shares. The right of payment from profits is established over a period of 5 years starting from the year 2005, inclusive of the period from 10 December 2005 till 31 December 2005. At the end of the 5th year, priority shares are converted into ordinary shares without any further resolution by the general assembly.

Preferred shares
1,000,000 preferred shares issued in the first half of 2003 according to law 308 dated 3 April 2001 at nominal value amounting to LBP 1,200 million (LBP 1,200 per share) and a premium of USD (000) 99,204 equivalent to LBP 149,550 million, totaling to USD 100 million.

The premium on issuance of preferred shares was recorded under "Other reserves and premiums" account (Note 27).

The preferred shares benefit from a non-cumulative annual income equivalent to USD 12 for each share, the payment of which is subject to the availability of non-consolidated distributable net profits for the corresponding year, once the ordinary general assembly has approved the profits for the year and decided on distribution.

The preferred shares are redeemable (at a date subsequent to the approval of 2008 accounts by the general assembly) at the Bank's option at the issue price plus any declared but unpaid distributions for all the years preceding the year of the call, with the condition that at least 25% of the original number of the preferred shares are called each time.

Listing of shares in Beirut Stock Exchange
The Central Committee of the Bank of Lebanon held on 22 February 2006 approved the listing of all the nominal shares constituting the capital of the Bank and amounting to 412,047,446 share in regulated financial markets.

On 6 March 2006, the Beirut Stock Exchange issued circular 211/2006, which approved the listing of the Bank's ordinary, preferred and priority shares in the official stock market starting from 7 March 2006.

Treasury shares
Movement of treasury shares recognized in the balance sheet for the years 2007 and 2006 is as follows:

	Ordinary shares			Priority shares		
	No. of shares	Average price US$	Amount US$	No. of shares	Average price US$	Amount US$
At 1 January 2007	**85,087**	**2.15**	**183**	**33,937**	**1.77**	**60**
Acquisition of treasury shares	**2,274,736**	**1.85**	**4,203**	**2,567,561**	**1.89**	**4,846**
Sales of treasury shares	**(2,220,417)**	**1.87**	**(4,153)**	**(2,325,170)**	**1.94**	**(4,511)**
At 31 December 2007	**139,406**	**1.67**	**233**	**276,328**	**1.43**	**395**
Total in LL million			**352**			**595**

25 SHARE CAPITAL (continued)

Treasury shares (continued)

	Ordinary shares			*Priority shares*		
	No. of shares	*Average price US$*	*Amount US$*	*No. of shares*	*Average price US$*	*Amount US$*
At 1 January 2006	-	-	-	-	-	-
Acquisition of treasury shares	244,987	2.08	510	620,528	2.20	1,366
Sales of treasury shares	(159,900)	2.05	(327)	(586,591)	2.23	(1,306)
At 31 December 2006	85,087	2.15	183	33,937	1.77	60
Total in LL million			276			90

The Central committee of the Bank of Lebanon decided on 11 July 2007 to extend the approval to the Bank for a period of one year starting on 13 July 2007 to acquire 18,000,000 of its outstanding ordinary and/or priority shares listed in Beirut Stock Exchange.

26 RESERVE FOR GENERAL BANKING RISKS

	2007* *LL million	*2006 LL million*
Reserve in compliance with Bank of Lebanon main circular No. 50	**56,916**	48,159

According to the Bank of Lebanon regulations, banks are required to appropriate from their annual net profit a minimum of 0.2% and a maximum of 0.3% of total risk weighted assets and off balance sheet items based on rates specified by the Bank of Lebanon to cover general banking risks. The consolidated ratio should not be less than 1.25% of these risks at the end of year ten (2007) and 2% at the end of year twenty (2017).

The appropriation in 2007 from the profits of the year 2006 amounted to LL 8,757 million (2006: LL 8,300 million).

27 OTHER RESERVES AND PREMIUMS

	2007			*2006*		
	Group share LL million	***Minority interest LL million***	***Total LL million***	*Group share LL million*	*Minority interest LL million*	*Total LL million*
Legal reserve	**90,124**	**2,608**	**92,732**	77,256	1,982	79,238
Reserves appropriated for capital increase	**20,284**	**-**	**20,284**	20,010	-	20,010
General reserve	**108,354**	**6,358**	**114,712**	96,776	4,112	100,888
Premium on issuance of preferred shares (Note 25)	**149,550**	**-**	**149,550**	149,550	-	149,550
Equity component of convertible subordinated bonds	**20,809**	**-**	**20,809**	-	-	-
	389,121	**8,966**	**398,087**	343,592	6,094	349,686

27 OTHER RESERVES AND PREMIUMS (continued)

Legal reserves

The Group is required to constitute legal reserves from its annual net profit according to the following rates:

	Rate %	*Ceiling*
Net profits of the head office, branches in Lebanon and subsidiary bank in Lebanon	10	Unlimited
Net profits of subsidiary companies in Lebanon	10	One-third of capital
Net profit of subsidiary bank in Europe	5	Unlimited
Net profit of subsidiary bank in Sudan	25	One-third of capital
Net profit of subsidiary bank in Syria	10	Total capital

Reserves appropriated for capital increase

	2007 ***LL million***	*2006* *LL million*
Reserve equivalent to realized profit on sale of assets acquired in settlement of bad debt, in accordance with Banking Control Commission (BCC) circular No 173	**2,643**	2,369
Reserve equivalent to provisions recovered, in accordance with BCC circular No 167	**8,252**	8,252
Reserve equivalent to profits realized on sale of Solidere Company shares acquired in compensation of leased property in Beirut Central District	**220**	220
Reserve equivalent to profits realized on liquidation of structural foreign exchange positions, in accordance with BCC circular No 197.	**8,870**	8,870
Others	**299**	299
	20,284	20,010

General reserve

During 2007, the Group appropriated LL 8,733 million from 2006 profits to the general reserve in accordance with the general assembly of shareholders' resolutions.

28 CUMULATIVE CHANGES IN FAIR VALUES

	2007 ***LL million***	*2006* *LL million*
Certificates of deposits held with the Central Bank of Lebanon	**(314)**	-
Lebanese and other governmental treasury bills and bonds	**(48,125)**	(14,136)
Bonds and financial assets with fixed income	**(6,715)**	(6,902)
Shares, securities and financial assets with variable income	**8,507**	8,788
Certificates of deposits held with commercial banks	**126**	-
Less: minority share of cumulative changes in fair values	**277**	-
	(46,244)	(12,250)

28 CUMULATIVE CHANGES IN FAIR VALUES (continued)

Movement of cumulative changes in fair values during the year

	2007 ***LL million***	*2006* *LL million*
Balance at 1 January	**(12,250)**	21,190
Realized during the year	**77**	(11,649)
Net changes in fair values during the year	**(34,209)**	(22,011)
Difference on exchange	**138**	220
Balance at 31 December	**(46,244)**	(12,250)

29 MINORITY INTERESTS

	2007 ***LL million***	*2006* *LL million*
- Capital of subsidiary banks and companies	**60,064**	47,978
- Other reserves and premiums	**8,966**	6,094
- Net results of the financial period - profit	**6,968**	3,298
- Accumulated losses	**(2,375)**	(757)
- Cumulative changes in fair values	**(277)**	2
- Foreign currency translation reserve	**4,276**	4,336
	77,622	60,951

30 NET RESULTS OF THE FINANCIAL PERIOD – PROFIT

The statement of income for 2007 and 2006 is summarized as follows:

	2007 ***LL million***	*2006* *LL million*
Interest and similar income	**924,687**	811,188
Interest and similar charges	**(657,862)**	(584,265)
Net provisions on loans and advances less recoveries	**(4,761)**	(10,282)
Net interest received	**262,064**	216,641
Revenues from marketable securities and financial assets with variable income	**1,581**	990
Net commissions income	**93,029**	79,393
Net profit from financial operations	**27,799**	24,858
Other operating income	**3,885**	4,047
Excess of group's interest in the fair value of net asset of acquired subsidiary over cost	**870**	-
Other operating expenses	**(6,052)**	(10,838)
General and administrative expenses	**(179,548)**	(150,769)
Depreciation and amortization	**(18,536)**	(17,963)
Profit for the year before income tax	**185,092**	146,359
Income tax	**(35,574)**	(27,672)
Profit for the year	**149,518**	118,687
Less: Minority interests	**(6,968)**	(3,298)
	142,550	115,389

