

ASSETS	Jun - 08 LBP'000	Dec - 07 LBP'000
Cash, compulsory reserves and Central Banks	175,255,773	147,126,912
Deposits with banks and financial institutions	307,076,860	328,019,869
Deposits with related parties	13,864,787	9,391,262
Trading assets	7,399,359	7,932,860
Loans to banks	5,571,833	5,493,256
Loans and advances to customers	487,979,471	466,453,997
Loans and advances to related parties	9,039,188	10,416,916
Available-for-sale investment securities	159,206,431	93,539,055
Held-to-maturity investment securities	24,307,996	36,853,342
Customers' liability under acceptances	49,379,016	42,456,116
Investments in associates	17,188,138	15,126,881
Assets acquired in satisfaction of loans	9,463,769	9,463,769
Property and equipment	9,343,830	9,289,523
Intangible assets	1,092,309	1,058,105
Other assets	13,976,257	10,278,979
Total Assets	1,290,145,017	1,192,900,842

LIABILITIES	Jun - 08 LBP'000	Dec - 07 LBP'000
Deposits and borrowings from banks	77,055,692	39,268,087
Deposits with related parties	10,899,411	22,628,087
Customers' accounts at amortized cost	991,143,691	923,245,281
Related parties' accounts at amortized cost	6,857,184	7,002,358
Acceptance liability	49,379,016	42,456,116
Other liabilities	11,707,522	21,151,616
Provisions for risks & Charges	3,049,809	2,362,708
Provisions for end of service indemnity	1,627,927	1,644,476
Subordinated bonds	22,676,078	22,680,317
Total Liabilities	1,174,396,330	1,082,439,046
Shareholders' Equity		
Share capital (nominal)	16,000,000	16,000,000
Treasury shares	(1,998,457)	(5,999,362)
Preferred shares	30,150,000	30,150,000
Shareholders' cash contribution to capital	29,104,984	29,104,984
Reserves	26,288,170	23,870,880
Retained earnings	8,436,658	5,199,886
Cumulative change in f.v. of AFS securities	210,234	170,216
Income for the year	7,320,575	11,704,495
Equity attributable to the Group	115,512,164	110,201,099
Minority interest	236,523	260,697
Total equity	115,748,687	110,461,796
Total Liabilities and Shareholders' Equity	1,290,145,017	1,192,900,842

Values in Deposit	347,737,489	302,059,481
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OFF BALANCE SHEET ITEMS	Jun - 08 LBP'000	Dec - 07 LBP'000
Engagements by signature	733,196,700	678,100,294
Issued To Financial intermediaries	97,476,816	97,899,655
Received from Financial intermediaries	41,802,421	21,805,415
Issued To Customers	56,189,950	59,455,417
Engagements by signature received from Customers	537,727,513	498,939,807
Forward contracts	116,590,503	107,803,127
Foreign currencies to receive	58,325,034	53,800,752
Foreign currencies to deliver	58,265,469	54,002,375
Fiduciary accounts	17,505,417	17,505,417
Bad Debts fully provisioned, Transferred to Off-Balance Sheet	5,598,561	4,927,075

PROFIT & LOSS ACCOUNT	Jun - 08 LBP'000	Jun - 07 LBP'000
Interest income	34,734,208	32,492,514
Interest expense	(22,890,487)	(22,567,707)
Net interest income	11,843,721	9,924,807
Fee and commission income	4,319,840	3,408,576
Fee and commission expense	(456,583)	(263,474)
Net fee and commission income	3,863,257	3,145,102
Net interest and other (losses) / gains on trading portfolio	1,211,081	1,264,341
Gain on exchange	804,732	711,840
Other operating income	403,119	294,378
Net financial revenues	18,125,910	15,340,468
Allowance for impairment of loans and advances	(90,450)	(184,766)
Write-back/collective provision for loan impairment	-	-
Write-back of impairment loss on loans	169,452	310,701
Net financial revenues after impairment charge for credit losses	18,204,912	15,466,403
Staff costs	(6,378,969)	(5,590,012)
Administrative expenses	(4,486,434)	(4,032,909)
Depreciation and amortization	(1,032,294)	(865,847)
Provision for contingencies	(1,131)	(121,200)
Total expenses	(11,898,828)	(10,609,968)
Profit from participations (Equity method)	2,034,560	1,402,969
P/L on disposal of financial and non-financial assets	(4,966)	(26,756)
Profit before income tax	8,335,678	6,232,648
Income tax expense	(1,039,673)	(631,047)
Income for the year	7,296,005	5,601,601
Attributable to:		
Equity holders of the Group	7,320,575	5,626,565
Minority interest	(24,570)	(24,964)

