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In 2007, financial activity in the Lebanese market regained some momentum in spite of the persistent political turmoil in Lebanon and the region. Interest rates continued their downward trend, prompting market players to re-position their portfolio of interest earning assets and re-pricing their liabilities in an effort to lower their cost of funds.

With in this environment, and at the close of a year of positive achievements for our Bank, it is my pleasure to present you with the annual report for the year ended December 31, 2007.

At BBAC s.a.l. we have been building our business to deliver what matters most to the people we value most: relevant and diversified products and services for our clients, growth and strong financial performance for our shareholders.

For BBAC s.a.l., the year 2007 is best characterized as a year of profitable transition. We fully implemented our Bank's new structure. We re-aligned the executive focus areas and reporting lines to support the Bank's growth objectives, and to provide more flexibility for the deployment of capital beyond the Lebanese borders. By year end, BBAC was better poised than ever to further accelerate the growth and diversification recorded in the past few years.

The Bank recorded a net profit of LBP32 billion (US$ 21.2 million) for the financial year 2007, an increase of 25.34% from LBP25.5 billion (US$16.9 million) in 2006. Total assets increased by 9.6% year-on-year, while loans and advances grew by 13% and customers deposits improved by 9.5% for the same period. Net liquidity was maintained at its high level of 89.6% and the capital adequacy ratio remained strong at 25.5% under Basle 1 requirements and 11.7% under the Basle 2 standards. We have enhanced the quality of the Bank's assets by taking appropriate provisions through the implementation of the IFRS and IAS standards in this regard. The ratio of doubtful loans to gross loans decreased from 14.5% in 2006 to 12.9% at the end of 2007. Our provisions for doubtful loans have reached 82% of total doubtful debt by the end of the year.

In order to sustain this trend, our strategy will focus on three major attributes: modernization, efficiency and growth. In this respect, we have undertaken plans to modernize our systems, equipment and procedures to state-of-the-art levels. Our top priority is to enhance our client-led model as to meet customers' demands and expectations in the most efficient way possible. We will strive toward higher growth levels both organically and through expansion. Locally, we are targeting new areas as well as new market segments, and regionally, we have established presence in the UAE and Iraq and will continue to do the same for Syria and Africa in the year to come.

During 2007, BBAC re-positioned itself as a profitable and growing bank in the sector. This performance is highly satisfactory not only in itself, as being the result of a year of constant work and effort, but for having been achieved in strenuous times, carried out in a coordinated way and with decided and professional collaboration of all our staff, that enable us to persevere in the creation of value for our Bank. However, building value in a sustainable way requires embracing decisively a dynamic that directs the business toward sustained growth.

Ghassan T. Assaf
Chairman General Manager

BBAC Management

Performance Highlights

	2007 (in million LBP)	2007 (in thousand USD)	2006 (in million LBP)	2006 (in thousand USD)	Change 2007-2006
Total Assets	4,442,909	2,947,203	4,053,733	2,689,043	9.60%
Total Loans and Advances	739,922	490,827	654,519	434,175	13.05%
Total Net Liquidity	3,354,555	2,225,244	3,094,683	2,052,858	8.40%
Deposits from Customers	3,743,818	2,483,461	3,418,797	2,267,859	9.51%
Shareholders' Equity*	312,891	207,556	288,879	191,628	8.31%
Profits-after tax	32,026	21,244	25,550	16,949	25.34%

* Including LBP 10 billion accepted in owners' equity, out of LBP 21.06 billion of revaluation variance of tangible fixed assets.

BBAC Management

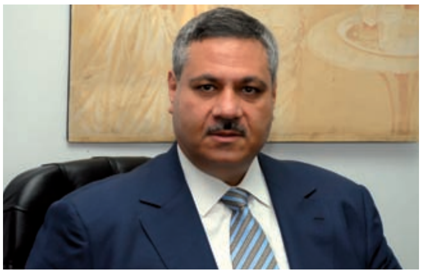
(in percent)	2007	2006
Liquidity Ratios		
Net Liquidity LBP	90.75	94.43
Net Liquidity FC	89.21	88.96
Net Liquidity Total	89.60	90.52
Loans / Deposits LBP	19.14	16.32
Loans / Deposits FC	19.98	20.27
Loans / Deposits Total	19.76	19.14
Liquid Assets / Assets	79.77	79.94
Asset Quality *		
Doubtful Loans / Gross Loans	12.94	14.50
Provisions for Doubtful Loans / Doubtful Loans	82.17	77.39
Provisions for Loans / Gross Loans	11.21	11.67
Net Doubtful / Assets	0.43	0.60
Capital Adequacy Ratios		
Capital Adequacy Ratio (Total)	25.51	26.84
Capital Adequacy Ratio (Including After Tax Profits)	28.31	29.38
Capital Adequacy Ratio according to Basel II	11.67	-
Profitability Ratios		
Return on Average Assets ROAA after tax	0.75	0.65
Return on Average Equity ROAE after tax	10.64	10.60
Number of Common Shares outstanding (million)	72	72
Number of Preferred Shares outstanding (million)	5	5
Earnings per Share EPS in LBP after tax	444.80	354.9
Dividends per Common Share DPS in LBP**	98	89
Dividends per Preferred Share in LBP	1,244	552
Dividends Payout Ratio	34.75	35.14
Retention Ratio	65.25	64.86
Net Asset Value per Share in LBP	4,499	4,166
Management Efficiency		
Interest Paid / Interest Received	76.60	75.03
Cost per Average Branch (LBP million)	1,447	1,337
Net Commissions / Net Financial Income	18.11	18.01
Cost / Income	55.92	59.19
Exchange Rate (LBP/USD)* **	**1507.5**	**1507.5**

* Non-accrual interest is included in non-performing loans; unrealized interest is included in provisions.
** An additional interest payment of about LBP 1.194 billion was made on the cash contributions.
*** The closing rate of the Lebanese Pound against the USD as set by the Central Bank.

Board of Directors

Chairman General Manager Sheikh Ghassan T. Assaf

Vice Chairman Judge Abbas Halabi



Member Mr. Walid T. Assaf

Member Mr. Ali Assaf

Secretary Me. Amine Rizk

Major Shareholders and Management

Major Shareholders

Assaf Family	54.06 %
Fransabank s.a.l.	37.05 %
Other Shareholders	8.89 %

Board of Directors

Sheikh Ghassan T. Assaf	Chairman - General Manager
Dr. Abbas Halabi	Vice Chairman
Mr. Walid Assaf	Member
Mr. Ali Assaf	Member
Me. Amine Rizk	Secretary of the Board

Solicitors

Me. Chafic Khalaf
Me. Amine Rizk
Me. Ramzi Haykal
Me. Assaad Najm
Me. Paul Morcos

Auditors

PriceWaterhouse Coopers

Executive Advisors to the Chairman

Mr. Georges Mirza	Credit and Recovery
Mr. Omar Saab	Business & Development
Mr. Chawki Badr	Business & Development
Dr. Amalia Azouri	Economic Studies

General Management

Dr. Saad Andary	Deputy General Manager - Asset Management Division
Mr. Jean Mehanna	Assistant General Manager - Retail Banking Division
Mr. Walid Haddad	Support Division & Operations
Mr. Jihad Njeim	Human Resources Department
Mr. Raja Makarem	Risk Management Department
Mr. Marwan Tayara	Recovery and Restructuring Department
Mr. Sami Saliba	CFO - Accounting and Financial Control Department
Mr. Nadim Hamade	Credit Department
Mr. Michel Kazan	Branch Management
Ms. Wafaa Abed	Internal Audit Department
Ms. Sabah Khatounian	Administration Department
Mr. Talal Abou Ziki	Compliance Unit
Mr. Ramzi Abi Fares	Marketing Department & Business Development
Ms. Lina Makarem	Treasury & Capital Markets Department
Mr. Wael Dbaissy	Organization and Methods Unit
Mr. Salim Karam	Insurance Unit
Me. Amine Rizk	Legal Department
Me. Paul Morcos	Legal Department
Mr. Pierrot Atallah	IT Department
Mr. Chadi Chami	Cards & E-Banking Department
Ms. Rana Baydoun	Correspondent Banking Unit
Ms. Dina Bou Saba	Private Banking Unit
Ms. Hilda Ashkar	Operations Department

Excerpts from BBAC's Ordinary General Assembly of Shareholders

June 24, 2008

Resolution no. 1

The Ordinary General Assembly of BBAC Shareholders approved the activities, accounts, balance sheet and the profit and loss statements for the year ending December 31, 2007.

Resolution no. 2

The Ordinary General Assembly of BBAC Shareholders resolved the appropriation of the profits for the year 2007 as follows:

(LBP thousands)	2007
Profits for the year 2007	32,024,411
Less: Appropriation of 10% to Legal reserves	3,202,441
Appropriation for General Banking Risks	2,300,000
Profits Carried Forward for 2005	33,231,700
Less: Dividend on Preferred Shares	6,218,437
Less: Dividend on Common Shares	7,056,000
Less: Interest on Cash Contribution	1,193,761
Profits Carried Forward for 2007	**45,285,472**

BBAC Financial Statements

Balance Sheet as at December 31, 2007

ASSETS (LBP Millions)	2007 LBP	2007 FCY	2007 Total	2006 LBP	2006 FCY	2006 Total
Cash and Bank of Lebanon	**309,703**	**665,688**	**975,391**	**344,562**	**615,945**	**960,507**
Lebanese Treasury bills	**541,934**	**560,869**	**1,102,803**	**579,107**	**580,579**	**1,159,686**
Loans and Advances to banks	**21,993**	**1,277,264**	**1,299,257**	**170**	**1,093,576**	**1,093,746**
Trading Securities	**2,229**	**26,555**	**28,784**	**548**	**13,131**	**13,679**
Loans and advances to customers *	**182,125**	**557,797**	**739,922**	**159,347**	**495,172**	**654,519**
Debtors by acceptances	**-**	**53,361**	**53,361**	**-**	**65,464**	**65,464**
Investment Securities	**562**	**137,269**	**137,831**	**562**	**12,552**	**13,114**
- Available-for-trading	-	58,278	**58,278**	-	-	**-**
- Available-for-sale	562	9,273	**9,835**	562	-	**562**
- Held-to-maturity	-	69,718	**69,718**	-	12,552	**12,552**
Investments in Subsidiaries	**3,524**	**-**	**3,524**	**3,524**	**-**	**3,524**
Property acquired in settlement of debt	**(99)**	**31,950**	**31,851**	**(816)**	**29,616**	**28,800**
Investment property	**9,877**	**-**	**9,877**	**9,989**	**-**	**9,989**
Intangible assets	**1,238**	**104**	**1,342**	**421**	**124**	**545**
Property and equipment	**33,150**	**169**	**33,319**	**29,959**	**182**	**30,141**
Other Assets	**6,849**	**18,798**	**25,647**	**4,058**	**15,961**	**20,019**
Total Assets	**1,113,085**	**3,329,824**	**4,442,909**	**1,131,431**	**2,922,302**	**4,053,733**
Total Assets C/V in thousand USD			**2,947,203**			**2,689,043**
Off-Balance Sheet			**2,237,727**			**2,006,253**
Engagements by signature received from financial intermediaries			141			127
Other engagements received			2,237,585			2,006,126

	2007	2006
*** After deduction of:**	**88,590**	**83,122**
Provisions for doubtful loans	60,867	54,571
Unrealized interest for doubtful loans	27,723	28,551
*** After deduction of:**	**14,636**	**15,000**
Payables against receivables	14,636	15,000
*** Including net non-performing loans:**	**4,895**	**8,011**
Substandard loans	9,741	11,366
Unrealized interest for substandard loans	4,846	3,356

Balance Sheet as at December 31, 2007

LIABILITIES & SHAREHOLDERS' EQUITY (LBP Millions)	2007 LBP	2007 FCY	2007 Total	2006 LBP	2006 FCY	2006 Total
Liabilities						
Deposits from banks	12,780	176,731	189,511	3,192	142,857	146,049
Due to customers	951,646	2,792,172	3,743,818	976,170	2,442,627	3,418,797
Certificates of deposit	-	77,003	77,003	-	77,023	77,023
Engagements by acceptances	-	53,361	53,361	-	65,464	65,464
Other liabilities	(4,261)	45,638	41,377	15,686	17,580	33,266
Current income tax liability	1,000	-	1,000	769	-	769
Retirement benefit obligations	12,145	742	12,887	11,683	742	12,425
Total Liabilities	973,310	3,145,647	4,118,957	1,007,500	2,746,293	3,753,793
Shareholders' equity						
Share capital and cash contribution to capital	77,000	43,109	120,109	77,000	42,120	119,120
Premium (Preferred Shares)	-	70,375	70,375	-	70,375	70,375
Legal reserves	29,339	-	29,339	26,137	-	26,137
Other reserves	3,972	-	3,972	3,972	-	3,972
Reserve for unidentified banking risks	17,982	-	17,982	15,682	-	15,682
Real estate revaluation surplus*	21,061	-	21,061	21,061	-	21,061
Revaluation on AFS	346	1,012	1,358	-	-	-
Retained earnings	52,069	7,687	59,756	33,917	9,676	43,593
Total Shareholders' Equity	201,769	122,183	323,952	177,769	122,171	299,940
Total Liabilities & Shareholders' Equity	1,175,079	3,267,830	4,442,909	1,185,269	2,868,464	4,053,733
Total Liabilities & Shareholders' Equity in thousand USD			2,947,203			2,689,043
Off-Balance Sheet						
Engagements by endorsement given to:			133,594			103,523
Financial intermediaries			66,608			47,507
Customers			66,987			56,016
Fiduciary Investments			-			4,070

* Including LBP 10 billion accepted in owners' equity.

Income Statement for the year ending December 31, 2007

Income Statement	2007 Results (in 000 USD)	2007 Results (in million LBP)	2006 Results (in 000 USD)	2006 Results (in million LBP)
Interest and similar income	**188,851**	**284,692**	**176,564**	**266,171**
Lebanese T-bills	58,683	88,464	67,454	101,686
Deposits and similar funds at banks	88,002	132,664	72,760	109,686
and financial institutions	39,107	58,954	35,609	53,681
Loans and advances to customers	2,858	4,308	563	849
Investment securities	200	302	178	269
Related parties loans and advances				
Interest and similar charges	**144,666**	**218,084**	**132,479**	**199,712**
Deposits and similar funds from banks and financial institutions	4,314	6,504	1,739	2,622
Due to customers	135,741	204,629	125,808	189,655
Certificates of deposits	3,439	5,184	3,512	5,294
Deposits from related parties	1,170	1,764	1,420	2,141
Other interest and similar charges	2	3	-	-
Interest margin	**44,185**	**66,608**	**44,086**	**66,459**
Net Provisions (releases) on loans and advances	**5,313**	**8,010**	**3,540**	**5,336**
Provisions for customers loans and advances	9,777	14,739	9,337	14,076
Release of provisions and unrealized interest on doubtful and substandard loans	4,464	6,729	5,798	8,740
Net Interest Received	**38,871**	**58,598**	**40,546**	**61,123**
Dividend income	**728**	**1,098**	**407**	**613**
Net Commission	**10,574**	**15,940**	**9,175**	**13,832**
Fee and commission income	11,752	17,716	10,392	15,666
Fee and commission expense	1,178	1,776	1,217	1,834
Net trading income	**7,122**	**10,736**	**(101)**	**(153)**
Foreign exchange	1,298	1,957	1,416	2,134
Interest rate instruments	4,180	6,302	(2,613)	(3,939)
Equities	1,643	2,477	1,096	1,652
Other operating income	**1,084**	**1,635**	**910**	**1,372**
Operating expenses	**32,644**	**49,210**	**30,150**	**45,451**
Staff costs	19,155	28,876	17,770	26,788
Other operating expenses	11,852	17,867	10,149	15,300
Depreciation and amortization	1,637	2,467	2,231	3,363
Net income of the year before taxes	**25,736**	**38,796**	**20,787**	**31,336**
Taxes	**4,491**	**6,771**	**3,838**	**5,786**
Net profits for the year	**21,244**	**32,026**	**16,949**	**25,550**

BBAC Management Discussion & Analysis

Basis of Presentation

The Financial statements were prepared in accordance with the International Accounting Standards (IAS), International Financial Reporting Standards (IFRS), which is issued by the International Accounting Standards Board (IASB) and effective as at January 1st, 2007, in addition to the generally accepted accounting principles applicable to Lebanese banks. These standards are now considered as comprehensive standards on disclosures of financial instruments. The content of the management discussion and analysis are prepared based on these financial statements.

The main objective of IFRS is to provide qualitative and quantitative information about exposures to risk from financial instruments. This information enables users to evaluate the significance of financial instruments to an entity's financial position and performance, and its efficiency in managing potential risks.

The preparation of financial statements in conformity with the IFRS requires the use of certain critical accounting estimates and management to exercise its judgment in the process of applying the bank's accounting policies.

Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events. Continuous assessments for any evidence of impairment are carried out to determine whether any impairment losses should be recorded in the income statement.

A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more event that occurred after the initial recognition of the asset (or "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Implementing the IFRS provides a discipline to periodically assess the quality of the assets, mainly the loans and advances portfolio, in a manner that ensures the response towards any perceived impairment triggers is acted upon.

The following analysis, which highlights the performance of BBAC Bank s.a.l. in 2007, is based on the audited consolidated financial statements of the Bank as at 31 December of the years 2006 and 2007.

All figures are denominated in Lebanese Pounds, where all US Dollar amounts are translated at the Central Bank's December 31, 2007 closing rate of LBP 1507.5 /USD. Moreover, any reference to BBAC is meant to cover BBAC s.a.l. along with its subsidiaries and international branches.