30 NET RESULTS OF THE FINANCIAL PERIOD – PROFIT (continued)

a. Net provisions on loans and advances less recoveries

	2007	*2006*
	LL million	*LL million*
Provisions constituted during the year on loans and advances (Note 10)	**9,619**	14,581
Provisions constituted on doubtful debtors' accounts (Note 15)	**50**	253
Provisions constituted for country risk (Note 10)	**54**	228
General provision constituted during the year (Note 10)	**3,929**	3,253
Bad debts written off	**156**	570
	13,808	18,885
Provisions recovered during the year against:		
- Loans and advances recovered or upgraded (Note 10)	**(8,044)**	(8,568)
- General provisions recovered during the year (Note 10)	**(849)**	-
- Other debtor accounts written back (Note 15)	**(154)**	-
- Doubtful bank accounts (Note 9)	**-**	(35)
	(9,047)	(8,603)
	4,761	10,282

b. Net commissions

	2007	*2006*
	LL million	*LL million*
Commission received on:		
- Loans and advances	**9,755**	8,897
- Letters of guarantee	**8,366**	7,002
- Acceptances	**6,972**	6,792
- Letters of credit	**28,810**	19,154
- Credit cards	**2,961**	2,548
- Domiciliated bills	**1,358**	1,365
- Collection of checks	**1,769**	1,375
- Opening and maintenance of cutomers' accounts	**5,104**	3,465
- Renewal and closing of customers' accounts	**434**	342
- Transfers	**3,480**	1,819
- Murabaha	**14,334**	15,015
- Insurance premiums	**6,948**	5,877
- Other commissions	**8,703**	6,668
Expenses refunded from customers	**5,995**	4,837
	104,989	85,156
Less: commission paid:		
- Brokerage commission paid	**(9,315)**	(5,448)
- Other commission paid	**(2,645)**	(315)
	(11,960)	(5,763)
Net commissions	**93,029**	79,393

30 NET RESULTS OF THE FINANCIAL PERIOD – PROFIT (continued)

c. Net profit from financial operations

	2007	*2006*
	LL million	*LL million*
Net profit (loss) from transactions:		
- in treasury bills (Note 6)	**(1,984)**	4,537
- in bonds (Note 7)	**(10)**	(974)
- in certificates of deposit (Note 5)	**11,776**	12,904
- in shares (Note 8)	**5,788**	(418)
	15,570	16,049
Net profit from foreign exchange operations:		
Positive difference of exchange (net)	**12,249**	8,821
Provision constituted for the net trading foreign position (Note 22)	**(14)**	(12)
Provision constituted for the structural position	**(6)**	-
	12,229	8,809
	27,799	24,858

Net profit or loss from financial operations based on classification of financial instruments

Profits from financial operations for the year ended 31 December 2007 and 2006 are as follows:

	Held for trading	*Available for sale*	*Loans and receivables*	*Total*
	LL million	*LL million*	*LL million*	*LL million*
31 December 2007:				
Profits on disposal of financial instruments				
Certificates of deposits issued by the bank of Lebanon	-	-	11,776	11,776
Lebanese and other governmental treasury bills and bonds	214	77	-	291
Shares, securities and financial instruments with variable income	5,453	-	-	5,453
	5,667	77	11,776	17,520
Profits on revaluation of financial instruments				
Shares, securities and financial instruments with variable income	503	-	-	503
Bonds and financial instruments with fixed income	55	-	-	55
	558	-	-	558
Total profits from financial instruments	6,225	77	11,776	18,078
Losses on disposal of financial Instruments				
Lebanese and other governmental treasury bills and bonds	(1,152)	-	-	(1,152)
Shares, securities and financial instruments with variable income	(168)	-	-	(168)
Bonds and financial instruments with fixed income	(65)	-	-	(65)
	(1,385)	-	-	(1,385)
Losses from revaluation of financial instruments				
Lebanese and other governmental treasury bills and bonds	(1,123)	-	-	(1,123)
Total losses from financial instruments	(2,508)	-	-	(2,508)
Net profit from foreign exchange operations				12,229
Net profit from financial operations				27,799

30 NET RESULTS OF THE FINANCIAL PERIOD – PROFIT (continued)

c. Net profit from financial operations (continued)

	Held for trading *LL million*	*Available for sale* *LL million*	*Loans and receivables* *LL million*	*Total* *LL million*
31 December 2006:				
Profits on disposal of financial instruments				
Certificates of deposits issued by the bank of Lebanon	-	-	12,904	12,904
Lebanese and other governmental treasury bills and bonds	3,348	12,354	-	15,702
Shares, securities and financial instruments with variable income	4,646	-	-	4,646
	7,994	12,354	12,904	33,252
Profits on revaluation of financial instruments				
Shares, securities and financial instruments with variable income	282	-	-	282
Lebanese and other governmental treasury bills and bonds	1,537	-	-	1,537
	1,819	-	-	1,819
Total profits from financial instruments	9,813	12,354	12,904	35,071
Losses on disposal of financial Instruments				
Shares, securities and financial instruments with variable income	(425)	-	-	(425)
Bonds and financial instruments with fixed income	(223)	(705)	-	(928)
	(648)	(705)	-	(1,353)
Losses on revaluation of financial instruments				
Lebanese and other governmental treasury bills and bonds	(12,702)	-	-	(12,702)
Shares, securities and financial instruments with variable income	(4,921)	-	-	(4,921)
Bonds and financial instruments with fixed income	(46)	-	-	(46)
	(17,669)	-	-	(17,669)
Total losses from financial instruments	(18,317)	(705)	-	(19,022)
Net profit from foreign exchange operations				8,809
Net profit from financial operations				24,858

30 NET RESULTS OF THE FINANCIAL PERIOD – PROFIT (continued)

d. Salaries and related benefits

	2007	*2006*
	LL million	*LL million*
Salaries and related charges	**85,141**	72,686
Social security contributions	**8,337**	7,473
Provision for end of service indemnities (Note 22)	**4,888**	1,819
	98,366	81,978

e. General operating expenses

	2007	*2006*
	LL million	*LL million*
Tax withheld on bank interest earned	**3,135**	3,211
Taxes and duties	**5,761**	4,926
Contribution to deposits guarantee fund	**4,887**	4,389
Rent and related charges	**4,765**	4,596
Consulting fees	**4,707**	5,287
Telecommunications and postage expenses	**7,755**	6,845
Board of Directors' attendance fees	**599**	474
Maintenance and repair	**8,073**	6,953
Electricity and fuel	**3,707**	3,544
Travel and entertainment	**3,492**	2,770
Publicity and advertising	**7,878**	6,221
Subscriptions	**2,266**	2,867
Bonuses and administrative expenses	**11,993**	8,125
Legal expenses	**2,262**	2,218
Insurance	**167**	132
Other operating expenses	**9,735**	6,233
	81,182	68,791

31 CASH AND CASH EQUIVALENTS

	2007	*2006*
	LL million	*LL million*
Cash and balances with central banks	**1,181,648**	1,368,322
Deposits with banks and other financial institutions	**3,012,055**	2,163,599
	4,193,703	3,531,921
Less: Due to banks and other financial institutions	**(742,393)**	(648,998)
Cash and cash equivalents at year end	**3,451,310**	2,882,923

32 EARNINGS PER SHARE

	2007 LL million	2006 LL million
Weighted average number of shares outstanding during the year:		
- Common shares	**204,955,557**	204,969,556
- Preferred shares	**1,000,000**	1,000,000
- Priority shares	**205,838,523**	205,987,585
Net profit for the year	**142,550**	115,389
(Less): Proposed dividends to preferred shares	**(18,168)**	(18,168)
Net profit attributable to common and priority shareholders	**124,382**	97,221
(Less): Distribution of 4% on nominal value of priority shares (LL 1,200) calculated on the basis of the weighted average number of priority shares outstanding during the year 205,838,523 shares (2006: 205,987,585 shares)	**(9,880)**	(9,887)
Net profits attributable to common and priority shareholders	**114,502**	87,334
Of which:		
Net profits attributable to priority shares (205,838,523 shares) (2006: 205,987,585 shares)	**57,374**	43,775
Net profits attributable to common shares (204,955,557 shares) (2006: 204,969,556 shares)	**57,128**	43,559
Earnings per share in LL:		
- Common shares	**278.73**	212.51
- Priority shares	**326.73**	260.51

No figure for diluted earning per shares has been presented as the Bank's issued convertible financial instruments would have an anti-dilutive impact on earnings per share when exercised.

Transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these financial statements were disclosed in note 23.

