FNB ANNUAL REPORT 06

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CHAIRMAN'S LETTER

The Lebanese economy has encountered adverse politico-security conditions since February 2005. The real growth in GDP during 2006 showed a negative 5% in spite of the economic boom experienced during the first half of the year. The July 2006 events sent the economy on a downward spiral characterized by stagflation, a combination of stagnation and inflation, thus creating further challenges for the fiscal and monetary policy decision makers to create the proper balance between growth and inflation.

Despite the unfavorable economic and political situation, the Lebanese banking sector proved again that it has developed a remarkable degree of immunity to hostile market conditions. The sector's key performance indicators (such as growth in assets, deposits and equity) showed healthy growth figures reflecting its resilience in standing firm against adverse economic conditions.

In this respect, I am pleased to report that FNB outperformed most of the sector's average growth indicators during 2006. The total assets grew by 14.31% (compared to 8.3% for the sector); the deposits grew by a strong 10% (compared to 6.5% for the sector); and the shareholders' equity was increased by a significant net rate of 60% (compared to a 36% for the sector). Furthermore, the total Loans and Advances to Customers increased by 16.95% (compared to 9.3% for the sector). The bank maintained its efficient performance and achieved a return on average equity of 12.28%, reflecting further enhancements to its 11.3% ROE in 2005. This solid figure is a result of a financial strategy to create diversified revenue to include sources other than the traditional interest income. Accordingly, the non-interest revenue represented a healthy 32% of the net financial revenue during 2006, the bulk of which originated from active Treasury, Private Banking and Trade Finance activities.

In addition, the bank introduced several products and programs to enrich its present wide spectrum of banking services during the first quarter of 2007. The creation of the Meridio Arab World Fund, offering a unique investment vehicle for investors worldwide to share in the development of the Arab World, (the first of its kind to be listed on Luxemburg Stock Exchange), is one example of such services. The successful launching of the Plastic Surgery Loan Program, which received substantial international recognition, is another example of the demonstrated financial innovation capabilities of the FNB team.

Rami R. El Nimer
Chairman - General Manager

Furthermore, the Board of FNB and Senior Management are currently engaged in creating a five-year strategic plan that takes into consideration both linear and exponential growth initiatives, driving the bank towards the next level of excellence. This plan will include vertical and horizontal growth dimensions.

The vertical dimension incorporates the following initiatives:
- Establishment of Corporate Finance, Financial Advisory, Structured Trade Finance and Asset Management services
- Establishment of a semi-autonomous Consumer Finance Division

The horizontal dimension incorporates the following geographical expansion initiatives:
- Expansion of the branch network in Lebanon
- Expansion beyond the national borders. The Board approved the establishment of a full-fledged branch in Arbil, Kurdistan, to be operational in early 2008
- Establishment of representative offices and branches in the MENA region

This plan also embodies a commitment to upgrading the operating platform through enhancing technological systems, building our human capital and re-engineering the delivery of core banking services. Our goal is to ensure that our stakeholders' business needs are met within a highly professional business environment.

In closing, I would like to take this opportunity to extend my utmost gratitude to the shareholders of FNB for their continuous support, to the bank's staff who remain the strength behind our achievements, and to all our valued clients for entrusting us with their confidence.

MANAGEMENT

SHAREHOLDERS (AS OF 30/05/07)

Name	Nationality	%
Invest Bank P.S.C.	U.A.E.	18.0000
Mr. Rami Refaat El Nimer	Lebanese	15.3862
Promotion Des Investissements s.a.l. (Holding)	Lebanese	12.0616
Mr. Khaled Abdallah Al Sagar	Kuwaiti	9.3109
United Investments Company (Lebanon) s.a.l. (Holding)	Lebanese	8.0133
Commercial Facilities Company K.S.C	Kuwaiti	5.3765
Mr. Roland Elias Haraoui	Lebanese	4.3451
Mr. Ziad Tamim Al Sahli	Lebanese	4.1399
Mr. Salaheddine Nizam Osseiran	Lebanese	3.6039
Mr. Mutlaq Abdallah Al Mutlaq	Saudi	3.4461
Mr. Abdel Mohsen Abdallah Al Mutlaq	Saudi	3.4461
Mr. Ramzi Rachid Haidar	Lebanese	3.3761
Dr. Souad Mohammad Al Sabah	Kuwaiti	2.7578
Mr. Khalaf Ahmad Al Habtoor	U.A.E.	2.4812
Mr. Dirar Ahmad Kanaan	Lebanese	0.9821
Mr. Bassam Ribhi Hamadeh	Saudi	0.7354
Mr. Ali Khalifa Al Kawari	Qatari	0.6925
Mr. Hammad Mohammed Nader Al Atassi	Syrian	0.6178
Mr. Riad Ali Mourtada	Lebanese	0.4721
Mr. Nabil Mahmoud Soubra	Lebanese	0.1609
Mr. Youssef Nehmeh Tohmeh	Lebanese	0.1557
Miss Marie-Noël Nabil Aoun	Lebanese	0.1557
Mr. Issam Anis Khalaf	Lebanese	0.1354
Mr. Hikmat Sleiman Noueihed	Lebanese	0.0550
Mr. Tamim Saleh Al Sahli	Lebanese	0.0386
Mr. Mohammed Jassem Al Sager	Kuwaiti	0.0271
Mr. Abdallah Saoud Al Humaidhi	Kuwaiti	0.0271

BOARD OF DIRECTORS

Name	Title
Mr. Rami Refaat El Nimer	Chairman
Mr. Khaled Abdallah Al Sagar	Vice Chairman
Mr. Abdallah Saoud Al Humaidhi	Member
Mr. Tamim Saleh Al Sahli	Member
Mr. Riad Ali Mourtada	Member
Mr. Roland Elias Haraoui	Member
Invest Bank P.S.C *Represented by Mr. Sami Rashed Farhat*	Member
Promotion Des Investissements s.a.l. (Holding) *Represented by Me. Sakhr El Hashem*	Member
United Investments Company (Lebanon) s.a.l. (Holding) *Represented by Mr. Issam Khalaf*	Member

GENERAL MANAGEMENT

Mr. Rami R. El Nimer
Chairman - General Manager

GENERAL MANAGEMENT

Mr. M. Yasser A. Mortada
Deputy General Manager

GENERAL MANAGEMENT

Mr. George N. Aouad
Deputy General Manager

GENERAL MANAGEMENT

Mr. Ghaithan S. Tayara
Assistant General Manager

GENERAL MANAGEMENT

Mr. Elias S. Baz
Advisor to Chairman - General Manager / Executive Director

HEAD OFFICE MANAGERS

Name	Title
Mr. Imad R. Fata	Senior Manager, Head of Credit Department
Mr. Mahmoud G. Francis	Senior Manager, Head of Branch Management Department
Mr. Robert H. El Haddad	Senior Manager, Head of Internal Audit Department
Mr. Rashad M. Khourshid	Senior Manager, Head of Private Banking Department
Mr. Adam H. Mansour	Senior Manager, Head of Risk Management Department
Mr. Antoine C. Wakim	Senior Manager, Head of Financial Control Department
Mr. Raymond N. Yazbeck	Senior Manager, Head of Commercial Credit Section
Mr. Salim L. Karroum	Manager, Head of Operations Department
Mr. George J. Nasr	Manager, Head of Marketing Department
Mr. George S. Sarkis	Manager, Head of Information Technology Department
Mr. George K. Abi Karam	Lawyer, Head of Legal Department
Miss Amina H. Bizri	Manager, Head of Consumer Credit Section
Mrs. Soumaya Y. Haris	Manager, Acting Treasurer
Mr. Raed J. Hany	Manager, Manager in Commercial Credit Section
Mr. Marwan G. Khoury	Manager, Head of FX Section
Mr. Joseph E. Estephan	Manager, Head of Recovery & Restructuring Unit
Mr. Nabil N. Liane	Manager, Head of Administration Unit

BRANCH MANAGERS

Name	Title
Mr. Antoine G. Hafez	Senior Manager, Allenby Branch / Main Branch
Mrs. Rola S. Zaghloul	Manager, Hamra Branch
Mr. Erik P. Vasdekis	Manager, Achrafieh Branch
Mr. Marwan A. Abi Hana	Acting Branch Manager, Aley Branch
Mr. Ziad E. Kanaan	Manager, Antelias Branch
Mr. Fouad H. Hamadeh	Acting Branch Manager, Choueifat Branch
Mr. George N. El Khoury	Manager, Halba Branch
Mr. Mahmoud A. Berjawi	Manager, Haret Hreik Branch
Mr. Jean G. Chehadeh	Manager, Hazmieh Branch
Mr. Youssef H. El Zoghbi	Manager, Jdeideh Branch
Mr. Hussein G. Fakhreddine	Manager, Jnah Branch
Mr. Joseph M. Azoury	Manager, Jounieh Branch
Mr. Nabil H. Serhan	Manager, Mais El Jabal Branch
Mr. Khalil M. Amhaz	Manager, Mazraa Branch
Mr. Ghassan A. Saleme	Manager, Nabatieh Branch
Mr. Ghassan R. Abou Zahr	Manager, Saida Branch
Mr. Saoud A. Hajar	Manager, Tripoli Branch
Mr. Wajih S. Akkari	Manager, Verdun Branch

WORLDWIDE RECOGNITION: PLASTIC SURGERY LOAN

FNB is the talk of the world!

At FNB, our customers inspire us to create state-of-the-art products that meet their needs to the fullest. The Plastic Surgery Loan is no exception. It is such an extraordinary product that it went from being the talk of the town to the talk of the world! We are proud that we are able to make this service affordable and accessible to those that desire a change in their lives. And so we would like to thank you, our valued customers, because without you this program would not have been such a remarkable success. The following are some of the media that covered the event:

Canadian TV Korean TV Japanese TV

Qwaider Planet India

BUSINESS REVIEW

EXECUTIVE SUMMARY

First National Bank SAL (FNB) is a mid-sized Lebanese bank owned by a group of professional businessmen, financial and industrial investors from Lebanon, Kuwait, UAE and Saudi Arabia.

FNB conducts commercial, retail and investment banking activities through a network of 18 branches and 336 employees. The bank is managed by a Board of Directors comprised of nine members and chaired by Mr. Rami El Nimer. The daily bank operations are entrusted to Mr. Rami El Nimer, the General Manager, and are supported by a team of qualified senior officers with extensive banking and financial experience.

The total balance sheet footings as of December 31, 2006 amounted to approximately USD 1.4 billion, with a shareholders' equity equivalent to approximately USD 80 million, and customer deposits equivalent to USD 947 million. During 2006, the total annual revenue of the bank amounted to nearly USD 6 million.

During the last six years of operations, FNB achieved great success, surpassing all expectations in terms of growth and ranking within Lebanon's banking industry.

The following table summarizes the growth of the key indicators between 2000 and 2006:

	As of December 31, 2006	
	2000	*2006*
Financial Indicators	**(in USD millions)**	
Total Assets	285	1,365
Loans and Advances to Customers	71	272
Customer Deposits	232	947
Shareholders' Equity	22	80
Net Income (Loss)	(0.82)	6
Ranking by Total Assets	24th	14th
Out of (total nº of banks in Lebanon)	57	33

1. Introduction

First National Bank SAL is a mid-sized Lebanese bank, registered in the Beirut Commercial Registry under #67480, and in the List of Banks under #108. FNB conducts commercial, retail and investment banking activities. Its network is comprised of 18 branches and 336 employees geographically spread across the areas of Greater Beirut, Mount Lebanon, North and South Lebanon. The bank's headquarters are located in the heart of Beirut's Central District.

2. History

On October 30, 1991, a wealthy Lebanese family incorporated the bank as a Société Anonyme Libanaise (joint stock company) under the name "Bank of Commerce SAL".

The bank conducted limited activities until the beginning of 1994. At that time, a group headed by Mr. Mohammad Jassem Al Sager and comprised of Kuwaiti, Saudi, UAE businessmen, industrial, and financial investors as well as Lebanese professionals, acquired 100% of the bank's share capital. Following this change in ownership, the bank started new and diversified banking activities in January 1996.

During 2000, Lebanon Invest SAL acquired 62% of the bank's shares on behalf of a group of investors. Accordingly, Mr. Rami El Nimer was appointed Chairman of the bank's Board of Directors. In December 2002, he was appointed the bank's General Manager.

During the second half of 2002, the bank acquired the total outstanding share capital of Société Bancaire du Liban (SBL). The merger was completed on December 31, 2002. The acquisition of SBL contributed assets totaling LBP 119,974 million (USD 79.6 million), which represented over 40% of the overall growth in the bank's assets. Consequently, the bank widened its network by four branches.

3. FNB's Objectives and Strategy

FNB's principle strategic objective is to deliver quality financial products and services to targeted segments of the Lebanese population. Accordingly, the bank has worked to acquire advanced banking technology and a highly qualified and motivated workforce.

Management intends to continue diversifying the bank's revenue base and enhancing its position among its peer group in the Lebanese banking sector. This will be achieved by seeking new business opportunities with the ultimate goal of becoming part of the top tier Lebanese banks. In particular, FNB aims to further improve its share of the growing retail banking market in Lebanon by delivering new and innovative products through the most efficient delivery channels, but also with focused sales activities and a customer-oriented culture. Similarly, on the credit side, FNB plans to focus on its lending strategy. The purpose is to include businesses with significant market shares in sectors of the Lebanese economy that have good prospects for growth.

4. Share Capital and Equity Ownership

During 2006, the bank increased the shareholders' equity (page 8) from approximately USD 50 million to approximately USD 80 million. This increase was achieved by widening the shareholders' base and consequently enhancing the bank's potential for further growth, noting that the bank was successful in attracting a strategic institutional investor to participate substantially in this capital increase. Furthermore, the bank is proactively studying the requirements of Basel II in terms of capital adequacy and has prepared a strategy to be fully compliant.

5. Operational Structure of the Bank

Board of Directors

Currently, FNB is managed by a Board of Directors comprised of nine members. These members are elected at the Annual General Assembly of Shareholders of the bank for a three-year term. The shareholders are empowered to remove the Directors by way of a resolution adopted at an Ordinary or Extraordinary General Assembly of Shareholders. Board members are not permitted to carry out similar functions in a competing company without obtaining prior authorization from the bank's shareholders. This authorization needs to be renewed at each Annual General Assembly of Shareholders.

The Board of Directors appoints one of its members as Chairman. The Chairman of the Board of Directors has extensive powers to execute resolutions adopted by the shareholders at either an Ordinary or Extraordinary General Assembly, to carry out the operations necessary for the daily functioning of the bank and to represent the bank in its commercial activities.
The Chairman General Manager may delegate some or all of his authority to another person or persons who act under his supervision. The Chairman remains responsible for the acts of his delegates.

The Directors of First National Bank are as follows:

Mr. Rami Refaat El Nimer is the Chairman of the Board of Directors at FNB. He has been a Director since March 23, 2001. In addition, Mr. El Nimer is the Chairman of Lebanon Invest Venture Holding SAL, Chairman/General Manager of Beirut Building Company SAL Holding, shareholder and member of the Board of Directors of Massaya of Beirut Building Company, and shareholder and member of the Board of Directors of United Investment Holding SAL.

Mr. Khaled Abdallah Al Sagar has been a Director at FNB since June 24, 1996. He is currently Vice-Chairman of the bank, having acted as Chairman from April 3, 1998 to March 23, 2001. Mr. Al Sagar is an active member of the Al Sager Group, a leading merchant and industrial conglomerate in Kuwait. He is the Managing Director of Kuwait Flour Mills.

InvestBank is a member of the Board of Directors at FNB. InvestBank is a commercial bank based in the Emirate of Sharjah since 1975. The bank provides full range of financial products and services to corporate as well as retail customers. InvestBank is 100% publicly owned and the bank's shares are listed and traded on the Abu Dhabi Securities Market.

Mr. Abdallah Saoud Al Humaidhi is a member of the Board of Directors at FNB. Mr. Al Humaidhi has been a Director at the bank since June 1996. He is also a member of the Board of Directors of Arab Banking Corporation in Bahrain, representing the government of Kuwait. He was the Chairman of Banco Atlantico in Spain from 2001 to 2004. Mr. Al Humaidhi is the Chairman and Managing Director of Commercial Facilities Company K.S.C., and a Board Member in the Chamber of Trading & Commerce, Kuwait and National Social Security Fund and General Investment Committee in Kuwait.

Mr. Tamim Saleh Al Sahli is a member of the Board of Directors at FNB. He has been a Director at the bank since April 27, 2000. He is a Lebanese businessman.

Mr. Riad Ali Mortada is a member of the Board of Directors at FNB. Mr. Mortada has been a Director at FNB since April 27, 2000. He is involved in the contracting business in Saudi Arabia.