Corporate Profile

BBAC s.a.l. is a Lebanese commercial bank that provides its local and international clients with all kinds of services throughout a wide network of thirty-four Lebanese branches, a branch in Limassol, an Off-Shore Banking Unit in Damascus Free Zone, and a representative office in Abu Dhabi, UAE (to be opened in 2008).

BBAC was established in 1956 by a group of prominent investors headed by Mr. Toufic Assaf, Mr. Nashaat Sheiklard, and Mr. Jamal Shehaiber.

Since 2007, the Bank embarked on an aggressive expansion program, aiming at enhancing its market position. This was achieved through a number of transactions ranging from the creation of new products and services with the objective of enhancing its market share and competitive edge in the local market. On the regional front, the Bank established a wide range of cooperation alliances with regional institutions and clients.

Observance of Anti-Money Laundering Requirements

With the issuance of the Anti-Money Laundering Lebanese Law No. 318 in April 20, 2001 and its subsequent amendments, BBAC undertook various steps that enabled the Bank to conform to all the regulations set out in this law. The main aim of this law is to detect and prevent any money laundering and potential terrorist financing. The implementation of this law is entrusted to a Special Investigation Commission (SIC) that supervises the Lebanese Banks' adherence to this law.

In addition to the above mentioned law, BBAC also complies with all the circulars issued by the Lebanese Central Bank. These circulars require the issuance of specific procedures for controlling all financial operations and activities that would result in either preventing or detecting any act of Money Laundering.

Prior to these laws and circulars, BBAC's internal policy were already devised to combat money laundering and terrorist financing. However, with the new set of laws and rules, BBAC implemented a completely new Anti-Money Laundering program that includes written policies and procedures, a designated Anti-Money Laundering officer and controllers, regular training for all of its staff, as well as an independent audit in order to test the effectiveness of the program.

Recent Developments – 2007 and Beyond

In 2007, BBAC completed its restructuring program initiated in 2005 and based upon a study conducted by Deloitte and Touche in 2004. This new structure mainly aims at setting clear grounds for control, authority segregation, job specialization, responsibility and accountability in order to promote an environment of good corporate governance.

Following the new restructuring, various committees were established and BBAC's Board of Directors set-out clear guidelines for their responsibilities. In 2007, these committees carried out all of the authorities that were granted to them. Employees were also reallocated into jobs that best suit their qualifications and potentials, detailed descriptions of processes and workflows were completed and implemented.

In 2007, BBAC surveyed and assessed all available advanced banking software that provides complete solutions for the requirements of Basel II. As a result and in June 2007, BBAC contracted with CBM, the business partner of IBM in Lebanon and Pexim (the leading company in business intelligence solutions for financial institutions) of Belgrade, Serbia, to provide the required tailored software.

This solution will be implemented in two phases covering most of the data warehouse, asset-liability management system, market risk and operational risk solutions, and at a later stage putting in place a full solution for credit risk, profitability, budgeting and planning as well as an advanced analytical CRM.

Divisions

1. Retail Banking Division

Through overseeing all the Bank's activities that are related to cards, e-banking, marketing, and branch management, the Retail Banking Division coordinates all the actions that are taken among these various departments with the ultimate goal of ensuring that these actions complement each other and are in harmony with the Bank's overall strategy.

a- Branch Management

The Branch Management department assumes full responsibility for all the activities, administration as well as the profitability of all of the Bank's branches. Its main role is to ensure the smooth flow of communication between and within branches and the Head Office. It provides the branches with all the needed business and administrative support. During

2007, this department continued its efforts so as to successfully shift the branches dynamics from the classical view into real points of sale channels.

b- Marketing

Following an effective marketing plan, the Marketing Department took several steps and tactics in order to implement an effective strategy, whose main goal is to increase the awareness of the Bank's image in the eyes of current as well as prospected clients.

Product development, product differentiation, brand positioning and innovative selling techniques mark the activity of the Marketing Department. The department assists in setting the sales targets, follows on the achievements and monitors the activities of the competitors.

This is further facilitated by the implementation of a new and effective CRM system that allows a detailed segmentation of the market and a deeper understanding of clients' needs. A new Call Center has been planned to allow direct contact with clients to place our bank's products and services at their disposal.

c- Cards and E-Banking

BBAC provides its clients with plastic cards that best suits their wide-ranging needs. These cards provide their holders with safety, accessibility and convenience. They could be used on any network worldwide as well as any of BBAC's own network which currently comprises 38 ATMs.

These cards are distributed among three main categories:

- The electron cards which include: BBAC electron cards as well as the chip secured Transparent Cards.
- The credit cards that include Classic, Gold, and Platinum types. In addition to these, there is the Diamond Card that is tailored for ladies, offering them the opportunity to win diamonds in addition to other gifts. BBAC also offers the Euro Card which facilitates payments and saves on exchange costs for the Euro users. Finally, there is the CCCL Card, which is co-branded with St. Jude Children's Research Hospital. Whenever the cardholders acquire and use this card, BBAC donates 1% of the purchase amount to the Children's Cancer Center of Lebanon in addition to a share of the card membership fee.
- The internet cards which offer their users the utmost possible safety while providing international access through the World Wide Web.

In its continuous effort to promote the welfare of the community and to enhance youth awareness of road safety, the BBAC Kunhadi card was issued in 2007. It is a credit card issued in collaboration with the Kunhadi society, a charitable organization. Through this card, BBAC also donates 1% of the purchase amount to the Kunhadi society in addition to a share of the card membership fee.

All BBAC credit card holders benefit from a free of charge SMS service that provides more security by immediately informing the card holders of any account movement.

In order to ensure information safety and confidentiality, BBAC continues to upgrade its Online Banking so as to provide a wide range of electronic services. Free 24-hour Telephone Banking continues to be offered to all BBAC clients. A highly dedicated Customer Support Desk provides the Bank's clients with information on services, products and the necessary support for their accounts.

2. Asset Management Division

With all of its main departments and units, the Asset Management Division makes every effort so as to take full advantage of all of the available resources in order to maximize return on the Bank's assets while working under specific risk policies and guidelines set by the Board of Directors and the ALCO committee.

The Treasury department manages the bank's liquidity, financial assets and related money market operations and investments. It conducts research for domestic markets and international markets to identify rewarding and secure investment opportunities for the benefits of the bank's clients. The Treasury's money and foreign exchange sections are active in the Foreign Exchange market and in securities trading. It provides its clients with round-the-clock services through the local Beirut Stock Exchange as well as regional and international exchanges.

The Correspondent Banking Unit oversees all the bank's relations with correspondent banks and financial institutions. Its main concern is to develop the Bank's international business activities, while complying with prudent risk management directives. BBAC is well positioned to provide excellent service to its clients that conduct international business operations. It does so through its wide network of correspondent banks as well as its own international branches. BBAC's Correspondent Banking team is committed to establishing the Bank as an international service provider both to financial institutions and corporate clients.

Keeping pace with the progress that both the international and the local markets have been witnessing, BBAC's Private Banking always aims, through dedication and commitment, to create and deliver high quality financial programs and services that offer value to BBAC's clientele. In addition, the Private Banking still provides a wide variety of investment services such as financial brokerage, derivatives and structured products, investment advisory, in addition to tailored products that serve the special financial needs of our clients. In a stimulating and challenging work environment which encourages, develops, and rewards excellence, and as per its strategic plan, the Private Banking has achieved superior differentiation pertaining to the quality of the service being diligently supplied to our valued clients.

BBAC's lending ranges from simple credit facilities for individuals, small business entities, housing loans, car loans, specialized loans (such as Subsidized, Kafalat, etc.) to commercial lending and trade financing. BBAC's strategy in 2007 was to modify applicable policies, procedures, structures and tools of its Credit Department and to develop the skills if its staff to cater for the planned growth in the local and international markets. By adopting this new strategy, BBAC is becoming an active player in the corporate sector of the market and occupying a pioneering position in the retail market.

3. Support Division

In its continuous efforts to control costs and minimize operational risks, the Support Division oversees the effective management and control of the bank's activities that are related to operations, information technology, administration as well as bank-related insurance.

These goals were pursued on the following levels:

a- Operations

In its persistent efforts to redesign and centralize all operations, the Operations Department continued to develop and implement new procedures so as to reduce the time consumption related to productivity and delivery.

b- Information Technology

In 2007, the IT Department intensified its efforts to support the Bank's strategy as a whole, and the specific business entities in particular. The department placed its contingency plans on high alert so as to confront challenges and any potential risk.

Meanwhile, and in its everlasting effort to provide the bank with state-of-the-art technologies and programs, the IT department accomplished various automation projects as well as many online / real-time applications. Some of these important projects include:

- The first phase of the Business Intelligence Solution, which included the Operational

Risk Module, the Asset-Liability Management Module as well as the population of 70% of the Data Warehouse
- Implementing Bloomberg facilities in the Bank's Treasury
- Replacement of the Internet Banking System with a more functional system

c- Insurance

While trying to satisfy the various needs of its entire client base, two investment plans (retirement and educational) are being offered in association with SNA (Société Nationale D'assurances s.a.l.). These plans are designed to give BBAC's customers protection as well as guaranteed benefits.

Moreover, through its collaboration with its subsidiary, The Capital Insurance and Reinsurance Co., BBAC offers five personal pre-signed insurance contracts through its branch network:

a- Motor Third Party Liability (Corporal & Material Damage)
b- Personal Accident Insurance
c- Term Life Insurance (Natural &/or Accidental Death)
d- Home Insurance (Fire, Neighbors Recourse and Earthquake)
e- Expatriate Insurance (Life and Medical Expenses covering Domestics)

In addition to these, other insurance products are provided to BBAC customers to cover the Risk of Fire, Burglary, Natural Hazards, Workmen Compensation, Natural &/or Accidental Death, War Sabotage, Terrorism Risk, and Travel Insurance.

Human Resources

1- Staff Productivity

With a focus on the market and on a continuous growth, BBAC believes that its value is primarily derived and generated by the activities of its human capital. BBAC's aim is to manage the change of its human capital so that it consists of competent and motivated individuals who are fully involved in designing the success factors and delivering the required goals and objectives.

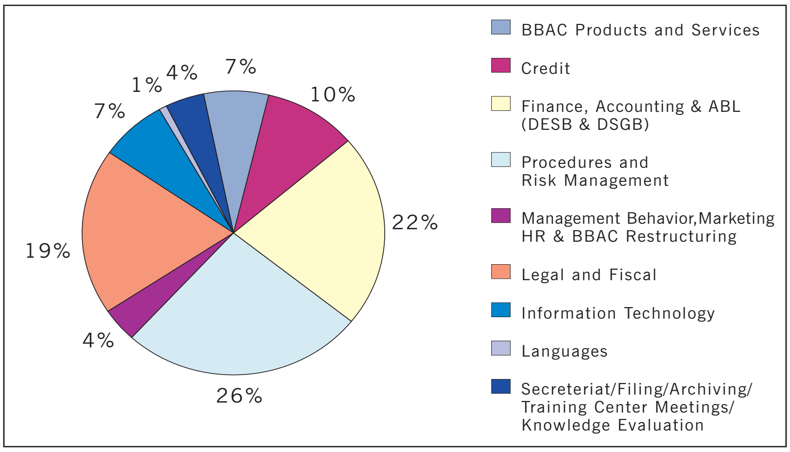
Willing to capitalize on a successful restructuring process and in anticipation of planned future growth, BBAC has increased the number of its staff to reach 624 employees at the end of 2007, of which about 43% belong to the age bracket that is below 40 years. All this has been taken into consideration within a new recruiting policy relying on behavioral and psychometric factors. The number of staff per branch has increased slightly but it remains below the average of Alfa group banks. It is a major consideration for BBAC to increase the level of competency and match candidates with the right jobs while keeping our efficiency in utilization of resources. In order to achieve these targets, a major focus has been put on structuring career planning and concentrated purpose oriented training.

This increase in the number of staff was reflected in a slight increase in staff expenses which reached about LL 28.88 billion, constituting 58.68% (slightly lower than that of 2006) of total operating expenses. As for employees' productivity, it continued to grow with average footings per staff increasing from LL 6.94 billion in 2006 to about LL 7.00 billion in 2007. Our budget for training has become more focused and effective due to a strategic plan focusing on immediate needs and linked directly to business needs.

2- Training

In order to meet the rising demand in skilled personnel, BBAC conducted several seminars and training sessions in 2007 that tackled various traditional as well as essential new topics.

Distribution of training hours according to training subjects



Training activities in 2007 totaled about 15,705 hours, where internal training represented 77% of the total training hours. BBAC managed to make training available to 85% of BBAC total employees, with 532 out of the 624 employees attending at least one training course.

BBAC also provided internships to numerous students so as to equip them with the basic tools that would enable them to better understand the work environment and thus be more prepared when they join the work-force upon graduation.

The bank also supported 36 employees to obtain technical certificates and academic degrees, which ranged from the Centre D'études Bancaires diplomas, to university B.A.'s and M.B.A.'s.

Risk Management

Since the inception of BBAC, risk was and continues to be a major concern that is prudently controlled and effectively managed where the Risk Management Department has the responsibility to recognize risk, assess it, develop strategies to manage it, and finally propose methods to mitigate all risks that exceed the limits that were set by the Board of Directors.

In April 2006 the Central Bank of Lebanon (BDL) issued directives on the adoption of the Capital Adequacy Standards under the Basel II framework applicable to all licensed banks in Lebanon. These directives set out the new capital adequacy rules for calculating and maintaining the minimum capital required for credit and market risk under the "Standardized Approach", and operational risk under the "Basic Indicator Approach."

BBAC's risk management has ensured full compliance with the new directives of Basel II accord and with BCC implementation plan as of the beginning of 2008. These directives set out the following:

- Capital adequacy rules for calculating and maintaining the minimum capital required for credit and market risk under the "Standardized Approach", while the operational risk under the "Basic Indicator Approach." These rules have already been applied at BBAC.

- Sound risk management to analyze, evaluate, accept, manage and mitigate the risks which every bank is exposed to since risk is inherent in the financial business, and the operational risks are an inevitable consequence of being in business. In 2007, BBAC's Board of Directors and upon the suggestions of its Risk Management Department as well as the recommendations of the ALCO committee, adopted written Risk Policies and Procedures for Credit risk, Market risk, Liquidity risk, Sovereign risk and Operational risk. These policies set appropriate limits and controls that are designed to identify, analyze, and monitor risk by means of comprehensive and up-to-date information systems. These policies and systems will be regularly reviewed so as to reflect emerging best practices as well as any change in products and markets.

BBAC views good risk management as a remarkable opportunity to gain credibility and competitiveness in capital markets, thus reducing its cost of capital and improving its growth prospects.

Asset – Liability Management

The year 2007 was characterized by a slowdown in most of Lebanon's economic sectors. However, the Lebanese Banking Sector, and in particular BBAC, were able to overcome this slowdown by adopting a program of diversification which continues into 2008.

This can be clearly shown in the performance of BBAC where the interest earning assets increased by 9.63% (Table 1) compared to 2006.

Table 1: Interest Earning Assets

(LBP million)	Amount		Structure (in percent)	
	2006	2007	2006	2007
Cash and Bank of Lebanon	960,507	975,391	23.69	21.95
Lebanese Treasury bills	1,159,686	1,102,803	28.61	24.82
Loans and Advances to Banks	1,093,746	1,299,257	26.98	29.24
Investment Securities	12,552	137,269	0.31	3.09
Loans and Advances to Customers	654,519	739,922	16.15	16.65
Total Interest Earning Assets	**3,881,010**	**4,254,642**	**95.74**	**95.76**
Total Assets	**4,053,733**	**4,442,909**	**100**	**100**

BBAC slightly reduced its share of treasury bills (from 28.61% to 24.82% of Total Assets) in favor of the increase in loans and advances to customers, loans and advances to banks and investment securities. As a matter of fact, loans and advances to customers have increased by 13.05% over this year and thus, reflecting BBAC aggressive plan in financing the private sector.

The share of the non-interest earning assets out of total assets remained nearly the same as indicated by the following table:

Table 2: Non-Interest Earning Assets

(LBP million)	Amount		Structure (in percent)	
	2006	2007	2006	2007
Debtors by Acceptances	65,464	53,361	1.61	1.20
Trading Securities	13,679	28,784	0.34	0.65
Investments in Subsidiaries	3,524	3,524	0.09	0.08
Equity Securities	562	562	0.01	0.01
Property Acquired in Settlement of Debt	28,800	31,851	0.71	0.72
Investment Property	9,989	9,877	0.25	0.22
Intangible Assets	545	1,342	0.01	0.03
Property and Equipment	30,141	33,319	0.74	0.75
Other Assets	20,019	25,647	0.49	0.58
Total Non-Interest Earning Assets	**172,723**	**188,267**	**4.26**	**4.24**
Total Assets	**4,053,733**	**4,442,909**	**100**	**100**

Interest bearing liabilities remained at its previous level, where deposits remained the main source of funds for BBAC with a total of 84.27% out of interest bearing liabilities as shown in Table 3:

Table 3: Interest and Non-Interest Bearing Liabilities

(LBP million)	Amount		Structure (in percent)	
	2006	2007	2006	2007
Central Bank	-	-	0.00	0.00
Due to banks and financial institutions	146,049	189,511	3.60	4.27
Deposits and customer accounts	3,418,797	3,743,818	84.34	84.27
Certificates of deposits	77,023	77,003	1.90	1.73
Total Interest Bearing Liabilities	**3,641,869**	**4,010,332**	**89.84**	**90.26**
Engagements by acceptances	65,464	53,361	1.61	1.20
Other liabilities	33,266	41,377	0.82	0.93
Current income tax liabilities	769	1,000	0.02	0.02
Retirement benefit obligations	12,425	12,887	0.31	0.29
Shareholders' equity	278,879	302,891	6.88	6.82
Revaluation variance of tangible fixed assets	21,061	21,061	0.52	0.47
Total Non-Interest Bearing Liabilities	**411,864**	**432,577**	**10.16**	**9.74**
Total Liabilities and Shareholders' Equity	**4,053,733**	**4,442,909**	**100**	**100**

The economic uncertainties that dominated 2007 were reflected in an increase in the dollarization level. Foreign currency denominated liabilities reached about 74% while the dollarization of assets reached about 75% (Table 4).