33 RELATED PARTY TRANSACTIONS

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

The balances with related parties included in the balance sheet and interest paid are as follows:

	2007 *Major shareholders* *LL million*	*2006* *Major shareholders* *LL million*
Loans and advances (net of provisions)	**21,785**	9,473
Deposits (under customers' deposits)	**86,590**	40,773
Shareholders' credit balances	**516**	507
Interest received	**2,257**	333
Interest paid	**7,312**	1,773

Compensation of the key management personnel of the Group

	2007			*2006*		
	Chairman & Board members LL million	*Senior Management LL million*	*Total LL million*	*Chairman & Board members LL million*	*Senior Management LL million*	*Total LL million*
Salaries and allowances	**1,118**	**5,998**	**7,116**	1,232	3,979	5,211
Bonuses	**3,758**	**1,830**	**5,588**	3,417	1,121	4,538
Attendance fees	**360**	**77**	**437**	380	45	425

34 COMMITMENTS AND CONTINGENT LIABILITIES

Credit-related commitments

Credit-related commitments include commitments to extend credit, standby letters of credit, guarantees and acceptances that are designed to meet the requirements of the Group's customers.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Letters of credit, guarantees (including standby letter of credit) and acceptances commit the Group to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract.

The Group has the following credit-related commitments:

	2007 ***LL million***	*2006* *LL million*
Commitments given:		
- Guarantees	**767,135**	623,724
- Letters of credit- export	**392,153**	205,411
	1,159,288	829,135
Financing commitments given:		
- Letters of credit – import	**553,901**	541,477
Acceptances (reflected on balance sheet)	**265,415**	284,106
Undrawn commitments to lend	**1,219,225**	1,340,603
Assets under management and fiduciary deposits	**177,875**	148,900
Assets in custody	**2,066,134**	944,137

Operating lease committements

Future minimum lease payments under non-cancellable operating leases as at 31 December are as follows:

	2007 ***LL million***	*2006* *LL million*
Within one year	**1,187**	919
After one year but not more than five years	**4,143**	877
More than five years	**4,780**	7,112
	10,110	8,908

35 DERIVATIVES

In the ordinary course of business the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. Derivative financial instruments include forwards, futures, swaps and options.

The table below shows the positive and negative fair values of derivative financial instruments, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

35 DERIVATIVES (continued)

The notional amounts indicate the volume of transactions outstanding at the year end and are neither indicative of the market risk nor the credit risk.

				Notional amounts by term to maturity	
31 December 2007	***Positive fair value LL million***	***Negative fair value LL million***	***Total notional amount LL million***	***Within 3 months LL million***	***3 – 12 months LL million***
Derivatives held for trading purposes :					
- Currency swaps	**900**	**1,184**	**116,463**	**116,463**	**-**
- Forward foreign exchange contracts	**2,974**	**2,661**	**282,029**	**148,919**	**133,110**
	3,874	**3,845**	**398,492**	**265,382**	**133,110**
- Foreign exchange spot contracts	**212**	**83**	**75,910**	**75,910**	**-**

				Notional amounts by term to maturity	
31 December 2006	*Positive fair value LL million*	*Negative fair value LL million*	*Total notional amount LL million*	*Within 3 months LL million*	*3 – 12 months LL million*
Derivatives held for trading purposes:					
- Currency swaps	298	-	27,609	27,609	-
- Forward foreign exchange contracts	617	1,353	370,025	110,901	259,124
	915	1,353	397,634	138,510	259,124
- Foreign exchange spot contracts	11	1	8,697	8,697	-

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

Swaps
Swaps are contractual agreements between two parties to exchange movements in interest or foreign currency rates as well as the contracted upon amounts for currency swaps.

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive market value of instruments that are favorable to the Group.

36 SEGMENTAL INFORMATION

The business segments are distinctive components of the Group that have different risks and rates of returns and which offer different products and services. The georgraphical operating segments offers products and services through a specific economic environment and are subject to risks and returns that differ from other economic environment and is considered the primary segments.

a- Primary Segment Information – Geographical Segments

Geographical segments offer products and services in different economic environments and are thus subject to different risks and returns. The Group divides its operations into two geographic segments based on the markets and the customers' place of residence. The domestic segment encompasses the resident individuals and companies practicing economic activities in Lebanon. The international segment encompasses customers operating in foreign countries, regardless of their place of residence, as well as companies present in foreign countries.

36 SEGMENTAL INFORMATION (continued)

a- Primary Segment Information – Geographical Segments (continued)

The table below shows the distribution of the Group's gross income, total assets and capital expenditures by geographical segment. Transactions between segments are carried at market prices and within pure trading conditions.

	Domestic		International		Total	
	2007	2006	**2007**	2006	**2007**	2006
	LL million	*LL million*	***LL million***	*LL million*	***LL million***	*LL million*
Net interest received	**179,737**	173,053	**82,327**	43,588	**262,064**	216,641
Net commissions	**40,460**	39,523	**52,569**	39,870	**93,029**	79,393
Revenues from shares and financial instruments with variable income	**1,581**	990	**-**	-	**1,581**	990
Net profit from financial operations	**22,415**	24,313	**5,384**	545	**27,799**	24,858
Other operating income	**1,853**	2,400	**2,032**	1,647	**3,885**	4,047
Excess of group's interest in the fair value of net assets of acquired subsidiary over cost	**-**	-	**870**	-	**870**	-
Net revenues	**246,046**	240,279	**143,182**	85,650	**389,228**	325,929
General and administrative expenses	**(143,731)**	(126,005)	**(35,817)**	(24,764)	**(179,548)**	(150,769)
Amortization and depreciation	**(16,061)**	(16,641)	**(2,475)**	(1,322)	**(18,536)**	(17,963)
Other operating expenses	**(6,031)**	(9,765)	**(21)**	(1,073)	**(6,052)**	(10,838)
Profit before income tax	**80,223**	87,868	**104,869**	58,491	**185,092**	146,359
Total assets	**9,680,309**	9,015,231	**4,615,593**	3,331,527	**14,295,902**	12,346,758
Total liabilities	**10,514,176**	9,546,454	**2,629,767**	1,714,222	**13,143,943**	11,260,676
Capital expenditure	**20,399**	39,252	**35,340**	10,643	**55,739**	49,895

b- Secondary segment information – business segments

The Group operates primarily in two business segments, Commercial Banking and Investment Banking and Asset Management.

The main activity of the commercial business segments is principally to handle individual customers' deposits, and provide consumer loans, overdraft, credit cards facilities and funds transfer facilities. The investment banking activity principally provides investment banking services including coporate finance and specialized financial advice and trading. As to asset managment, the Group provides investment products and services to institutional investors and intermediaries.

	2007	2006
	LL million	*LL million*
Net operating revenues		
Commercial banking	**146,908**	124,584
Investment banking and asset management	**237,565**	197,298
	384,473	321,882
Assets		
Commercial banking	**3,710,286**	2,982,055
Investment banking and asset management	**10,585,616**	9,364,703
	14,295,902	12,346,758

37 CONCENTRATION OF ASSETS, LIABITLITIES AND OFF BALANCE SHEET ITEMS

Concentrations arise when a number of counter parties 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 to developments affecting a particular industry or geographic location.

The table below indicates the distribution of the Group's total assets, liabilities and off balance sheet items by geographic region:

		2007	
	Assets LL million	***Liabilities and stockholders equity LL million***	***Off balance sheet LL million***
Geographical segment:			
- Lebanon	**9,680,309**	**11,482,137**	**857,156**
- Europe	**2,194,484**	**447,289**	**157,963**
- Other countries	**2,421,109**	**2,366,476**	**698,070**
	14,295,902	**14,295,902**	**1,713,189**

		2006	
	Assets LL million	*Liabilities and stockholders equity LL million*	*Off balance sheet LL million*
Geographical segment:			
- Lebanon	9,015,231	10,189,872	588,590
- Europe	1,921,600	517,978	235,797
- Other countries	1,409,927	1,638,908	546,225
	12,346,758	12,346,758	1,370,612