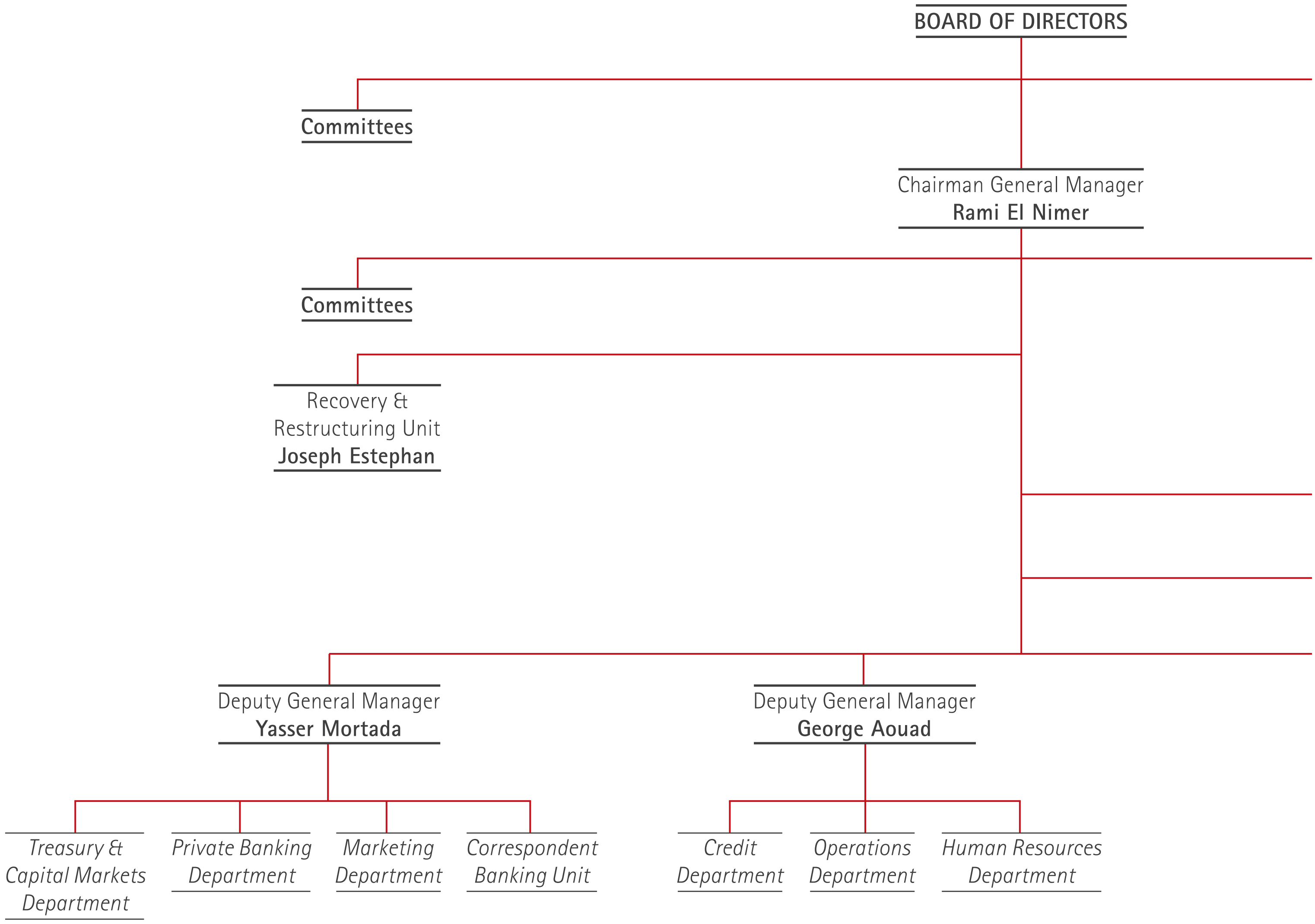
Mr. Roland Elias Haraoui is a member of the Board of Directors at FNB. Mr. Haraoui has been a Director at FNB since December 13, 2001. He is a Lebanese businessman.

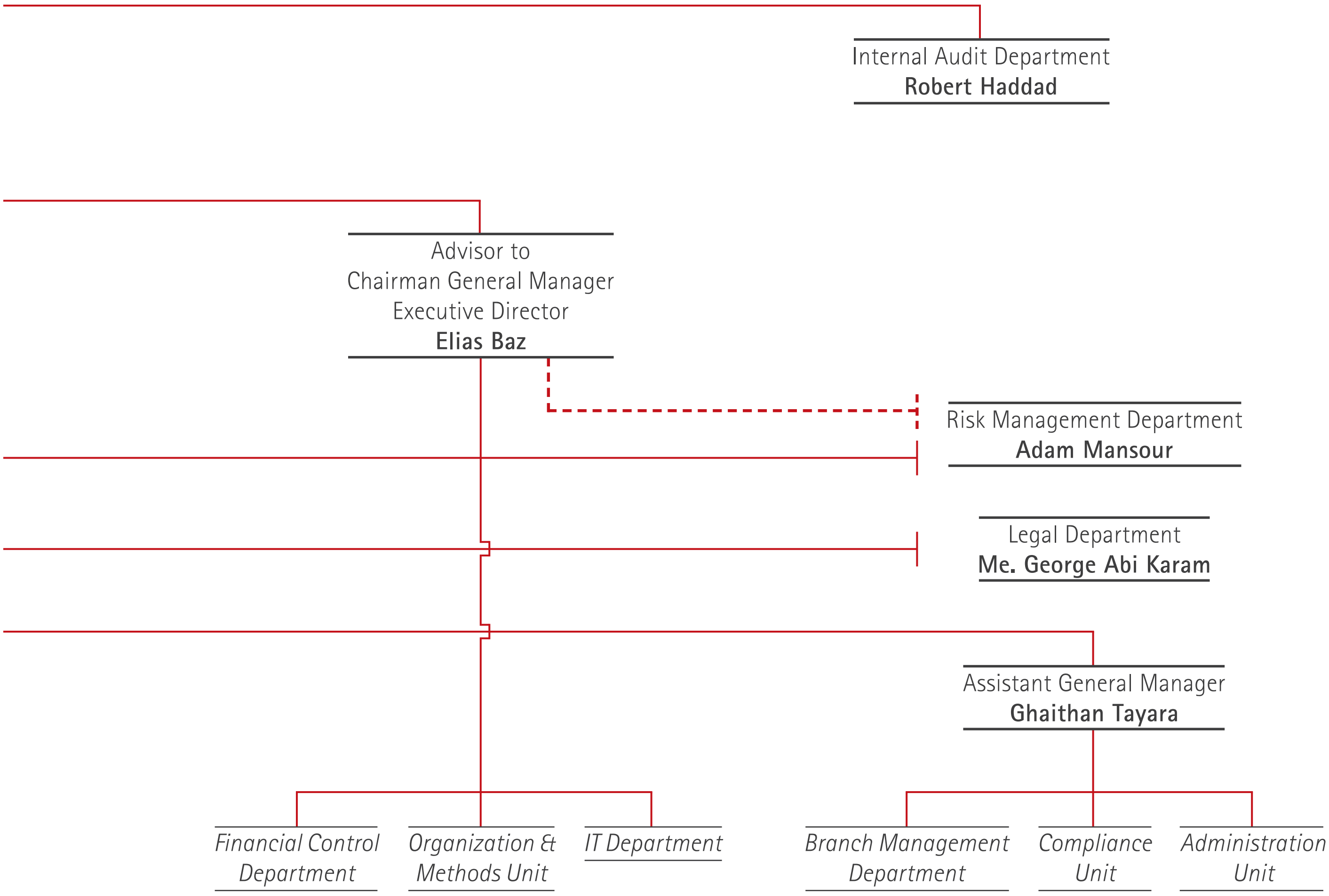
Promotion des Investissements s.a.l. (Holding) represented by Me. Sakhr El Hashem, member of the Board of Directors at FNB. Promotion des Investissements s.a.l. is a Lebanese holding company that primarily invests its financial and industrial concerns in Lebanon. Me. El Hashem has a law office in Lebanon and has been a practicing lawyer since 1974. He also is the General Counsel and Legal Advisor of the bank.

United Investments Company (Lebanon) s.a.l. (Holding) represented by Mr. Issam Khalaf, member of the Board of Directors at FNB. United Investments Company s.a.l. is a Lebanese holding company that, as a principal activity, invests its financial and industrial concerns in Lebanon. Mr. Khalaf was General Counsel and Advisor to the Board and Secretary of the bank until 2004. He also is a Legal Advisor and Board Member with executive functions in a number of companies in the investment business in Lebanon and Kuwait.

An in-depth review of the organizational structure was carried out two years ago, the result of which was a major restructuring of the main functions. This led to a stronger environment of corporate governance as well as enhanced checks and balances with a new management team, selected by Mr. Rami El Nimer, overseeing the day-to-day operations of the bank.

The following is a high-level organizational chart of First National Bank SAL:


BOARD OF DIRECTORS
Committees
Chairman General Manager
Rami El Nimer
Committees
Recovery &
Restructuring Unit
Joseph Estephan
Deputy General Manager
Yasser Mortada
Deputy General Manager
George Aouad
Treasury & Capital Markets Department
Private Banking Department
Marketing Department
Correspondent Banking Unit
Credit Department
Operations Department
Human Resources Department



6. Executive Managers

The Chairman General Manager is assisted by the following senior officers:
Mr. M. Yasser Mortada – Deputy General Manager
Mr. George Aouad – Deputy General Manager
Mr. Ghaithan Tayara - Assistant General Manager
Mr. Elias Baz – Advisor to Chairman General Manager, Executive Director

7. Financial Analysis

A comparison of the financial indicators for the period starting from 1999 to 2006 clearly demonstrates that the bank was one of the fastest growing mid-sized banks operating in Lebanon. According to surveys published by Bank Data, the bank improved its ranking among all operating banks in Lebanon, in terms of total assets, from being ranked 40th on December 31, 1999 to 14th on December 31, 2006. The following chart illustrates the ranking as of December 31, 2006:

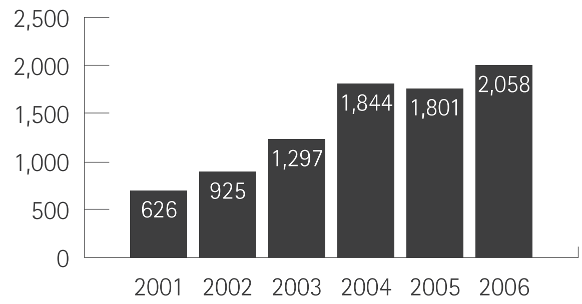
	As of December 31, 2006		
	LBP (in millions)	**USD** (in millions)	**Rank out of 33**
Total Assets	2,058,280	1,365	14
Loans and Discounts	410,719	272	15
Total Deposits	1,428,782	947	15
Shareholders' Equity	120,745	80	16
Net Income	9,040	6	17
ROAE	12.28 %		-

8. Assets

On December 31, 2006, FNB had total assets of approximately LBP 2,058 billion (USD 1.4 billion), as compared to LBP 1,801 billion (USD 1.2 billion) on December 31, 2005, reflecting a growth rate of 14.3%.

During the period from 2001 to 2006, the bank's total assets had increased by LBP 1,432 billion (USD 0.95 billion), from LBP 626 billion (USD 415 million) as of December 31, 2001 to approximately LBP 2,058 billion (USD 1.4 billion) by the end of year 2006, reflecting an impressive growth rate of 229%.

Assets 2001 - 2006 in LBP billions

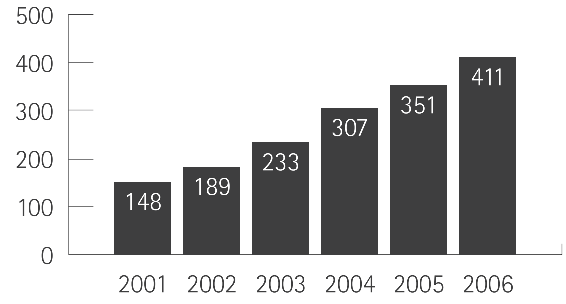


9. Loans and Advances to Customers

FNB was also successful in developing its retail and commercial lending sector by 17%. Loans and advances to customers increased by LBP 60 billion (USD 39.5 million) during 2006 to reach LBP 411 billion (USD 272 million) as of December 31, 2006.

During the period from 2001 to 2006, loans and advances had increased substantially to LBP 411 billion (USD 272 million) by the end of the year 2006, reflecting a growth rate of 178% as compared to the initial figure of LBP 148 billion (USD 98 million) on December 31, 2001.

Loans and Advances 2001 - 2006 in LBP billions

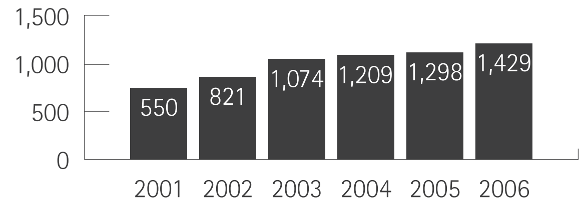


10. Customers' Deposits

On December 31, 2006, the bank had accumulated sums of LBP 1,429 billion (USD 948 million) in customers' deposits as compared to LBP 1,298 billion (USD 861 million) in 2005, reflecting a growth rate of 10.1%.

The growth in the bank's assets during the period from 2001 to 2006 reflected a similar growth in customers' deposits, which increased by 160% from approximately LBP 550 billion (USD 365 million) on December 31, 2001 to LBP 1,429 billion (USD 948 million) as of December 31, 2006, thus resulting in a net increase of LBP 879 billion (USD 583 million).

Customers' Deposits 2001 - 2006 in LBP billions

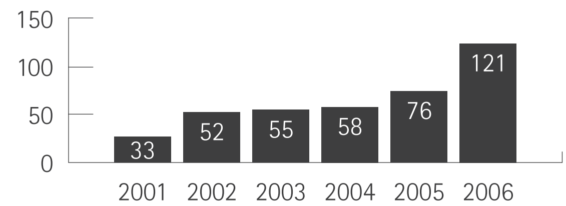


11. Shareholders' Equity

During 2006, the bank increased the shareholders' equity by approximately USD 30 million, reaching USD 80 million by the end of the year 2006.

During the period from 2001 to 2006, the bank's shareholders' equity grew significantly. It increased from LBP 33 billion (USD 22 million) in 2001 to LBP 121 billion (USD 80 million) as of December 31, 2006, showing an overall growth of 267% and represented by an additional amount of LBP 88 billion (USD 58 million) from 2001 until 2006.

Shareholders' Equity 2001 - 2006 in LBP billions

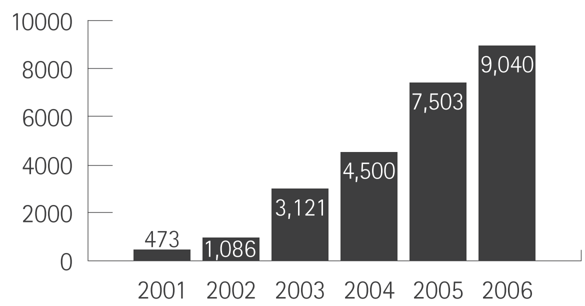


12. Net Income

On December 31, 2006 the bank reported a net income of LBP 9,040 million (USD 6 million) as compared to LBP 7,503 million (USD 5 million) at the end of 2005, reflecting a relative growth rate of 20.5%. The substantial increase in net income experienced during 2006 was the result of the growth in the bank size and enhancement of non-interest sources of revenue and the efficiency of operations.

During the period from 2001 to 2006, the net losses in years 1999 and 2000 were absorbed by the net income generated during 2001 and subsequent years, and by the outcome of the expansion strategy adopted by management. Thereafter, the differential annual net income increase from 2001 to 2006 showed a massive growth rate of 1811% (using 2001 year as an index year) reaching LBP 9,040 million (USD 6 million) for the year ending December 31, 2006.

Net Income 2001 - 2006 in LBP millions



ANTI-MONEY LAUNDERING MEASURES

First National Bank is committed to preventing Money Laundering. The policies and procedures comply with all legal requirements in Lebanon and the international AML recommendations and standards, paying special attention to any regulations concerning the prevention of Money Laundering.

Main elements of the Bank's money laundering prevention policy:

1. Full identification of customers and their activities beyond the mere submission of documentation
2. Education of all bank employees via regular training programs and periodic reminders
3. Detection of suspicious operations using software developed by a top international company
4. Review of the above elements by the bank's internal auditors

Compliance Management is responsible for establishing and implementing the bank's policies and internal control procedures. These policies and procedures are documented in a manual drafted and distributed to all the bank's personnel.

The members of the Compliance Management Unit are part of the quality Regulatory Compliance Management Unit which reports directly to the Senior Committee. They analyze all operations and detect issues via the automatic tracking system. Based on the results of an investigation, necessary action that will be taken may include:

- Informing the Special Investigation Commission in writing
- Identification of the parties involved in the operations
- Description of the operations
- Sign of Money Laundering

Key aspects of the Anti-Money Laundering policy:

1. The bank has no relations or agency arrangements with shell banks.
2. Anonymous accounts are not allowed.
3. The bank keeps permanently updated list of persons and organizations suspected of criminal activities furnished by the Special Investigation Commission, to which our customer service officers should refer prior to opening any customer account.

RISK MANAGEMENT OVERVIEW

The main function of the Risk Management Department at FNB is to establish and manage the entire set of risk management processes and models through the adoption of properly designed risk-based policies and procedures. The objective of the department is to measure, monitor and control the wide spectrum of risks in accordance with well-established international standards and rules, such as the Basel II Accord.

The Risk Management Department's main responsibilities are to:

• Evaluate the established processes, controls and procedures in order to identify, quantify and hedge the different risks inherent to the bank's operations and transactions. The major risks include Market, Operations, Credit and Liquidity.
• Establish risk tolerance limits and measure the risk / reward ratios.
• Participate in formalizing a comprehensive business strategy and mission of the bank in conjunction with the approved risk / reward criteria.
• Continuously measure the actual results against the risk models and risk tolerance limits.

In addition, the Risk Management Department is involved in the enforcement of corporate governance at FNB through active participation in the following committees: Management, Credit, Asset / Liability Management and Basel II implementation.

Accordingly, Risk Management has been an active member of FNB's team to implement the requirements of Basel II and IFRS 7. FNB is expected to become Basel II (Standardized Approach) and IFRS 7 compliant by the end of 2007.

CREDIT RELATIONSHIP MANAGEMENT

The Credit Department is comprised of two sections: Corporate & Commercial Credit and Retail Credit.

1. Corporate & Commercial Credit:

In a year marked with economical and political unrest and uncertainties, FNB successfully continued to grow and maintain a high profile client listing. Our gorss loan portfolio was enhanced in order to reach over LBP 429 billion in 2006, thus recording a growth rate of 15%.