Table 4: Assets and Liabilities

(LBP million & percentage)	Amount		Structure (in percent)		Change (in percent)	
	2006	2007	2006	2007	2006	2007
Assets	**4,053,733**	**4,442,909**				
LBP	1,131,431	1,113,085	27.91	25.05	-3.30	-2.86
FC	2,922,302	3,329,824	72.09	74.95	3.30	2.86
Liabilities	**4,053,733**	**4,442,909**				
LBP	1,185,269	1,175,079	29.24	26.45	-3.49	-2.79
FC	2,868,464	3,267,830	70.76	73.55	3.49	2.79

1- Asset Management

BBAC's asset side of the balance sheet is summarized in the following table which demonstrates the high liquidity level maintained by BBAC:

Table 5: Uses of Funds

(LBP million)	Amount		Structure (in percent)	
	2006	2007	2006	2007
Liquid assets	3,240,732	3,544,066	79.94	79.77
Loans and advances	654,519	739,922	16.15	16.65
Other financial accounts	85,483	79,008	2.11	1.78
Permanent assets	72,999	79,913	1.80	1.80
Total Uses of Funds	**4,053,733**	**4,442,909**	**100**	**100**

a- Liquid Assets

Liquid assets exhibited a 9.36% increase over the 2006 level but remained the same ratio relative to total assets, at around 80% (Tables 5 and 6).

Table 6: Liquid Assets

(LBP million)	Amount		Structure (in percent)	
	2006	2007	2006	2007
Cash and Bank of Lebanon	960,507	975,391	29.64	27.52
Lebanese Treasury bills	1,159,686	1,102,803	35.78	31.12
Trading & Investment securities	26,793	166,615	0.83	4.70
Loans and advances to banks	1,093,746	1,299,257	33.75	36.66
Total Liquid Assets	**3,240,732**	**3,544,066**	**100**	**100**

1- Cash and Central Bank deposits changed slightly from 2006 levels where the decrease in the certificates of deposits was compensated in an increase in term deposits. As for the dollarization ratio, it increased to 68.25% in line with the change in the structure of the deposits from customers (Table 7).

Table 7: Cash and Central Bank Deposits

(LBP million)	2006	2007
Cash	**38,038**	**50,879**
Central Bank		
Sight deposits	95,954	88,327
Term deposits	382,905	445,945
Certificates of deposits	431,596	370,375
Add: Accrued interest receivable	17,616	18,258
Add: Revaluation of Certificates of deposits	-	550
Less: Tax on interest receivable	(661)	(660)
Less: Interest received in advance/discounts	(4,941)	1,717
Total Central Bank	**922,469**	**924,512**
Total Cash and Central Bank Deposits	**960,507**	**975,391**
Denominated as follows		
LBP in millions	344,562	309,703
Foreign currencies in thousands USD	408,587	441,584

2- In 2007, the share of Treasury Bills in the portfolio continued to decrease closing the year at about 31% of total liquid assets. This decrease was reflected in a decrease in both the Lebanese denominated Treasury Bills as well as in Foreign currency denominated Eurobonds, which constituted about 51% of the total treasury portfolio (Table 8).

Table 8: Lebanese Treasury bills

(LBP million)	2006	2007
Treasury Bills	**1,139,488**	**1,085,712**
Add: Interest receivable	23,941	22,419
Unrealized gain on Fair Value receivable	-	127
Premiums	971	767
Less: Interest received in advance/discounts	2,029	5,621
Tax on interest receivable	659	600
Unrealized loss on Fair Value receivable	2,026	-
Total	**1,159,686**	**1,102,803**
Denominated as follows		
LBP in millions	579,107	541,934
Foreign currencies in USD thousands	385,127	372,052

3- The decrease in Treasury Bills was more than compensated in investments in Fixed and Variable Income Securities which reflects the change in investment policy that the bank has been following. The major increase in this type of asset was concentrated in the fixed income category.

Table 9: Fixed and Variable Income Securities

(LBP million)	2006	2007
Fixed Income Securities	**12,446**	**135,471**
Add: After-Tax Interest Receivable	106	1,797
Less: Provisions for Debt Securities	-	-
Total	**12,552**	**137,268**
Variable Income Securities	**14,496**	**29,347**
Less: Provision for Decline in Value of Shares	(255)	-
Total	**14,241**	**29,347**
Total Fixed and Variable Income Securities	**26,793**	**166,615**
Denominated as follows		
Fixed		
LBP in millions	-	-
Foreign currencies in thousands USD	8,326	91,057
Variable		
LBP in millions	1,110	2,791
Foreign currencies in thousands USD	8,710	17,615

4- The share of Deposits with Banks and Financial Institutions became the largest source of Liquidity for BBAC constituting some 36.66% of liquid assets This increase was mainly reflected in Time deposits and CDs.

Table 10: Deposits with Banks and Financial Institutions

(LBP million)	2006	2007
Demand Deposits	84,354	119,423
Time Deposits & CDs	1,005,619	1,172,286
After-tax Interest Receivable	3,773	7,547
Total Deposits	**1,093,746**	**1,299,257**
Denominated as follows		
LBP in millions	170	21,993
Foreign currencies in thousands USD	725,424	847,273

b- Loans and Advances to Customers

The loan portfolio increased by over 13% with the overall currency structure remaining relatively unchanged during this year.

Table 11-1: Breakdown of Loans and Advances to Customers by Currency

(LBP million)	Amount		Structure (in percent)	
	2006	2007	2006	2007
Denominated as follows				
LBP in million	159,347	182,125	24.35	24.61
Foreign currencies CV in million LBP	495,172	557,797	75.65	75.39
Foreign currencies in thousands USD	328,472	370,015		
Total	**654,519**	**739,922**	**100**	**100**

The geographical distribution of the net loan portfolio slightly changed between the various Lebanese areas as reflected in table 11-2.

Table 11-2: Geographical Distribution of Loans and Advances to Customers

(LBP million)	Amount		Structure (in percent)	
	2006	2007	2006	2007
Beirut and Suburbs	400,751	406,157	48.40	46.29
Mount Lebanon	117,988	248,287	14.25	28.30
Bekaa	88,288	90,032	10.66	10.26
North Lebanon	171,740	77,792	20.74	8.87
South Lebanon	31,842	37,385	3.85	4.26
Cyprus	17,409	17,705	2.10	2.02
Total*	**828,018**	**877,358**	**100**	**100**

* Mainly before adjusting for provisions, net speculation accounts and debtors by acceptance.

Table 11-3 reflects the breakdown of these loans by size:

Table 11-3: Breakdown of Loans and Advances to Customers by Size

(LBP million)	Amount		Structure (in percent)	
	2006	2007	2006	2007
Small (less than 250 million)	263,013	276,687	31.76	31.54
Medium (250-1500 million)	201,532	217,868	24.34	24.83
Large (exceeding 1500 million)	363,473	382,803	43.90	43.63
Total*	**828,018**	**877,358**	**100**	**100**

* Mainly before adjusting for provisions, net speculation accounts and debtors by acceptance.

The quality of these loans continued to improve during this year, with the ratio of Net Substandard and Doubtful Loans to Gross Loans falling to 2.89% in 2007 (Table 12).

Table 12: Breakdown of Loans and Advances to Customers by BDL Classification

(LBP million)	2005	2006	2007
1- Net Regular Loans	**545,590**	**622,217**	**715,800**
Add Collective Impairment on Loans and Advances	-	1,147	1,670
2- Total Regular Loans	**545,590**	**623,364**	**717,470**
3- Net Substandard Loans	**11,619**	**8,011**	**4,895**
Add Unrealized Interest	7,174	3,356	4,846
4- Total Substandard Loans	**18,793**	**11,366**	**9,741**
5- Net Doubtful Loans	**30,934**	**24,291**	**19,227**
Add Unrealized Interest	28,145	28,551	27,723
Add Provisions	46,093	54,571	60,867
5- Total Doubtful Loans	**105,172**	**107,413**	**107,817**
Total Net Substandard and Doubtful Loans (3+5)	**42,553**	**32,302**	**24,122**
Net Total Loans	**588,143**	**654,519**	**739,922**
Gross Loans	**669,555**	**742,143**	**835,028**
Net Substandard and Doubtful to Gross Loans*	**6.36%**	**4.35%**	**2.89%**

* (3+5) / (2+4+6)

c- Other Financial Accounts

Despite the decrease in the account of other assets (which mainly consists of higher credit card facilities, prepaid expenses, and miscellaneous debtor accounts), Other Financial Accounts witnessed a small increase due to the increase in the balance of debtors by acceptances (Table 13).

Table 13: Other Financial Accounts

(LBP million)	2006	2007
Debtors by Acceptances	53,361	65,464
Other Assets	25,647	20,019
Total	**79,008**	**85,483**

d- Loans to Deposits Ratio

The 13.05% increase in loans was cushioned by a 9.51% increase in deposits as reflected in the 0.62% increase in the Loans to Deposits ratio, to reach 19.76% in 2007.

Table 14: Operating Surplus or Deficit

(LBP million)	Amount		Percentage Change
	2006	2007	2007 / 2006
Deposits from Customers LBP	976,170	951,646	-2.51
+ Deposits from Customers FC	2,442,627	2,792,172	14.31
= Operating Resources (OR)	**3,418,797**	**3,743,818**	**9.51**
Loans and Advances to Customers LBP	159,347	182,125	14.2
+ Loans and Advances to Customers FC	495,172	557,797	12.65
= Operating Uses (OU)	**654,519**	**739,922**	**13.05**
Operating Surplus LBP	816,823	769,521	-5.79
Operating Surplus FC	1,947,455	2,234,375	14.73
Operating Surplus (OR-OU)	**2,764,278**	**3,003,896**	**8.67**
Loans to Deposits LBP	16.32%	19.14%	2.81
Loans to Deposits FC	20.27%	19.98%	-0.29
Loans to Deposits (Total)	**19.14%**	**19.76%**	**0.62**

2- Liability Management

Liabilities and shareholders' equity constitute the sources of funds for the Bank. The following table summarizes their breakdown:

Table 15: Sources of Funds

(LBP million)	Sources of Funds		Structure (in percent)	
	2005	2006	2005	2006
Central Bank	-	-	0.00	0.00
Banks and Financial Institutions	146,049	189,511	3.60	4.27
Deposits from customers	3,418,797	3,743,818	84.34	84.27
Certificates of deposits	77,023	77,003	1.90	1.73
Other financial accounts	111,924	108,625	2.76	2.44
Shareholders' equity	299,940	323,952	7.40	7.29
Total Sources of Funds	**4,053,733**	**4,442,909**	**100**	**100**

a- Banks and Financial Institutions

The highest growth in total sources of funds was recorded by Banks and Financial Institutions at 29.76% over the previous year (table 16). The bulk of their source of funding was in the form of term deposits.

Table 16: Banks and Financial Institutions

(LBP million)	2006	2007
Sight Deposits	18,321	22,270
Term Deposits	123,717	166,179
Short-Term Loan	3,801	-
Accrued Interest Payable	210	1,062
Total Banks and Financial Institutions	**146,049**	**189,511**
Denominated as follows		
LBP in millions	3,192	12,780
Foreign currencies in thousands USD thousands	94,764	117,234

b- Total Deposits from Customers

Total deposits from customers and certificates of deposits exhibited an increase of about 9.30% during 2007, which is more than double the growth of 2006. The total value of the certificates of deposits remained unchanged as they approached their maturity. As for the dollarization ratio, it has increased to reach about 75% of total deposits thus reflecting the trend prevailing in the Lebanese market.

Table 17: Breakdown by Currency of Deposits & CDs from Customers

(LBP million)	Amount		Structure (in percent)	
	2006	2007	2006	2007
Denominated as follows				
LBP in million	976,170	951,646	27.92	24.91
Foreign currencies CV in million LBP	2,519,650	2,869,175	72.08	75.09
Foreign currencies in thousands USD	*1,671,410*	*1,903,267*		
Total	**3,495,820**	**3,820,821**	**100**	**100**

c- Other Financial Accounts

The balance of Other Financial accounts continued to decrease over 2007. The main components that influenced this decrease are the engagements by acceptances as well as other liabilities (Table 18), where the latter includes margins against documentary credits, margins against credit card and safe box facilities, taxes and other charges as well as other credit accounts such as capital increase differences.

Table 18: Other Financial Accounts

(LBP million)	2006	2007
Engagements by Acceptances	65,464	53,361
Other Liabilities	33,266	41,377
Current Income Tax Liabilities	769	1,000
Retirement Benefit Obligations	12,425	12,887
Total	**111,924**	**108,625**

d- Shareholders' Equity

The shareholders' equity increased in 2007 by about 8% (prior to dividend distribution), mainly due to the increase in retained earnings as well as other reserves (Table 19).

Table 19: Shareholders' Equity

(LBP million)	2006	2007
Share capital and cash contribution to capital	119,120	120,109
Premium (Preferred Shares)	70,375	70,375
Legal reserve	26,137	29,339
Other reserves	3,972	3,972
Reserve for unidentified banking risks	15,682	17,982
Retained earnings	43,593	59,756
Revaluation on AFS	-	1,358
Revaluation variance of tangible fixed assets	21,061	21,061
Total	**299,940**	**323,952**

3- Capital Adequacy Ratio

BBAC is considered to be one of the best capitalized banks in the industry. The capital adequacy ratio (under Basel I) reached 25.51% in 2007compared to 26.84% in 2006. This is mainly due to the 13.32% increase in the risk weighted assets while the increase in total net capital was only 7.70% (Table 20).

Table 20: Capital Adequacy

(LBP million)	2006	2007
Risk Weighted Assets	1,008,664	1,143,063
Tier I Capital	260,771	280,254
Tier II Capital	10,000	11,358
Total Net Capital	**270,771**	**291,612**
Tier I Capital ratio	25.85%	24.52%
Tier II Capital ratio	0.99%	0.99%
Total Capital Ratio	**26.84%**	**25.51%**
Capital Adequacy Ratio according to Basel II	**-**	**11.67%**

Moreover, in order to comply with BDL circulars, BBAC internally calculated the related capital adequacy ratio according to the rules set out in Basel II. They confirmed the fact that BBAC is a well capitalized bank with this ratio standing at 11.67% as compared to the 8% required by Basel II.

Financial Performance

BBAC's after-tax profits for 2007 amounted to LBP 32.03 billion (or the equivalent of USD 21.24 million), compared to LBP 25.55 billion (or the equivalent of USD 16.95 million) for 2006, a year-on-year increase of 25.34%.

Table 21: Income Statement

(LBP million)	Amount		Growth %
	2006	2007	2007-2006
Interest Margin	66,459	66,608	0.22
Net provision less Releases on Loans and Advances	(5,336)	(8,010)	50.11
Non-interest Income	15,664	29,408	87.74
Staff Expenses	(26,788)	(28,876)	7.80
Other Operating Expenses	(18,663)	(20,334)	8.95
Net Income - before Tax	**31,336**	**38,796**	**23.81**
Tax on Interest	(4,682)	(4,472)	-4.48
Net Income - before Income Tax	**26,654**	**34,324**	**28.78**
Income Tax	(1,104)	(2,298)	108.17
Net Income - after Tax	**25,550**	**32,026**	**25.34**

1- Profitability

With the increase in profitability in 2007, the return on average assets increased to reach 0.75%, up from 0.65% in 2006. This 25.34% increase in net after-tax income as well as the 24.85% increase in average equity resulted in keeping the return on average equity the same as that of 2006.

Earning per share increased from LBP 355 to LBP 445 in 2007. As for the net asset value per share, it also increased in the same period from LBP 4,166 to LBP 4,499.