38 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

	31 December 2007					
	Held for trading LL million	*Held to maturity LL million*	*Loans and receivables LL million*	*Available for sale LL million*	*Held at amortized cost LL million*	*Total LL million*
Financial assets						
Cash and balances with central banks	**-**	**-**	**790,579**	**33,689**	**1,788,544**	**2,612,812**
Lebanese and other governmental treasury bills and bonds	**808,071**	**1,692,720**	**-**	**1,764,245**	**-**	**4,265,036**
Bonds and financial instruments with fixed income	**153**	**614**	**-**	**121,549**	**-**	**122,316**
Shares, securities and financial instruments with variable income	**28,547**	**-**	**-**	**89,320**	**-**	**117,867**
Banks and financial institutions	**-**	**-**	**68,662**	**-**	**3,173,937**	**3,242,599**
Loans and advances to customers	**-**	**-**	**3,366,013**	**-**	**-**	**3,366,013**
Bank acceptances	**-**	**-**	**265,415**	**-**	**-**	**265,415**
	836,771	**1,693,334**	**4,490,669**	**2,008,803**	**4,962,481**	**13,992,058**
Financial liabilities						
Due to central banks	**-**	**-**	**-**	**-**	**60,950**	**60,950**
Banks and financial institutions	**-**	**-**	**-**	**-**	**1,008,162**	**1,008,162**
Customer's deposits	**-**	**-**	**-**	**-**	**10,931,048**	**10,931,048**
Engagement by acceptances	**-**	**-**	**-**	**-**	**265,415**	**265,415**
Liabilities under financial instruments	**-**	**-**	**-**	**-**	**269,872**	**269,872**
Subordinated loans	**-**	**-**	**-**	**-**	**331,145**	**331,145**
	-	**-**	**-**	**-**	**12,866,592**	**12,866,592**

38 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (continued)

	31 December 2006					
	Held for trading LL million	*Held to maturity LL million*	*Loans and receivables LL million*	*Available for sale LL million*	*Held at amortized cost LL million*	*Total LL million*
Financial assets						
Cash and balances with central banks	-	-	1,056,308	-	1,450,569	2,506,877
Lebanese and other governmental treasur bills and bonds	1,124,334	1,853,578	-	1,196,896	-	4,174,808
Bonds and financial instruments with fixed income	1,500	310	-	84,573	-	86,383
Shares, securities and financial instruments with variable income	24,372	-	-	14,276	-	38,648
Banks and financial institutions	-	-	55,602	-	2,313,249	2,368,851
Loans and advances to customers	-	-	2,637,722	-	-	2,637,722
Bank acceptances	-	-	284,106	-	-	284,106
	1,150,206	1,853,888	4,033,738	1,295,745	3,763,818	12,097,395
Financial liabilities						
Due to central banks	-	-	-	-	77,085	77,085
Banks and financial institutions	-	-	-	-	876,875	876,875
Customer's deposits	-	-	-	-	9,461,489	9,461,489
Engagement by acceptances	-	-	-	-	284,106	284,106
Liabilities under financial instruments	-	-	-	-	273,519	273,519
Subordinated loans	-	-	-	-	47,835	47,835
	-	-	-	-	11,020,909	11,020,909

39 FAIR VALUE OF FINANCIAL INSTRUMENTS

The table below sets out the estimated carrying values and fair values of the financial instruments at the date of the balance sheet:

	2007			*2006*		
	Fair value LL million	***Book value LL million***	***Unrealised Profits (losses) LL million***	*Fair value LL million*	*Book value LL million*	*Unrealised profits (losses) LL million*
FINANCIAL ASSETS						
Cash and balances with Central banks	**2,629,632**	**2,612,812**	**16,820**	2,545,177	2,506,877	38,300
Lebanese and other governmental treasury bills	**4,277,020**	**4,265,036**	**11,984**	4,180,901	4,174,808	6,093
Bonds and financial assets with fixed income	**122,484**	**122,316**	**168**	86,374	86,383	(9)
Shares, securities and financial assets with variable income	**117,867**	**117,867**	**-**	38,648	38,648	-
Banks and financial institutions	**3,245,087**	**3,242,599**	**2,488**	2,371,087	2,368,851	2,236
Loans and advances to customers	**3,379,227**	**3,366,013**	**13,214**	2,643,738	2,637,722	6,016
Bank acceptances	**265,415**	**265,415**	**-**	284,106	284,106	-
FINANCIAL LIABILITIES						
Due to central banks	**61,731**	**60,950**	**(781)**	78,026	77,085	(941)
Banks and financial institutions	**1,009,652**	**1,008,162**	**(1,490)**	874,085	876,875	2,790
Customers' deposits	**10,946,969**	**10,931,048**	**(15,921)**	9,478,505	9,461,489	(17,016)
Engagements by acceptances	**265,415**	**265,415**	**-**	284,106	284,106	-
Liabilities under financial instruments	**265,081**	**269,872**	**4,791**	266,461	273,519	7,058
Subordinated loans	**332,474**	**331,145**	**(1,329)**	49,103	47,835	(1,268)
			29,944			43,259

40 RISK MANAGEMENT

The Group Risk Management was established in early 2004 as a function handling the measurement and management of the risks. The Group Risk Management is broadly following the guidelines of the Basel 2 text to measure and assess the risks identified under the pillars 1 and 2, i.e., the credit, operational, and market risks, as well as, the interest rate risk in the banking book, the liquidity risk, and credit concentration.

The Group Risk Management has established a Risk Management Charter, which sets out the appropriate organization structure to manage the Group's Strategic, Operational, Financial and Compliance risk.

Group Risk Management Organizational Chart

As the Board of Directors is responsible to assess and manage risks, the head of risk management department reports to the Group's chairman and his main tasks are the following:

1- Portfolio management and credit risk analytics
2- Treasury mid-office and market risk
3- Operational risk
4- Group risk support
5- Compliance
6- Information security

Risk Governance

The Bank currently has five senior management committees dealing with risk related issues - Risk Management Committee (RMC), Assets & Liabilities Management Committee (ALCO), Operational Risk Management Committee (ORMC), Anti-Money Laundering Committee (AML) and the Information Security Committee (ISC). These committees are comprised of the heads of different divisions and one executive member of the Board of Directors.

The RMC is entrusted with the responsibility of managing the credit and reputational risks. It has to frame policies and procedures relating to management of such risks and ensure that these are being complied with. The RMC decisions are all advised to the Management Committee for information and implied endorsement.

40 RISK MANAGEMENT (continued)

Risk Governance (continued)
The ALCO has the responsibility of managing the balance sheet (assets and liabilities) in terms of the liquidity and interest rates, ensure compliance with regulatory ratios, manage market risk and manage capital efficiently. The ORMC is entrusted with the responsibility of managing the operational risks of the Group. The AML ensures that the Group is in compliance with anti-money laundering laws, internal and regulatory requirements. The ISC is responsible for alignment of the security program with organizational objectives.

41 CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group manages credit risk by setting limits for individual borrowers, and groups or borrowers and for geographical and industry segments. The Group also monitors credit exposures and continually assesses the creditworthiness of counter parties. In addition, the Group obtains security where appropriate, enters into master netting agreements and collateral arrangements with counter parties, and limits the duration of exposures. In certain cases the Group may also close out transactions or assign them to counterparties to mitigate credit risk.

The Group seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains the necessary securities when appropriate.

The bank uses Moody's Risk Advisor (MRA) to classify its commercial loan portfolio according to credit risks. MRA is used to classify borrowers whether corporate or small and medium enterprises in Lebanon and abroad. Corporate portfolio includes companies with a yearly turnover exceeding US$ 5 million operating in different industries. The Group risk management also established a comprehensive database which allows the monitoring of different retail products.

Risk concentration of the maximum exposure to credit risk
The below schedule shows the maximum exposure to credit risk before and after taking into account any collateral held or other credit enhancements.

	2007		*2006*	
	Gross maximum exposure LL million	***Net maximum exposure LL million***	*Gross maximum exposure LL million*	*Net maximum exposure LL million*
Cash and balances with central banks	**2,514,648**	**2,514,648**	2,435,875	2,435,875
Lebanese and other governmental treasury bills and bonds	**4,265,036**	**4,265,036**	4,174,808	4,174,808
Bonds and financial instruments with fixed income	**122,316**	**122,316**	86,383	86,383
Shares, securities and financial instruments with variable income	**117,867**	**117,867**	38,648	38,648
Banks and financial institutions	**3,242,599**	**3,242,599**	2,368,851	2,368,851
Loans and advances to customers	**3,366,013**	**2,592,070**	2,637,722	1,977,381
Bank acceptances	**265,415**	**265,415**	284,106	284,106
Other assets	**2,733**	**2,733**	3,091	3,091
Regularization accounts and other debit balances	**39,750**	**39,750**	41,274	41,274
	13,936,377	**13,162,434**	12,070,758	11,410,417
Commitments and contingencies	**1,713,189**	**1,713,189**	1,370,612	1,370,612
Undrawn commitments to lend	**1,219,225**	**1,219,225**	1,340,603	1,340,603
Total financial commitments	**2,932,414**	**2,932,414**	2,711,215	2,711,215
Total credit risk exposure	**16,868,791**	**16,094,848**	14,781,973	14,121,632

41 CREDIT RISK (continued)

Credit quality per class of financial asset
The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of asset for loan-related balance sheet lines, based on the credit rating system.