This consistent growth is due to a highly professional Corporate & Commercial Credit team that provides our clients with a wide range of services and support. They offer professional advice on business financial positions as well as structuring optimal credit facilities from a full range of credit facilities that meet our clients' business needs.

In order to reduce our clients' financing costs, thus improving their competitive advantage in market, we assist our eligible clients in obtaining subsidized loans through a variety of programs, including:

- Banque du Liban subsidized loans for industrial, tourism and agricultural activities
- European Investment Bank funded loans for industrial activities
- Kafalat loans for industrial, tourism and agricultural activities
- Arab Trade Finance Program for inter-Arab trade

The rate of growth during the second half of 2006 decreased due to the conflict with Israel in July and August. During that time, the main focus of FNB was to provide our clients with the necessary support in order to maintain their business and trading relationships, both locally and internationally. After the conflict, it was realized that the vast majority of our clients did not suffer any direct damages and were able to continue their operations with the sustained support of FNB.

2. Retail Credit

Retail Credit is the backbone of our retail marketing and sales, as all consumer credit application are analyzed, qualified and processed. Retail Credit at FNB is based on a defined set of credit parameters that have been in place for the past 5 years. Our experience with this credit criteria measure was more than satisfactory. 85% of credit requests were approved while credit losses were as low as 0.05%. Past dues are as low as 0.52%.

BRANCH MANAGEMENT

The Branch Management Department sets high standards in accordance with top management's targets and goals. Customer satisfaction remains the main priority.

The Branch Management Department continues to offer FNB customers the best products and services through the bank's network. The branch's staff is highly qualified and well-trained in order to assist customers with a variety of transactions. They are involved in a variety of specialized training programs that aim to improve their skills. The branch's staff members are actively encouraged to reach their targets through a newly implemented rewards program.

The staff continues to successfully fulfill the Branch Management Department's functions of controlling, planning and supporting the organization. This, in combination with staff loyalty and dedication, results in a superior performance.

RETAIL BANKING AND MARKETING

Retail Banking is currently one of the most competitive sectors in the banking industry. FNB succeeded in penetrating this market by demonstrating a deep understanding of the consumer's needs and through revenue generating products.

Furthermore, FNB developed new market entry and customer retention strategies by implementing an aggressive product development plan. The application of new business models was clearly demonstrated through the introduction of innovative products and continuous improvement of the existing ones to meet the rapidly changing demands of the customers. The bank completed its portfolio of retail products to cover the customer's various financial needs. The FNB consumer products and services line consists of 24 products offering the following:

1. Retail Loans:

Home loan, public housing loan, expatriate home loan, military personnel housing loan, personal loan, car loan (new and used cars), taxi loan, van pick-up loan, PC loan, travel loan, plastic surgery loan, dental loan, clinic loan, personal and equipment loan, school loan, micro-finance loan, tobacco agricultural loan

2. Plastic Cards:

- Credit and charge cards in different currencies: LBP, $ and €.
- Internet card
- Gift card
- Salary card

3. Banc-assurance:

Life insurance, personal accident, retirement plan and educational plan

In addition, the bank signed several protocols with public and private employers for the domiciliation of their employees' salaries, along with tailored packages of loans and services available to these employees.

To consistently achieve better service and attain customer satisfaction, FNB launched a 24 hour customer service Call Center, added additional services that may be accessed through ATM and website functions, and positioned itself to offer full internet banking services in the coming year.

The Retail Banking activity is supported by a comprehensive marketing plan, which aimed to create awareness and identification for the bank's consumer banking image.

FNB's creative advertising and marketing campaigns resulted in international recognition. This increased the customer's awareness and fortified the bank's image. Internally, the bank unified its physical layout and look throughout its eighteen branch network.

The bank reinforced its social commitment to supporting the economy and the welfare of the people by sponsoring diverse community programs and events and participating in numerous community services.

PRIVATE BANKING

At First National Bank SAL, the Private Banking Department offers comprehensive personal service and a broad portfolio of banking and investment products to meet the needs of high net worth individuals, their families and their businesses.

Clients benefit from our commitment to exceptional service, accessibility, responsiveness, and ability to structure financial plans to meet their needs. It is our goal to exceed our clients' expectations by providing exceptional personal service offering confidential advice. We find the correct plans based on each customer's individual needs.

FNB believes in making sound investments; therefore, we have introduced capital protected notes so our clients may achieve high returns with minimum risk. Our clients have access to major financial centers and exchanges with competitive commissions and timely execution. We accomodate our clients' needs by closely following market trends and offering a variety of suitable investment products.

Financial markets change constantly, but fundamental investment principles endure. We consistently adhere to the four major goals of our investment philosophy:

1. Preservation of capital
2. Disciplined investment process
3. Superior, medium-term investment returns
4. Portfolios tailored to individual client objectives

In addition, First National Bank SAL acts as the exclusive broker and investment advisor for the Meridio Arab World Fund, the first European Equity fund for the Arab world listed in the Luxembourg Exchange. International investors now have the opportunity to participate in the economic growth of the Arab world by investing in this fund.

TREASURY

The FNB Treasury Department provides access to a wide range of products in the areas of FX, Money and Capital Markets that cover the traditional role of proprietary trading and brokerage of FX, Equities and Fixed Income in the local, GCC, European and US markets.

The Treasury Department also plays a strategic role in the bank's asset liability management through internal consulting and financial engineering in order to maximize returns and maintain the bank's profit & loss and balance sheet.

Our employees continuously participate in training sessions and seminars focusing on the latest financial products and structures. In addition, we have also upgraded our electronic trading platforms for best execution and risk management.

In conclusion, FNB remains among the market leaders that provide professional services at competitive rates.

FICB

The Financial Institutions and Correspondent Banking (FICB) Department at First National Bank SAL provides services to both internal and external clients. Internal clients include the bank's branches, the Treasury, Trade Finance and Operations Departments as well as other various departments within the bank. The main focus of FICB's work includes managing correspondent banking relationships pertaining to international funds transfers, trade finance and securities trading and custody. Our external clients include other financial institutions, and FICB manages these Vostro relationships by providing all necessary support for their day-to-day correspondent banking needs in an efficient manner and at reasonable cost.

In an effort to further expand our business, First National Bank SAL will be opening branches in Iraq in the near future. This will also help us reach out to our Iraqi customer base and to provide them with our banking and financial expertise.

In order to maintain our competitive edge, we concentrate on trade finance business and will enter into the domain of forfeiting. The bank has invested in training and development for the FICB staff and is reorganizing its FICB department to better serve our clients and meet the challenges that lie ahead.

HUMAN RESOURCES

Our mission is to create a culture of excellence that fosters cooperation and high performance, thus supporting the various units of FNB in achieving the bank's strategic business objectives. This is accomplished through recruiting, rewarding, training, developing and retaining highly skilled professionals, all committed to FNB.

Training and development have been key in generating strong, knowledgeable employees, in order to ensure that all banking needs and challenges are met. The FNB staff has benefited from a variety of public seminars, training sessions, workshops and conferences. In the upcoming year, further improvements will apply to the amount and type of training provided, since program saturation, requirements for new hires and developmental tools for new employees are all factors that the HR Department greatly takes into serious consideration.

Recruitment policies have been updated and set to ensure the suitability and proper fit of the candidates being selected for essential positions. There has been a focus on providing a value-added service to our various departments and branches, as well as fostering a work environment that attracts and retains talented individuals by providing support and opportunities for achievement. Our main goal is effectiveness in all operations, and guaranteeing that every employee is in a job suiting his/her skills and abilities, thus achieving full efficiency. Retention practices have also been reviewed in order to ensure that the bank remains the employer of choice in an increasingly competitive labor market.

There has been a major review of performance management processes and an improved system has been implemented. Monitoring organizational and individual performance through regular evaluation has proven to be a successful assessment tool, and its review against best practice standards has significantly improved the efficiency and effectiveness of our work.

It is a priority for FNB to continually maintain a challenging and rewarding working environment, and we believe that enhancing social responsibility is one way of doing so. Identifying, promoting, and implementing practices that demonstrate social and civic awareness is of crucial importance. Despite the year's turbulent events, FNB managed to participate in a variety of job fairs and accommodate over 150 student interns.

Professional development and career management are and will continue to be an integral part of HR's management objectives, and our goal of sustaining a first-class workplace is a continuous driving force towards excellence.

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of **First National Bank S.A.L.**, which comprise the balance sheet as at December 31, 2006, and the statement of income, statement of changes in equity and cash flows statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements, within the limitations imposed by the existing banking laws in Lebanon. The procedures selected depend on our 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, we consider 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 financial statements present fairly, in all material respects, the financial position of **First National Bank S.A.L.** as of December 31, 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Beirut, Lebanon
June 10, 2007

Deloitte & Touche

	Notes	December 31, 2006 LBP'000	(Restated) 2005 LBP'000
ASSETS			
Cash compulsory reserve	5	77,411,687	48,529,706
Cash and due from banks	6	33,253,756	33,986,614
Placements with banks and financial institutions	6	488,828,307	283,471,563
Securities:			
Trading	7	44,454,916	11,884,492
Available-for-sale	7	309,389,210	238,854,635
Held-to-maturity	7	625,557,426	740,498,750
Loans and advances	8	410,719,303	351,204,302
Customers' acceptance liability	9	3,487,066	5,559,874
Other assets	10	32,759,761	56,124,754
Assets acquired in satisfaction of debts	12	6,334,893	5,582,004
Property and equipment	13	22,183,202	21,019,696
Regulatory blocked fund	11	1,500,000	1,500,000
Goodwill	14	2,400,000	2,400,000
Total Assets		2,058,279,527	1,800,616,390
FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS:	32		
Guarantees and standby letters of credit		71,054,092	60,466,996
Documentary and commercial letters of credit	33	15,848,152	25,708,711
Forward exchange contracts		33,785,440	24,036,084
Fiduciary accounts	34	218,058,808	208,149,981

See accompanying notes to the financial statements

	Notes	December 31, 2006 LBP'000	(Restated) 2005 LBP'000
LIABILITIES			
Banks and financial institutions:			
Demand deposits	15	10,838,139	4,899,595
Short term deposits	16	152,912,427	103,540,652
Short term borrowing	23	49,647,925	30,853,751
Liabilities under repurchase agreements	17	123,728,173	79,605,221
		337,126,664	218,899,219
Customers' deposits and other credit balances:	19		
Demand deposits		112,480,200	131,505,391
Related party deposits		96,168,377	90,917,737
Term deposits		297,329,770	236,434,818
Saving account		922,803,427	839,440,244
		1,428,781,774	1,298,298,190
Accounts payable and miscellaneous creditors	18	26,787,986	62,873,587
Outstanding acceptances		3,487,066	5,559,874
Regularization accounts and other liabilities	20	18,683,619	17,079,513
Certificates of deposit	21	75,358,550	75,356,177
Soft loan from Central Bank of Lebanon	22	44,840,000	44,840,000
Provision for losses and contingencies	24	2,468,382	2,270,502
		171,625,603	207,979,653
Total Liabilities		1,937,534,041	1,725,177,062
Blocked deposits for Capital Increase		48,934,410	-
EQUITY			
Capital	25	40,600,000	30,000,000
Shareholders' cash contribution to capital		27,963,726	27,963,726
Legal Reserve	26	6,535	898,969
Reserve for general Banking risks	26	3,434,891	2,350,742
Other reserves	26	-	23,980
Cumulative change in fair value of available-for-sale securities	27	(9,012,816)	3,566,156
Change in fair value of financial derivatives	28	(89,718)	-
(Accumulated loss)/Retained earnings	29	(131,980)	3,132,295
Net Income for the year		9,040,438	7,503,460
Total equity		71,811,076	75,439,328
Total Liabilities, Blocked Deposits and Equity		2,058,279,527	1,800,616,390

See accompanying notes to the financial statements

	Notes	Year Ended December 31, 2006 LBP'000	(Restated) 2005 LBP'000
Interest Income:			
Loans and advances		32,523,221	25,852,000
Securities		77,981,796	63,289,057
Interest on treasury bills against soft loan		3,473,011	3,080,706
Deposits with banks		22,595,752	19,947,447
		136,573,780	112,169,210
Interest Expense:			
Deposits and other credit balances		83,490,964	74,849,381
Interest on soft loan from Central Bank		1,894,909	1,740,792
Deposits from banks		17,724,680	4,284,770
Certificates of deposit		5,462,468	5,170,860
		108,573,021	86,045,803
Net Interest Income		28,000,759	26,123,407
Provision for credit losses (net of write back)		(1,213,226)	(5,892,342)
Bad debts written off		-	(199,903)
Net Interest Income after provision for credit losses and bad debts written off		26,787,533	20,031,162
Commissions, fees and other revenues (Net)	29	11,888,165	11,722,575
Net exchange gain		1,001,039	655,978
Net Financial Revenues		39,676,737	32,409,715
Other Expenses:			
Salaries and related charges		13,811,302	11,762,147
General operating expenses	30	10,674,627	8,465,796
Provision for losses and contingencies		-	51,155
Depreciation and provision for impairment of assets		2,989,525	3,105,093
		27,475,454	23,384,191
Income, before taxes		12,201,283	9,025,524
Income tax	18	(3,160,845)	(1,522,064)
Net income for the year		9,040,438	7,503,460

See accompanying notes to the financial statements

	Notes	December 31, 2006 LBP'000	(Restated) 2005 LBP'000
Cash flows from operating activities:			
Net Income of the year		9,040,438	7,503,460
Adjustments to reconcile net income with cash used in operating activities:			
Provision for credit losses (net of write backs)		1,213,226	5,892,342
Loss on sale of property and equipment		29,335	17,310
Depreciation and provision for impairment of assets		2,989,525	3,105,093
Changes in fair value of trading securities		1,902,574	(281,645)
Provision for losses and contingencies		-	374,189
Accretion of securities discount		(3,901,427)	(4,008,820)
Net increase/(decrease) in other assets		21,530,097	(18,262,406)
Net decrease in accrued interest payable, charges and other liabilities		(34,283,615)	(228,403,988)
Net cash used in operating activities		(1,479,847)	(234,064,465)
Cash flows from investing activities:			
Net (increase)/decrease in interest-earning deposits with banks		(205,356,744)	300,540,437
Loans and advances to customers		(60,728,227)	(50,476,954)
Net decrease/(increase) in securities		1,168,741	(311,673,212)
Property and equipment		(3,138,142)	(1,253,425)
Proceed from sale of property and equipment		35,530	-
Net cash used in investing activities		(268,018,842)	(62,863,154)
Cash flows from financing activities:			
Non-interest earning compulsory placements		-	77,174,682
Capital Increase		-	7,500,000
Blocked deposists for Capital Increase		48,934,410	-
Liabilities under repurchase agreements		44,122,952	49,455,221
Certificates of deposit issued by bank		2,373	17,572
Customers' deposits and other credit balances		130,483,584	89,636,666
Due to banks and financial institutions		55,310,319	26,368,936
Short-term borrowings		-	(263,933)
Long-term borrowings		18,794,174	6,333,872
Net cash provided by financing activities		297,647,812	256,223,016
Net increase/(decrease) in cash and cash equivalent	31	28,149,123	(40,704,603)
Cash and cash equivalent - Beginning of year	31	82,516,320	123,220,923
Cash and cash equivalent - Ending of year		110,665,443	82,516,320

See accompanying notes to the financial statements

	Year Ended December 31, 2006		
	Capital	*Shareholders' Cash Contribution to Capital*	*Legal Reserve*
	LBP'000	**LBP'000**	**LBP'000**
Balance - January 1, 2005	20,000,000	27,963,726	449,001
Change in fair value of available-for-sale securities (net of deferred taxes)	-	-	-
2005 net income (restated)	-	-	-
Effect of change in accounting policy	-	-	-
2005 comprehensive income	-	-	-
Allocation of 2004 net income	-	-	449,968
Capital increase from retained earnings	2,500,000	-	-
Cash Capital increase	7,500,000	-	-
Balance - December 31, 2005 (restated)	30,000,000	27,963,726	898,969
Change in fair value of available-for-sale securities (net of deferred taxes)	-	-	-
Change in fair value of financial derivative Instruments	-	-	-
2006 net income	-	-	-
2006 comprehensive loss	-	-	-
Transfer from reserve for general Banking risk to legal reserve	-	-	23,980
Allocation of 2005 net income	-	-	750,346
Capital increase from retained earnings and legal reserve	10,600,000	-	(1,666,760)
Balance - December 31, 2006	40,600,000	27,963,726	6,535

See accompanying notes to the financial statements

Year Ended December 31, 2006

Reserve for General Banking Risks LBP'000	*Retained Earnings* LBP'000	*Income for the Year* LBP'000	*Cumulative Change in Fair Value of Available-for-sale Securities* LBP'000	*Change in Fair Value of Financial Derivatives* LBP'000	*Total* LBP'000
1,389,482	2,567,824	4,499,679	1,535,036	-	58,404,748
-	-	-	2,031,120	-	2,031,120
-	-	7,636,083	-	-	7,636,083
-	-	(132,623)	-	-	(132,623)
-	-	7,503,460	2,031,120	-	9,534,580
985,240	3,064,471	(4,499,679)	-	-	-
-	(2,500,000)	-	-	-	-
-	-	-	-	-	7,500,000
2,374,722	3,132,295	7,503,460	3,566,156	-	75,439,328
-	-	-	(12,578,972)	-	(12,578,972)
-	-	-	-	(89,718)	(89,718)
-	-	9,040,438	-	-	9,040,438
-	-	9,040,438	(12,578,972)	(89,718)	(3,628,252)
(23,980)	-	-	-	-	-
1,084,149	5,668,965	(7,503,460)	-	-	-
-	(8,933,240)	-	-	-	-
3,434,891	(131,980)	9,040,438	(9,012,816)	(89,718)	71,811,076

1. Formation and Activities of the Bank

First National Bank S.A.L. is a Lebanese joint stock company registered in the Trade Register under the number 67480 and in the Central Bank of Lebanon list of banks under number 108. The Bank carries out a full range of banking services through a network of eighteen branches in various Lebanese regions.