Table 22: Profitability

(LBP million and percentage)	Amount		% Change
	2006	2007	2007-2006
Average Assets	3,935,692	4,248,321	7.94
Average Equity *	240,989	300,885	24.85
Return on Average Assets ROAA after tax (%)	0.65%	0.75%	0.10
Return on Average Equity ROAE after tax (%)	10.60%	10.64%	0.04
Net Income for the Year after tax	25,550	32,026	25.34
Net Profits**	20,995	26,524	26.33
Net Profits after Distribution of Preferred Shares Dividends **	18,236	20,305	11.35
Number of Common Shares Outstanding (million)	72	72	-
Number of Preferred Shares Outstanding (million)	5	5	-
Earnings per Common Share (EPS) in LBP after tax	355	445	25.34
Dividends per Common Share DPS in LBP***	89	98	10.11
Dividends per Preferred Share in LBP	552	1,244	125.38
Dividends Payout Ratio	35.14%	34.75%	-0.39
Retention Ratio	64.86%	65.25%	0.39
Net Asset Value per Share in LBP****	4,166	4,499	8.01

* Including only LBP 10 billion Revaluation Variance Accepted by the Central Bank as Tier II
** After Allocation of Profits to Reserves for General Banking Risks and Legal Reserves
*** An Additional Interest Payment of about LBP 1.194 billion was made on the Cash Contributions in 2007
**** Before Dividend Payment

2- Liquidity

Net liquid assets increased by 8.40%, whereas Due to Customers and Loans and Advances to Customers increased by 9.51% and 13.05%, respectively. This resulted in a 0.50 % increase in the ratio of loans to total assets while loans to total deposits increased by 0.62% as indicated by the following table:

Table 23: Liquidity

(LBP million)	2006			2007		
	LBP	C/V	Total	LBP	C/V	Total
Liquid Assets	924,949	2,315,783	3,240,732	876,421	2,667,645	3,544,066
Less: Deposits from Banks	3,192	142,857	146,049	12,780	176,731	189,511
Net Liquid Assets	**921,757**	**2,172,926**	**3,094,683**	**863,641**	**2,490,914**	**3,354,555**
Due to Customers	976,170	2,442,627	3,418,797	951,646	2,792,172	3,743,818
Loans and Advances to Customers	159,347	495,172	654,519	182,125	557,797	739,922
Total Assets	1,131,431	2,922,302	4,053,733	1,113,085	3,329,824	4,442,909
(%)						
Loans / Assets	14.08	16.94	16.15	16.36	16.75	16.65
Loans / Deposits	16.32	20.27	19.14	19.14	19.98	19.76
Liquid Assets / Deposits	94.75	94.81	94.79	92.10	95.54	94.66
Liquid Assets / Assets	81.75	79.25	79.94	78.74	80.11	79.77
Net Liquid Assets / Deposits	94.43	88.96	90.52	90.75	89.21	89.60
Net Liquid Assets /Total Assets	81.47	74.36	76.34	77.59	74.81	75.50

3- Management Efficiency

During 2007, BBAC was able to effectively reduce its cost, with its efficiency ratio (cost / income) significantly reduced from 59.19% in 2006 to reach 55.92% in 2007. As for the commission income, its share out of net financial income remained the same. Interest paid slightly increased over interest received, mainly reflecting the increase in deposits.

Table 24: Management Efficiency Ratios

(Percentage)	2006	2007
Cost / Income (Efficiency Ratio)	59.19	55.92
Net Commissions / Net Financial Income	18.01	18.11
Interest Paid / Interest Received	75.03	76.60
Cost per Average Branch (LBP million)	1,337	1,447

4- Interest Margin

The pressure on the Lebanese pound continued to ease during 2007 resulting in the increase of the Lebanese currency gross interest margin from the 2006 level of 1.09% to reach 1.40% in 2007. However, the increased pressure on the U.S. dollar and the large decrease in its interest rate in the international market, pushed down the total gross spread to reach 1.64% as compared to a net interest margin of 1.44% after consolidating the provisions that were taken on loans and advances.

Table 25: Interest Analysis

(LBP million)	2006					2007				
	LBP	%	FCY	%	Total	LBP	%	FCY	%	Total
Average Interest Earning Assets	1,111,252	29.47	2,659,865	70.53	3,771,117	1,069,471	26.29	2,998,356	73.71	4,067,826
Interest Paid	85,078	42.60	114,634	57.40	199,712	73,874	33.87	144,210	66.13	218,084
Interest Received	97,191	36.51	168,980	63.49	266,171	88,848	31.21	195,845	68.79	284,692
Net Interest Received	12,113	18.23	54,346	81.77	66,459	14,974	22.48	51,635	77.52	66,608
Cost of Earning Assets (in %)		7.66		4.31	5.30%		6.91		4.81	5.36%
Return on Earning Assets (in %)		8.75		6.35	7.06%		8.31		6.53	7.00%
Gross Interest Margin (in %)		**1.09**		**2.04**	**1.76%**		**1.40**		**1.72**	**1.64%**
Net Releases (Provisions) on Loans and Advances	-12,178		6,842		-5,336	-9,860		1,850		-8,010
Net Interest Margin (in %)		**-0.01**		**2.30**	**1.62%**		**0.48**		**1.78**	**1.44%**
Average Interest Earning Assets to Average Assets (in %)		95.68		95.84	95.80%		95.30		94.83	94.96%
Gross Spread (in %)		1.04		1.96	1.69%		1.33		1.63	1.55%
Net Spread (in %)		-0.01		2.20	1.55%		0.46		1.69	1.37%

5- Non-Interest Income

In 2007 BBAC succeeded in generating higher non-interest income emanating from its investment in addition to higher net commissions as indicated in the following table:

Table 26: Non-Interest Income

(LBP million)	Amount		Structure (in percent)	
	2006	2007	2006	2007
Net Commissions Received	13,832	15,940	88.30	54.20
Dividend Income	613	1,098	3.91	3.73
Net Trading Income	(153)	10,736	-0.98	36.51
Other Operating Income	1,372	1,635	8.76	5.56
Total Non-Interest Income	**15,664**	**29,408**	**100**	**100**

Table 26 clearly shows that the previous investing policies that were adopted by BBAC paid-off well in 2007, where net trading income generated about LBP 10.7 billion.

The following two tables present the constituents of the commissions received as well as those paid. These tables show that the increase in the commissions received was mainly from traditional banking activities that seem to have regained ground over the past two years as indicated in the commissions received from credit related activities.

Table 27: Commissions Received

(LBP million)	Amount		Structure (in percent)	
	2006	2007	2006	2007
Credit Related Fees and Commissions	4,250	6,051	27.13	34.16
Engagement by Endorsement Fees	4,442	4,874	28.35	27.51
Other Fees	6,974	6,791	44.52	38.33
Total Commissions Received	**15,666**	**17,716**	**100**	**100**

Table 28: Commissions Paid

(LBP million)	Amount		Structure (in percent)	
	2006	2007	2006	2007
Brokerage Fees	787	1,097	42.91	61.77
Other Fees	1,047	679	57.09	38.23
Total Commissions Paid	**1,834**	**1,776**	**100**	**100**

6- General Operating Expenses

BBAC continued its efforts to reduce its expenses with the operating expenses increasing by only 8.27%, which are lower than the 9.60% increase in total assets during 2007.

Table 29: General Operating Expenses

(LBP million)	Amount		% Change
	2006	2007	2007-2006
Staff Expenses	26,788	28,876	7.80
Other Operating Expenses*	18,663	20,334	8.95
Total	**45,451**	**49,210**	**8.27**

* Including Depreciation & Amortization

The increase in staff expenses was mainly due to the high concern of BBAC to its human, where certain measures were taken in-order to preserve the high-quality staff and amplify them with additional qualified individuals.

7- Net Financial Income

BBAC was able to improve the ratio of net financial income over average footing as indicated in table 30 so as to reach 2.01% in 2007. As a matter of fact, the year of 2007 witnessed an improvement in all financial income that was generated by BBAC. The slight decrease in net interest margin was mainly due to the lower spread as well as the high loan provisions that were taken. As for non-interest income and net financial income, they have increased by 87.74% and 14.61% respectively.

Table 30: Net Financial Income

(LBP million)	Amount		% Change
	2006	2007	2007-2006
Net Interest Margin	61,123	58,598	-4.13
Non-Interest Income	15,664	29,408	87.74
Net Financial Income	76,787	88,007	14.61
Average Footings	4,052,155	4,368,915	7.82
Net Financial Income / Average Footings	**1.89%**	**2.01%**	**0.12**

BBAC Auditor's Report

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Auditor's Report

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Independent Auditor's Report to the shareholders of BBAC S.A.L.

Report on the financial statements
We have audited the accompanying financial statements of BBAC S.A.L ("the Bank") which comprise the balance sheet as of 31 December 2007 and the income statement, statement of changes in equity and cash flow for the year then ended and a summary of significant accounting policies and other explanatory notes.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2007, and of its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Beirut, Lebanon
9-6-2008

Balance Sheet at December 31, 2007

ASSETS (LL Millions)	Notes	2007	2006
Cash and balances with central banks	5	975,391	960,507
Lebanese treasury bills	6	1,102,803	1,159,686
Loans and advances to banks	7	1,299,257	1,093,746
Trading assets	8	28,784	13,679
Loans and advances to customers	9	739,922	654,519
Debtors by acceptances	10	53,361	65,464
Investment securities:	11		
- For trading		58,278	-
- Available for sale		9,835	562
- Held to maturity		69,718	12,552
Investments in subsidiaries	12	3,524	3,524
Property acquired in settlement of debt	13	31,851	28,800
Investment property	14	9,877	9,989
Intangible assets	15	1,342	545
Property and equipment	16	33,319	30,141
Other assets	17	25,647	20,019
Total assets		**4,442,909**	**4,053,733**
Liabilities			
Deposits from banks	18	189,511	146,049
Due to customers	19	3,743,818	3,418,797
Certificates of deposits	20	77,003	77,023
Engagements by acceptances	10	53,361	65,464
Other liabilities	21	41,377	33,266
Current income tax liabilities	37	1,000	769
Retirement benefit obligations	23	12,887	12,425
Total liabilities		**4,118,957**	**3,753,793**
Shareholders' equity			
Share capital and cash contributions to capital	25	120,109	119,120
Premium on issuance of preferred shares	25	70,375	70,375
Legal reserve	26	29,339	26,137
Real estate revaluation reserve	27	21,061	21,061
Reserve for unidentified banking risks	26	17,982	15,682
Other reserves	26	3,972	3,972
Revaluation of available for sale securities	26	1,358	-
Retained earnings	26	59,756	43,593
Total shareholders' equity		**323,952**	**299,940**
Total equity and liabilities		**4,442,909**	**4,053,733**

The financial statements on pages 3 to 79 were authorised for issue by the Chairman on 9 June 2008

Ghassan Assaf
Chairman

Income statement For the Year Ended December 31, 2007

(LL Millions)	Notes	2007	2006
Interest and similar income	28	284,692	266,171
Interest expense and similar charges	28	(218,084)	(199,712)
Net interest income		**66,608**	**66,459**
Fee and commission income	29	17,716	15,666
Fee and commission expense	29	(1,776)	(1,834)
Net fee and commission income		**15,940**	**13,832**
Dividend income	30	1,098	613
Net trading income (loss)	31	10,736	(153)
Other operating income	32	1,635	1,372
Impairment charge for credit losses	33	(8,010)	(5,336)
Administrative expenses	35	(43,330)	(40,595)
Other operating expenses	36	(5,880)	(4,856)
Profit before income tax		**38,797**	**31,336**
Income tax expense	37	(6,771)	(5,786)
Profit for the year		**32,026**	**25,550**
Earnings per ordinary shares (expressed in LL per share):			
Basic	38	445	355

Statement of Changes in Equity
For the Year Ended December 31, 2007

(LL Millions)	Share Capital	Preferred shares	Cash contributions to capital	Premium on issuance of preferred shares	Legal reserve	Real estate revaluation reserve	Reserve for unidentified banking risks	Other reserves	Revaluation of available for sale securities	Retained earnings	Total
Balance at 1 January 2006 - as reported	72,000	-	42,120	-	23,582	21,061	13,682	2,485	-	29,230	204,160
Correction of prior year error (Note 46)	-	-	-	-	-	-	-	-	-	2,457	2,457
Balance at 1 January 2006-as restated	**72,000**	**-**	**42,120**	**-**	**23,582**	**21,061**	**13,682**	**2,485**	**-**	**31,687**	**206,617**
Net profit	-	-	-	-	-	-	-	-	-	25,550	25,550
Issuance of preferred shares (Note 25)	-	5,000	-	70,375	-	-	-	-	-	-	75,375
Dividends declared (Note 39)	-	-	-	-	-	-	-	-	-	(6,408)	(6,408)
Interest paid on cash contributions to capital (Note 39)	-	-	-	-	-	-	-	-	-	(1,194)	(1,194)
Transfers (Note 26)	-	-	-	-	2,555	-	2,000	1,487	-	(6,042)	-
Balance at 1 January 2007-as restated	72,000	5,000	42,120	70,375	26,137	21,061	15,682	3,972	-	43,593	299,940
Net profit	-	-	-	-	-	-	-	-	-	32,026	32,026
Cash contributions to capital (Note 25)	-	-	989	-	-	-	-	-	-	-	989
Dividends declared (Note 39)	-	-	-	-	-	-	-	-	-	(9,167)	(9,167)
Revaluation on AFS securities (Note 26)	-	-	-	-	-	-	-	-	1,358	-	1,358
Interest paid on cash contributions to capital (Note 39)	-	-	-	-	-	-	-	-	-	(1,194)	(1,194)
Transfers (Note 26)	-	-	-	-	3,202	-	2,300	-	-	(5,502)	-
Balance at 31 December 2007	72,000	5,000	43,109	70,375	29,339	21,061	17,982	3,972	1,358	59,756	323,952

Statement of Cash Flows
For the Year Ended December 31, 2007

(LL Millions)	Notes	2007	2006
Cash flows from operating activities			
Profit before income tax		38,797	31,336
Adjustments:			
Depreciation of property and equipment	16	2,175	2,915
Amortisation of intangible assets	15	292	448
Loss (gain) on disposal of property and equipment	32	2	(1)
Gain on disposal of property acquired in settlement of debt	32	(283)	(170)
Fair value loss on investment property	14	112	140
(Release) provision for property acquired in settlement of debt	36	(81)	789
Impairment charge for credit losses	33	8,010	5,336
Unrealised (gain) loss on treasury bills and Eurobonds at fair value through profit and loss	31	(1,553)	5,595
Changes in fair value of trading assets	8	(2,198)	(342)
Changes in fair value of investment assets – classified as for trading	11	308	-
Gain on sale of trading assets	31	(279)	(1,310)
Net transfer to (from) other provisions	22	1,233	(3,042)
Net transfer to retirement benefit obligations	23	462	612
Net changes in operating assets and liabilities:			
Net increase in mandatory reserve – Central Bank of Lebanon		(45,814)	(11,500)
Net increase in mandatory reserve – Central Bank of Cyprus		(1,031)	(2,724)
Net decrease (increase) in Central Bank of Lebanon – loans and advances		59,654	(22,531)
Net decrease (increase) in Lebanese treasury bills		81,772	(1,191)
Net (increase) decrease in loans and advances to banks		(487,759)	41,709
Net increase in trading assets	8	(16,249)	(3,857)
Net increase in investment assets		(66,665)	-
Net increase in loans and advances to customers		(97,337)	(84,522)
Net increase in other assets	17	(5,628)	(1,384)
Net increase in deposits from banks	18	43,462	14,293
Net increase in due to customers	19	325,021	131,154
Net increase (decrease) in other liabilities		8,144	(1,192)
Proceeds from sale of trading assets		3,621	2,008
Proceeds from sale of investment securities	11	7,538	-
Cash (used in) provided from operations		**(144,274)**	**102,569**
Taxes paid	37	(6,540)	(6,096)
Net cash (used in) provided from operating activities		**(150,814)**	**96,473**
Cash flows from investing activities			
Lebanese treasury bills – Held to maturity and available for sales securities		(22,725)	4,898
Investment securities – Held to maturity and available for sales securities		(65,702)	677
Purchase of intangible assets	15	(1,089)	(249)
Purchase of property and equipment	16	(5,511)	(2,019)
Proceeds from disposal of property and equipment		156	79
Proceeds from disposal of property acquired in settlement of debt		1,237	2,263
Net cash (used in) provided from investing activities		**(93,634)**	**5,649**
Cash flows from financing activities			
Certificates of deposits	20	(20)	19
Issuance of preferred shares		-	75,375
Cash contribution to capital	25	989	-
Dividends and interest paid on cash contributions to capital		(11,626)	(7,328)
Net cash (used in) provided from financing activities		**(10,657)**	**68,066**
Net (decrease) increase in cash and cash equivalents		**(255,105)**	**170,188**
Cash and cash equivalents at beginning of year	**40**	**1,109,830**	**939,642**
Cash and cash equivalents at end of year	**40**	**854,725**	**1,109,830**

Principal non-cash transactions:
The principal non-cash transactions relate mainly to the following:
- Properties acquired in settlement of debt amounting to LL 3.9 billion (2006 – LL 12.8 billion) (Note 13)
- Declaration of dividends and interest paid on cash contribution to capital amounting to LL 10.4 billion (2006 – LL 7.6 billion) (Note 39)
- Transfer to legal reserves amounting to LL 3.2 billion (2006 – LL 2.6 billion) (Note 26)
- Transfer to reserve for unidentified banking risks amounting to LL 2.3 billion (2006 – LL 2 billion) (Note 26)

Notes to the financial statements

1- General information

BBAC S.A.L (the "Bank") was incorporated in Lebanon in 1956 and registered at the Commercial Court in Beirut under No. 6196. It appears under number 28 in the list of Lebanese banks.

The Bank undertakes commercial banking operations through its head office in Beirut and its network of thirty two branches across Lebanon, in addition to a branch in Cyprus (off-shore) and a branch at the Damascus free zone in Syria.

2- Summary of significant accounting policies

These financial statements relate to the parent company and are presented on a non-consolidated basis. The Bank has also prepared under a separate cover consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") for the Bank and its subsidiaries (the "Group"). In the consolidated financial statements, subsidiary undertakings – which are those companies in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations – have been fully consolidated. The consolidated financial statements can be obtained from BBAC S.A.L. registered office: P.O. Box: 11-1536, Clemenceau, Beirut – Lebanon.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain property, available-for-sale financial assets, and financial assets held at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumption and estimates are significant to the financial statements are disclosed in Note 4.

(a) Standards, amendment and interpretations effective in 2007

IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments. IFRS 7 supersedes IAS 30 and the disclosure requirements of IAS 32.