	2007				
	Neither past due nor impaired				
	High-grade LL million	***Standard grade LL million***	***Past due but not impaired LL million***	***Past due and impaired LL million***	***Total LL million***
Cash and Balances with central banks	**2,612,812**	**-**	**-**	**-**	**2,612,812**
Lebanese and other governmental treasury bills and bonds	**4,265,036**	**-**	**-**	**-**	**4,265,036**
Bonds and financial instruments with fixed income	**122,316**	**-**	**-**	**-**	**122,316**
Shares, securities and financial instruments with variable income	**117,867**	**-**	**-**	**-**	**117,867**
Banks and financial institutions	**2,765,171**	**477,428**	**-**	**12,916**	**3,255,515**
Loans and advances to customers:					
- Commercial loans	**2,362,000**	**252,140**	**26,774**	**195,984**	**2,836,898**
- Other customer loans	**630,224**	**17,242**	**68,876**	**7,486**	**723,828**
Bank acceptances	**265,415**	**-**	**-**	**-**	**265,415**
	13,140,841	**746,810**	**95,650**	**216,386**	**14,199,687**

	2006				
	Neither past due nor impaired				
	High-grade LL million	*Standard grade LL million*	*Past due but not impaired LL million*	*Past due and impaired LL million*	*Total LL million*
Cash and Balances with central banks	2,506,877	-	-	-	2,506,877
Lebanese and other governmental treasury bills and bonds	4,174,808	-	-	-	4,174,808
Bonds and financial instruments with fixed income	86,383	-	-	-	86,383
Shares, securities and financial instruments with variable income	38,648	-	-	-	38,648
Banks and financial institutions	2,035,663	333,188	-	12,892	2,381,743
Loans and advances to customers:					
- Commercial loans	1,706,366	237,695	30,419	286,306	2,260,786
- Other customer loans	552,554	8,756	64,783	5,952	632,045
Bank acceptances	284,106	-	-	-	284,106
	11,385,405	579,639	95,202	305,150	12,365,396

Standards & Poors agency rated the Lebanese Government risks “B” as at 31 December 2007 and 2006.

41 CREDIT RISK (continued)

Maximum credit risk concentration exposure

	2007			
	Lebanon LL million	***Europe LL million***	***Other countries LL million***	***Total LL million***
Balances with central banks	**2,361,312**	**28,740**	**124,596**	**2,514,648**
Lebanese and other governmental treasury bills and bonds	**4,157,471**	**20,166**	**87,399**	**4,265,036**
Bonds and financial instruments with fixed income	**112,554**	**3,728**	**6,034**	**122,316**
Shares, securities and financial instruments with variable income	**38,339**	**5,950**	**73,578**	**117,867**
Banks and financial institutions	**290,132**	**1,864,446**	**1,088,021**	**3,242,599**
Loans and advances to customers	**2,357,210**	**204,555**	**804,248**	**3,366,013**
Bank acceptances	**100,554**	**47,908**	**116,953**	**265,415**
Other assets	**2,651**	**82**	**-**	**2,733**
Regularization accounts and other debit balances	**31,022**	**8,105**	**623**	**39,750**
Total	**9,451,245**	**2,183,680**	**2,301,452**	**13,936,377**
Commitments and contingencies	**857,156**	**157,963**	**698,070**	**1,713,189**
Undrawn commitments to lend	**846,617**	**106,861**	**265,747**	**1,219,225**
Total financial commitments	**1,703,773**	**264,824**	**963,817**	**2,932,414**
Total credit risk exposure	**11,155,018**	**2,448,504**	**3,265,269**	**16,868,791**

	2006			
	Lebanon LL million	*Europe LL million*	*Other countries LL million*	*Total LL million*
Balances with central banks	2,346,451	19,035	70,389	2,435,875
Lebanese and other governmental treasury bills and bonds	4,090,978	19,146	64,684	4,174,808
Bonds and financial instruments with fixed income	6,504	2,017	77,862	86,383
Shares, securities and financial instruments with variable income	33,856	3,300	1,492	38,648
Banks and financial institutions	125,504	1,730,319	513,028	2,368,851
Loans and advances to customers	2,054,066	108,568	475,088	2,637,722
Bank acceptances	104,621	24,437	155,048	284,106
Other assets	2,735	356	-	3,091
Regularization accounts and other debit balances	22,443	5,974	12,857	41,274
Total	8,787,158	1,913,152	1,370,448	12,070,758
Commitments and contingencies	588,590	235,797	546,225	1,370,612
Undrawn commitments to lend	947,014	60,756	332,833	1,340,603
Total financial commitments	1,535,604	296,553	879,058	2,711,215
Total credit risk exposure	10,322,762	2,209,705	2,249,506	14,781,973

41 CREDIT RISK (continued)

Maximum credit risk concentration exposure (continued)

An industry sector anaylsis of the Group's financial assets, before taking into account any collateral held or other credit enhancements, is as follows:

	2007	*2006*
	LL million	*LL million*
Industry Sector:		
Commercial	**1,262,665**	1,103,272
Industrial	**604,523**	425,582
Agriculture	**79,019**	55,070
Services	**492,619**	261,828
Banks and other financial institutions	**3,482,782**	2,493,882
Construction	**390,855**	398,972
Retail	**696,854**	618,912
Government	**6,779,684**	6,610,683
Other	**147,376**	102,557
	13,936,377	12,070,758

Aging analysis of past due but not impaired loans per class of financial assets

	2007					
	Less than 90 days LL million	***91 to 180 days LL million***	***181 to 365 days LL million***	***366 to 720 days LL million***	***More than 720 days LL million***	***Total LL million***
Loans and advances to customers						
- Commercial loans	**17,047**	**9,027**	**700**	**-**	**-**	**26,774**
- Other customer loans	**45,352**	**6,364**	**4,117**	**5,710**	**7,333**	**68,876**
Total	**62,399**	**15,391**	**4,817**	**5,710**	**7,333**	**95,650**

	2006					
	Less than 90 days LL million	*91 to 180 days LL million*	*181 to 365 days LL million*	*366 to 720 days LL million*	*More than 720 days LL million*	*Total LL million*
Loans and advances to customers						
- Commercial loans	19,697	10,722	-	-	-	30,419
- Other customer loans	40,614	7,063	4,462	3,051	9,593	64,783
Total	60,311	17,785	4,462	3,051	9,593	95,202

The fair value of the collateral held against past due but not impaired facilities as at 31 December 2007 amounted to LL 36,126 million (2006: LL 31,533 million).

The outstanding balance of financial assets that were renogotiated are as follows:

	2007	*2006*
	LL million	*LL million*
Loans and advances to customers	**31,458**	6,309

42 LIQUIDITY RISK

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

The net liquid assets to customer deposits as at 31 December is as follows:

	2007	*2006*
Liquidty ratio	**42,49%**	39,50%

Analysis of financial liabilities by remaining contractual maturities
The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2007 and 2006 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay. The table does not reflect the expected cash flows that is in line with the Group's deposit retention history.

	2007					
	Up to 1 month LL million	***1 to 3 months LL million***	***3 months to 1 year LL million***	***1 to 5 years LL million***	***More than 5 years LL million***	***Total LL million***
Due to central bank	**23,511**	**438**	**1,333**	**42,412**	**-**	**67,694**
Banks and financial institutions	**493,384**	**233,884**	**46,417**	**116,139**	**178,109**	**1,067,933**
Customers' deposits	**8,331,714**	**1,221,439**	**1,267,391**	**265,352**	**7,590**	**11,093,486**
Engagment by acceptances	**95,820**	**128,918**	**40,186**	**491**	**-**	**265,415**
Liabilities under financial instruments	**3,877**	**3,256**	**13,639**	**286,631**	**-**	**307,403**
Subordinated loans	**-**	**13,206**	**14,773**	**462,050**	**-**	**490,029**
Total undiscounted financial liabilities	**8,948,306**	**1,601,141**	**1,383,739**	**1,173,075**	**185,699**	**13,291,960**

	2006					
	Up to 1 month LL million	*1 to 3 months LL million*	*3 months to 1 year LL million*	*1 to 5 years LL million*	*More than 5 years LL million*	*Total LL million*
Due to central bank	42,530	431	1,318	43,283	-	87,562
Banks and financial institutions	251,247	399,293	67,140	108,681	102,003	928,364
Customers' deposits	5,126,545	2,929,958	1,068,766	441,359	7,966	9,574,594
Engagment by acceptances	79,082	146,365	51,262	7,397	-	284,106
Liabilities under financial instruments	3,877	5,737	13,801	305,812	-	329,227
Subordinated loans	-	1,070	3,186	16,927	86,781	107,964
Total undiscounted financial liabilities	5,503,281	3,482,854	1,205,473	923,459	196,750	11,311,817