The Bank's headquarters are located in Beirut, Lebanon.

2. Adoption of New and Revised International Financial Reporting Standards

In the current year, the Bank has adopted the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretation Committee (IFRIC) that are relevant to the Bank's operations and applicable for annual reporting periods beginning January 1, 2006. The adoption of the new and revised standards and interpretations that are relevant to the Bank's operations has resulted in changes to the Bank's accounting policies with respect to financial guarantee contracts in line with IASB amendments to IAS 39 Financial Instruments: Recognition and Measurement. The impact of this change is detailed later in this Note.

In addition, and as of the date of authorization to issue the accompanying financial statements, the following standards, which relate to the Bank's activities, were either issued or in process of being issued but not yet effective:

IAS 1: IAS 1 (Amendment) – Capital Disclosure (effective January 1, 2007)
IAS 1 (Amendment) requires the disclosure of financial information that enables users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

IFRS 7: Financial instruments Disclosures (Effective from January 1, 2007)
IFRS 7 replaces the disclosures required by IAS 30 (disclosures in the financial statements of banks and similar financial institutions), and some of the disclosure requirements in IAS 32, *Financial Instruments: Disclosure and Presentation.*

IFRS 8: Operating Segments (effective January 1, 2009)
IFRS 8 replaces IAS 14 *Segment Reporting*. It extends the scope of segment reporting to include entities that hold assets in a fiduciary capacity for a broad group of outsiders as well as entities whose equity or debt securities are publicly traded and entities that are in the process of issuing equity or debt securities in public securities markets.

The management anticipates that the adoption of these standards (where applicable) in the future periods will have no material financial impact on the financial statements of the Bank, except in case of IFRS 7 and amended IAS 1, which will require additional disclosures with respect to the Bank's financial instruments and share capital.

Accounting for financial guarantee contracts

The IASB has also amended IAS 39 *Financial Instruments: Recognition and Measurement* to require certain financial guarantee contracts issued by the Bank to be accounted for in accordance with that Standard. Financial guarantee contracts that are accounted for in accordance with IAS 39 are measured initially at their fair values, and subsequently measured at the higher of:

_ the amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
_ the amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies set out in note 3 below.

The changes have been applied by the Bank in accordance with the transitional provisions of IAS 39 with effect from the beginning of the comparative reporting period presented in these financial statements (i.e. with effect from January 1, 2005).

The application of these amendments results in such financial guarantee contracts now being recognized and measured at the higher of the best estimate of the expenditure required to settle the obligation and the amount initially recognized at fair value less, where appropriate, cumulative amortization.

The impact of this change in accounting policy on net income for the year ended December 31, 2005 is LBP132million lower under the new policy and financial liabilities as at December 31, 2005 are higher by same amount respectively. This change affects the "Commission, fees and other revenues" line item in the income statement.

3. Summary of Significant Accounting Policies

A. Statement of Compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards.

B. Basis of Preparation:

The financial statements are prepared on the historical cost basis with the exception of the measurement at fair value of certain financial instruments, which are measured at fair value in line with International Accounting Standard No. 39 (IAS39).

The financial statements are presented in Lebanese Pounds, which is the presentation currency, whereas the functional currency of the Bank is U.S. Dollars.

Assets and liabilities are grouped according to their nature and are presented in an approximate order that reflects their relative liquidity.

C. Foreign Currencies:

Transactions effected during the year in foreign currencies, including revenues and expenses, are translated into Lebanese Pounds using rates of exchange prevailing at the transaction date. At reporting dates, monetary assets and liabilities denominated in foreign currencies are retranslated into Lebanese Pounds at the exchange rates at that date. Gain or loss arising from retranslation is included in profit or loss.

D. Property and Equipment:

Property and equipment except real estate properties are measured at cost net of subsequent accumulated depreciation and impairment loss, if any. Real estate properties are stated at market value prevailing at 2002 year-end, being the fair value adjustment applied against "Intangible Assets" account resulting from the equity acquisition of "Société Bancaire du Liban S.A.L." net of accumulated depreciation and impairment loss, if any.

Depreciation of property and equipment is provided on the straight-line method over the estimated useful lives of the assets on the basis of the following annual rates:

Office improvements and installations	10-20 %
Furniture	7 1/2 %
Vehicles	12 %
Computer equipment	15 %
Building	2 %

E. Impairment of Tangible and Intangible Assets Excluding Goodwill:

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

Recoverable amount is defined as the higher of:

_ Fair value that reflects market conditions at the balance sheet date, less cost to sell, if any. To determine fair value, the Bank adopts the market comparability approach using as indicators the current prices for similar assets in the same location and condition.
_ Value in use: the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life, only applicable to assets with cash generation units.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation if no impairment loss had been recognized.

F. Financial Assets:

Investments are recognized and derecognized on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the time frame established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as "held-for-trading" investments, "held-to-maturity" investments, "available-for-sale" (AFS) financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Held-for-Trading Investments

A financial asset is classified as held-for-trading if:

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

Financial assets held-for-trading are measured at fair value. All changes in fair value are recognized in profit or loss. Fair value is determined in the manner described in Note 3(H).

Held-to-Maturity Investments

Debt securities with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are carried at amortized cost less impairment.

Available-for-Sale Financial Assets

_ Available-for-sale investments carried at fair value

Available-for-sale securities held by the Bank are measured at fair value. Fair value is determined in the manner described in note 3(H). Changes in fair value are recognized directly in equity with the exception of impairment losses, interest and foreign exchange gains and losses on monetary assets, which are recognized directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in equity is included in profit or loss for the period.

_ Available-for-sale investments carried at cost

Not listed shares classified as available-for-sale by the Bank and not traded in an active market, are carried at cost.

Loans and Advances:

Loans and receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost, less any impairment. Interest income is recognized by applying the effective interest rate.

Non-performing loans and advances to customers are stated net of unrealized interest and provision for credit losses.

Exchange of Debt Securities

Debt securities exchanged against securities with longer maturities, with similar risks, and issued by the same issuer, are not derecognized from financial assets because they do not meet the conditions for derecognition. Premiums and discounts derived from the exchange of said securities are deferred to be amortized as a yield enhancement on a time proportionate basis, over the period of the extended maturities.

Impairment of Financial Assets

Financial assets, other than those at "fair value through profit and loss", are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more observable loss events including significant or prolonged decline in fair value beyond one business cycle that occurred after the initial recognition of the financial asset or group of financial assets, the estimated future cash flows of the investment have been impacted.

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

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

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

In respect of AFS equity securities, any increase in fair value subsequent to a recovery of an impairment loss is recognized directly in equity.

G. Goodwill:

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any subsequent accumulated impairment losses.

The recoverable amount of goodwill is estimated at each reporting date.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

An impairment loss recognized for goodwill is not reversed in a subsequent period.

H. Fair Value of Financial Instruments:

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

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

I. Financial Liabilities Issued by the Bank:

Financial guarantee contract liabilities

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

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

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

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

J. Offsetting of Financial Assets and Liabilities:

Financial assets and liabilities are offset and reported net in the balance sheet when there is a legally enforceable right to set off the recognized amounts and when the Bank intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

K. Derecognition of Financial Instruments:

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognized, when the contractual rights to the cash flows from the financial asset expire.

L. Derivative Financial Instruments:

Derivatives are initially recognized 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, and valuation techniques including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. The treatment of changes in their fair value depends on their classification as follows:

Fair Value Hedge:

When a derivative is designated as a hedge of the change in fair value of a recognized asset or liability or a firm commitment, changes in the fair value of the derivative are recognized immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk.

If the derivative expires or is sold, terminated, or exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, then hedge accounting is discontinued. Any adjustment up to that point, to a hedged item for which the effective interest method is used, is amortized to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

Cash Flow Hedge:

When a derivative is designed as a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative are recognized directly in equity. The amount recognized in equity is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same income statement line item as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the derivative expires or is sold, terminated, or exercised, no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued and the amount recognized in equity remains in equity until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, then hedge accounting is discontinued and the balance in equity is recognized immediately in profit or loss.

M. Provisions:

Provisions are recognized when the bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Provision for employees' end-of-service indemnities

The provision for employees' termination benefits is based on the liability that would arise if the employment of all the staff were terminated at the balance sheet date.

The Bank provides for employees' end-of-service indemnities in accordance with applicable Labor and Social Security Laws. The entitlement to these benefits is usually based upon the employees' length of service, the employees' salaries and other requirements outlined in the relevant laws.

N. Fiduciary Deposits:

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

O. Revenue and Expense Recognition:

Interest income and expense are recognized in the income statement on the accrual basis and include amortized premiums and discounts, except for interest on classified debts for which interest is deferred as unrealized income until actual realization of the interest.

Fees and commissions from banking services are recognized when contractually earned except for commissions and fees earned on the loan book, which are considered as a yield enhancement reflected under interest income in the income statement.

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

P. Income Tax:

Income tax expense is the sum of the tax currently payable and deferred tax. Income tax is determined and provided for in accordance with the tax prevailing laws.

Current Tax

Current tax payable is calculated based on taxable profit for the period. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Debt securities invested by bank entities operating in Lebanon are subject to withheld tax by the issuer, and deducted at year end from the corporate tax liability not eligible for deferred tax benefit, and therefore, accounted for as prepayment on corporate income tax and reflected as a part of income tax provision.

Deferred Tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt within equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

Q. Trade and Settlement Date Accounting:

All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date that the Bank commits to purchase or sell the assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

R. Repurchase Agreement:

Securities sold under repurchase agreement contracts appear under the Bank's assets as per the same original classification while the corresponding repurchase agreements contracted with the financial institutions appear under liabilities.

S. Off Balance Sheet Financial Instruments:

The Bank is using forward exchange contracts to manage its position in foreign currencies.

Transactions in foreign currencies are being valued at market rate and net change in fair value is recorded in the statement of income.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

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

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognized in financial statements.

(i) Classification of held-to-maturity investments

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity.

Key sources of estimation uncertainty

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

(i) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on a regular basis. In determining whether an impairment loss should be recorded, 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. This evidence may include observable data indicating that there has been an adverse change in the payment status of the debtors of the Bank, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses judgment and estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Fair value of unquoted financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. To the extent practical, models use only observable data, however areas such as credit risk (both own and counter party), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

(iii) Impairment of available for-sale equity investments

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

(iv) Impairment of goodwill

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

5. Cash Compulsory Reserve

In accordance with local banking regulations, the cash compulsory reserve is non interest earning deposit held at Central Bank of Lebanon and computed on the basis of 25% and 15% of the weekly average customers' demand deposits and term deposits in Lebanese Pound respectively.

6. Cash and Deposits with Central Bank and Financial Institutions

A. Cash and Due from Banks:

This caption comprises the following:

	December 31,	
	2006	*2005*
	LBP'000	**LBP'000**
Cash on hand	10,775,434	11,635,957
Current accounts with Central Bank of Lebanon	7,803,831	6,153,703
Demand deposits with banks	12,948,103	15,455,434
Checks for collection	1,726,388	741,520
	33,253,756	33,986,614

Cash and due from banks as of December 31, 2006 and 2005 are segregated as follows in terms of Lebanese Pounds (LBP) and foreign currency (Fcy) base accounts:

	December 31, 2006		
		Fcy	
	LBP'000	**in LBP'000**	**LBP'000**
Cash on hand	5,758,386	5,017,048	10,775,434
Current accounts with Central Bank of Lebanon	-	7,803,831	7,803,831
Demand deposits with resident banks	141,102	1,744,157	1,885,259
Demand deposits with non-resident banks	-	11,062,844	11,062,844
Checks for collection	1,553,720	172,668	1,726,388
	7,453,208	25,800,548	33,253,756

	December 31, 2005		
		Fcy	
	LBP'000	in LBP'000	LBP'000
Cash on hand	7,123,411	4,512,546	11,635,957
Central Bank of Lebanon	-	6,153,703	6,153,703
Resident banks	81,526	635,441	716,967
Non-resident banks	-	14,738,467	14,738,467
Checks for collection	102,340	639,180	741,520
	7,307,277	26,679,337	33,986,614

B. Placements with Banks and Financial Institutions:

Interest-earning deposits with banks and financial institutions are denominated in foreign currencies and Lebanese Pounds as follows:

	December 31,	
	2006	*2005*
	LBP'000	LBP'000
Deposits in Lebanese Pound:		
Resident banks	24,200,000	2,765,298
	24,200,000	2,765,298
Deposits in Foreign Currencies:		
Central Bank of Lebanon	212,557,500	191,729,130
Resident banks	10,690,443	946,169
Non-resident banks	241,380,364	88,030,966
	464,628,307	280,706,265
	488,828,307	283,471,563

Accrued interest receivable as of December 31, 2006 amounted to LBP2,335million (LBP953million as of December 31, 2005) and is reflected under "Other Assets".

Placements with banks mature in the subsequent period as follows:

	December 31, 2006				
	Lebanese Pounds	*Average Interest Rate*	*Foreign Currency in c/v LBP*	*Average Interest Rate*	*Total*
	LBP'000	%	LBP'000	%	LBP'000
First half 2007	24,200,000	6.64	339,505,807	5.10	363,705,807
Second half 2007	-	-	64,822,500	6.62	64,822,500
Year 2011	-	-	60,300,000	6.26	60,300,000
	24,200,000		464,628,307		488,828,307

	December 31, 2005				
	Lebanese Pounds **LBP'000**	*Average Interest Rate* **%**	*Foreign Currency in c/v LBP* **LBP'000**	*Average Interest Rate* **%**	*Total* **LBP'000**
First half 2006	2,765,298	9.60	193,271,265	4.29	196,036,563
Year 2007	-	-	87,435,000	5.06	87,435,000
	2,765,298		280,706,265		283,471,563

According to local banking regulations, banks are required to maintain interest earning deposits in foreign currency with the Central Bank of Lebanon to the extent of 15% of customers' deposits in foreign currencies, certificates of deposits, and loans acquired from non-resident financial institutions. In this connection, term deposits in the aggregate of approximately LBP64,823million (USD43million) were maintained with the Central Bank of Lebanon as at December 31, 2006, with maturities in 2007 and LBP60,300million (USD40million) maturing in 2011.

Distribution of placements with banks by currency:

	December 31			
	2006		2005	
	Currency in c/v LBP **LBP'000**	*Average Interest Rate* **%**	*Currency in c/v LBP* **LBP'000**	*Average Interest Rate* **%**
Lebanese Pound	24,200,000	6.64	2,765,298	9.6
Australian Dollars	244,320	6.10	946,169	5.3
U.S. Dollars	448,086,329	5.49	273,035,130	4.54
Euro	4,770,194	3.56	1,784,130	2.22
Sterling Pound	11,527,464	5.19	4,940,836	4.5
	488,828,307	5.52	283,471,563	4.58

7. Securities

This caption comprises the following:

	December 31, 2006		
	Lebanese Treasury Bills **LBP'000**	*Lebanese Treasury Bonds, Securities and other Financial Instruments* **in LBP'000**	*Total* **LBP'000**
Securities Classified as:			
Trading	-	44,454,916	44,454,916
Available-for-sale	13,191,864	296,197,346	309,389,210
Held-to-maturity	316,369,913	309,187,513	625,557,426
	329,561,777	649,839,775	979,401,552

	December 31, 2005		
	Lebanese Treasury Bills **LBP'000**	*Lebanese Treasury Bonds, Securities and other Financial Instruments* **in LBP'000**	*Total* **LBP'000**
Securities Classified as:			
Trading	-	11,884,492	11,884,492
Available-for-sale	-	238,854,635	238,854,635
Held-to-maturity	216,903,877	523,594,873	740,498,750
	216,903,877	774,334,000	991,237,877

Accrued interest receivable on securities as of December 31, 2006 amounted to LBP17,786million (LBP42,140million as of December 31, 2005) and is reflected under "Other Assets".

A. The Lebanese coupon treasury bills portfolio classified as Available-for-Sale is composed of the following:

	December 31, 2006						
Maturity	*Coupon Rate* %	*Currency*	*Nominal Value* **LBP'000**	*Unamortized Premium/ (Discount)* **LBP'000**	*Amortized Cost* **LBP'000**	*Fair Value* **LBP'000**	*Cumulative Change in Fair Value* **LBP'000**
June 2008	9.34	LBP	2,000,000	23,901	2,023,901	2,035,552	11,651
September 2008	9.34	LBP	3,000,000	32,231	3,032,231	3,050,199	17,968
December 2008	9.34	LBP	5,000,000	36,286	5,036,286	5,075,956	39,670
May 2009	9.32	LBP	3,000,000	(14,967)	2,985,033	3,030,157	45,124
			13,000,000	77,451	13,077,451	13,191,864	114,413

B. The Lebanese treasury bills portfolio classified as held-to-maturity is composed of the following:

	December 31, 2006		December 31, 2005	
	Amount **LBP'000**	*Weighted Average Interest Rate* %	*Amount* **LBP'000**	*Weighted Average Interest Rate* %
Discounted Ordinary treasury bills, net of unearned interest (2006, LBP1,121million; 2005, LBP337million)	79,182,763	7.14	71,498,154	6.55
Coupon treasury bills, net of discounts (2006, net of discounts LBP260million; 2005, net of premiums LBP336million)	237,187,150	9.28	145,405,723	9.29
	316,369,913		216,903,877	

The discounted treasury bills are bought at a discount interest and are stated in the balance sheet at their face value less related unearned interest.

The treasury bills include as of December 31, 2006 an amount of LBP48,142million maturing on January 2007 representing the value of 4,830,335 bills, financed by a soft loan granted by the Central Bank on January 23, 2003 in connection with the acquisition of Société Bancaire du Liban S.A.L.. These bills are pledged in favour of the Central Bank until final settlement of the related soft loan.