Board of Directors	
Mr. Henry Y. OBEGI,	Chairman
BANQUE SAUDI FRANSI,	Member Represented by Mr. Abdul-Rahman JAWA
Dr. Ara O.HRECHDAKIAN,	Member
Sheikh Issam M. Kheiri KABBANI,	Member
Mr. Riad B. OBEGI,	Member
Mr. Jean V. HAJJAR,	Member & Advisor to the Chairman
Mr. Georges B. OBEGI,	Member
Emir Karim S. ABILLAMA,	Member.

Management
Chairman: Mr. Henry Y. OBEGI
General Manager: Mr. Samih H. SAADEH
Assistant General Managers:
Mr. Nabil A. HCHAIIME - Banking in Syria
Mr. Georges Y. MATLOUB - Corporate Banking
Mr. Joseph H. RAFFOUL - Personal Banking/Financial Institutions
Mr. Jean M. REBEIZ - Corporate Business Support

Auditors
DELOITTE & TOUCHE

HO-GM-BRANCHES	
Head Office	Elias Sarkis Ave., Bemo Bldg., Ashrafieh Tel-01-200505
General Management	Riad El Solh Square - Esseily Bldg. Tel: 01-992600
Ashrafieh	Elias Sarkis Ave., Bemo Bldg., Ashrafieh Tel-01-200505
Riad El Solh	Riad El Solh Square, Esseily Bldg. Tel: 01- 992600
Dora	Dora Hwy, Tachdjian Banking Center Tel: 01-257771
Kantari	Fakhreddine Str. Tager Bldg. Tel: 01-373374
Sin El Fil	Charles De Gaulle Avenue, Debahy Center Tel: 01-513990
Zouk	Zouk Mekayel Hwy, Vega Center Tel: 09-211182
Verdun	Saeb Salam Blvd. Al Iwan Bldg Tel: 01-799420
Chtaura	Chtaura main road, Chams Center Tel:08-544725

BRANCHES ABROAD	
Cyprus	Doma court, 227, Makarios III Ave, Limassol Swift: EUMOCY2I, Tel: 357 25 587640 Fax: 357 25 588611
*Syria	Free Zone Area, Sayrawan Bld, Damascus Tel & Fax: +963 11 2133701/2/3/4

* Completely closed effective June 30th pursuant to the decision no 344 dated 12/12/2007 of the Syrian Monetary Council to terminate the Free Zone Banking in Syria.

BANQUE BEMO S.A.L.
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008
TABLE OF CONTENTS

	<u>Page</u>
Consolidated Financial Statements:	
Consolidated Balance Sheet	2
Consolidated Income Statement	5
Consolidated Statement of Changes in Equity	6
Consolidated Statement of Cash Flows	7
Notes to the Consolidated Financial Statements	8-31

BANQUE BEMO S.A.L.
CONSOLIDATED BALANCE SHEET

<u>ASSETS</u>	<u>Notes</u>	<u>June 30 2008 LBP'000</u>	<u>December 31 2007 LBP'000</u>
Cash, compulsory reserves and Central Banks	4	175,255,773	147,126,912
Deposits with banks and financial institutions	5	307,076,860	328,019,869
Deposits with Related Parties		13,864,787	9,391,262
Trading assets	6	7,399,359	7,932,860
Loans to banks	7	5,571,833	5,493,256
Loans and advances to customers	8	487,979,471	466,453,997
Loans and advances to related parties	9	9,039,188	10,416,916
Available-for-sale investment securities	10	159,206,431	93,539,055
Held-to-maturity investment securities	10	24,307,996	36,853,342
Customers' liability under acceptances	11	49,379,016	42,456,116
Investments in associates		17,188,138	15,126,881
Assets acquired in satisfaction of loans	12	9,463,769	9,463,769
Property and equipment	13	9,343,830	9,289,523
Intangible assets		1,092,309	1,058,105
Other assets		<u>13,976,257</u>	<u>10,278,979</u>
Total Assets		<u>1,290,145,017</u>	<u>1,192,900,842</u>