(b) Standards, amendments and interpretations effective in 2007 but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Bank's operations:
- IFRS 4, 'Insurance contracts'
- IFRIC 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies'
- IFRIC 8, 'Scope of IFRS 2'
- IFRIC 9, 'Re-assessment of embedded derivatives'; and
- IFRIC 10, 'Interim financial reporting and impairment'

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank

The following interpretations to existing standards have been published and are mandatory for the Bank's accounting periods beginning on or after 1 January 2008 or later periods which the Bank has chosen not to early adopt:
- IFRIC 4, 'Determining whether an Arrangement contains a Lease' (effective from 1 January 2008)
- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008);
- IFRIC 11, 'IFRS 2 – Group and treasury share transactions', (effective from 1 January 2009)
- IFRIC 12, 'Service concession arrangements' (effective from 1 January 2008)
- IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008)
- IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009)
- IFRS 8, 'Operating segments' (effective from 1 January 2009)

2.2 Investments in subsidiaries

Investments in subsidiaries are stated at cost. When the carrying amount of the investment is greater than its recoverable amount, it is written down to its recoverable amount.

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates ('the functional currency'). The financial statements are presented in Lebanese Pounds which is the Bank's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

2.4 Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in 'net trading income (loss)'.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading; (b) those that the entity upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

(c) Held- to-maturity financial assets

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount of held to maturity assets, the entire category would be reclassified as available for sale.

(d) Available-for-sale financial assets

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Regular-way purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on trade-date – the date on which the Bank commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit and loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in profit or loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Bank establishes fair value using valuation techniques which mainly include the use of recent arm's length transactions.

2.5 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.6 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement unless the bank chooses to designate the hybrid contracts at fair value through profit and loss.

2.7 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest and similar income' and 'interest expense and similar charges' in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

2.8 Fee and commission income

Fees and commissions are recognised on an accrual basis when the service has been provided and mainly comprise commissions on client transactions, usually recognised upon completing the underlying transaction.

2.9 Dividend income

Dividends are recognised in the income statement when the Bank's right to receive payment is established.

2.10 Impairment of financial assets

(a) Assets carried at amortised cost

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

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (ie, on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement in impairment charge for credit losses.

(b) Assets classified as available for sale

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

(c) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

2.11 Property and equipment

Land and buildings comprise mainly branches and offices. All property and equipment is stated at historical cost or revaluation less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against revaluation reserves directly in equity; all other decreases are charged to the income statement.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost or revaluation to their residual values over their estimated useful lives as follows:

	%
Buildings	2
Computer equipment	20
Furniture, fixtures and equipment	8
Vehicles	10
Leasehold improvements	6

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating expenses in the income statement.

The Bank has revised the estimated useful life of its property and equipment. The effect of this change in accounting estimate has been reflected prospectively and has the effect to reduce the depreciation charge from LL 2,915 million in 2006 to LL 2,175 million in 2007 (Note 35).

2.12 Intangible assets

(a) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives of five years. Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

(b) Key money

Key money paid for repossessed properties from tenants is amortised over a period of four years.

2.13 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.14 Investment property

Investment property, principally comprising land and buildings, is held for long-term rental yields and is not occupied by the Bank. Investment property is carried at fair value, representing open-market value determined periodically by external valuers. Changes in fair values are recorded in the income statement as part of other operating income.

2.15 Properties acquired in settlement of debt

The Bank exercises its ownership rights over the real estate collateral when it exhausts all reasonable means for collecting non-performing loans.

Such properties are accounted for at the lower of carrying amount or fair value less costs to sell.

2.16 Leases

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to other operating expenses in the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.17 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with Central Bank of Lebanon and Central Bank of Cyprus and loans and advances to banks.

2.18 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.19 Retirement benefit obligations

The Bank is subscribed to the compulsory defined benefit plan in accordance with the national social security fund regulations. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive in retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less contributions to the fund, together with adjustments for actuarial gains/losses and past service costs. The defined benefit obligation is calculated annually by the Bank using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government securities that have terms to maturity approximating the terms of the related liability.

2.20 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. The rates enacted or substantially enacted at the balance sheet date are used to determine deferred income tax.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising from general provisions on loans and advances to customers and differences between the accounting and fiscal depreciation, except where the timing of the reversal of the temporary difference is controlled by the Bank and it is probable that the temporary difference will not reverse in the foreseeable future.

2.21 Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

2.22 Speculation accounts

Foreign currency placements and foreign currency borrowings relating to speculation accounts of the Bank customers are netted off as required by the Central Bank of Lebanon directives.

2.23 Share capital

(a) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(b) Cash contributions to capital

Cash contributions to capital is classified as equity. A part of these cash contributions generates interest charges paid to the respective shareholders.

(c) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are proposed but not declared are dealt with in Note 39.

2.24 Reserves for properties acquired in settlement of debt

At each balance sheet date, an appropriation of net profits is made in respect of properties acquired in settlement of debt. The amount of this appropriation is determined by applying the percentages specified in the relevant banking control commission circulars (5% or 20% as applicable) to the carrying amounts of those assets. Where the net profits for the year are not adequate to cover the amount of appropriation required, then the shortfall is taken from retained earnings.

2.25 Fiduciary activities

The Bank acts as a trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Bank.

2.26 Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3- Financial risk management

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by a Market Risk department under policies approved by the Board of Directors. The Market Risk department identifies, evaluates and hedges financial risks in close co-operation with the Bank's operating units. The Board provides written policies for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

3.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised in credit risk management team of Market Risk department and reported to the Board of Directors and the Credit committee regularly.

3.1.1 Credit risk measurment

(a) Loans and advances

In measuring credit risk of loan and advances to customers and to banks at a counterparty level, the Bank's clients are segmented into five rating classes according to the Bank of Lebanon ("BDL") and the Banking Control Commission ("BCC") requirements as follows:

- Normal – the loan is expected to be repaid on a timely and consistent basis;
- Special mentioned – type of loan is expected to be repaid but with lack of current financial information about the client;
- Sub-standard – type of loan where the client is witnessing a difficult financial condition;
- Doubtful – type of loan where there is no movement in the clients' balance;
- Bad – type of loan where the probability of repayment is low and almost nil.

These credit risk measurements reflect the impairment allowances required under IAS 39, which are based on losses that have been incurred at the balance sheet date (the 'incurred loss model').

(b) Debt securities and other bills

For debt securities and other bills, external ratings are used by the Bank Treasury for managing credit risk exposure. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

3.1.2 Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and Banks, and to industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and by country are approved annually by the Asset and Liability Committee.

The exposure to any one borrower including banks and financial institutions is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is a common practice. The bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Real Estate Mortgages over residential properties against Housing Loans;
- Real Estate Mortgages over commercial properties against commercial lending;
- Cash Collaterals;
- Personal, Bank and Public Sector Guarantees;
- Salary Domiciliation;

- Letters of Credit and Documentary collections;
- Surrender of receivables;
- Charges over business assets such as premises, inventory, accounts receivable, commercial bills, machinery, vehicles, trade rights;
- Charges over financial instruments such as debt securities and equities;
- Life insurance and PTD policies.

Longer-term finance and lending to corporate entities are generally secured; including revolving individual credit facilities. In addition, the bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

(b) Master netting arrangements

The Bank further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis.

(c) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate in addition to a required credit margin set by the credit committee based on the credit rating of each customer and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

3.1.3 Impairment and provisioning policies

The internal rating system described in Note 3.1.1 focuses on more credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment (see Note 2.10).

The impairment provision shown in the balance sheet at year-end is derived from each of the five internal rating grades. However, the majority of the impairment provision comes from the bottom two gradings. The table below shows the percentage of loans and advances and the associated impairment provision for each of the Bank's internal rating categories:

Bank's rating

(%)	Loans & advances	Impairment provision	Loans & advances	Impairment provision
	2007	2007	2006	2006
1 & 2 Normal & Special Mentioned	86%	0%	84%	0%
3. Sub-standard	1%	1%	2%	1%
4. Doubtful	13%	12%	14%	12%
5. Bad	0%	0%	0%	0%
	100%	13%	100%	13%

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral;
- Downgrading below normal and special mentioned grade level.

The Bank's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts.

The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to on-balance sheet assets are as follows:

(LL Millions)	2007	2006
Assets		
Cash and balances with central banks	390,240	443,611
Lebanese treasury bills		
- in Lebanese Pounds	541,933	579,107
- in Foreign currencies	560,870	580,579
Loans and advances to banks	1,299,257	1,093,746
Loans and advances to customers		
Loans to individuals		
- Personal loans	13,962	13,673
- Credit cards	4,973	4,536
- Housing loans	99,537	81,490
- Other	44,069	14,114
Loans to corporate entities		
- Large corporate customers	236,964	96,424
- Small and medium size enterprises (SMEs)	290,562	394,254
- Kafalat loan	22,676	23,135
- Supported loans	27,179	26,893
Debtors by acceptances	53,361	65,464
Investment securities:		
- For trading	58,278	-
- Available for sale	9,273	-
- Held to maturity	69,718	12,552
Other assets	25,647	20,019
Credit risk exposures relating to off-balance sheet items are as follows:		
Financial guarantees	142,803	115,832
Loan commitments and other credit-related liabilities	112,381	112,068
At 31 December	**4,003,683**	**3,677,497**

The above table represents a worse case scenario of credit risk exposure to the Bank at 31 December 2007 and 2006, without taking account of any collateral held or other credit enhancements attached.

For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 28% of the total maximum exposure is derived from investment in treasury bills (2006 – 33%); 33% is derived from loans and advances to banks (2006 – 31%) and 10% is derived from cash and balances with central banks resulting mainly from investment in Central Bank of Lebanon Certificates of Deposit (2006 – 12%).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its investment in Lebanese treasury bills and placements at the Central Bank of Lebanon, and from its investment in other banks, since the funds are placed in highly-rated banks. Based on the following:

- 86% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2006 – 84%);
- Mortgage loans, which represents the biggest group in the portfolio of loans to individuals, are backed by collateral;
- 96% of the loans and advances portfolio are considered to be neither past due nor impaired (2006 – 94%);
- More than 50% of the investments in debt securities and other bills have at least at A- credit rating.

3.1.5 Loans and advances

Loans and advances are summarised as follows:

(LL Millions)	Loans & advances to customers	Loans & advances to banks	Loans & advances to customers	Loans & advances to banks
	2007	**2007**	**2006**	**2006**
Neither past due or impaired	710,187	1,298,604	616,849	1,093,074
Past due but not impaired	7,283	-	6,515	-
Individually impaired	117,558	2,555	118,779	2,516
Gross	**835,028**	**1,301,159**	**742,143**	**1,095,590**
Less:				
allowance for impairment	95,106	1,902	87,624	1,844
Net	**739,922**	**1,299,257**	**654,519**	**1,093,746**

The total impairment provision for loans and advances is LL 97 billion (2006 – LL 89 billion) of which LL 95 billion (2006 – LL 88 billion) represents the individually impaired loans and the remaining amount of LL 2 billion (2006 – LL 1 billion) represents the portfolio provision. Further information of the impairment allowance for loans and advances to banks and to customers is provided in Notes 7 and 9.

During the year ended 31 December 2007, the Bank's total loans and advances increased by 13% as a result of the expansion of the lending business, mainly in Lebanon. This increase is mainly attributed to increase in retail loans (personal loans and other loans to individuals).

(a) Loans and advances neither past due or impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank.

	Loans to individuals				Loans to corporate entities				
(LL Millions)	Personal	Credit cards	Mortgages	Other	Large corporate customers	SME	Kafalat	Supported	Total
31 December 2007									
Grades									
1. Normal	24,381	5,231	97,673	46,776	275,015	178,393	23,614	28,284	679,367
2. Special mention	-	-	-	-	17,936	12,884	-	-	30,820
At 31 December 2007	**24,381**	**5,231**	**97,673**	**46,776**	**292,951**	**191,277**	**23,614**	**28,284**	**710,187**
31 December 2006									
Grades									
1. Normal	21,950	4,603	80,189	13,724	285,757	125,687	23,995	27,170	583,075
2. Special mention	-	-	-	-	18,240	15,534	-	-	33,774
At 31 December 2006	**21,950**	**4,603**	**80,189**	**13,724**	**303,997**	**141,221**	**23,995**	**27,170**	**616,849**

(b) Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

(LL Millions)	Loans to individuals				Loans to corporate entities				
	Personal	Credit cards	Mortgages	Other	Large corporate customers	SME	Kafalat	Supported	Total
31 December 2007									
Grades									
Past due 90-120 days	36	-	21	12	-	900	-	51	1,020
Past due 120-150 days	11	-	32	14	-	603	-	-	660
Past due above 150 days	332	-	393	32	-	412	84	-	1,253
Total	**379**	**-**	**446**	**58**	**-**	**1,915**	**84**	**51**	**2,933**
Fair value of collateral	**-**	**-**	**5,786**	**37**	**-**	**1,340**	**704**	**1,650**	**9,517**
At 31 December 2006									
Grades									
Past due 90-120 days	32	-	16	6	-	163	4	41	262
Past due 120-150 days	36	-	36	7	-	227	27	5	338
Past due above 150 days	271	-	351	15	-	1,330	47	-	2,014
Total	**339**	**-**	**403**	**28**	**-**	**1,720**	**78**	**46**	**2,614**
Fair value of collateral	**-**	**-**	**4,443**	**34**	**-**	**1,118**	**654**	**1,473**	**7,722**

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

(c) Loans and advances individually impaired

(i) Loans and advances to customers

(LL Millions)	Loans to individuals				Loans to corporate entities				
	Personal	Credit cards	Mortgages	Other	Large corporate customers	SME	Kafalat	Supported	Total
31 December 2007									
Individually impaired loans	6,855	-	2,215	-	35,101	73,387	-	-	117,558
Fair value of collateral	**4,336**	**-**	**1,401**	**-**	**22,203**	**46,420**	**-**	**-**	**74,360**
At 31 December 2006									
Individually impaired loans	7,047	3	2,012	3	36,270	73,444	-	-	118,779
Fair value of collateral	**3,992**	**2**	**1,140**	**2**	**20,547**	**41,600**	**-**	**-**	**67,283**

(ii) Loans and advances to banks

The total gross amount of individually impaired loans and advances to banks as at 31 December 2007 was LL 3 billion (2006 – LL 3 billion). No collateral is held by the Bank, and an impairment provision of LL 2 billion (2006 – LL 2 billion) has been provided against the gross amount.

(d) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans. Renegotiated loans that would otherwise be past due or impaired totaled LL 275 million at 31 December 2007 (2006 – LL 100 million).

(LL Millions)	2007	2006
Loans and advances to customers-individuals		
Term Loans	275	100

3.1.6 Debt securities, treasury bills and other eligible bills

(LL Millions)	Lebanese Treasury bills	Lebanese certificates of deposit	For trading investment securities	Available for sale investment securities	Held to maturity investment securities	Total
31 December 2007						
AAA	-	-	-	-	-	-
AA- to AA+	-	-	54,270	7,538	7,688	69,496
A- to A+	-	-	-	1,508	29,702	31,210
Lower than A-	-	-	-	-	-	-
BBB+	-	-	3,015	-	-	3,015
B-	1,080,858	370,925	-	-	30,904	1,482,687
Unrated	-	-	-	562	1,005	1,567
Net book amount	**1,080,858**	**370,925**	**57,285**	**9,608**	**69,299**	**1,587,975**

3.1.7 Repossessed collateral

The Bank obtained assets by taking possession of collateral held as security, as follows:

(LL Millions)	2007	2006
Nature of assets		
Residential property- carrying amount	3,978	12,810

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the balance sheet within property acquired in settlement of debt (Note 13).

3.1.8 Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by geographical region as of 31 December 2007. For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties (refer to the schedule below).

(b) Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by the industry sectors of its counterparties (refer to the schedule below).

(a) Geographical sectors

(LL Millions)	Lebanon	Arab countries	United Kingdom	Other European countries	Other countries	Total
ASSETS						
Cash and Bank of Lebanon	390,240	-	-	-	-	390,240
Lebanese treasury bills	1,102,803	-	-	-	-	1,102,803
Loans and advances to banks	222,800	274,595	101,122	643,300	57,440	1,299,257
Loans and advances to customers	710,761	11,278	-	3,504	14,379	739,922
Debtors by acceptances	50,806	1,294	-	-	1,261	53,361
Investment securities						
- For trading	-	2,977	52,222	3,079	-	58,278
- Available for sale	-	1,542	7,731	-	-	9,273
- Held to maturity	1,008	22,406	7,538	157	38,609	69,718
Other assets	79,130	-	-	(53,545)	62	25,647
At 31 December 2007	**2,557,548**	**314,092**	**168,613**	**596,495**	**111,751**	**3,748,499**
At 31 December 2006	**2,541,863**	**112,399**	**102,988**	**678,629**	**13,718**	**3,449,597**

(b) Industry sectors

(LL Millions)	Financial institutions	Trading	Construction	Industrial	Agriculture	Consumer loans	Other	Total
ASSETS								
Cash and Bank of Lebanon	390,240	-	-	-	-	-	-	390,240
Lebanese treasury bills	1,102,803	-	-	-	-	-	-	1,102,803
Loans and advances to banks	1,299,257	-	-	-	-	-	-	1,299,257
Loans and advances to customers	-	180,943	177,479	74,003	14,009	264,600	28,888	739,922
Debtors by acceptances	-	13,049	12,799	5,337	1,010	19,082	2,084	53,361
Investment securities								
- For trading	58,278	-	-	-	-	-	-	58,278
- Available for sale	9,273	-	-	-	-	-	-	9,273
- Held to maturity	69,718	-	-	-	-	-	-	69,718
Other assets	-	-	-	-	-	-	25,647	25,647
At 31 December 2007	**2,929,569**	**193,992**	**190,278**	**79,340**	**15,019**	**283,682**	**56,619**	**3,748,499**
At 31 December 2006	**2,709,595**	**192,424**	**139,108**	**74,248**	**18,352**	**265,923**	**49,947**	**3,449,597**

3.2 Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Bank separates exposures to market risk into either trading or banking portfolios.