Coupon treasury bills carry two-year, three-year, four-year and five-year maturity and related interest is paid semi-annually.

Treasury bills in Lebanese Pounds classified as held-to-maturity carry the following maturities (expressed in term of the remaining period to the repayment date):

	December 31, 2006			
Period	*Amortized Cost* **LBP'000**	*Fair Value* **LBP'000**	*Weighted Average Discount/ Coupon Rate* %	*Weighted Average Market Rate* %
First half 2007	78,818,634	79,113,271	7.33	7.34
Second half 2007	31,364,127	31,794,501	8.01	8.06
Year 2008	108,000,000	112,031,244	9.28	8.94
Year 2009	93,998,118	98,122,919	9.44	9.06
Year 2010	4,189,034	4,537,344	11.30	10.53
	316,369,913	325,599,279		

	December 31, 2005			
Period	*Amortized Cost* **LBP'000**	*Fair Value* **LBP'000**	*Weighted Average Discount/ Coupon Rate* %	*Weighted Average Market Rate* %
First quarter 2006	71,498,154	71,604,040	6.55	4.35
First half 2007	11,000,107	11,061,451	8.52	8.07
Second half 2007	20,000,000	20,037,273	8.50	8.37
Year 2008	100,000,000	100,472,438	9.34	9.13
Year 2009	10,222,431	10,709,058	10.30	9.62
Year 2010	4,183,185	4,349,833	11.30	10.46
	216,903,877	218,234,093		

These treasury bills can be liquidated prior to redemption date with the Central Bank of Lebanon at current discount rates. It should be noted that customers' deposits in Lebanese Pounds which carry short term maturities, are mostly invested in Lebanese treasury bills.

C. The portfolio of investment securities and other financial instruments comprises the following:

	December 31,	
	2006	*2005*
	LBP'000	**LBP'000**
Trading Securities:		
Lebanese Government Eurobonds - USD	32,638,867	10,955,588
Certficates of deposit issued by Central Bank of Lebanon	3,389,252	-
Certificates of deposit issued by Lebanese banks	430,280	75,469
Debt Securities issued by non-resident banks	6,091,400	-
Equity Shares of local banks and companies	1,506,898	685,272
Equity Shares of foreign banks and companies	398,219	168,163
	44,454,916	11,884,492
Available-for-sale Securities:		
Lebanese Government Eurobonds - USD and EURO	138,699,856	130,250,510
Certificates of deposit issued by Central Bank of Lebanon	20,755,153	22,159,020
Certificates of deposit issued by Lebanese banks	42,579,023	41,921,756
Debt Securities issued by Lebanese banks and financial institutions	988,397	1,507,500
Debt Securities issued by non-resident banks	63,834,905	25,825,060
Debt Securities issued by Lebanese companies	150,750	1,055,250
Debt Securities issued by non-resident quoted companies	20,458,026	7,003,136
Preferred Shares, (BLOM Bank SAL)	1,522,575	1,629,985
Preferred Shares, (BBAC Bank SAL)	1,507,500	-
Cumulative convertible preferred shares, (Bank of Beirut SAL)	2,501,244	2,493,367
Investment at cost in Syria Gulf Bank	3,165,750	-
Beirut Interbank Fund	-	1,590,120
Beirut Global Income	-	3,384,764
Miscellaneous Investments	34,167	34,167
	296,197,346	238,854,635
Held-to-maturity Securities:		
Lebanese Government Eurobonds - USD and EURO	293,388,524	362,116,443
Certificates of deposit issued by the Central Bank of Lebanon	5,942,729	146,605,974
Certificates of deposit issued by Lebanese banks	9,856,260	14,872,456
	309,187,513	523,594,873

Trading Securities as at December 31, 2006:

	Maturity	*Interest Rate*
		%
Certificates of Deposit issued by Lebanese banks:		
Banque de la Méditerranée SAL	December 2012	7.203
	December 2012	7.202
Lebanese Government Eurobonds:	October 2007	8.625
	August 2008	10.125
	October 2009	10.250
	March 2010	7.125
	May 2011	7.875
	September 2012	7.750
	January 2016	8.500
	May 2016	11.625
Certificates of deposit issued by Central Bank:	April 2015	10.00
Debt Securities issued by non-resident banks:	September 2016	-
Shares in resident companies and banks:		
Solidere "A" Shares	-	-
Solidere "B" Shares	-	-
BLOM GDR	-	-
AUDI GDR	-	-
FRANSABANK	-	-

Currency	Nominal Value	Unamortized Premium/ Discounts	Carrying Cost	Fair Value	Change in Fair Value
USD	100,000	1,945	101,945	95,142	(6,803)
USD	200,000	3,899	203,899	190,284	(13,615)
	300,000	5,844	305,844	285,426	(20,418)
USD	5,121,000	61,851	5,182,851	5,143,072	(39,779)
USD	3,000,000	141,722	3,141,722	3,084,747	(56,975)
USD	269,000	17,942	286,942	280,630	(6,312)
USD	655,000	7,536	662,536	631,785	(30,751)
USD	5,900,000	264,740	6,164,740	5,747,397	(417,343)
USD	1,000,000	29,931	1,029,931	960,383	(69,548)
USD	3,540,000	222,102	3,762,102	3,442,374	(319,728)
USD	2,040,000	534,836	2,574,836	2,360,602	(214,234)
	21,525,000	1,280,660	22,805,660	21,650,990	(1,154,670)
USD	2,120,000	310,536	2,430,536	2,248,260	(182,276)
	2,120,000	310,536	2,430,536	2,248,260	(182,276)
USD	3,825,000	(119,462)	3,705,538	4,040,730	335,192
	3,825,000	(119,462)	3,705,538	4,040,730	335,192
USD	284,105	-	284,105	360,000	75,895
USD	583,274	-	583,274	411,571	(171,703)
USD	141,856	-	141,856	110,333	(31,523)
USD	91,859	-	91,859	57,698	(34,161)
USD	109,000	-	109,000	60,000	(49,000)
	1,210,094	-	1,210,094	999,602	(210,492)

Trading Securities as at December 31, 2006 (Continued):

	Maturity	Interest Rate
		%
Shares in foreign banks - JOD:		
Arab Bank	-	-
Shares in foreign banks - KWD:		
National Bank of Kuwait	-	-
Shares in foreign companies - KWD:		
Public Warehouse Comj	-	-
Global Investment House	-	-
Mobile Telecom	-	-
Shares in foreign companies - AED:		
EMAAR	-	-
Shares in foreign companies - SAR:		
Saudi electricity	-	-
Saudi Telecom	-	-
SABIC	-	-
Total Trading Securities C/V in LBP'000		

Currency	Nominal Value	Unamortized Premium/ Discounts	Carrying Cost	Fair Value	Change in Fair Value
JOD	15,939	-	15,939	12,821	(3,118)
	15,939	-	15,939	12,821	(3,118)
KWD	5,600	-	5,600	5,400	(200)
	5,600	-	5,600	5,400	(200)
KWD	7,470	-	7,470	4,271	(3,199)
KWD	5,784	-	5,784	4,894	(890)
KWD	5,020	-	5,020	4,980	(40)
	18,274	-	18,274	14,145	(4,129)
AED	71,535	-	71,535	68,400	(3,135)
	71,535	-	71,535	68,400	(3,135)
SAR	285,342	-	285,342	260,000	(25,342)
SAR	173,398	-	173,398	167,542	(5,856)
SAR	175,137	-	175,137	171,908	(3,229)
	633,877	-	633,877	599,450	(34,427)
	44,130,042	2,227,448	46,357,490	44,454,916	(1,902,574)

Available-for-Sale Securities as at December 31, 2006:

	Maturity	*Interest Rate*
		%
Lebanese Government Eurobonds - USD:	February 2007	6.500
	July 2007	7.500
	October 2007	8.625
	June 2008	7.375
	August 2008	10.125
	October 2009	10.250
	December 2009	7.000
	March 2010	7.125
	December 2010	6.000
	May 2011	7.875
	September 2012	7.750
	June 2013	8.625
	April 2014	7.375
	January 2016	8.500
	May 2016	11.625
	November 2016	4.875
	April 2021	8.250
Lebanese Government Eurobonds - EURO:	May 2009	7.250
	April 2012	5.875
Certificates of Deposit issued by Lebanese banks:	August 2007	6.250
	December 2007	8.500
	May 2010	10.75
	July 2010	7.625
	December 2012	7.625

Currency	Nominal Value	Unamortized Premium/ Discounts	Carrying Cost	Fair Value	Change in Fair Value
USD	5,500,000	(2,455)	5,497,545	5,490,802	(6,743)
USD	1,440,000	14,801	1,454,801	1,445,151	(9,650)
USD	2,150,000	32,952	2,182,952	2,152,997	(29,955)
USD	3,770,000	6,656	3,776,656	3,710,385	(66,271)
USD	7,333,000	325,679	7,658,679	7,501,282	(157,397)
USD	2,492,000	174,965	2,666,965	2,583,661	(83,304)
USD	8,069,000	(24,698)	8,044,302	7,723,810	(320,492)
USD	410,000	(1,266)	408,734	392,484	(16,250)
USD	2,428	(328)	2,100	2,015	(85)
USD	1,010,000	8,292	1,018,292	977,517	(40,775)
USD	2,208,000	52,041	2,260,041	2,101,500	(158,541)
USD	3,550,000	187,684	3,737,684	3,497,303	(240,381)
USD	8,950,000	(52,865)	8,897,135	8,192,581	(704,554)
USD	10,965,000	53,000	11,018,000	10,558,052	(459,948)
USD	11,126,000	2,701,073	13,827,073	12,842,358	(984,715)
USD	500,000	-	500,000	500,000	-
USD	10,300,000	(39,278)	10,260,722	9,499,403	(761,319)
	79,775,428	3,436,253	83,211,681	79,171,301	(4,040,380)
EURO	195,000	(2,859)	192,141	198,774	6,633
EURO	10,000,000	(188,193)	9,811,807	9,559,660	(252,147)
	10,195,000	(191,052)	10,003,948	9,758,434	(245,514)
USD	1,500,000	(3,077)	1,496,923	1,477,887	(19,036)
USD	50,000	-	50,000	50,045	45
USD	100,000	11,323	111,323	106,413	(4,910)
USD	2,900,000	(6,383)	2,893,617	2,805,407	(88,210)
USD	25,200,000	(121,351)	25,078,649	23,805,040	(1,273,609)
	29,750,000	(119,488)	29,630,512	28,244,792	(1,385,720)

Available-for-Sale Securities as at December 31, 2006 (Continued):

	Maturity	*Interest Rate*
		%
Certificates of Deposit issued by Central Bank:	July 2009	7.50
	April 2015	10.00
Preferred Shares - BLOM Bank:		
Year 2002 issuance (5,000 shares)	-	-
Year 2004 issuance (5,000 shares)	-	-
Preferred Shares - BBAC Bank:	-	-
Cumulative convertible Preferred Shares - Bank of Beirut:		
Class A (38 share unit)	December 2007	8.000
Class B (21 share unit)	January 2010	6.750
Debt securities issued by Lebanese financial institutions:		
Cylinder I - Bemo Securitization	July 2010	7.500
Debt Securities issued by non-resident quoted companies:		
AMEX	February 2007	Indexed
I Year SHARK	March 2007	Indexed
Credit Lyonnais	February 2014	Indexed
IGAR	July 2014	Indexed

Currency	Nominal Value	Unamortized Premium/ Discounts	Carrying Cost	Fair Value	Change in Fair Value
USD	11,000,000	-	11,000,000	10,706,598	(293,402)
USD	2,900,000	382,344	3,282,344	3,061,332	(221,012)
	13,900,000	382,344	14,282,344	13,767,930	(514,414)
USD	500,000	-	500,000	510,000	10,000
USD	500,000	-	500,000	500,000	-
	1,000,000	-	1,000,000	1,010,000	10,000
USD	1,000,000	-	1,000,000	1,000,000	-
	1,000,000	-	1,000,000	1,000,000	-
USD	1,045,000	-	1,045,000	1,055,450	10,450
USD	603,750	-	603,750	603,750	-
	1,648,750	-	1,648,750	1,659,200	10,450
USD	655,653	-	655,653	655,653	-
	655,653	-	655,653	655,653	-
USD	1,950,000	(3,123)	1,946,877	1,928,550	(18,327)
USD	2,000,000	-	2,000,000	2,000,000	-
USD	5,900,000	(35,459)	5,864,541	4,642,280	(1,222,261)
USD	5,000,000	-	5,000,000	5,000,000	-
	14,850,000	(38,582)	14,811,418	13,570,830	(1,240,588)

Available-for-Sale Securities as at December 31, 2006 (Continued):

	Maturity	Interest Rate
		%
Debt Securities issued by non-resident banks:		
Blue River Muni	October 2008	Indexed
Barclays	June 2013	7.720
Credit Suisse AM III	November 2013	Indexed
Al-Ahli United	December 2015	6.310
Barclays	June 2016	7.500
Debt Securities issued by Lebanese companies:		
Rymco Class B	March 2007	7.500
Investment at cost in non-resident banks:		
Syria Gulf bank	-	-
Miscellaneous Investments		
Total in C/V LBP'000		

The debt securities issued by non-resident banks and non-resident quoted companies which are classified as "Available for sale" include securities for the amount of USD14,585,280 sold under a repurchase agreement effected with a non-resident bank (Refer to Note 17).

Certificates of deposit issued by the Central Bank of Lebanon maturing on year 2015 were bought with a resale option to the Central Bank of Lebanon at a price of 91.63% at year 2012. In addition to the amortization of premiums, the Bank is providing for the difference of 8.37% between the nominal value and the amount of the early redemption up till year 2012 under "Regularization accounts and other liabilities", which will be amortized over a 3 year period starting year 8 in case the sale option was not executed.

Lebanese Government Eurobonds classified as available for sale securities amounting to EURO10,000,000 as at December 31, 2006 and earning a fixed interest rate of 5.875% have been swapped for a variable earning interest rate of yearly Euribor rate plus 1.8% (refer to Note 36).

Currency	Nominal Value	Unamortized Premium/ Discounts	Carrying Cost	Fair Value	Change in Fair Value
USD	1,600,000	83,767	1,683,767	1,945,280	261,513
USD	10,000,000	-	10,000,000	10,000,000	-
USD	790,982	-	790,982	516,599	(274,383)
USD	10,000,000	-	10,000,000	9,943,000	(57,000)
USD	20,000,000	(56,489)	19,943,511	19,940,000	(3,511)
	42,390,982	27,278	42,418,260	42,344,879	(73,381)
USD	100,000	-	100,000	100,000	-
	100,000	-	100,000	100,000	-
USD	2,100,000	-	2,100,000	2,100,000	-
LBP	34,165	-	34,165	34,165	-
	302,408,913	5,180,542	307,589,455	296,197,346	(11,392,109)

Held-to-Maturity Securities as at December 31, 2006:

	Maturity	*Interest Rate*
		%
Lebanese Government Eurobonds - USD:		
	July 2007	7.500
	October 2007	8.625
	June 2008	7.375
	August 2008	10.125
	October 2009	10.250
	March 2010	7.125
	July 2010	9.483
	August 2010	8.870
	September 2010	9.389
	December 2010	6.000
	May 2011	9.479
	May 2011	7.875
	September 2012	7.750
	June 2013	8.625
	August 2015	8.960
	May 2016	11.625
	April 2021	8.250
Lebanese Government Eurobonds - EURO:	May 2009	7.250
Certificates of Deposit issued by Lebanese banks:	January 2007	6.375
	July 2010	7.625
Certificates of Deposit issued by Central Bank:	April 2010	11.300

Currency	Nominal Value	Unamortized Premium/ Discounts	Carrying Cost	Fair Value	Change in Fair Value
USD	300,000	(493)	299,507	300,000	493
USD	750,000	-	750,000	751,046	1,046
USD	10,000,000	(16,169)	9,983,831	9,841,871	(141,960)
USD	12,000,000	501,891	12,501,891	12,275,384	(226,507)
USD	13,500,000	46,147	13,546,147	13,996,559	450,412
USD	33,750,000	(255,103)	33,494,897	32,308,144	(1,186,753)
USD	10,000,000	-	10,000,000	10,000,000	-
USD	20,000,000	-	20,000,000	20,000,000	-
USD	10,000,000	-	10,000,000	10,000,000	-
USD	808,930	(98,158)	710,772	808,930	98,158
USD	10,000,000	-	10,000,000	10,000,000	-
USD	8,500,000	80,208	8,580,208	8,226,625	(353,583)
USD	8,000,000	7,399	8,007,399	7,614,132	(393,267)
USD	5,000,000	(28,709)	4,971,291	4,925,778	(45,513)
USD	15,000,000	-	15,000,000	15,000,000	-
USD	14,000,000	1,647,548	15,647,548	16,159,718	512,170
USD	15,000,000	16,411	14,983,589	13,834,079	(1,149,510)
	186,608,930	1,868,150	188,477,080	186,042,266	(2,434,814)
EURO	4,670,000	(200)	4,669,800	4,696,880	27,080
	4,670,000	(200)	4,669,800	4,696,880	27,080
USD	1,000,000	-	1,000,000	1,000,000	-
USD	5,500,000	38,149	5,538,149	5,320,600	(217,549)
	6,500,000	38,149	6,538,149	6,320,600	(217,549)
LBP	6,000,000	(57,271)	5,942,729	5,942,729	-
	6,000,000	(57,271)	5,942,729	5,942,729	-
	306,457,770	2,729,743	309,187,513	305,242,769	3,944,744

The Lebanese Government Eurobonds, which are classified as "Held-to-maturity", include bonds for the amount of USD67,000,000 sold subject to repurchase agreements (Refer to Note 17).