The table below summarizes the maturity profile of the Group's commitments and contingencies:

	2007					
	On demand LL million	***Less than 3 months LL million***	***3 to 12 months LL million***	***1 to 5 years LL million***	***More than 5 years LL million***	***Total LL million***
Commitments and contingencies	**207,959**	**442,178**	**722,243**	**334,481**	**6,328**	**1,713,189**
Undrawn commitments to lend	**1,103,864**	**45,348**	**70,013**	**-**	**-**	**1,219,225**
	1,311,823	**487,526**	**792,256**	**334,481**	**6,328**	**2,932,414**

42 LIQUIDITY RISK (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

	2006					
	On demand LL million	*Less than 3 months LL million*	*3 to 12 months LL million*	*1 to 5 years LL million*	*More than 5 years LL million*	*Total LL million*
Commitments and contingencies	96,864	277,081	657,370	333,373	5,924	1,370,612
Undrawn conmmitments to lend	1,107,003	163,083	70,517	-	-	1,340,603
	1,203,867	440,164	727,887	333,373	5,924	2,711,215

The Group expects that not all the commitments and contingencies will be demanded before maturity.

Maturity analysis of assets and liabilities

The table below summarises the maturity profile of the Group's assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

The maturity profile of the assets and liabilities at 31 December 2007 was as follows:

	2007					
(Amounts in LL million)	***Up to 1 month***	***1 to 3 months***	***3 months to 1 year***	***1 to 5 years***	***Over 5 years***	***Total***
ASSETS						
Cash and balances with central banks	**1,006,295**	**175,353**	**24,219**	**1,285,750**	**121,195**	**2,612,812**
Lebanese and other governmental treasury bills and bonds	**37,939**	**409,062**	**606,394**	**2,244,057**	**967,584**	**4,265,036**
Bonds and financial instruments with fixed income	**5**	**2,441**	**2,425**	**105,477**	**11,968**	**122,316**
Shares, securities and financial instruments with variable income	**96,940**	**-**	**-**	**5,953**	**14,974**	**117,867**
Banks and financial institutions	**2,526,331**	**485,724**	**177,101**	**46,402**	**7,041**	**3,242,599**
Loans and advances to customers	**1,513,821**	**272,042**	**420,035**	**869,438**	**290,677**	**3,366,013**
Bank acceptances	**95,820**	**128,918**	**40,186**	**491**	**-**	**265,415**
Tangible fixed assets	**12**	**-**	**-**	**-**	**243,725**	**243,737**
Intangible assets	**-**	**-**	**-**	**-**	**1,199**	**1,199**
Other assets	**868**	**102**	**576**	**-**	**1,187**	**2,733**
Regularisation accounts and other debit balances	**22,851**	**1,950**	**16,861**	**6,724**	**7,789**	**56,175**
Total assets	**5,300,882**	**1,475,592**	**1,287,797**	**4,564,292**	**1,667,339**	**14,295,902**
LIABILITIES						
Due to Central Bank	**23,511**	**7**	**15**	**37,417**	**-**	**60,950**
Banks and financial institutions	**510,641**	**231,752**	**44,735**	**98,357**	**122,677**	**1,008,162**
Customers' deposits	**8,300,482**	**1,157,591**	**1,231,304**	**238,031**	**3,640**	**10,931,048**
Engagements by acceptances	**95,820**	**128,918**	**40,186**	**491**	**-**	**265,415**
Liabilities under financial instruments	**3,856**	**2,570**	**1,171**	**262,275**	**-**	**269,872**
Other liabilities	**29,577**	**25,972**	**60,132**	**45,346**	**15**	**161,042**
Regularisation accounts and other credit balances	**9,742**	**31,507**	**-**	**9,550**	**-**	**50,799**
Provisions for risks and charges	**-**	**-**	**-**	**-**	**65,510**	**65,510**
Subordinated loans	**-**	**-**	**2,243**	**328,902**	**-**	**331,145**
TOTAL LIABILITIES	**8,973,629**	**1,578,317**	**1,379,786**	**1,020,369**	**191,842**	**13,143,943**
NET LIQUIDITY GAP	**(3,672,747)**	**(102,725)**	**(91,989)**	**3,543,923**	**1,475,497**	**1,151,959**

42 LIQUIDITY RISK (continued)

The maturity profile of the assets and liabilities at 31 December 2006 were as follows:

	2006					
(Amounts in LL million)	*Up to 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Total*
ASSETS						
Cash and balances with central banks	1,290,708	77,614	76,717	982,195	79,643	2,506,877
Lebanese and other governmental treasury bills and bonds	50,522	163,010	344,017	3,263,445	353,814	4,174,808
Bonds and financial instruments with fixed income	3	917	5,589	33,353	46,521	86,383
Shares, securities and financial instruments with variable income	17,782	-	-	-	20,866	38,648
Banks and financial institutions	1,438,374	725,225	171,636	25,070	8,546	2,368,851
Loans and advances to customers	1,232,272	165,339	281,457	741,882	216,772	2,637,722
Bank acceptances	79,082	146,365	51,262	7,397	-	284,106
Tangible fixed assets	-	-	-	-	189,398	189,398
Intangible assets	-	-	-	-	1,324	1,324
Other assets	485	-	-	-	2,606	3,091
Regularisation accounts and other debit balances	40,036	96	136	9,227	6,055	55,550
Total assets	4,149,264	1,278,566	930,814	5,062,569	925,545	12,346,758
LIABILITIES						
Due to Central Bank	42,530	5	-	34,550	-	77,085
Banks and financial institutions	249,952	399,046	65,226	93,288	69,363	876,875
Customers' deposits	5,110,932	2,920,135	1,038,175	387,489	4,758	9,461,489
Engagements by acceptances	79,082	146,365	51,262	7,397	-	284,106
Liabilities under financial instruments	3,486	2,527	1,156	266,350	-	273,519
Other liabilities	8,477	-	2,638	-	144,444	155,559
Regularisation accounts and other credit balances	1,078	1,359	-	9,226	25,827	37,490
Provisions for risks and charges	-	-	-	-	46,718	46,718
Subordinated loans	-	1,070	-	-	46,765	47,835
TOTAL LIABILITIES	5,495,537	3,470,507	1,158,457	798,300	337,875	11,260,676
NET LIQUIDITY GAP	(1,346,273)	(2,191,941)	(227,643)	4,264,269	587,670	1,086,082

43 INTEREST RATE RISK AND MARKET RISK

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

Interest rate sensitivity

The table below shows the sensitivity of interest income and shareholders' equity to reasonably possible parallel changes in interest rates, all other variables being held constant.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2007, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets, including the effect of any associated hedges, and swaps designated as cash flow hedges, at 31 December 2007 for the effects of the assumed changes in interest rates. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

43 INTEREST RATE RISK AND MARKET RISK (continued)

Interest rate sensitivity (continued)

		2007		2006	
Curency	*Increase in interest rate*	*Net effect on interest income LL million*	*Net effect on shareholders equity LL million*	*Net effect on interest income LL million*	*Net effect on shareholders equity LL million*
LBP	+5%	**(6,455)**	**(2,565)**	(8,840)	-
Other currencies	+5%	**(8,555)**	**(18,463)**	(8,697)	(21,166)
		(15,010)	**(21,028)**	(17,537)	(21,166)

Effective interest rates on financial instruments
The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

The effective interest rates of the financial instruments denominated in Lebanese Lira and foreign currencies, primarily US Dollars, are as follows:

	2007		2006	
	Foreign currencies	*LL*	*Foreign currencies*	*LL*
	%	%	%	%
ASSETS				
Balances with central banks:				
- Weighted average rate of placements and other certificates of deposit	**6.23**	**8.06**	5.62	8.5
Lebanese and other governmental treasury bills and bonds	**8.39**	**9.06**	7.41	8.85
Bonds and other financial assets with fixed income	**7.25**	**-**	5.89	-
Banks	**5.21**	**3.35**	4.72	4.78
Loans and advances to customers:				
- Weighted average rate, including:	**8.48**	**8.04**	8.11	7.75
- Commercial loans	**8.3**	**11.49**	8.30	11.51
- Other loans to customers	**9.8**	**7.4**	9.09	7.14
LIABILITIES				
Central Bank	**-**	**9.29**	-	7.95
Banks and financial institutions:				
- Weighted average rate, including:	**5.01**	**5.45**	4.62	4.48
- Deposits	**4.57**	**5.45**	3.97	4.48
- Loans	**7.12**	**-**	6.72	-
Customers' deposits	**4.97**	**7.73**	4.57	7.85
Subordinated loans	**8.15**	**-**	11.38	-
Certificates of deposit	**6.28**	**-**	6.35	-