Trading portfolios include those positions arising from managing the portfolio as held for trading. Banking portfolios primarily arise from the interest rate management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Bank's held-to-maturity and available-for-sale investments.

3.2.1 Market risk measurement techniques

As part of the management of market risk, the Bank produces interest rate sensitivity reports, which consider the impact of interest rate changes on the gap among assets and liabilities in current balance sheet for various maturities.

At 31 December 2007, in the banking portfolio, if interest rates had been 1% lower/higher with all other variables held constant, post-tax profit for the year would have been LL 9 billion lower/higher.

In the trading portfolio, if interest rates had been 1% lower/higher with all other variables held constant, post-tax profit for the year would have been LL 2.6 billion lower/higher.

Interest rate fluctuations are closely monitored and valued on a regular basis.

3.2.2 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Central Bank of Lebanon sets limits on the level of exposure to foreign exchange risk which should not exceed 1% of equity. The level of exposure by currency and in aggregate are both monitored daily by the market risk department to ensure limits are abided by. The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

Concentrations of currency risk - on - and off-balance sheet financial instruments

(LL Millions)	LL	USD	EURO	GBP	Others	Total
ASSETS						
Cash and Bank of Lebanon	309,704	658,933	2,415	231	4,108	975,391
Lebanese treasury bills	541,934	548,163	12,706	-	-	1,102,803
Loans and advances to banks	21,992	1,189,138	57,581	1,419	29,127	1,299,257
Trading assets	2,229	26,555	-	-	-	28,784
Loans and advances to customers	184,995	459,479	30,579	48,139	16,730	739,922
Debtors by acceptances	-	44,771	5,396	167	3,027	53,361
Investment securities						
- For trading	-	58,278	-	-	-	58,278
- Available for sale	562	9,273	-	-	-	9,835
- Held to maturity	-	69,718	-	-	-	69,718
Other assets	6,849	18,728	98	(7)	(21)	25,647
Total financial assets	**1,068,265**	**3,083,036**	**108,775**	**49,949**	**52,971**	**4,362,996**
Liabilities						
Deposits from banks	12,780	137,294	10,371	22,231	6,835	189,511
Due to customers	951,646	2,644,786	86,278	26,408	34,700	3,743,818
Certificates of deposits	-	77,003	-	-	-	77,003
Engagements by acceptances	-	44,771	5,396	167	3,027	53,361
Other liabilities	(4,261)	40,024	5,109	96	409	41,377
Current income tax liability	1,000	-	-	-	-	1,000
Retirement benefit obligations	12,145	742	-	-	-	12,887
Total financial liabilities	**973,310**	**2,944,620**	**107,154**	**48,902**	**44,971**	**4,118,957**
Net on-balance sheet position	**94,955**	**138,416**	**1,621**	**1,047**	**8,000**	**244,039**
Credit commitments	**14,345**	**98,704**	**21,283**	**400**	**8,071**	**142,803**
At 31 December 2006						
Total financial assets	1,088,366	2,684,847	116,673	52,365	38,483	3,980,734
Total financial liabilities	984,099	2,563,638	116,728	51,851	37,477	3,753,793
Net on-balance sheet position	**104,267**	**121,209**	**(55)**	**514**	**1,006**	**226,941**
Credit commitments	**15,324**	**73,942**	**13,600**	**329**	**7,034**	**110,229**

3.2.3 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily by the Market Risk department.

The table below summarises the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

(LL Millions)	Up to 1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Non interest bearing	Total
ASSETS							
Cash and Bank of Lebanon	192,070	-	31,874	615,127	65,576	70,744	975,391
Lebanese treasury bills	5,000	33,115	242,320	607,794	197,483	17,091	1,102,803
Loans and advances to banks	912,498	292,210	66,123	17,939	5,981	4,506	1,299,257
Trading assets	-	-	-	-	-	28,784	28,784
Loans and advances to customers	353,716	28,743	134,910	94,035	126,386	2,132	739,922
Debtors by acceptances	16,427	24,740	8,903	2,133	1,158	-	53,361
Investment securities							
- For trading	-	-	-	53,516	3,015	1,747	58,278
- Available for sale	-	-	-	7,538	1,508	789	9,835
- Held to maturity	22,300	7,402	-	23,618	15,980	418	69,718
Other assets	-	-	-	-	-	25,647	25,647
Total financial assets	**1,502,011**	**386,210**	**484,130**	**1,421,700**	**417,087**	**151,858**	**4,362,996**
Liabilities							
Deposits from banks	133,859	5,596	-	48,994	-	1,062	189,511
Due to customers	2,967,005	235,107	390,811	107,618	9,830	33,447	3,743,818
Certificates of deposits	-	65,878	9,497	-	-	1,628	77,003
Engagements by acceptances	16,427	24,740	8,903	2,133	1,158	-	53,361
Other liabilities	26,326	-	-	-	-	15,051	41,377
Current income tax liability	-	-	-	-	-	1,000	1,000
Retirement benefit obligations	-	-	-	-	-	12,887	12,887
Total financial liabilities	**3,143,617**	**331,321**	**409,211**	**158,745**	**10,988**	**65,075**	**4,118,957**
Total interest repricing gap	**(1,641,606)**	**54,889**	**74,919**	**1,262,955**	**406,099**		
At 31 December 2006							
Total financial assets	1,556,988	394,901	418,270	1,092,684	339,950	177,941	3,980,734
Total financial liabilities	2,827,896	236,548	348,806	208,196	9,119	123,228	3,753,793
Total interest repricing gap	**(1,270,908)**	**158,353**	**69,464**	**884,488**	**330,831**		

3.3 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

3.3.1 Liquidity risk management process

The Bank's liquidity management process, as carried out within the Bank and monitored by a separate team in Bank Treasury, includes:
- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month, semi annual and annual basis respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The liquidity ratio of the Bank for all currencies as at 31 December 2007 was 84% (2006 – 88%), as per Central Bank of Lebanon's method of calculation.

3.3.2 Funding approach

Sources of liquidity are regularly reviewed by a separate team in Bank Treasury to maintain a wide diversification by currency, geography, provider, product and term.

3.3.3 Non-derivative cash flows

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

(LL Millions)	Up to 1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Total
At 31 December 2007						
Liabilities						
Deposits from banks	134,147	5,600	707	49,057	-	189,511
Due to customers	2,996,009	236,512	393,147	108,261	9,889	3,743,818
Certificates of deposits	-	67,362	9,641	-	-	77,003
Engagements by acceptances	16,426	24,741	8,903	2,133	1,158	53,361
Other liabilities	41,377	-	-	-	-	41,377
Current income tax liability	-	-	1,000	-		1,000
Retirement benefit obligations	-	-	-	-	12,887	12,887
Total liabilities (contractual maturity dates)	**3,187,959**	**334,215**	**413,398**	**159,451**	**23,934**	**4,118,957**
Total assets (expected maturity dates)	**1,621,158**	**398,927**	**505,958**	**1,421,968**	**418,045**	**4,366,056**
At 31 December 2006						
Liabilities						
Deposits from banks	141,268	1,955	1,865	961	-	146,049
Due to customers	2,689,693	236,734	350,105	133,063	9,202	3,418,797
Certificates of deposits	-	-	1,648	75,375	-	77,023
Engagements by acceptances	18,122	28,145	16,013	3,184	-	65,464
Other liabilities	33,266	-	-	-	-	33,266
Current income tax liability	-	-	769	-	-	769
Retirement benefit obligations	-	-	-	-	12,425	12,425
Total liabilities (contractual maturity dates)	**2,882,349**	**266,834**	**370,400**	**212,583**	**21,627**	**3,753,793**
Total assets (expected maturity dates)	**1,488,222**	**441,152**	**456,101**	**1,193,541**	**409,743**	**3,988,759**

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, central bank balances, and treasury bills, loans and advances to banks; and loans and advances to customers. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. The Bank would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources.

3.3.4 Off-balance sheet items

(a) Loan commitments

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to customers and other facilities (Note 9), are summarised in the table below.

(b) Financial guarantees and other financial facilities

Financial guarantees (Note 41) are also included on the earliest contractual maturity date.

(c) Operating lease commitments

Where the bank is the lessee, the future minimum lease payments under non-cancellable operating leases, are summarised in the table below.

(LL Millions)	No later than 1 year	1-5 years	Over 5 years	Total
At 31 December 2007				
Loan commitments	110,845	22	1,514	112,381
Guarantees acceptances and other financial facilities	140,689	2,114	-	142,803
Operating lease commitments	234,653	91,337	54,270	380,260
	486,187	**93,473**	**55,784**	**635,444**
At 31 December 2006				
Loan commitments	110,197	18	1,853	112,068
Guarantees acceptances and other financial facilities	115,583	-	249	115,832
Operating lease commitments	211,880	72,360	72,360	356,600
	437,660	**72,378**	**74,462**	**584,500**

3.4 Fair value of financial assets and liabilities

(a) Financial instruments measured at fair value

The total estimated amount of the change in fair value that was recognised; profit and loss during the year is a gain of LL 3,443 million (2006 – loss of LL 5,297 million).

(b) Financial instruments not measured at fair value

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at their fair value.

(LL Millions)	Carrying amount	Carrying amount	Fair value	Fair value
Financial assets	**2007**	**2006**	**2007**	**2006**
Lebanese treasury bills	1,102,803	1,159,686	1,097,404	1,168,040
HTM investment securities	69,718	12,552	69,718	12,552

Lebanese treasury bills and Investment securities

Investment securities include interest-bearing assets held to maturity; assets classified as available for sale and for trading are measured at fair value. Fair value for held-to-maturity assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

3.5 Capital management

To monitor the adequacy of its capital the Bank uses ratios established by the Bank for International Settlements (BIS). These ratios measure capital adequacy (minimum 8% as required by BIS and 12% as required by the Central Bank of Lebanon) by comparing the Bank's eligible capital with its balance sheet assets, off-balance-sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk.

The market risk approach covers the general market risk and the risk of open positions in currencies and debt and equity securities. Assets are weighted according to broad categories of notional risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Five categories of risk weights (0%, 20%, 30%, 50%, 100%) are applied; for example cash and placements with the Central Bank of Lebanon have a zero risk weighting which means that no capital is required to support the holding of these assets.

Property and equipment carries a 100% risk weighting, meaning that it must be supported by capital equal to 12% of the carrying amount.

Off-balance-sheet credit related commitments and forwards and options based derivative instruments are taken into account by applying different categories of conversion factors, designed to convert these items into balance sheet equivalents. The resulting equivalent amounts are then weighted for risk using the same percentages as for on-balance-sheet assets.

The Bank's regulatory capital as managed by its Treasury is divided into two tiers:

- Tier 1 capital: share capital, preferred shares, retained earnings and reserves created by appropriations of retained earnings, less the net book value of the intangible assets; and

- Tier 2 capital: real estate revaluation surplus approved by Central Bank of Lebanon.

The Group's net capital adequacy level was as follows:

(LL Millions)	2007	2006
Tier 1 Capital		
Share capital and cash contributions to capital	120,760	119,771
Premium on issuance of preferred shares and reserves	121,782	116,241
Retained earnings	41,106	26,997
Less: Intangible assets	(3,394)	(2,238)
Total qualifying Tier 1 Capital	280,254	260,771
Tier 2 Capital		
Real estate revaluation reserve accepted for inclusion in Tier 2 capital calculation	10,000	10,000
Revaluation of available for sale securities	1,358	-
Total qualifying Tier 2 Capital	11,358	10,000
Total regulatory Capital	291,612	270,771
Risk- weighted assets		
On-balance sheet	1,072,885	953,509
Off-balance sheet	66,915	54,286
Unassigned market risk components	3,263	869
Total risk-weighted assets	1,143,063	1,008,664
BIS Capital ratios (%)		
Tier 1 Capital	24.52	25.85
Tier 1 + Tier 2 Capital	25.51	26.84

The increase of the regulatory capital in the year 2007 is mainly due to the contribution of the current year profit. The increase of the risk weighted assets reflects the expansion of the business in 2007.

4- Critical accounting estimates and judgements

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

(b) Impairment of available for-sale equity investments

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

(c) Held to maturity investments

The Bank follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire category as available for sale. The investments would therefore be measured at fair value not amortised cost. If the entire held-to-maturity investments are tainted, the fair value would decrease by LL 5.4 billion, with a corresponding entry in the fair value reserve in shareholders' equity.

(d) Income taxes

The Bank is subject to income taxes. Significant estimates are required in determining the provision for income taxes.

5- Cash and balances with central banks

(LL Millions)	2007	2006
Cash in hand	50,879	41,807
Other money market placements	14,800	-
Balances with Central Bank of Lebanon other than mandatory reserve deposits	7,740	4,469
Included in cash and cash equivalents (Note 40)	**73,419**	**46,276**
Mandatory reserve deposits with Central Bank of Lebanon in Lebanese pounds	76,833	84,991
Mandatory reserve deposits with Central Bank of Lebanon in Foreign currency	428,478	374,506
Mandatory reserve deposits with Central Bank of Cyprus in Foreign currency	3,755	2,724
	509,066	**462,221**
Loans and advances:		
Term deposits	2,667	8,399
Certificates of deposit	370,925	431,596
Interest receivable – Central Bank of Lebanon	3,884	3,151
Net interest receivable – Certificates of deposit	13,713	13,805
Net premium (discount) – Certificates of deposit	1,717	(4,941)
	392,906	**452,010**
	975,391	**960,507**

Local banking regulations require banks to maintain mandatory reserves with central banks. At end of 2007, mandatory reserves with the Central Bank of Lebanon comprise non-interest earning deposits in Lebanese Pound amounting to LL 77 billion and foreign currency deposits that earn interest at 5.94% per annum with a counter value of LL 428 billion (US$ 284 million). At end of 2006, the Lebanese currency reserves amounted to LL 85 billion while the foreign currency deposits amounted to LL 375 billion (US$ 249 million) that earned interest at 5.71% per annum. Mandatory reserve with the Central Bank of Cyprus comprise of foreign currency deposits and are interest bearing.

Money market placements and certificates of deposit are fixed-rate assets. Mandatory reserve deposits are not available for use in the Bank's day-to-day operations.

6- Lebanese treasury bills

(LL Millions)	2007	2006
Treasury bills in Lebanese pound	529,627	566,898
Treasury bills in foreign currency	556,085	572,590
Net unamortised discount	(4,854)	(1,058)
Amortised cost	**1,080,858**	**1,138,430**
Net interest receivable	21,818	23,283
Unrealised gain/(loss) - treasury bills	127	(2,027)
	1,102,803	**1,159,686**

Lebanese treasury bills comprise bills with fixed rates and variable rates of LL 1,039 billion and LL 47 billion respectively. (In 2006, Lebanese treasury bills comprised bills with foxed rates and variable rates of LL 1,093 billion and LL 47 billion respectively).

In 2007, Treasury bills in foreign currency included securities pledged amounting to LL 63 billion (US$ 42 million) in favour of a non-resident bank in respect of a loan that matures in September 2012 (Note 24).

Lebanese treasury bills are classified at 31 December 2007 as follows:

(LL Millions)	Amortised cost	Fair value	Unrealised gain/(loss)
In Lebanese pound			
Held to maturity	349,792	357,435	7,643
Fair value through profit and loss	50,489	51,377	888
Available for sale	129,011	129,357	346
	529,292	**538,169**	**8,877**
In foreign currency			
Held to maturity	446,204	433,162	(13,042)
Fair value through profit and loss	28,915	27,544	(1,371)
Available for sale	76,447	76,711	264
	551,566	**537,417**	**(14,149)**
	1,080,858	**1,075,586**	**(5,272)**

Lebanese treasury bills are classified at 31 December 2006 as follows:

(LL Millions)	Amortised cost	Fair value	Unrealised gain/(loss)
In Lebanese pound			
Held to maturity	519,108	539,798	20,690
Fair value through profit and loss	47,127	48,129	1,002
	566,235	**587,927**	**21,692**
In foreign currency			
Held to maturity	447,997	435,661	(12,336)
Fair value through profit and loss	124,198	121,169	(3,029)
	572,195	**556,830**	**(15,365)**
	1,138,430	**1,144,757**	**6,327**

7- Loans and advances to banks

(LL Millions)	2007	2006
Items in course of collection from banks	6,061	2,183
Placements with banks	662,535	979,871
Current accounts	112,710	81,500
Included in cash and cash equivalents (Note 40)	**781,306**	**1,063,554**
Loans and advances:		
Doubtful receivables	653	672
Term deposits	500,905	15,495
Certificates of deposit	8,894	10,251
Premium on certificates of deposit	(49)	-
Net interest receivable – banks	7,454	3,649
Net interest receivable – certificates of deposit	94	125
	517,951	**30,192**
	1,299,257	**1,093,746**
Current	1,275,287	1,070,212
Non-current	23,970	23,534
	1,299,257	**1,093,746**

Loans and advances to banks include loans with variable rates and fixed rates of LL 129 billion and LL 1,157 billion respectively. (In 2006, loans and advances to banks comprise loans with variable rates and fixed rates of LL 137 billion and LL 951 billion respectively).