The Lebanese Government Eurobonds, which are classified as "Held-to-maturity", include also bonds for the amount of USD46,000,000 and bonds for the amount of USD3,500,000 that were transferred during 2004 from the "Available-for-sale" and "Trading" portfolio respectively. These bonds were transferred at fair value as at the date of transfer and the difference between fair value and carrying cost of the bonds is recorded under "Unamortized Premium/Discounts" and is being amortized over the remaining life of the bonds in the statement of income as an adjustment to interest income. It is to be noted that the change in fair value of the bonds transferred from "Available-for-sale" portfolio, as at the date of transfer, and which is recorded as a separate line under " Equity" is being amortized over the remaining life of the bonds that are now classified as "Held-to-maturity". The balance of the change in fair value as at December 31, 2006, was LBP573million (USD380,249) – Refer to Note 27.

The financial instruments issued by non-resident banks and companies represent mainly securities related to derivatives connected to interest rates and their capital is guaranteed by issuer to be settled on maturity date. They comprise the following:

(a) Issuer : Credit Lyonnais Finance (Guernsey)
Date of Issue : February 9, 2004
Maturity Date : February 9, 2014 callable every six months
Nominal value : USD1,500,000
Type of bonds : Euro Medium Term Notes
Interest : Floating linked to index (6 month-Libor USD)

(b) Issuer : Credit Lyonnais Finance (Guernsey)
Date of Issue : February 13, 2004
Maturity Date : February 13, 2014 callable every six months
Nominal value : USD4,400,000
Type of bonds : Euro Medium Term Notes
Interest : Floating linked to index (6 month-Libor USD)

(c) Issuer : "Blue River" Luxembourg based
Date of Issue : October 22, 2003
Maturity Date : October 22, 2008
Nominal value : USD1,600,000
Type of bonds : Linked Note to AAA rated Muni Bonds
Interest : Linked to Muni Bonds Portfolio NAV

(d) Issuer : Banque et Caisse d'Épargne et de l'Etat Luxembourg
Date of Issue : March 14, 2006
Maturity Date : March 14, 2007
Nominal value : USD2,000,000
Type of bonds : 1 year Shark Fin Note Linked to Gold
Interest : Linked to Gold Prices

(e) Issuer : JP Morgan International Derivative Limited
Date of Issue : May 31, 2006
Maturity Date : July 10, 2014
Nominal value : USD5,000,000
Type of bonds : 8 Years Capital Guaranteed Note Linked to the Performance of Investable Global Asset Rotater (IGAR)

(f) Issuer : Ahli United Bank - Bahrain
Date of Issue : December 1, 2005
Maturity Date : December 2, 2015
Nominal Value : USD10,000,000
Type of bonds : 10 years Subordinated Bond at 100 callable quarterly starting December 2, 2010 till September 2, 2015
Interest : 6 month-Libor USD plus 90 basis points.

8. Loans and Advances

This caption comprises of the following:

	December 31, 2006 LBP'000	December 31, 2005 LBP'000
Loans and advances to customers	355,015,652	289,572,414
Loans and advances to related parties	33,999,201	33,584,276
Loan to Housing Bank	1,350,000	1,500,000
Discounted letters of credit	-	3,640,394
Bills discounted (net)	3,398,070	1,783,204
Creditors accidentally debtors	623,861	5,068,414
Substandard loans (net of unearned interest)	4,028,115	7,760,647
Bad and doubtful debts (net of unearned interest)	48,199,153	43,258,839
Less: Provision for credit losses	(29,244,329)	(28,063,620)
Less: Escrow account to cover shortage in provisions	(6,650,420)	(6,900,266)
	410,719,303	351,204,302

Loans and advances are broken down in Lebanese Pounds and Foreign Currencies as follows:

	December 31, 2006 LBP'000	December 31, 2005 LBP'000
Lebanese Pounds	58,140,554	50,834,373
Foreign Currencies	352,578,749	300,369,929
	410,719,303	351,204,302

Accrued interest receivable on loans and advances amounting to LBP1,697million (LBP3,595million during 2005) is reflected under "Other Assets".

There is a concentration in the distribution of loans among debtors' exposures as detailed in the break down below:

Brackets	*No. of Accounts*	*Rate* %	*Balance* LBP Million	*Rate* %
Up to 50 million	7,066	88.64	40,316	8.01
Between 50 and 250 million	622	7.80	65,367	12.99
Between 250 and 750 million	150	1.88	67,800	13.48
Between 750 and 1,500 million	57	0.72	55,919	11.12
Between 1,500 and 4,000 million	61	0.77	142,719	28.37
Between 4,000 and 6,500 million	8	0.10	36,654	7.29
> 6,500 million	7	0.09	94,269	18.74
	7,971	100	503,044	100
Less: Unearned interest and provision for bad and doubtful debts and escrow account to cover shortage in provisions			(92,325)	
			410,719	

Loans and advances by economic sector as at December 31, 2006 are detailed as follows:

	Balance LBP Million
Agriculture	1,383
Manufacturing	81,951
Contracting and construction	25,284
Trading and services	102,444
Financial institutions	2,629
Individuals	158,814
Others	38,214
	410,719

Loans and advances include an amount of LBP12,774million (C/V in USD8,473,800) borrowed by customers and related parties against guaranteed structured products given as a security interest, which – at customers requests – were sold under repurchase agreement transaction amounting to LBP12,774million (C/V USD8,473,800) with a foreign bank and detailed as follows:

Borrower	*Amount* USD	*Interest Rate* %	*Structured Product in the form of Guarantee* USD	*Repurchase Agreement* USD	*Maturity*	*Interest Rate* %
Customers	5,649,482	6.07	8,000,000	6,454,800	January 2007	5.37
Related Parties	2,824,318	6.07	4,000,000	2,019,000	January 2007	5.37
	8,473,800		12,000,000	8,473,800		

Loans and advances include as at December 31, 2006 balances in the aggregate of approximately LBP77billion and LBP-53billion (LBP72billion, and zero as at December 31, 2005) are secured by cash collaterals and securities respectively (see Note 34). Advances in the aggregate of approximately LBP114billion (LBP126billion during 2005) are secured by real estate mortgages.

Discounted letters of credit represent the amount of import letters of credit in favor of the Bank's customers discounted and paid by the Bank and accordingly has the nature of advances to these customers.

The movement of unearned interest on bad and doubtful debts and substandard loans as of December 31, 2006 and 2005 is summarized as follows:

	2006 LBP'000	*2005* LBP'000
Balance - Beginning of year	46,999,730	38,805,938
Additions (net of write-back)	6,425,749	8,848,281
Difference in exchange	(269,379)	(654,489)
Balance - End of year	53,156,100	46,999,730

The movement of the provision for credit losses is summarized as follows:

	2006	*2005*
	LBP'000	**LBP'000**
Balance - Beginning of year	28,063,620	23,364,369
Additions	1,520,397	7,657,567
Transfer from provision for miscellaneous losses and contingencies	-	329,840
Write-off	(960,104)	(431,767)
Write-back	(307,171)	(1,765,225)
Difference in exchange	927,587	(1,091,164)
Balance - End of year	29,244,329	28,063,620

The movement of the provision for credit losses is summarized as follows:

	LBP'000
Provision for debts classified as doubtful	27,723,932
Provision for debts classified as substandard, subsequently classified as doubtful	1,520,397
	29,244,329

The present value of the expected future cash flows from doubtful debts approximates the net book value of these debts taking into consideration the escrow accounts to cover shortage in provision.

According to Decree No.83 of June 27, 1977, and as of January 1997, specific provisions set up by banks for bad and doubtful debts, before the bankruptcy of the related debtors is declared, are considered a deductible charge for tax purposes, provided the approval of the Banking Control Commission is obtained.

During 2000, as a result of the sale of shares by the Bank's previous shareholders to the current shareholders, the major previous shareholders holding "A" and "B" shares guaranteed the settlement of any additional provision required to be set up on the loans and advances classified as doubtful debts, principal and interest. Accordingly, an escrow account amounting to USD1,523,000 and LBP527million was deposited to cover any shortage in the said provisions. During 2005, the Banking Control Commission required that an additional provision for the amount of USD604,991 (C/V LBP912million) should be taken for one of the classified debts already covered partially by the initial deposit and thus, the approval of the old shareholders was taken and the escrow account was raised to cover the shortage in the provision by the required amount. This escrow account earns interest at a rate equivalent to the interest rate earned on banks one month time deposits with Central Bank of Lebanon.

In addition to the above, on June 14, 2002 and further to the agreement held between "First National Bank S.A.L." and one of its shareholders' "The National Company for Investments S.A.L." (the majority of its shares owned by the Bank's shareholders), an amount of USD3,000,000 (earning a 9.25% yearly interest rate during 2005 and 2004) was added to the escrow account to cover any shortage in the provision for doubtful debts based on the Banking Control Commission estimate. It should be noted that the amount became USD1,527,000 as at December 31, 2005.

During 2005, as per the requirement of the Banking Control Commission, the Bank provided for classified debts related to "Société Bancaire du Liban S.A.L." by the amount of USD670,000 (C/V LBP1,010million). This provision was transferred from the escrow accounts deposited by the previous shareholders of Société Bancaire du Liban S.A.L. under "Customers' deposits and other credit balances" to "Escrow account to cover shortage in provision" under "Loans and advances".

The movement of the escrow account is summarized as follows:

	2006 LBP'000	2005 LBP'000
Balance - Beginning of year	6,900,266	5,591,617
Balance transferred from the escrow accounts deposited by shareholders of Société Bancaire du Liban	-	1,010,025
Deposits increase	-	912,024
Interest	376,917	440,240
Withdrawals	(626,763)	-
Settlement of interest to "the National Company for Investments"	-	(222,403)
Settlement of doubtful debts	-	(227,825)
Deposits related to "the National Company for Investments" released and substituted with provision for credit losses	-	(603,412)
Balance - End of year	6,650,420	6,900,266

9. Customers' Acceptance Liability

This caption represents the liability to the Bank of its customers on outstanding drafts and bills of exchange which have been accepted by the Bank and/or other banks for its account. These acceptances relate to negotiated deferred payment import letters of credit. The commitments resulting from these acceptances are stated as a liability in the accompanying balance sheet and for the same amount.

10. Other Assets

This caption comprises the following:

	December 31,	
	2006 LBP'000	2005 LBP'000
Accrued interest receivable:		
Customers	1,696,731	3,595,078
Banks	2,334,919	952,741
Securities	17,786,048	42,140,288
Prepaid expenses	1,380,739	591,853
Deferred charges	123,451	362,095
Deposits	149,561	134,461
Stamps	31,256	26,978
Exchange on forward contracts	36,842	22,028
Deferred taxes on available for sale securities	1,713,975	-
Deferred taxes on derivate financial instruments	15,833	-
Deferred charges (Note 14)	4,539,513	5,692,000
Other debit balances	2,950,893	2,607,232
	32,759,761	56,124,754

11. Regulatory Blocked Fund

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

12. Assets Acquired in Satisfaction of Debts

The movement of assets acquired in satisfaction of debt as of December 31, 2006 and 2005 is summarized as follows:

	2006	*2005*
	LBP'000	**LBP'000**
Basic Amount:		
Balance, beginning of year	5,637,887	5,371,437
Sale	(372,767)	-
Additions	1,125,656	266,450
Balance, end of year	6,390,776	5,637,887
Provision for Impairment:		
Balance, beginning of year	(55,883)	(55,883)
Balance, end of year	(55,883)	(55,883)
Net balance - end of year	6,334,893	5,582,004

Acquisition of assets in satisfaction of debts should be liquidated as per Central Bank of Lebanon Circular No.78, within two years as from the date of approval of Central Bank of Lebanon to acquire these properties. In case of default of liquidation, such properties are required by banking regulation to be provided for over a period of five years, starting as from two years following acquisition date. The Bank did not amortize these assets as required by local regulation, even though this is not pursued as being a departure from International Financial Reporting Standards.

13. Property and Equipment

The movement of property and equipment during 2006 and 2005 was as follows:

	December 31, 2006			
	Balance at December 31, 2005	*Additions transfer from Advance Payments*	*Retirements*	*Balance at December 31, 2006*
	LBP'000	**LBP'000**	**LBP'000**	**LBP'000**
Cost/Revaluation:				
Real estate properties	13,357,338	-	-	13,357,338
Furniture, equipment and computer	11,430,143	2,018,544	(252,172)	13,196,515
Vehicles	347,630	-	(20,529)	327,101
Office improvements and Installations	4,759,874	593,094	-	5,352,968
	29,894,985	2,611,638	(272,701)	32,233,922
Accumulated Depreciation:				
Real estate properties	(1,204,428)	(330,104)	-	(1,534,532)
Furniture, equipment and computer	(5,711,158)	(1,214,839)	206,996	(6,719,001)
Vehicles	(160,857)	(17,082)	840	(177,099)
Offices improvements and Installations	(2,113,002)	(347,746)	-	(2,460,748)
	(9,189,445)	(1,909,771)	207,836	(10,891,380)
Net Book Value	20,705,540			21,342,542
Advance payments	314,156			840,660
	21,019,696			22,183,202

	December 31, 2005			
	Balance at December 31, 2004	*Additions transfer from Advance Payments*	*Retirements*	*Balance at December 31, 2005*
	LBP'000	**LBP'000**	**LBP'000**	**LBP'000**
Cost/Revaluation:				
Real estate properties	12,764,714	592,624	-	13,357,338
Furniture, equipment and computer	10,428,569	1,095,366	(93,792)	11,430,143
Vehicles	352,544	-	(4,914)	347,630
Office improvements and Installations	4,326,004	433,870	-	4,759,874
	27,871,831	2,121,860	(98,706)	29,894,985
Accumulated Depreciation:				
Real estate properties	(888,239)	(316,189)	-	(1,204,428)
Furniture, equipment and computer	(4,703,183)	(1,046,610)	38,635	(5,711,158)
Vehicles	(128,999)	(36,772)	4,914	(160,857)
Offices improvements and Installations	(1,605,918)	(507,084)	-	(2,113,002)
	(7,326,339)	(1,906,655)	43,549	(9,189,445)
Net Book Value	20,545,492			20,705,540
Advance payments	1,216,185			314,156
	21,761,677			21,019,696

"Real estate properties" include an amount of LBP6,292million being the value of plot No.147 "Allenby" that was transferred from Société Bancaire du Liban S.A.L." due to the merger with the latter. This plot was adjusted during 2002 by an amount of LBP6.27billion being the fair value adjustment applied against "Intangible Assets" account (Refer to Note 14). Additions to this account represent payments to rehabilitate "Allenby" building.

14. Intangible Assets

At year end, the Bank's management reassessed the substance of the outstanding intangible assets balance amounting to LBP6,732million and identified a balance of LBP2,400million being the goodwill paid originally upon the acquisition of Société Bancaire du Liban S.A.L. (SBL), which is subject to impairment testing at each reporting date. Below is the movement of deferred charges and goodwill balances since inception:

	Deferred Charges	*Goodwill*	*Total*
	LBP'000	**LBP'000**	**LBP'000**
Cost:			
Excess of acquisition cost over the acquired assets and liabilities of SBL	11,219,688	-	11,219,688
Less:			
Impairment losses for:			
2003	(1,121,201)	-	(1,121,201)
2004	(1,124,272)	-	(1,124,272)
2005	(1,121,201)	-	(1,121,201)
2006	(1,121,201)	-	(1,121,201)
Identified goodwill	(2,400,000)	2,400,000	-
	4,331,813	2,400,000	6,731,813

Deferred charges will be amortized over the life of the soft loan against the net present value of the net future interest differential earned (being the net of the interest earned on the mortgaged treasury bills against the interest paid on the soft loan).

Intangible assets include also an amount of LBP208million representing net key money of the branches and other costs detailed as follows:

	Balance at December 31, 2005	*Additions*	*Balance at December 31, 2006*
	LBP'000	**LBP'000**	**LBP'000**
Historical cost:			
Establishment cost	824,410	-	824,410
Key money	431,490	-	431,490
	1,255,900	-	1,255,900
Accumulated Depreciation:			
Establishment cost	(823,160)	(986)	(824,146)
Key money	(193,754)	(30,300)	(224,054)
	(1,016,914)	(31,286)	(1,048,200)
Net Book Value	238,986		207,700

15. Banks and Financial Institutions - Demand Deposits

Demand deposits comprises the following:

	December 31, 2006		
	LBP'000	*Fcy* in LBP'000	*Total* LBP'000
Resident banks and financial institutions	238,345	4,067,481	4,305,826
Non-resident banks:			
Central Bank - Arab Country	-	1,565,372	1,565,372
Non-resident bank - Arab Country	-	2,439,375	2,439,375
Other non-resident banks	-	2,527,566	2,527,566
	-	6,532,313	6,532,313
	238,345	10,599,794	10,838,139

	December 31, 2005		
	LBP'000	*Fcy* in LBP'000	*Total* LBP'000
Resident banks	73,085	374,154	447,239
Non-resident banks:			
Central Bank - Arab Country	-	1,572,482	1,572,482
Other non-resident banks	-	2,879,874	2,879,874
	-	4,452,356	4,452,356
	73,085	4,826,510	4,899,595

16. Banks and Financial Institutions - Short Term Deposits

Term deposits comprises the following:

	December 31, 2006		
	LBP'000	*Fcy* in LBP'000	*Total* LBP'000
Local banks and financial institutions	13,119,213	32,114,726	45,233,939
Foreign banks	-	107,678,488	107,678,488
	13,119,213	139,793,214	152,912,427

The above term deposits mature during the first half of 2007.