43 INTEREST RATE RISK AND MARKET RISK (continued)

The Group's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2007 was as follows:

	2007						
(Amounts in LL million)	*Up to 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Non interest bearing items*	*Total*
ASSETS							
Cash and balances with central banks	**779,417**	**168,995**	**11,601**	**1,271,324**	**106,359**	**275,116**	**2,612,812**
Lebanese and other governmental treasury bills and bonds	**35,893**	**395,834**	**587,948**	**2,193,511**	**951,178**	**100,672**	**4,265,036**
Bonds and financial instruments with fixed income	**-**	**-**	**1,772**	**68,876**	**47,006**	**4,662**	**122,316**
Shares, securities and financial instruments with variable income	**-**	**-**	**-**	**-**	**-**	**117,867**	**117,867**
Banks and financial institutions	**2,514,303**	**519,222**	**155,457**	**32,064**	**6,800**	**14,753**	**3,242,599**
Loans and advances to customers	**1,503,238**	**310,883**	**692,932**	**683,741**	**168,701**	**6,518**	**3,366,013**
Bank acceptances	**95,819**	**99,614**	**40,186**	**492**	**-**	**29,304**	**265,415**
Tangible fixed assets	**-**	**-**	**-**	**-**	**-**	**243,737**	**243,737**
Intangible assets	**-**	**-**	**-**	**-**	**-**	**1,199**	**1,199**
Other assets	**-**	**-**	**-**	**-**	**-**	**2,733**	**2,733**
Regularisation accounts and other debit balances	**-**	**-**	**-**	**-**	**-**	**56,175**	**56,175**
Total assets	**4,928,670**	**1,494,548**	**1,489,896**	**4,250,008**	**1,280,044**	**852,736**	**14,295,902**
LIABILITIES AND EQUITY							
Due to central banks	**23,511**	**2**	**15**	**37,417**	**-**	**5**	**60,950**
Banks and financial institutions	**483,477**	**230,613**	**44,448**	**98,651**	**117,625**	**33,348**	**1,008,162**
Customers' deposits	**8,052,772**	**1,194,919**	**1,216,358**	**223,555**	**4,746**	**238,698**	**10,931,048**
Engagements by acceptances	**125,123**	**99,614**	**40,186**	**492**	**-**	**-**	**265,415**
Liabilities under financial instruments	**-**	**-**	**-**	**269,872**	**-**	**-**	**269,872**
Other liabilities	**20,445**	**12,270**	**48,371**	**-**	**-**	**79,956**	**161,042**
Regularisation accounts and other credit balances	**-**	**-**	**-**	**-**	**-**	**50,799**	**50,799**
Provisions for risks and charges	**-**	**-**	**-**	**-**	**-**	**65,510**	**65,510**
Subordinated loans	**-**	**-**	**2,166**	**327,844**	**-**	**1,135**	**331,145**
Total equity	**82,300**	**-**	**-**	**-**	**-**	**1,069,659**	**1,151,959**
Total liabilities and equity	**8,787,628**	**1,537,418**	**1,351,544**	**957,831**	**122,371**	**1,539,110**	**14,295,902**
Total interest rate sensitivity gap	**(3,858,958)**	**(42,870)**	**138,352**	**3,292,177**	**1,157,673**	**(686,374)**	
Cumulative interest rate sensitivity gap	**(3,858,958)**	**(3,901,828)**	**(3,763,476)**	**(471,299)**	**686,374**	**-**	

43 INTEREST RATE RISK AND MARKET RISK (continued)

The Group's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2006 was as follows:

	2006						
(Amounts in LL million)	*Up to 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Non interest bearing items*	*Total*
ASSETS							
Cash and balances with central banks	1,158,473	75,375	75,375	957,251	65,002	175,401	2,506,877
Lebanese and other governmental treasury bills and bonds	24,609	110,979	315,659	3,262,921	353,718	106,922	4,174,808
Bonds and financial instruments with fixed income	-	-	4,826	33,271	46,434	1,852	86,383
Shares, securities and financial instruments with variable income	-	-	-	-	-	38,648	38,648
Banks and financial institutions	1,434,602	723,352	165,659	24,995	8,546	11,697	2,368,851
Loans and advances to customers	1,232,184	215,294	502,648	571,071	101,946	14,579	2,637,722
Bank acceptances	79,082	61,264	51,262	7,395	-	85,103	284,106
Tangible fixed assets	-	-	-	-	-	189,398	189,398
Intangible assets	-	-	-	-	-	1,324	1,324
Other assets	-	-	-	-	-	3,091	3,091
Regularisation accounts and other debit balances	-	-	-	-	-	55,550	55,550
Total assets	3,928,950	1,186,264	1,115,429	4,856,904	575,646	683,565	12,346,758
LIABILITIES AND EQUITY							
Due to central banks	-	-	-	34,550	-	42,535	77,085
Banks and financial institutions	249,284	398,017	64,675	87,425	71,567	5,907	876,875
Customers' deposits	5,069,170	2,911,012	1,028,859	381,516	4,758	66,174	9,461,489
Engagements by acceptances	79,082	61,264	51,262	7,395	-	85,103	284,106
Liabilities under financial instruments	3,486	-	1,156	266,350	-	2,527	273,519
Other liabilities	-	-	-	-	-	155,559	155,559
Regularisation accounts and other credit balances	-	-	-	-	-	37,490	37,490
Provisions for risks and charges	-	-	-	-	-	46,718	46,718
Subordinated loans	-	-	-	-	46,765	1,070	47,835
Total equity	-	-	-	-	-	1,086,082	1,086,082
Total liabilities and equity	5,401,022	3,370,293	1,145,952	777,236	123,090	1,529,165	12,346,758
Total interest rate sensitivity gap	(1,472,072)	(2,184,029)	(30,523)	4,079,668	452,556	(845,600)	
Cumulative interest rate sensitivity gap	(1,472,072)	(3,656,101)	(3,686,624)	393,044	845,600	-	

44 CURRENCY RISK

Currency risk arises when the value of a financial instrument fluctuates due to changes in foreign exchange rates. The Bank protects its capital and reserves by holding a foreign currency position in US Dollars representing 60% of its equity after adjustment according to specific requirements set by the Bank of Lebanon. The Bank is also allowed to hold a net trading position, debit or credit, not to exceed 1% of its net equity, as long as the global foreign position does not exceed, at the same time, 40% of its equity (Bank of Lebanon circular number 32).

44 CURRENCY RISK (continued)

Group's sensitivity to currency exchange rates

The table below shows the currencies to which the Group had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecast cash flows. The numbers represent the effect of a reasonably possible movement of the currency rate against the Lebanese Lira, with all other variables held constant, first on the consolidated income statement (due to the potential change in fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges). A negative amount reflects a potential net reduction in income or equity, while a positive amount reflects a net potential increase.

		2007		*2006*	
Curency	***Change in currency rate %***	***Effect on profit before tax LL million***	***Effect on equity LL million***	*Effect on profit before tax LL million*	*Effect on equity LL million*
US Dollar	**+5**	**(4,654)**	**73,481**	1,296	53,113
Euro	**+5**	**(560)**	**1,418**	(535)	1,299
GBP	**+5**	**(116)**	**-**	(190)	-
Other currencies	**+5**	**6,400**	**1,117**	407	6
		1,070	**76,016**	978	54,418

The following consolidated balance sheet as of 31 December 2007, is detailed in Lebanese Lira (LL) and foreign currencies translated into Lebanese Lira and US Dollars.