8- Trading assets

(LL Millions)	2007	2006
Equity securities:		
- Listed	28,161	10,116
- Unlisted	623	3,563
	28,784	**13,679**

The movement in trading assets may be summarised as follows:

(LL Millions)	2007	2006
Balance at 1 January	13,679	10,178
Acquisitions during the year	16,249	3,857
Disposals during the year	(3,342)	(698)
Change in fair value	2,198	342
Balance at 31 December	**28,784**	**13,679**

9- Loans and advances to customers

(LL Millions)	2007	2006
Commercial advances:		
Discounted bills	5,233	8,002
Bills to the order of the Bank	21,666	22,484
Unpaid bills	4,772	3,137
Short term loans	77,460	91,475
Medium and long term loans	456,216	349,492
Impairment provision	(1,670)	(1,147)
	563,677	**473,443**

(LL Millions)	2007	2006
Current debtor accounts:		
Creditors accidentally debtors	1,805	1,377
Advances	142,850	142,105
Substandard loans	9,741	11,366
Impairment provision ("unrealised interest")	(4,846)	(3,355)
	149,550	**151,493**

(LL Millions)	2007	2006
Net doubtful accounts:		
Doubtful loans	107,817	107,413
Impairment provision	(88,590)	(83,122)
	19,227	**24,291**

(LL Millions)	2007	2006
Other loans and advances:		
Net debit against credit accounts – speculation accounts	3,432	1,912
Related parties loans and advances (Note 45)	1,904	1,218
Interest receivable	2,132	2,162
	7,468	**5,292**
	739,922	**654,519**

Loans and advances allocated:

(LL Millions)	Gross loans & advances	Impairment provision	Net loans on advances
At 31 December 2007			
Normal and special mention loans	717,470	(1,670)	715,800
Substandard loans	9,741	(4,846)	4,895
Doubtful and bad debts	107,817	(88,590)	19,227
	835,028	**(95,106)**	**739,922**
At 31 December 2006			
Normal and special mention loans	623,364	(1,147)	622,217
Substandard loans	11,366	(3,355)	8,011
Doubtful and bad debts	107,413	(83,122)	24,291
	742,143	**(87,624)**	**654,519**

(LL Millions)	2007	2006
Current	530,818	357,129
Non-current	209,104	297,390
	739,922	**654,519**

The movement in impairment provision is summarised as follows:

(LL Millions)	2007	2006
Balance at 1 January	87,624	81,412
Additions	13,597	14,076
Unrealised interest	4,929	5,089
Releases	(6,031)	(7,349)
Provisions applied against loan write offs	(5,013)	(5,604)
Balance at 31 December	**95,106**	**87,624**

Reconciliation of allowance account for losses on loans and advances by class is as follows:

(LL Millions)	Loans to individuals				Loans to corporate entities				
	Personal	Credit cards	Mortgages	Other	Large corporate customers	SME	Kafalat	Supported	Total
Balance at 1 January 2006	3,446	-	1,535	-	24,642	51,789	-	-	81,412
Additions	596	-	265	-	4,261	8,954	-	-	14,076
Unrealised interest	215	-	96	-	1,540	3,238	-	-	5,089
Releases	(311)	-	(139)	-	(2,224)	(4,675)	-	-	(7,349)
Provisions applied against loan write offs	(237)	-	(106)	-	(1,696)	(3,565)	-	-	(5,604)
Balance at 31 December 2006	**3,709**	**-**	**1,651**	**-**	**26,523**	**55,741**	**-**	**-**	**87,624**
Balance at 1 January 2007	3,709	-	1,652	-	26,522	55,741	-	-	87,624
Additions	558	-	279	-	3,987	8,773	-	-	13,597
Unrealised interest	202	-	101	-	1,445	3,181	-	-	4,929
Releases	(247)	-	(124)	-	(1,769)	(3,891)	-	-	(6,031)
Provisions applied against loan write offs	(205)	-	(103)	-	(1,470)	(3,235)	-	-	(5,013)
Balance at 31 December 2007	**4,017**	**-**	**1,805**	**-**	**28,715**	**60,569**	**-**	**-**	**95,106**

10- Debtors by acceptances

(LL Millions)	2007	2006
Balance	**53,361**	**65,464**

This caption represents the customer's liability to the Bank on outstanding drafts and bills of exchange that have been accepted by the Bank and/or by other banks for its account. These acceptances relate to negotiated deferred payment of import letters of credit. This caption corresponds to and offsets engagements by acceptance caption reflected under liabilities.

11- Investment securities

(LL Millions)	2007	2006
Securities available for sale		
Debt securities – at fair value:		
- Listed	1,508	-
- Unlisted	7,538	-
	9,046	**-**
Equity securities – at fair value:		
- Unlisted	562	562
Total securities available for sale	**9,608**	**562**
Securities held to maturity		
Debt securities – at amortised cost:		
- Listed	30,707	4,757
- Unlisted	38,592	7,688
Total securities held to maturity	**69,299**	**12,445**
Securities for trading		
Debt securities – at fair value:		
- Listed	6,030	-
- Unlisted	51,255	-
Total securities for trading	**57,285**	**-**
Interest receivable	1,797	107
Revaluation of debt securities	(110)	-
Discount on bonds	(48)	-
Total investment securities	**137,831**	**13,114**
Current	32,014	4,672
Non-current	105,817	8,442
	137,831	**13,114**

All debt securities have fixed coupons.

The movement in investment securities may be summarised as follows:

(LL Millions)	For trading	Available for sale	Held to maturity	Total
At 1 January 2007	-	562	12,445	13,007
Additions	64,823	31,542	61,360	157,725
Disposals / redemption	(7,538)	(22,496)	(4,506)	(34,540)
(Loss) gain from changes in fair values	(308)	198	-	(110)
At 31 December 2007	**56,977**	**9,806**	**69,299**	**136,082**
At 1 January 2006	-	562	13,115	13,677
Additions	-	-	151	151
Disposals / redemption	-	-	(821)	(821)
At 31 December 2006	**-**	**562**	**12,445**	**13,007**

Unrealised loss on held to maturity securities amounted to LL 618 million or US$ 410,000 as at 31 December 2007 (2006 – LL 19 million or US$ 12,500).

12- Investments in subsidiaries

(LL Millions)	% ownership	2007	2006
Capital for Insurance and Reinsurance Company S.A.L.	80%	3,524	3,524
Informatics Co. S.A.R.L.	84%	-	-
Société Libanaise de Service S.A.R.L.	91%	-	-
		3,524	**3,524**

The principal activities of Capital for Insurance and Reinsurance Company S.A.L. comprise providing life and general insurance services.

The principal activities of Informatics Co. S.A.R.L. comprise providing information technology services to the Bank. At the beginning of 2006, all the Company's employees were transferred to the Bank and an in-house information technology department was established within the Bank.

The principal activities of Société Libanaise de Service S.A.R.L. comprise managing the properties of the Bank and third parties, providing security guarding and different maintenance services.

13- Property acquired in settlement of debt

(LL Millions)	2007	2006
Cost	34,290	31,320
Impairment provision	(2,439)	(2,520)
	31,851	**28,800**

The movement of property acquired in settlement of debt in as follows:

(LL Millions)	2007	2006
Balance at 1 January	28,800	18,872
Acquisitions during the year	3,978	12,810
Disposals during the year	(1,008)	(2,093)
Net change in the provision	81	(789)
Balance at 31 December	**31,851**	**28,800**

Under the Banking Control Commission of Lebanon memos No.4/2008 and 10/2008 issued in 2008 and as explained in the accounting policy, the Bank is required to establish annually a reserve of 5% or 20% (as appropriate) of the carrying amount of the properties acquired in settlement of debt by appropriation of net profit for the year. No such appropriation was made during the year on the basis that previous write downs in the carrying amount of these properties are more than adequate to cover the amount which would otherwise have been appropriated for the year.

These properties are available for sale and are not included within the Bank's property used in the normal course of business. Management believes that the fair market value of these properties approximates their carrying amount as of 31 December 2007.

Properties acquired in settlement of debt are subject to an option allowing the debtors to buy back these properties at the original settlement amount during the two year period from the acquisition date by the Bank.

14- Investment property

(LL Millions)	Land	Buildings	Total
Beginning of year 2006	**5,747**	**4,382**	**10,129**
Fair value loss (Note 35)	-	(140)	(140)
End of year 2006	**5,747**	**4,242**	**9,989**
Fair value loss (Note 35)	-	(112)	(112)
End of year 2007	**5,747**	**4,130**	**9,877**

The investment property of the Bank was revalued in 1997 by an independent appraiser under the provisions of fiscal law 282/93 based on market values at 31 December 1993. The revaluation resulted in an increase in the value of investment property over its carrying value by LL 3.3 billion. Management believes that the fair market value of these properties approximates their recorded carrying amount as of 31 December 2007.

Had the Bank's investment property been stated on the historical cost basis, the amounts would have been as follows:

(LL Millions)	2007	2006
Cost	8,064	8,064
Accumulated depreciation	(596)	(550)
Net book amount	**7,468**	**7,514**

The following amounts have been recognised in the income statement:

(LL Millions)	2007	2006
Rental income (Note 32)	191	187
Direct operating expenses of investment properties that generate rental income (Note 35)	(146)	(117)
	45	**70**

15- Intangible assets

(LL Millions)	Computer software	Key money	Total
At 1 January 2006			
Cost	2,876	1,730	4,606
Accumulated amortisation	(2,456)	(1,406)	(3,862)
Net book amount	**420**	**324**	**744**
Year ended 31 December 2006			
Opening net book amount	420	324	744
Additions	97	152	249
Amortisation charge (Note 35)	(302)	(146)	(448)
Net book amount	**215**	**330**	**545**
At 31 December 2006			
Cost	2,973	1,882	4,855
Accumulated amortisation	(2,758)	(1,552)	(4,310)
Net book amount	**215**	**330**	**545**
Year ended 31 December 2007			
Opening net book amount	215	330	545
Additions	895	194	1,089
Amortisation charge (Note 35)	(165)	(127)	(292)
Net book amount	**945**	**397**	**1,342**
At 31 December 2007			
Cost	3,868	2,076	5,944
Accumulated amortisation	(2,923)	(1,679)	(4,602)
Net book amount	**945**	**397**	**1,342**

16- Property and equipment

(LL Millions)	Land & Buildings	Computer Equipment	Furniture Fixtures & Equipment	Vehicles	Leasehold improvements	Total
At 1 January 2006						
Cost or valuation	31,484	7,646	6,345	296	11,502	57,273
Accumulated depreciation	(5,973)	(5,797)	(4,303)	(93)	(9,992)	(26,158)
Net book amount	**25,511**	**1,849**	**2,042**	**203**	**1,510**	**31,115**
Year ended 31 December 2006						
Opening net book amount	25,511	1,849	2,042	203	1,510	31,115
Additions	-	359	443	-	1,217	2,019
Disposals	-	(28)	(25)	(25)	-	(78)
Depreciation charge (Note 35)	(750)	(842)	(456)	(38)	(829)	(2,915)
Closing net book amount	**24,761**	**1,338**	**2,004**	**140**	**1,898**	**30,141**
At 31 December 2006						
Cost or valuation	31,484	7,778	6,586	243	12,719	58,810
Accumulated depreciation	(6,723)	(6,440)	(4,582)	(103)	(10,821)	(28,669)
Net book amount	**24,761**	**1,338**	**2,004**	**140**	**1,898**	**30,141**
Year ended 31 December 2007						
Opening net book amount	24,761	1,338	2,004	140	1,898	30,141
Additions	3,290	1,030	599	51	541	5,511
Disposals	(79)	(49)	(18)	(12)	-	(158)
Depreciation charge (Note 35)	(712)	(713)	(335)	(25)	(390)	(2,175)
Closing net book amount	**27,260**	**1,606**	**2,250**	**154**	**2,049**	**33,319**
At 31 December 2007						
Cost or valuation	34,674	8,066	6,930	255	13,260	63,185
Accumulated depreciation	(7,414)	(6,460)	(4,680)	(101)	(11,211)	(29,866)
Net book amount	**27,260**	**1,606**	**2,250**	**154**	**2,049**	**33,319**

The property and equipment of the Bank were revalued in 1997 by an independent appraiser under the provisions of fiscal law 282/93 based on market values at 31 December 1993. The revaluation resulted in an increase in the value of property and equipment of LL 17.8 billion.

Had the Bank's property and equipment been stated on the historical cost basis, the amounts would have been as follows:

(LL Millions)	2007	2006
Cost	45,420	41,045
Accumulated depreciation	(25,006)	(23,186)
Net book amount	**20,414**	**17,859**

17- Other assets

(LL Millions)	2007	2006
Credit card facilities	13,282	9,139
Advances on fixed asset purchases	8,647	5,985
Prepaid expenses	696	746
Stamps	91	80
Deposits receivable	43	37
Precious metals	18	18
Other receivables	8,564	9,702
	31,341	**25,707**
Impairment provision – other receivables	(5,694)	(5,688)
	25,647	**20,019**
Current	14,878	14,416
Non-Current	10,769	5,603
	25,647	**20,019**

Advances on fixed asset purchases include an amount of LL 5.4 billion (2006 – LL 5.4 billion) paid to a contractor for a branch being built in Beirut Central District.

The above provisions include a provision of LL 1.8 billion (2006 – LL 1.8 billion) set up against one of the Bank's money dealers. Although the total amount due from this money dealer is LL 2.7 billion, management believes that the provision of LL 1.8 billion is adequate to cover the expected loss.

The above provision also includes an amount of LL 3.2 billion (2006 – LL 3.2 billion) set up during 2003 to cover losses incurred in connection with contentious depositors' claims in one of the Bank's branches.

The movement in the impairment provision – other receivables is as follows:

(LL Millions)	2007	2006
At 1 January	5,688	5,682
Difference of exchange	6	6
At 31 December	**5,694**	**5,688**

18- Deposits from banks

(LL Millions)	2007	2006
Sight deposits	22,270	18,321
Term deposits	120,954	123,717
Short-term loan	45,225	3,801
Interest payable – banks	1,062	210
	189,511	**146,049**
Current	140,455	143,227
Non-current	49,056	2,822
	189,511	**146,049**

A new credit facility up to US$ 5 million was granted to the Bank by the Arab Trade Financing Program on 27 September 2007. The facility granted has not been used yet. It is expected that US$ 800 thousand of this facility will be used during 2008.

The short-term loan represents a loan of US$ 30 million (LL 45,225 million) granted to the Bank by Deutsche Bank London in September 2007 against pledged Treasury bills of US$ 42 million (LL 63,315 million) (Note 24). The loan bears an annual interest rate of 5.92% and matures on 28 September 2012.

Deposits from banks comprise deposits with variable rates and fixed rates of LL 22 billion and LL 166 billion respectively. In 2006, deposits from banks comprise deposits with variable rates and fixed rates of LL 24 billion and LL 122 billion respectively.

19- Due to customers

(LL Millions)	2007	2006
Sight deposits	291,403	219,890
Term deposits	497,968	503,528
Saving accounts	2,599,640	2,359,876
Related parties accounts (Note 45)	24,767	31,588
Net credit against debit accounts and cash margins	307,220	279,182
Interest payable – customers	22,820	24,733
	3,743,818	**3,418,797**
Current	3,625,668	2,927,349
Non-current	118,150	491,448
	3,743,818	**3,418,797**
Sight deposits:		
Checking and current accounts	265,087	196,509
Debtors accidentally creditors	15,621	17,145
Cheques and orders to be paid	10,625	5,751
Public sector deposits	70	485
	291,403	**219,890**
Saving accounts:		
Saving accounts – demand	183,574	181,927
Saving accounts – term	2,416,066	2,177,949
	2,599,640	**2,359,876**
Net credit against debit accounts and cash margins:		
Pledged deposits against credit facilities	7,798	10,072
Margins on speculation accounts	261,949	238,530
Margins on letters of guarantee	37,473	30,580
	307,220	**279,182**

Deposits include coded accounts amounting to LL 131 billion as of 31 December 2007 (2006 – LL 77 billion). These accounts were opened under the provisions of Article 3 of the Banking Secrecy Law dated 3 September 1956 governing banks in Lebanon. As per the terms of this article, the Bank, under normal conditions, is not permitted to disclose the identities of coded account depositors to third parties including its auditors.

20- Certificates of deposits

(LL Millions)	2007	2006
Certificates of deposits – Banks	4,522	4,522
Certificates of deposits – Customers	70,853	70,853
Interest payable – Banks	86	86
Interest payable – Customers	1,542	1,562
	77,003	**77,023**

During 2005, the Bank issued certificates of deposits amounting to LL 75.38 billion (US$ 50 million) with a maturity of two and a half years in 2008 bearing a fixed interest rate of 7% that is paid semi-annually. Certificates of deposits amounting to LL 70.8 billion were purchased by the Bank's customers while LL 4.5 billion were purchased by other banks.

21- Other liabilities

(LL Millions)	2007	Restated 2006
Margins against documentary credits	26,326	21,425
Margins against credit card and safe box facilities	2,683	1,690
Withholding taxes and other charges	1,384	1,552
Foreign exchange gain relating to allocations to foreign branches	573	661
Dividends payable and interest payable on cash contribution to capital	397	1,662
Accrued expenses	2,666	663
Due to National Social Security Fund	240	315
Foreign exchange difference (Note 43)	10	13
Other provisions (Note 22)	4,171	2,938
Other	2,927	2,347
	41,377	**33,266**

Withholding taxes and other charges of LL 1,384 million (2006 – LL 1,552 million) consist mainly of withheld taxes from interest on deposits, employee salaries, non-resident income, built property and municipality tax.