	December 31, 2005		
		Fcy	*Total*
	LBP'000	**in LBP'000**	**LBP'000**
Local banks	11,318,234	21,688,488	33,006,722
Foreign banks	-	70,533,930	70,533,930
	11,318,234	92,222,418	103,540,652

17. Liabilities Under Repurchase Agreements

A. Repurchase Agreement contract with a local bank maturing on July 12, 2008 in the amount of USD20,000,000 bearing an interest rate of 7.36% against pledged Lebanese Eurobonds with a nominal value of USD29,000,000 detailed as follows:

Lebanese Eurobonds Nominal Value	*Maturity*	*Financial Statements Classification*
USD		
10,000,000	June, 2008	Held-to-maturity
12,000,000	August, 2008	Held-to-maturity
7,000,000	October, 2009	Held-to-maturity
29,000,000		

B. Repurchase Agreement contract with a non-resident bank maturing on December 30, 2010 in the amount of LBP30,150million (C/V USD20,000,000) bearing an interest rate of 6.54% against pledged Lebanese Eurobonds with a nominal value of USD38,000,000 detailed as follows:

Lebanese Eurobonds Nominal Value	*Maturity*	*Financial Statements Classification*
USD		
11,000,000	March, 2010	Held-to-maturity
8,000,000	September, 2012	Held-to-maturity
5,000,000	June, 2013	Held-to-maturity
14,000,000	May, 2016	Held-to-maturity
38,000,000		

C. Repurchase Agreement contract with a non-resident bank maturing on March 20, 2011 in the amount of LBP45,225million (C/V USD30,000,000) bearing an interest rate of 6.68% against debt securities with a nominal value of USD65,000,000 detailed as follows:

Lebanese Eurobonds Nominal Value	*Maturity*	*Financial Statements Classification*
USD		
10,000,000	July, 2010	Held-to-maturity
20,000,000	August, 2010	Held-to-maturity
15,000,000	August, 2015	Held-to-maturity
20,000,000	June, 2016	Available-for-sale
65,000,000		

D. Repurchase Agreement contract with a non-resident bank maturing on January 11, 2007 in the amount of LBP6,596million (C/V USD4,375,584) bearing an interest rate of 5.4% against pledged debt securities issued by non-resident bank with a fair value of USD4,642,280 as at December 31, 2006 and classified under available-for-sale securities and maturing on February 2014.

E. Repurchase Agreement contract with a non-resident bank maturing on January 12, 2007 in the amount of LBP11,607million (C/V USD7,699,488) bearing an interest rate of 5.5% against pledged debt securities issued by non-resident bank with a fair value of USD10,000,000 as at December 31, 2006 and classified under available-for-sale securities and maturing on December 31, 2015.

18. Accounts Payable and Miscellaneous Creditors

This caption is composed of the following:

	December 31,	
	2006	*2005*
	LBP'000	**LBP'000**
Margin on letters of credit	11,499,643	49,219,126
Margin on letters of guarantee	8,003,776	8,062,191
Withheld taxes	1,120,126	662,304
Other taxes	44,401	-
Accrued income tax	-	940,353
Social Security National Fund	149,697	127,370
Checks and orders to be paid	4,800,608	2,302,957
Sundry credit balances	1,169,735	1,559,286
	26,787,986	62,873,587

Margins on letters of credit as at December 31, 2006 include an amount of LBP8,828million (LBP46,854million as at December 31, 2005) representing 100% margin against letters of credit to a non-resident public sector (Refer to Note 32).

Accrued income tax as of December 31, 2006 is shown in the balance sheet after deduction of the prepaid tax of LBP3,161million on interest earned by the Bank on financial instruments (LBP582million withheld during 2005).

Accrued Income tax is calculated as follows:

	2006		2005	
	LBP'000	%	LBP'000	%
Income before taxes	12,201,283		9,025,524	
Income tax at the rate of 15% for the years 2006 and 2005	1,830,192	15.00	1,377,722	15.00
Tax effect on non-deductible expenses for tax purposes	1,330,653	10.91	144,342	1.63
Income tax expense and effective tax rate	3,160,845	25.91	1,522,064	16.63
Less: taxes paid during the year in the form of withholding tax	(3,160,845)		(581,711)	
	-		940,353	

The tax returns for fiscal years 2003 through 2006 are still subject to examination and final tax assessment by the tax authorities. The Bank's management does not anticipate any material additional tax liability as a result of the expected tax review.

19. Customers' Deposits and Other Credit Balances

Customers' deposits include coded accounts stated at LBP41,6billion as at December 31, 2006 (LBP24billion as at December 31, 2005). These accounts are subject to the provisions of Article 3 of the Banking Secrecy Law dated September 3, 1956. Under the provisions of this article, the Bank's Management cannot reveal the identities of the depositors to third parties, including its independent auditors.

The average balances of deposits (including related party accounts in the range of 7% of total deposits) and related cost of funds over the last four years were as follows:

Year	*Average Balance of deposits*	*Allocation of Deposits LBP*	*Fcy*	*Cost of Funds*	*Average Interest Rate*
	LBP'000	%	%	LBP'000	%
2006	1,384,287,680	28	72	82,770,479	5.98
2005	1,249,169,164	28	72	74,849,381	5.99
2004	1,110,283,824	39	61	68,837,752	6.20
2003	947,648,784	37	63	64,500,541	6.81

Customers' deposits are composed of short term deposits, and reflect some concentration in the distribution of deposits among account holders.

Customers' deposits include an escrow account transferred from Société Bancaire du Liban S.A.L. at the merger date, and representing a pledged account deposited by the previous shareholders of Société Bancaire du Liban S.A.L. to cover any shortage in the transferred provision for bad and doubtful debts accounts or those accounts that need to be classified at the merger date. The balance of this deposit as at December 31, 2006 amounted to USD877,000 equivalent to LBP1,322million (USD1,307,000 as at end of year 2005) after a transfer of USD670,000 to "Escrow account to cover shortage in provisions" under "Loans and advances" as per Banking Control Commission requirements to provide for accounts already classified in Société Bancaire du Liban S.A.L.. This escrow account earns interest at the rate of 7.70% during 2006 (7.82% during 2005). Interest expense during 2006 amounted to LBP128million and is included in the statement of income (LBP204million during 2005).

20. Regularization Accounts and Other Liabilities

This caption comprises the following:

	December 31, 2006 LBP'000	December 31, 2005 LBP'000
Accrued interest payable	16,421,050	13,966,740
Accrued expenses	1,871,122	1,637,882
Deferred Income	252,255	1,423,614
Derivative financial instruments	105,551	-
Provision for early redemption (Note 6B)	33,641	51,277
	18,683,619	17,079,513

Derivative financial instruments represent the negative fair value of the interest rate swap transaction outstanding between the Bank and a non-resident bank (Refer to Note 36)

Accrued interest payable consists of the following:

	December 31, 2006 LBP'000	December 31, 2005 LBP'000
Customer deposits	10,697,653	9,272,460
Soft Loan	10,747	404,204
Certificates of deposit	2,231,152	2,231,152
Banks	3,481,498	2,058,924
	16,421,050	13,966,740

21. Certificates of Deposit

On January 26, 2004, the Bank issued certificates of deposit in the amount of USD50,000,000 bearing a 6.875% interest rate and maturing on January 25, 2007 as a part of the overall original program in the amount of USD150,000,000. The amount of the certificates of deposit is adjusted by the amount of the discount generated as a result of the issuance process and this discount is being amortized in the statement of income as an adjustment to interest expense. The certificates of deposit comprises the following:

	USD	*C/V in* LBP'000
Nominal value	50,000,000	75,375,000
Less: Discount	(10,912)	(16,450)
Carrying amount	49,989,088	75,358,550

Accrued interest payable on certificates of deposit as of December 31, 2006 and 2005 amounted to LBP2,231million and is reflected under "Regularization account and other liabilities".

22. Soft Loan from Central Bank of Lebanon

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

	2006	2005
Soft loan amount	LBP44.84billion	LBP44.84billion
Maturity date	January 22, 2011	January 22, 2011
Settlement in one lump sum on maturity		
Average interest rate applied on loan during the year	4.314%	3.765%
Interest expense on the loan for the year ended December 31	LBP1.88billion	LBP1.74billion
Security (Note 6A)	Lebanese Treasury Bills	Lebanese Treasury Bills
Security nominal amount (Note 6A)	LBP48.30billion	LBP47.83billion
Unearned interest on one year mortgaged treasury bills at December 31	LBP162million	LBP148million
Average interest rate applied on mortgaged treasury bills during the year	7.19%	6.27%
Interest income on mortgaged treasury bills for the year ended December 31	LBP3.47billion	LBP3.08billion

23. Short-Term Borrowings

This caption comprises the following:

	2006 LBP'000	*2005* LBP'000
Credit facility	32,697,675	26,170,200
Revolving credit facility	12,774,254	-
Arab Trade Finance Program credit facility (ATFP)	1,357,729	3,942,504
European Investment Bank (EIB)	2,818,267	741,047
	49,647,925	30,853,751

The credit facility represents revolving facilities from a foreign bank valid till September 2016. This facility is granted according to a leverage agreement to finance customers against collateralized structured products issued by foreign banks and which fair value amounts to USD53million as of the balance sheet date. These securities are reflected under fiduciary assets (see Note 34).

Revolving credit facility represents a form of a repurchase agreement transaction entered with a foreign bank and channeled through a back-to-back transaction with customers and related parties detailed in (Note 8).

ATFP term borrowing represents withdrawals from the Arab Trade Finance Program. This credit facility has a limit to the extent of USD3.5million granted to the Bank with debit interest rates and maturing in the following year. These facilities could be utilized by the Bank to finance imports and exports among Arab countries.

EIB loan amounted to USD1,869,497 as at December 31, 2006 (LBP741million equivalent to USD491,574 as at December 31, 2005) represent a loan managed by Central Bank of Lebanon and financed by European Investment Bank. This loan is committed to finance updated projects of the industrial system and is settled with the accrued interest by eight equal annual installments starting November 30, 2005. This loan is according to the finance agreement signed in Beirut on December 14, 1999 and in Luxembourg on December 17, 1999 between the European Investment Bank and the Lebanese Republic within the framework of the European-Mediterranean partnership program. This loan was granted to one of the Bank's clients with the consent of the European Investing Bank.

24. Provision for Losses and Contingencies

This caption comprises the following:

	December 31,	
	2006	*2005*
	LBP'000	**LBP'000**
Provision for staff end-of-service indemnities	2,231,595	1,473,344
Provision for foreign currency fluctuations	10,106	3,034
Provision for miscellaneous losses and contingencies	226,681	794,124
	2,468,382	2,270,502

Provision for staff end-of-service indemnities during 2006 and 2005 is summarized as follows:

	2006	*2005*
	LBP'000	**LBP'000**
Balances, January 1	1,473,344	846,357
Additions during the year (net)	944,182	673,261
Settlements	(185,931)	(46,274)
Balance, December 31	2,231,595	1,473,344

Provision for miscellaneous losses and contingencies during 2006 and 2005 is summarized as follows:

	2006	*2005*
	LBP'000	**LBP'000**
Balances, January 1	794,124	1,369,706
Balances transferred to provision for credit losses	-	(329,840)
Additions during the year	-	51,155
Settlements	(567,443)	(296,987)
Balance, December 31	226,681	794,124

25. Capital

The Bank's capital as of December 31, 2005 consisted of 3,000,000 shares of LBP10,000 par value each, issued and fully paid.

During 2006 and according to the decision taken during the extraordinary general assembly meeting held on December 26, 2006, the Bank's capital was increased from LBP30billion to LBP40.6billion, through an increase of LBP10.6billion by issuing 1.06million nominative shares of LBP10,000 par value each as follows:

(a) Transfer of an amount of LBP8.9billion from the retained earnings and LBP1.6billion from reserves against the issuance of 1,060,000 shares to be distributed proportionally to shareholders, each according to his percentage of ownership.

During 2007 and according to the decision taken during the extraordinary general assembly meeting held on December 26, 2006, the second and third phases from the capital increase took place through the issuance of 5,940,000 nominative shares of LBP10,000 par value each in an aggregate increase of LBP59.4billion as follows:

(a) Existing shareholders by the amount of LBP33.9billion against the issuance of 3,390,000 nominative shares of LBP10,000 par value each proportionally to their percentage of ownership, mainly funded by transfer from retained earnings and reserves.

(b) New shareholders cash subscription by the amount of LBP25.5billion against the issuance of 2,550,000 nominative shares of LBP10,000 par value each, in addition to a share premium of USD11,475,000. Invest bank in the UAE has subscribed to 1,800,000 shares out of this series of capital increase.

The Bank's risk base capital ratio as at December 31, 2006 amounted to 15.18% (12.61% as of December 31, 2005) computed as follows:

	December 31,	
	2006	*2005*
	LBP'000	**LBP'000**
Assets and off-balance sheet weighted risk	659,651,700	542,074,500
Tier I	100,108,000	68,350,000
Risk base capital ratio	15.18%	12.61%

At the end of 2006, and for the purpose of computing the risk base capital ratio, the total amount of Capital increase amounting to LL70billion was included in the computation of Tier I capital.

26. Reserves

Legal reserve is set up at 10% of annual net income in accordance with the requirements of the Money and Credit Law and as stipulated in the Bank's bylaws. This reserve is not available for distribution.

Other reserves represent provisions for doubtful debts written back amounting to approximately LBP24million as at December 31, 2005, transferred to other reserves according to circular Number 16 of the Banking Control Commission.

In accordance with local banking laws, reserve for unidentified general banking risk is set up on a yearly basis from the Bank's net income representing a minimum of 2 per mil and a maximum of 3 per mil of the total risk weighted average as in computation of capital ratio. This reserve is composed of Lebanese Pounds and foreign currencies in proportion with the balance sheet weighted balances. This reserve is not available for distribution.

27. Cumulative Change in Fair Value of Available-for-Sale Securities

This caption comprises the following:

	December 31,	
	2006	*2005*
	LBP'000	**LBP'000**
Change in fair value of:		
_ Securities purchased and originally classified as available-for-sale - Foreign Currency and LBP (Note 7)	(11,277,696)	3,305,594
_ Securities originally classified as available-for-sale and transferred during 2004 to held-to-maturity portfolio (USD) - Refer to Note 7	573,226	855,280
_ Securities originally classified as available-for-sale and transferred during 2004 to the held-to-maturity portfolio (Euro) - Refer to Note 7	-	34,603
_ Less: Deferred taxes	1,691,654	(629,321)
	(9,012,816)	3,566,156

28. Unrealized Loss on Interest Rate Swap Transactions

This caption includes the following:

	December 31,	
	2006	*2005*
	LBP'000	**LBP'000**
Fair Value - Interest rate swap	(105,551)	-
Less: Deferred tax (Note 10)	15,833	-
	(89,718)	-

29. Commissions, Fees and Other Revenues, Net

This caption comprises the following:

	Year Ended December 31,	
		(Restated)
	2006	*2005*
	LBP'000	**LBP'000**
Revenues from trading in securites (LBP and foreign currencies)	7,986,264	5,810,544
Commissions on letters of credit	213,318	1,981,972
Commissions on letters of guarantee	1,119,431	751,092
Other commissions	3,764,369	1,726,169
Other (expenses)/revenues	(1,195,217)	1,452,798
	11,888,165	11,722,575

Other revenues include an amount of LBP447million as at December 31, 2006 (LBP835million as at December 31, 2005) which represents dividends received from investments in preferred shares and investments funds.

30. General Operating Expenses

This caption comprises the following:

	Year Ended December 31,	
	2006	*2005*
	LBP'000	**LBP'000**
Rent and premises services expenses	1,522,943	1,454,230
Office and computer expenses	1,280,052	1,281,157
Management and legal consultation expenses	3,236,789	1,981,952
Electricity and water expenses	386,877	330,149
Advertizing expenses	597,046	387,123
Insurance and medical expenses	86,554	161,904
Travelling expenses	214,744	254,046
Amortized certificates of deposit charges	-	291,825
Taxes	843,251	460,191
Maintenance	337,568	314,270
Subscriptions	872,795	660,385
Other expenses	1,296,008	888,564
	10,674,627	8,465,796

31. Statement of Cash Flows

For the purpose of cash flow statement, cash and cash equivalent comprises the following:

	Compulsory Reserve - Cash	*Cash and Banks*	*Total*
	LBP'000	**LBP'000**	**LBP'000**
Cash and cash equivalent - Beginning of year	48,529,706	33,986,614	82,516,320
Cash and cash equivalent - End of year	77,411,687	33,253,756	110,665,443

32. Financial Instruments with Off-Balance Sheet Risks

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

33. Documentary and Commercial Letters of Credit

This caption include as at December 31, 2006 an amount of USD4,757,593 (equivalent to LBP7,172million) which represents letters of credit issued in favor of non-resident public sector entity and the total amount of these letters of credit are covered by a cash margin (USD13,709,186 equivalent to LBP20,667million as at December 31, 2005).

34. Fiduciary Accounts

Fiduciary accounts are invested at the discretion of the account holders. When entering into the fiduciary agreement, the account holder assumes the risk of the underlying invested asset, these deposits have no claims in the Bank's assets. Below is the break down by type of the invested assets:

	2006
	LBP'000
Debt securities	161,047,777
Equity securities	57,011,031
	218,058,808

Debt securities are pledged to the extent of LBP53billion against loans and advances to customers referred to in Note 8 above, and subject to a back to back guarantee against revolving credit facilities discussed in Note 23 above.

35. Balances/Transactions with Related Parties

In its normal course of business, the Bank conducts transactions with related parties including shareholders and directors. Balances with related parties as of December 31, 2006 and 2005 were as follows:

	2006	*2005*
	LBP'000	**LBP'000**
Loans and advances to shareholders and related parties	33,999,201	33,584,276
Deposits from shareholders and related parties	96,168,377	90,917,737
Indirect facilities	22,760,712	23,942,910

The remuneration of board members and other key members of management amounted to LBP1,388 million in 2006, (LBP1,341million in 2005).