	2007			
		Foreign currencies		***Total***
	LL million	***USD (000)***	***C/V LL million***	***LL million***
ASSETS				
Cash and balances with central banks	**717,743**	**1,257,094**	**1,895,069**	**2,612,812**
Lebanese and other governmental treasury bills and bonds	**2,134,306**	**1,413,420**	**2,130,730**	**4,265,036**
Bonds and financial instruments with fixed income	**-**	**81,138**	**122,316**	**122,316**
Shares, securities and financial instruments with variable income	**15,147**	**68,139**	**102,720**	**117,867**
Banks and financial institutions	**51,954**	**2,116,514**	**3,190,645**	**3,242,599**
Loans and advances to customers	**393,306**	**1,971,945**	**2,972,707**	**3,366,013**
Bank acceptances	**-**	**176,063**	**265,415**	**265,415**
Tangible fixed assets	**110,729**	**88,231**	**133,008**	**243,737**
Intangible fixed assets	**1,199**	**-**	**-**	**1,199**
Other assets	**2,631**	**67**	**102**	**2,733**
Regularisation accounts and other debit balances	**20,818**	**23,454**	**35,357**	**56,175**
Total assets	**3,447,833**	**7,196,065**	**10,848,069**	**14,295,902**
LIABILITIES AND EQUITY				
Due to central banks	**36,535**	**16,196**	**24,415**	**60,950**
Banks and financial institutions	**13,741**	**659,649**	**994,421**	**1,008,162**
Customers' deposits	**2,740,105**	**5,433,461**	**8,190,943**	**10,931,048**
Engagements by acceptances	**-**	**176,063**	**265,415**	**265,415**
Liabilities under financial instruments	**-**	**179,020**	**269,872**	**269,872**
Other liabilities	**28,034**	**88,231**	**133,008**	**161,042**
Regularisation accounts and other credit balances	**15,254**	**23,579**	**35,545**	**50,799**
Provisions for risks and charges	**65,228**	**187**	**282**	**65,510**
Subordinated notes	**-**	**219,665**	**331,145**	**331,145**
Share capital	**494,456**	**-**	**-**	**494,456**
Reserve for general banking risks	**36,039**	**13,849**	**20,877**	**56,916**
Other reserves and premiums	**184,048**	**136,033**	**205,073**	**389,121**
Retained earnings	**10,673**	**302**	**454**	**11,127**
Net result of the financial period – profit	**124,920**	**11,694**	**17,630**	**142,550**
Revaluation variance of fixed assets	**5,689**	**-**	**-**	**5,689**
Cumulative changes in fair values	**9,715**	**(37,121)**	**(55,959)**	**(46,244)**
Foreign currency translation difference	**1,116**	**13,634**	**20,553**	**21,669**
Treasury Shares	**(947)**	**-**	**-**	**(947)**
Minority interests	**8,666**	**45,742**	**68,956**	**77,622**
Total liabilities and equity	**3,773,272**	**6,980,184**	**10,522,630**	**14,295,902**

44 CURRENCY RISK (continued)

The following consolidated balance sheet as of 31 December 2006, is detailed in Lebanese Lira (LL) and foreign currencies translated into Lebanese Lira and US Dollars.

	2006			
		Foreign currencies		*Total*
	LL million	*USD (000)*	*C/V LL million*	*LL million*
ASSETS				
Cash and balances with central banks	966,768	1,021,631	1,540,109	2,506,877
Lebanese and other governmental treasury bills and bonds	2,225,740	1,292,914	1,949,068	4,174,808
Bonds and financial instruments with fixed income	-	57,302	86,383	86,383
Shares, securities and financial instruments with variable income	14,219	16,205	24,429	38,648
Banks and financial institutions	15,904	1,560,827	2,352,947	2,368,851
Loans and advances to customers	333,058	1,528,798	2,304,664	2,637,722
Bank acceptances	-	188,462	284,106	284,106
Tangible fixed assets	105,574	55,605	83,824	189,398
Intangible fixed assets	1,324	-	-	1,324
Other assets	2,715	249	376	3,091
Regularisation accounts and other debit balances	19,000	24,245	36,550	55,550
Total assets	3,684,302	5,746,238	8,662,456	12,346,758
LIABILITIES AND EQUITY				
Due to central banks	34,555	28,212	42,530	77,085
Banks and financial institutions	31,905	560,511	844,970	876,875
Customers' deposits	2,726,360	4,467,747	6,735,129	9,461,489
Engagements by acceptances	-	188,462	284,106	284,106
Liabilities under financial instruments	-	181,439	273,519	273,519
Other liabilities	25,175	86,490	130,384	155,559
Regularisation accounts and other credit balances	4,368	21,971	33,122	37,490
Provisions for risks and charges	45,573	760	1,145	46,718
Subordinated notes	-	31,731	47,835	47,835
Share capital	494,456	-	-	494,456
Reserve for general banking risks	27,338	13,812	20,821	48,159
Other reserves and premiums	170,854	114,586	172,738	343,592
Retained earnings	18,359	308	465	18,824
Net result of the financial period – profit	106,340	6,003	9,049	115,389
Revaluation variance of fixed assets	5,689	-	-	5,689
Cumulative changes in fair values	8,791	(13,958)	(21,041)	(12,250)
Foreign currency translation reserve	11,638	-	-	11,638
Treasury Shares	(366)	-	-	(366)
Minority interests	7,937	35,167	53,014	60,951
Total liabilities and equity	3,718,972	5,723,241	8,627,786	12,346,758

45 EQUITY PRICE RISK

Equity price risk is the risk that the fair value of equities decrease as a result of a variation in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Group's investment portfolio.

The effect on equity (as a result of a change in the fair value of equity instruments held as available-for-sale at 31 December 2007) due to a reasonable possible change in equity indices, with all other variables held consistant, is as follows:

Market indices	***Change in equity price %***	***2007 Effect on equity LL million***	*2006 Effect on equity LL million*
Jordan stock exchange	**+5**	**3,630**	**-**

46 OPERATIONAL RISK

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

47 PREPAYMENT RISK

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The Group's assets with fixed interest rates are not considered material with respect to the total assets. Moreover, other market risks that lead to prepayments are not material with respect to the markets where the Group operates. Accordingly, the Group considers prepayment risk on net profits as not material after considering any penalties arising from prepayments.

48 CAPITAL MANAGEMENT

The primary objectives of capital management are to ensure compliance with externally imposed capital requirements and that maintaining strong credit ratings and healthy capital ratios in order to support business and to maximize shareholders' value.

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

Capital consists of the following as of 31 December 2007 and 2006:

	2007	*2006*
	LL million	*LL million*
Tier 1 Capital	**951,620**	905,031
Tier 2 Capital	**286,879**	37,563
Total Capital	**1,238,499**	942,594

Tier 1 Capital consists of capital, reserves and brought forward results. Tier 2 capital consists of revaluation variance recognized in the complementary equity, subordirated loans and cumulative changes in fair values.

49 RECONCILIATION BETWEEN ACCOUNTING AND TAXABLE PROFITS FOR THE YEAR - 2007

	Accounting profit (loss) LL million	*Taxable profit (loss) LL million*	*Income tax rate %*	*Income tax due LL million*
Group banks and companies:				
Lebanese banks and companies				
- Byblos Bank SAL – Lebanon branches	**121,729**	**154,750**	**15**	**23,213**
- Byblos Invest Bank SAL *	**13,575**	**-**	**15**	**-**
- Adonis Insurance & Reinsurance Co. SAL **	**4,016**	**2,380**	**15**	**357**
- Adonis Brokerage House SAL	**330**	**392**	**15**	**59**
Foreign banks				
- Byblos Bank Europe SA	**8,371**	**10,829**	**24**	**2,599**
- Byblos Bank - Limassol branch	**2,166**	**2,690**	**10**	**269**
- Byblos Bank Africa ***	**14,526**	**-**	**-**	**-**
- Byblos Bank Syria	**800**	**2,789**	**25**	**723**
- Byblos Bank – Erbil branch	**(703)**	**-**	**-**	**-**
- Byblos Bank Armenia cjsc	**(287)**	**-**	**-**	**-**
- Adonis Insurance & Reinsurance Syria	**(154)**	**-**	**-**	**-**
	164,369			

(*) Byblos Invest Bank SAL was established in 2003. The bank is exempt from income tax on profit for seven years from inception till 2009.

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

(***) Income tax due on Byblos Bank Africa profit represents “Tax” paid in accordance with Islamic Banking Regulations.

50 LEGAL CLAIMS

Litigation is a common occurrence in the banking industry due to the nature of the business. The Group has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. Management, after review with its legal counsel of all pending actions and proceedings, considers that the aggregate liability or loss, if any, resulting from an adverse determination would not have a material effect on the financial position of the Group.

51 PROPOSED ALLOCATION OF 2007 NET PROFIT

The Board of Directors convened on 17 April 2008 and proposed a distribution to the preferred shares at US$ 12 per share, a distribution to the priority shares calculated as 4% of the nominal value of the share, which amounts to LL 48 per share, and a dividend distribution to the ordinary and priority shares at LL 150 per share (net of tax) after the allocation of part of the unconsolidated profit of the Bank for the year 2007 to the reserves and premiums.