22- Other provisions

(LL Millions)	2007	2006
Provision for risks	3,773	2,588
Provision for levies and other charges	288	288
Other provisions	110	62
	4,171	**2,938**

(LL Millions)	1 January	Additions	Utilised during the year	Releases	31 December
Provision for risks	2,588	4,695	(2,723)	(787)	3,773
Provision for levies and other charges	288	255	(255)	-	288
Other provisions	62	110	(62)	-	110
	2,938	**5,060**	**(3,040)**	**(787)**	**4,171**

23- Retirement benefit obligations

The provision for retirement benefit obligations comprises the following:

(LL Millions)	2007	2006
Provision for retirement benefit obligations	13,206	12,733
Advances against retirement benefit obligations	(319)	(308)
	12,887	**12,425**

(LL Millions)	2007	2006
At 1 January	12,425	11,813
Charge for the year (Note 34)	970	900
Transfers	153	-
Payments during the year	(661)	(288)
At 31 December	**12,887**	**12,425**

In accordance with the provisions of IAS 19 and the national social security fund regulations, management has carried out an exercise to assess the present value of its retirement benefit obligations as at 31 December 2007 using the projected unit credit method. Under this method, an assessment has been made of an employee's expected service life with the Bank and the expected basic salary at the date of leaving the service. Management has assumed average increment/promotion costs of 6% (2006 – 6%). The expected liability at the date of leaving the service has been discounted to its net present value using a discount rate of 8.35% (2006 – 8.01%).

24- Pledged assets

In 2007, the Bank obtained a loan from a non-resident bank, and the loan amounted to LL 45 billion (US$ 30 million). This loan matures in September 2012 and is secured by the following Treasury bills:

(LL Millions)	2007	2006
Pledged treasury bills (Note 6,18)	63,315	-

25- Share capital and cash contributions to capital

(LL Millions)	2007	2006
Share capital	72,000	72,000
Preferred shares	5,000	5,000
Cash contributions to capital – interest bearing	21,697	21,697
Cash contributions to capital – non-interest bearing	21,412	20,423
	120,109	**119,120**

The total number of ordinary shares at year end was 72 million (2006 – 72 million) with a par value of LL 1,000 per share (2006 – LL 1,000 per share). All issued shares are fully paid.

In July 2006 the Bank issued 5 million non-cumulative redeemable preferred shares with nominal value of LL 1,000 each at an issue price of US$ 10 per share. The excess of issue price over nominal value amounted to LL 70 billion and was reflected as share premium.

On 31 July 2002, the Central Council of the Central Bank of Lebanon approved the US Dollar denominated cash contributions to capital of LL 21.7 billion (US$ 14.4 million) from certain shareholders to the Bank. These contributions earn interest at a rate of 5.5% per annum.

At the Annual General Assembly held on 23 June 2005, dividends amounting to LL 28.9 billion were declared, out of which LL 20.42 billion (US$ 13.54 million) were transferred to cash contributions to capital (after tax deduction). The cash contributions to capital of LL 20.42 billion were approved by the Central Bank on 2 February 2006. These contributions do not earn interest.

On 29 October 2007, the Central Bank approved the cash contributions agreements related to capital of LL 963 million (US$ 638 thousands). These contributions do not earn interest.

On 11 December 2007, the Central Bank approved the cash contributions agreements related to capital of LL 26 million (US$ 17 thousands). These contributions do not earn interest.

26- Reserves and retained earnings

(LL Millions)	2007	2006
Reserves		
Legal reserve (a)	29,339	26,137
Reserve for unidentified banking risks (b)	17,982	15,682
Revaluation of available for sale securities (c)	1,358	-
Other reserves (d)	3,972	3,972
	52,651	**45,791**

(LL Millions)	2007	2006
(a) Legal reserve		
At 1 January	26,137	23,582
Transfer from retained profits	3,202	2,555
At 31 December	**29,339**	**26,137**

Article 132 of the Code of Money and Credit requires 10% of the Bank's net profits to be transferred from retained earnings to legal reserve. This reserve is not available for distribution.

(LL Millions)	2007	2006
(b) Reserve for unidentified banking risks		
At 1 January	15,682	13,682
Transfer from retained profits	2,300	2,000
At 31 December	**17,982**	**15,682**

According to the Central Bank of Lebanon directives, banks are required to appropriate from annual profits an amount between 2 per mil and 3 per mil of risk weighted assets to a reserve for unidentified banking risks. The above reserve is considered as part of Tier I capital. This reserve is not available for distribution.

(LL Millions)	2007	2006
(c) Revaluation of available for sale securities		
At 1 January	-	-
Net gains from changes in fair value	1,358	-
At 31 December	**1,358**	**-**

(LL Millions)	2007	2006
(d) Other reserves		
At 1 January	3,972	2,485
Transfer from retained profits	-	1,487
At 31 December	**3,972**	**3,972**

(LL Millions)	2007	2006
Retained earnings		
Balance at 1 January - as reported	43,593	29,230
Correction of prior period error (Note 46)	-	2,457
Balance at 1 January - as restated	43,593	31,687
Net profit for the year	32,026	25,550
Dividend for prior year (Note 39)	(9,167)	(6,408)
Interest on cash contributions to capital for prior year	(1,194)	(1,194)
Transfer to legal reserve	(3,202)	(2,555)
Transfer to reserve for unidentified banking risks	(2,300)	(2,000)
Transfer to other reserves	-	(1,487)
At 31 December	**59,756**	**43,593**

27- Real estate revaluation reserve

As explained in Notes 14 and 16, the revaluation reserve (LL 21,061 million in total) arises from the fiscal revaluation of investment property and property and equipment under Law No. 282/93. No further taxes are due upon the eventual distribution of this reserve.

28- Net interest income

(LL Millions)	2007	2006
Interest and similar income		
Lebanese treasury bills	88,464	101,686
Deposits and similar funds at banks and financial institutions	132,664	109,686
Loans and advances to customers	58,954	53,681
Investment securities	4,308	849
Loans and advances to related parties (Note 45)	302	269
	284,692	**266,171**
Interest expense and similar charges		
Deposits and similar funds from banks and financial institutions	6,504	2,622
Due to customers	204,632	189,655
Debt securities in issue	5,184	5,294
Deposits from related parties (Note 45)	1,764	2,141
	218,084	**199,712**

29- Net fee and commission income

(LL Millions)	2007	2006
Fee and commission income		
Credit related fees and commissions	6,051	4,250
Letters of credit and guarantees related fees and commissions	4,874	4,442
Other fees	6,791	6,974
	17,716	**15,666**
Fee and commission expense		
Brokerage fees paid	1,097	787
Other fees paid	679	1,047
	1,776	**1,834**

30- Dividend income

(LL Millions)	2007	2006
Trading securities	1,098	586
Available-for-sale securities	-	27
	1,098	**613**

31- Net trading income

(LL Millions)	2007	2006
Foreign exchange:		
- Transaction gains less losses	1,458	2,211
- Translation gains less losses	500	(77)
Unrealised loss on debt securities	(308)	-
Unrealised gain (loss) on treasury bills and Eurobonds at fair value through profit and loss	1,553	(5,639)
Unrealised gain on equity securities classified as fair value through profit and loss	2,198	342
Realised (loss) gain – treasury bills and Eurobonds	(1,920)	1,021
Realised gain – certificates of deposits	6,976	679
Realised gain – equity securities	279	1,310
	10,736	**(153)**

32- Other operating income

(LL Millions)	2007	2006
Commission on insurance business	1,137	717
Gain on disposal of property acquired in settlement of debt	283	170
(Loss) gain on disposal of property and equipment	(2)	1
Rental income (Note 14)	191	187
Other	26	297
	1,635	**1,372**

33- Impairment charge for credit losses

(LL Millions)	2007	2006
Provisions for customer loans and advances	(14,739)	(14,076)
Recoveries and release of provisions on doubtful and substandard loans	6,729	8,740
	(8,010)	**(5,336)**

34- Staff costs

(LL Millions)	2007	2006
Wages and salaries	17,686	15,762
Social security costs	2,690	2,600
Bonuses	2,122	2,176
Scholarship	1,627	1,650
Transportation	1,141	1,107
Pension costs – defined benefit plan (Note 23)	970	900
Directors' remuneration (Note 45)	818	817
Medical expenses	763	686
Other employee benefits	873	915
Training expenses	186	175
	28,876	**26,788**

35- Administrative expenses

(LL Millions)	2007	2006
Staff costs (Note 34)	28,876	26,788
Depreciation on property and equipment (Note 16)	2,175	2,915
Water, electricity and communication expense	2,511	2,451
Professional fees	1,285	1,313
Repairs and maintenance	1,976	1,153
Advertising expense	2,076	1,594
Municipality and other taxes	347	500
Office supplies	907	949
Subscriptions	780	663
Travel expense	751	597
Amortisation charge (Note 15)	292	448
Insurance expense	617	460
Directors' attendance fees (Note 45)	218	245
Cleaning expense	261	262
Fair value loss on investment property (Note 14)	112	140
Investment property expense (Note 14)	146	117
	43,330	**40,595**

36- Other operating expenses

(LL Millions)	2007	2006
(Provisions) releases of provisions for liabilities and charges	98	(575)
Deposits guarantee premiums	1,927	1,660
(Release) provision for properties acquired in settlement of debt	(81)	789
Software costs	635	394
Provision for other receivables	120	120
Operating lease rentals	443	315
Other taxes	-	32
Other	2,738	2,121
	5,880	**4,856**

37- Income tax expense

In accordance with article 51 of law number 497/2003, a 5% tax is withheld at source on interest received. The Bank's tax charge is determined as the higher of corporate tax and tax on interest withheld during the year. During 2007, the 5% tax withheld on interest received of LL 4.47 billion was lower than the Bank's corporate income tax of LL 6.4 billion.

The Bank's tax charge consists of the following:

(LL Millions)	2007	2006
Corporate income tax – Lebanon branches	6,355	5,451
Corporate income tax - Cyprus branch	416	335
Tax charge for the year	**6,771**	**5,786**

Corporate income tax

Corporate income tax expense for the year is determined as follows:

(LL Millions)	2007	2006
Profit before taxes	38,797	31,336
Profit before tax of Cyprus and Syria branches	(4,546)	(3,208)
Profit subject to tax in Lebanon	**34,251**	**28,128**
Income tax at statutory rate of 15%	5,138	4,219
Effect of expenses (income) not deductible (not taxable) for tax purposes or non-taxable income:		
Differences between accounting and fiscal depreciation	16	19
Provision for diminution in the value of fixed and variable income securities	(232)	291
Provision for diminution in the value of Treasury Bills	673	845
Donations	97	102
Provision for properties acquired in settlement of debt	-	118
Bad debt expense	171	14
Other provisions	(203)	327
Release of provisions which were previously subject to tax	(12)	(337)
Interest paid on cash contributions to capital	(179)	(179)
Other	4	32
Income tax assessment	882	-
Corporate income tax	**6,355**	**5,451**

The movement in the current income tax liability is as follows:

(LL Millions)	2007	2006
At 1 January	769	1,079
Provision set up during the year	6,771	5,786
Payments during the year	(6,540)	(6,096)
At 31 December	**1,000**	**769**

The fiscal years 2006 and 2007 remain subject to examination by the income tax authorities.

38- Earnings per share

Basic earning per share is calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year i.e. 72 million shares (2006 – 72 million ordinary shares).

(LL Millions)	2007	2006
Profit attributable to equity holders of the Bank (LL Million)	32,026	25,550
Weighted average number of ordinary shares in issue	72,000,000	72,000,000
Basic earnings per ordinary share (LL)	445	355

39- Proposed dividends and interest on cash contributions to capital

The ordinary General Assembly held on 28 June 2007 approved the activities and accounts for the year ended 31 December 2006 and declared dividends of LL 89 per share and LL 552 per preferred share amounting to a total of LL 9,167 million in addition to interest on cash contributions to capital of LL 1,194 million (2006 - dividends of LL 6,408 million and interest on cash contributions to capital of LL 1,194 million). Such dividends and cash contributions to capital are reflected in shareholders' equity as an appropriation of retained earnings in 2007.

Final dividends are not accounted for until they have been ratified at the General Assembly. A dividend in respect of 2007 of LL 98 per share and LL 1,244 per preferred shares amounting to a total of LL 13,274 million (2006 – actual LL 9,167 million) and interest paid on cash contributions to capital of LL 1,194 million (2006 – actual LL 1,194 million) are proposed by the directors subject to ratification by the General Assembly. These financial statements do not account for the proposed dividend and interest. Upon declaration, they will be reflected in shareholders' equity as an appropriation of retained earnings in 2008.

40- Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprises the following balances with less than three months maturity from the date of acquisition.

(LL Millions)	2007	2006
Cash and balances with central banks (Note 5)	73,419	46,276
Loans and advances to banks (Note 7)	781,306	1,063,554
	854,725	**1,109,830**

41- Contingent liabilities and commitments

a) Legal proceedings

There were a number of legal proceedings outstanding against the Bank at 31 December 2007. No additional provision has been made beyond the provisions taken against loans and advances to customers (Note 9) and other assets (Note 17) as professional advice indicates that it is unlikely that any significant loss will arise.

b) Capital commitments

At 31 December 2007 the Bank had no capital commitments.

c) Guarantee and other financial facilities

At 31 December 2007, the Bank's off-balance sheet financial instruments that commit it to extend credit and guarantees to customers are as follows:

(LL Millions)	2007	2006
Letters of credit	57,781	44,268
Letters of guarantee	85,022	71,564
	142,803	**115,832**

42- Fiduciary investments

(LL Millions)	2007	2006
Fiduciary investments	-	4,070

43- Forward foreign exchange contracts

(LL Millions)	2007	2006
Foreign currency to be received	14,139	5,199
Foreign currency to be delivered	(14,149)	(5,212)
Translation difference on forward foreign exchange contracts (Note 21)	**(10)**	**(13)**

44- Assets in custody

(LL Millions)	2007	2006
Nominal value of Lebanese treasury bills purchased for customers	18,935	21,024
Nominal value of certificates of deposits purchased for customers	14,457	13,703
Fair value of equity securities purchased for customers	9,171	7,012
Fair value of bank placements purchased for customers	21,475	-
Fair value of future contracts purchased for customers	82	-
	64,120	**41,739**

45- Related-party transactions

The Bank is controlled by Assaf Holding S.A.L. (incorporated in Lebanon) which owns 45% of the ordinary shares. Fransabank S.A.L. (incorporated in Lebanon) owns 37% of the ordinary shares and the remaining 18% are widely held.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

Transactions with related parties

(LL Millions)	2007	2006
Interest paid on deposits (Note 28)	1,764	2,141
Insurance expense	617	460
Cost of other services received	277	196
Commissions paid on rent collection	9	10
Interest received from loans and advances (Note 28)	302	269
Fee and commission income	781	454
Directors' remuneration (Note 34)	818	817
Directors' attendance fees (Note 35)	218	245
Key management compensation	1,534	1,544

Outstanding balances with related parties

(LL Millions)	2007	2006
Related parties loans and advances (Note 9)	1,904	1,218
Related parties deposits (Note 19)	24,767	31,588

No provisions have been recognised in respect of loans given to related parties (2006: nil).

Loans and advances to related parties comprise loans with variable rates and fixed rates of LL 345 million and LL 1,559 million respectively. The majority of these loans are secured by a residential mortgage. (In 2006, loans and advances to related parties comprise loans with variable rates and fixed rates of LL 12 million and LL 1,206 million respectively).

Deposits from related parties comprise deposits with variable rates, repayable on demand and fixed rates, repayable at maturity of LL 401 million and LL 24.3 billion respectively. (In 2006 deposits from related parties comprise deposits with variable rates, repayable on demand and fixed rates, repayable at maturity of LL 399 million and LL 31.2 billion respectively).

46- Prior year error

The exchange gain of LL 2.5 billion (2006 – LL 2.5 billion) on the fixed currency position was previously deferred as part of other liabilities in the balance sheet as required by banking control commission circulars.

This liability was released during the year and taken to retained earnings in order to comply with IAS 21. This adjustment was dealt with as a restatement of prior years in accordance with IAS 8 and with the approval of the banking control commission.

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Amsterdam
ABN AMRO Bank

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Fortis Bank

Copenhagen
Danske Bank

Dubai
MashreqBank

Frankfurt
Deutsche Bank
CommerzBank

Kuwait
National Bank of Kuwait

London
Barclays Bank PLC

Madrid
Banco Bilbao Vizcaya Argentaria

Melbourne
ANZ Bank

Milano
Intesa Sanpaolo SpA

Montreal
National Bank of Canada

New York
Citibank
The Bank of New York Mellon
JP Morgan Chase Bank

Oslo
DnB NOR Bank

Paris
Société Générale

Riyadh
Albank AlSaudi Alfaransi

Stockholm
Skandinaviska Ensklida Banken

Tokyo
U.B.A.F.

Vienna
Bank Austria

Zurich
Credit Suisse

Subsidiaries

1- Informatics' Co. s.a.r.l.

A software company, that offers commercial and technical services. It was established in 1980 by the bank shareholders: Mr. Toufic Assaf and Mr. Nashaat Sheikhlard. It is chaired by Mr. Ghassan Assaf; 84 % of the shares are owned by BBAC s.a.l.

2- Societe Libanaise de Service s.a.r.l.

SLS started its operations in 1980, with 91 % of its shares owned by BBAC s.a.l. The company is chaired by Mr. Ghassan Assaf.

3- Capital Insurance & Reinsurance Co. s.a.l.

The company provides the full-range of insurance and re-insurance services. It is chaired by Mr. Assad G. Merza. BBAC s.a.l. owns 80 % of its shares.