36. Interest Rate Swap

Interest rate swap outstanding as at December 31, 2006, represents the transaction engaged on April 12, 2006 between the Bank and a non-resident bank, during which First National Bank (FNB) exchanges a stream of fixed interest rate of 5.875% of Lebanese Government Eurobonds for a stream of variable interest of yearly Euribor rate plus 1.8% detailed as follows:

Derivative Instrument	*Amount*	*Currency*	*Coupon fixed interest*	*Maturity*	*Classification*
Eurobonds	10,000,000	EURO	5.875%	April 2012	Available-for-Sale

37. Subsequent Event

During the first quarter of 2007, the Central Bank approved the acquisition by the Bank of 58.96% of Middle East Capital Group Limited (Guernsey) capital representing 164,500 shares out of 279,000 nominative shares of USD1 par value each as per the Ordinary General Assembly meeting held on January 26, 2007 for a total consideration of USD11,658,000.

In addition, the Bank increased its subscription in Syria Gulf Bank's capital further to its increase from SYP1.5billion to SYP-3billion as per the Board of Directors meeting held on January 26, 2007.

38. Financial Instruments and Risk Management

A. Fair Value of Financial Instruments

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Consequently differences can arise between carrying values and fair value estimates.

The on-balance sheet financial instruments are reflected in the financial statements according to their classifications, in accordance with IAS 39. The held-for-trading and available-for-sale securities are reflected at their fair value except for the investment cost related to the related non-resident bank. The investments held to maturity are carried at cost and adjusted for non-temporary decline in value and/or impairment loss. The fair value of these instruments is disclosed in the respective notes to the financial statements.

B. Credit Risk

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

Concentrations of credit risk arise when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

The Bank manages its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific business segments and/or locations. It also takes security as deemed appropriate.

The risk of the debt instruments included in the investment portfolio relates mainly to sovereign risk. For details of the composition of the loans and advances refer to Note 7.

C. Market Risk

The market risk includes, among other things, the currency risk and the interest rate risk:

Currency Risk:

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

Currency risk exposure is detailed herebelow under "Allocation of assets and liabilities among major currencies".

Allocation of Assets and Liabilities Among Major Currencies

	December 31, 2006	
	Lebanese Pounds	*US Dollars C/V LBP*
	LBP'000	**LBP'000**
ASSETS		
Cash compulsory reserves	77,411,687	-
Cash and due from banks	7,453,208	17,602,891
Placements with banks and financial institutions	24,200,000	448,086,329
Securities:		
Trading	-	44,056,698
Available-for-sale	13,226,031	276,814,059
Held-to-maturity	322,312,642	293,985,458
Loans and advances	58,140,554	336,067,960
Customers' acceptance liability	-	2,584,029
Other Assets	13,871,549	17,483,356
Assets Acquired in satisfaction of debts	-	6,334,893
Property, plant and equipment	22,183,202	-
Regulatory blocked fund	1,500,000	-
Goodwill	2,400,000	-
Total Assets	542,698,873	1,443,015,673
LIABILITIES		
Banks and Financial Institutions:		
Demand deposits	238,345	9,745,137
Short-term deposits	13,119,213	131,521,154
Securities sold under repurchase agreement	-	123,728,173
Short-term borrowing	-	49,647,925
	13,357,558	314,642,389
Customers' deposits and other credit balances:		
Demand deposits	35,232,798	72,820,003
Related Party deposits	37,946,800	52,555,109
Term deposits	116,802,718	173,533,346
Saving account	229,806,632	662,228,785
Blocked deposits for Capital increase	-	48,934,410
	419,788,948	1,010,071,653
Accounts payable and miscellaneous creditors	5,594,375	20,086,757
Outstanding acceptances	-	2,584,029
Regularization accounts and other liabilities	4,700,265	13,543,485
Certificates of deposit	-	75,358,550
Soft Loan from Central Bank of Lebanon	44,840,000	-
Provision for losses and contingencies	2,468,382	-
	57,603,022	111,572,821
Net Assets	51,949,345	6,728,810
Forward exchange contract receivable	251,384	21,426,478
Forward exchange contract payable	-	(12,325,937)
Net currency exposure	251,384	9,100,541

December 31, 2006		
Euro C/V LBP	*Other Fcy C/V LBP.*	*Total*
LBP'000	**LBP'000**	**LBP'000**
-	-	77,411,687
2,539,611	5,658,046	33,253,756
4,770,194	11,771,784	488,828,307
29,361	368,857	44,454,916
19,349,120	-	309,389,210
9,259,326	-	625,557,426
12,835,893	3,674,896	410,719,303
903,037	-	3,487,066
1,396,406	8,450	32,759,761
-	-	6,334,893
-	-	22,183,202
-	-	1,500,000
-	-	2,400,000
51,082,948	21,482,033	2,058,279,527
843,951	10,706	10,838,139
8,272,060	-	152,912,427
-	-	123,728,173
-	-	49,647,925
9,116,011	10,706	337,126,664
3,548,691	878,708	112,480,200
5,379,095	287,373	96,168,377
3,540,148	3,453,558	297,329,770
18,229,504	12,538,506	922,803,427
-	-	48,934,410
30,697,438	17,158,145	1,477,716,184
986,926	119,928	26,787,986
903,037	-	3,487,066
313,644	126,225	18,683,619
-	-	75,358,550
-	-	44,840,000
-	-	2,468,382
2,203,607	246,153	171,625,603
9,065,892	4,067,029	71,811,076
7,732,959	4,374,619	33,785,440
(17,052,166)	(4,370,495)	(33,748,598)
(9,319,207)	4,124	36,842

	December 31, 2005	
	Lebanese Pounds	*US Dollars C/V LBP*
	LBP'000	**LBP'000**
ASSETS		
Cash compulsory reserves	48,529,706	-
Cash and due from banks	7,307,277	19,785,717
Placements with banks and financial institutions	2,765,298	273,035,130
Securities:		
Trading	-	11,019,330
Available-for-sale	34,167	238,820,468
Held-to-maturity	330,822,351	383,408,149
Loans and advances	50,834,373	289,979,552
Customers' acceptance liability	-	4,709,625
Other assets	36,565,481	18,727,201
Assets acquired in satisfaction of debts	-	5,582,004
Property, plant and equipment	21,019,696	-
Regulatory blocked funds	1,500,000	-
Goodwill	2,400,000	-
Total Assets	501,778,349	1,245,067,176
LIABILITIES		
Banks and financial institutions:		
Demand deposits	73,085	4,246,578
Term deposits	11,318,234	87,135,979
Securities sold under repurchase agreement	-	79,605,221
Short-term borrowings	-	30,853,751
Customers' deposits and credit balances	387,716,249	867,633,927
Accounts payable and miscellaneous creditors	4,755,023	57,563,606
Outstanding acceptances	-	4,709,625
Regularization accounts and other liabilities	6,129,174	10,827,935
Certificates of deposit	-	75,356,177
Soft loan from Central Bank of Lebanon	44,840,000	-
Provision for losses and contingencies	2,270,502	-
	457,102,267	1,217,932,799
Net Assets	44,676,082	27,134,377
Forward exchange contract receivable	450,925	13,104,753
Forward exchange contract payable	-	(10,963,589)
Net currency exposure	450,925	2,141,164

December 31, 2005		
Euro C/V LBP	*Other Fcy C/V LBP.*	*Total*
LBP'000	**LBP'000**	**LBP'000**
-	-	48,529,706
3,285,841	3,607,779	33,986,614
1,784,130	5,887,005	283,471,563
696,999	168,163	11,884,492
-	-	238,854,635
26,268,250	-	740,498,750
7,836,100	2,554,277	351,204,302
850,249	-	5,559,874
824,185	7,887	56,124,754
-	-	5,582,004
-	-	21,019,696
-	-	1,500,000
-	-	2,400,000
41,545,754	12,225,111	1,800,616,390
579,932	-	4,899,595
5,086,439	-	103,540,652
-	-	79,605,221
-	-	30,853,751
32,135,714	10,812,300	1,298,298,190
509,598	45,360	62,873,587
850,249	-	5,559,874
74,524	47,880	17,079,513
-	-	75,356,177
-	-	44,840,000
-	-	2,270,502
39,236,456	10,905,540	1,725,177,062
2,309,298	1,319,571	75,439,328
9,796,085	706,349	24,058,112
(12,009,618)	(1,062,877)	(24,036,084)
(2,213,533)	(356,528)	22,028

Interest Rate Risk:

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or re-price in a given period. The Bank manages this risk by matching the re-pricing of assets and liabilities through risk management strategies regularly reviewed by the assets and liabilities committee. As shown in the distribution of assets and liabilities by maturity and type of interest, the financial statements structure in Lebanese pounds and foreign currencies shows a variance in distribution of the source and use of funds between fixed interest rates and floating interest rates.

The assets and liabilities of the Bank as at December 31, 2006 are segregated between Lebanese Pounds and foreign currencies in terms of fixed and floating interest rates as follows:

The assets and liabilities in Lebanese Pounds as at December 31, 2006 are segregated as follows between fixed interest and floating interest:

		Fixed Interest		
	Non-Interest Earning/ Bearing	*Up to 1 Year*	*More than 1 Year Less than 3 Years*	*More than 3 Years Less than 5 Years*
	LBP'000	**LBP'000**	**LBP'000**	**LBP'000**
ASSETS				
Compulsory Reserves	77,411,687	-	-	-
Cash and due from banks	7,453,208	-	-	-
Interest earning deposits with banks	-	-	-	-
Held-for-trading	-	-	-	-
Available-for-sale	6,726,031	-	-	-
Held-to-maturity	-	316,369,915	-	-
Loans and advances to customers	1,878,000	12,330,781	4,303,000	244,000
Customers' acceptance liability	-	-	-	-
Other Assets	13,871,551	-	-	-
Assets acquired in satisfaction of debts	-	-	-	-
Property and Equipment	22,183,202	-	-	-
Regulatory blocked fund	1,500,000	-	-	-
Intangible assets	2,400,000	-	-	-
	133,423,677	328,700,696	4,303,000	244,000
LIABILITIES				
Banks and financial institutions	13,164	225,181	-	-
Customers' deposits and other credit balances	32,631,903	-	-	-
Accounts payable and miscellaneous creditors	3,152,963	2,441,412	-	-
Outstanding acceptances	-	-	-	-
Regularization accounts and other liabilities	4,694,487	5,778	-	-
Certificates of deposits	-	-	-	-
Soft Loan from Central Bank of Lebanon	-	-	-	-
Provision for losses and contingencies	2,468,382	-	-	-
	42,960,899	2,672,371	-	-
Net Assets	90,462,777	326,028,325	4,303,000	244,000

	Fixed Interest		Floating Interest					
	More than 5 Years	*Total*	*Up to 1 Year*	*More than 1 Year Less than 3 Years*	*More than 3 Years Less than 5 Years*	*More than 5 Years*	*Total*	*Grand Total*
	LBP'000	**LBP'000**	**LBP'000**	**LBP'000**	**LBP'000**	**LBP'000**	**LBP'000**	**LBP'000**
	-	-	-	-	-	-	-	77,411,687
	-	-	-	-	-	-	-	7,453,208
	-	-	24,200,000	-	-	-	24,200,000	24,200,000
	-	-	-	-	-	-	-	-
	-	-	-	6,500,000	-	-	6,500,000	13,226,031
	-	316,369,915	5,942,729	-	-	-	5,942,729	322,312,642
	-	16,877,781	11,991,219	1,843,000	1,914,000	23,636,554	39,384,773	58,140,554
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	13,871,551
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	22,183,202
	-	-	-	-	-	-	-	1,500,000
	-	-	-	-	-	-	-	2,400,000
	-	333,247,696	42,133,948	8,343,000	1,914,000	23,636,554	76,027,500	542,698,873
	-	225,181	13,119,213	-	-	-	13,119,213	13,357,558
	-	-	387,157,044	-	-	-	387,157,044	419,788,948
	-	2,441,412	-	-	-	-	-	5,594,375
	-	-	-	-	-	-	-	-
	-	5,778	-	-	-	-	-	4,700,265
	-	-	-	-	-	-	-	-
	-	-	-	-	44,840,000	-	44,840,000	44,840,000
	-	-	-	-	-	-	-	2,468,382
	-	2,672,371	400,276,257	-	44,840,000	-	445,116,257	490,749,528
	-	330,575,325	(358,142,311)	8,343,000	(42,926,000)	23,636,554	(369,088,757)	51,949,345

The assets and liabilities in Foreign Currencies as at December 31, 2006 are segregated as follows between fixed interest and floating interest:

		Fixed Interest		
	Non-Interest Earning/ Bearing	*Up to 1 Year*	*More than 1 Year Less than 3 Years*	*More than 3 Years Less than 5 Years*
	LBP'000	**LBP'000**	**LBP'000**	**LBP'000**
ASSETS				
Compulsory Reserves	-	-	-	-
Cash and due from banks	25,800,548	-	-	-
Interest earning deposits with banks	-	-	-	-
Held-for-trading	7,077,578	7,909,836	4,928,018	9,881,663
Available-for-sale	25,802,502	-	-	-
Held-to-maturity	11,164,599	-	-	-
Loans and advances to customers	1,061,599	17,941,669	9,159,129	4,867,299
Customers' acceptance liability	3,487,066	-	-	-
Other Assets	18,888,212	-	-	-
Assets acquired in satisfaction of debts	6,334,893	-	-	-
Property and Equipment	-	-	-	-
Regulatory blocked fund	-	-	-	-
Intangible assets	-	-	-	-
	99,616,996	25,851,505	14,087,147	14,748,962
LIABILITIES				
Banks and financial institutions	3,511,014	7,078,389	-	-
Customers' deposits and other credit balances	24,007,014	-	-	-
Accounts payable and miscellaneous creditors	15,838,436	5,355,174	-	-
Outstanding acceptances	3,487,066	-	-	-
Regularization accounts and other liabilities	13,185,589	797,765	-	-
Certificates of deposits	-	-	-	-
Soft Loan from Central Bank of Lebanon	-	-	-	-
Provision for losses and contingencies	-	-	-	-
	60,029,119	13,231,328	-	-
Net assets	39,587,875	12,620,178	14,087,147	14,748,962

Fixed Interest		Floating Interest					
More than 5 Years	*Total*	*Up to 1 Year*	*More than 1 Year Less than 3 Years*	*More than 3 Years Less than 5 Years*	*More than 5 Years*	*Total*	*Grand Total*
LBP'000	**LBP'000**	**LBP'000**	**LBP'000**	**LBP'000**	**LBP'000**	**LBP'000**	**LBP'000**
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	25,800,548
-	-	464,628,307	-	-	-	464,628,307	464,628,307
9,918,839	32,638,357	-	-	-	4,738,982	4,738,982	44,454,916
-	-	22,145,175	37,032,464	53,639,609	157,543,429	270,360,677	296,163,179
-	-	12,350,097	68,591,250	125,211,336	85,927,500	292,080,183	303,244,784
1,777,150	33,745,247	265,761,339	14,334,662	29,608,359	8,067,543	317,771,903	352,578,749
-	-	-	-	-	-	-	3,487,066
-	-	-	-	-	-	-	18,888,212
-	-	-	-	-	-	-	6,334,893
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
11,695,989	66,383,604	764,884,918	119,958,376	208,459,304	256,277,456	1,349,580,054	1,515,580,654
-	7,078,389	172,138,761	30,150,000	75,375,000	35,515,942	313,179,703	323,769,106
-	-	972,398,316	41,011,113	20,510,792	-	1,033,920,221	1,057,927,236
-	5,355,174	-	-	-	-	-	21,193,611
-	-	-	-	-	-	-	3,487,066
-	797,765	-	-	-	-	-	13,983,354
-	-	75,358,550	-	-	-	75,358,550	75,358,550
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	13,231,328	1,219,895,627	71,161,113	95,885,792	35,515,942	1,422,458,474	1,495,718,923
11,696,989	53,152,276	(455,010,709)	48,797,263	112,573,512	220,761,514	(72,878,420)	19,861,731

D. Liquidity Risk

Liquidity risk is the risk that an institution will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity approach, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

Management monitors the maturity of its financial assets and liabilities to ensure that adequate liquidity is maintained.

39. Approval of the Financial Statements

The financial statements of the Bank for the year ended December 31, 2006 were approved by the Board of Directors in its meeting held on June 9, 2007.

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Country	Correspondent	Currency
Australia	Westpac Banking Corporation, Sydney	AUD
Belgium	ING Belgium NV/SA, Brussels	EUR
Canada	Royal Bank of Canada, Toronto	CAD
Denmark	Danske Bank Aktieselskab, Copenhagen	DKK
France	Banque SBA, Paris	EUR & USD
Germany	Dresdner Bank AG, Frankfurt am Main	EUR
	The Bank of New York, Frankfurt am Main	EUR
	JP Morgan AG, Frankfurt am Main	EUR
Iraq	Iraqi Middle East Investment Bank, Baghdad	USD
Italy	Banca Intesa SPA, Milan	EUR
Japan	The Bank of New York, Tokyo	YEN
Jordan	Cairo Amman Bank, Amman	JOD & USD
Kuwait	Gulf Bank K.S.C., Kuwait	KWD & USD
Norway	DNB Nor Bank ASA, Oslo	NOK
Qatar	Qatar National Bank, Doha	QAR & USD
Saudi Arabia	Saudi Hollandi Bank, Riyadh	SAR & USD
Sri Lanka	People's Bank, Colombo	USD
Sweden	Skandinaviska Enskilda Banken AB, Stockholm	SEK
Switzerland	Credit Suisse, Zurich	SFR
United Arab Emirates	Investbank PSC, Sharjah	AED & USD
	MashreqBank PSC, Dubai City	AED
United Kingdom	Barclays Bank PLC, London	GBP
	ABN Amro Bank, London	GBP
United States	The Bank of New York, New York	USD
	Wachovia Bank, New York	USD
	JP Morgan Chase Bank, New York	USD
	American Express Bank LTD, New York	USD