BANQUE BEMO S.A.L.
CONSOLIDATED BALANCE SHEET

(Continued)

<u>LIABILITIES</u>	<u>Notes</u>	<u>June 30 2008 LBP'000</u>	<u>December 31 2007 LBP'000</u>
Deposits and borrowings from banks	14	77,055,692	39,268,087
Deposits from Related Parties		10,899,411	22,628,087
Customers' accounts at amortized cost	15	991,143,691	923,245,281
Related parties' accounts at amortized cost	16	6,857,184	7,002,358
Acceptance liability	11	49,379,016	42,456,116
Other liabilities		11,707,522	21,151,616
Provisions for risks and charges	17	3,049,809	2,362,708
Provisions for end of service indemnity		1,627,927	1,644,476
Subordinated bonds	18	<u>22,676,078</u>	<u>22,680,317</u>
Total liabilities		<u>1,174,396,330</u>	<u>1,082,439,046</u>
<u>EQUITY</u>			
Share capital (nominal)	19	16,000,000	16,000,000
Treasury shares		(1,998,457)	(5,999,362)
Preferred shares	20	30,150,000	30,150,000
Shareholders' cash contribution to capital	21	29,104,984	29,104,984
Reserves	22	26,288,170	23,870,880
Retained earnings		8,436,658	5,199,886
Cumulative change in fair value of investment securities		210,234	170,216
Income for the year	23	<u>7,320,575</u>	<u>11,704,495</u>
Equity attributable to the Group		115,512,164	110,201,099
Minority interest		<u>236,523</u>	<u>260,697</u>
Total equity		<u>115,748,687</u>	<u>110,461,796</u>
Total Liabilities and Equity		<u>1,290,145,017</u>	<u>1,192,900,842</u>

BANQUE BEMO S.A.L.
CONSOLIDATED BALANCE SHEET

(Continued)

<u>OFF BALANCE SHEET</u>	<u>June 30 2008</u>	<u>December 31 2007</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Engagement by signature	<u>733,196,700</u>	<u>678,100,294</u>
Issued to financial intermediaries	97,476,816	97,899,655
Received from financial intermediaries	41,802,421	21,805,415
Issued to customers	56,189,950	59,455,417
Received from Customers	537,727,513	498,939,807
Forward Contracts	<u>116,590,503</u>	<u>107,803,127</u>
Foreign currency to receive	58,325,034	53,800,752
Foreign currency to deliver	58,265,469	54,002,375
Fiduciary accounts	17,505,417	17,505,417
Bad debts fully provisioned, transferred to Off-balance sheet	5,598,561	4,927,075

BANQUE BEMO S.A.L.
CONSOLIDATED INCOME STATEMENT

	<u>Notes</u>	<u>June 30 2008 LBP'000</u>	<u>June 30 2007 LBP'000</u>
Interest income	25	34,734,208	32,492,514
Interest expense	26	(22,890,487)	(22,567,707)
Net interest income		<u>11,843,721</u>	<u>9,924,807</u>
Fee and commission income	27	4,319,840	3,408,576
Fee and commission expense	28	(456,583)	(263,474)
Net fee and commission income		<u>3,863,257</u>	<u>3,145,102</u>
Net interest and other (losses) / gains on trading portfolio	29	1,211,081	1,264,341
Gain on exchange		804,732	711,840
Other operating income		<u>403,119</u>	<u>294,378</u>
Net financial revenues		<u>18,125,910</u>	<u>15,340,468</u>
Allowance for impairment of loans and advances		(90,450)	(184,766)
Write-back/collective provision for loan impairment			
Write-back of impairment loss on loans and advances		<u>169,452</u>	<u>310,701</u>
Net financial revenues after impairment charge for credit losses		18,204,912	15,466,403
Staff costs	30	(6,378,969)	(5,590,012)
Administrative expenses		(4,486,434)	(4,032,909)
Depreciation and amortization		(1,032,294)	(865,847)
Provision for contingencies		(1,131)	(121,200)
Total expenses		<u>(11,898,828)</u>	<u>(10,609,968)</u>
Profit from participations (Equity Method)		2,034,560	1,402,969
P/L on disposal of financial and non-financial assets		(4,966)	(26,756)
Profit before income tax		8,335,678	6,232,648
Income tax expense		(1,039,673)	(631,047)
Income for the year		<u>7,296,005</u>	<u>5,601,601</u>
Attributable to:			
Equity holders of the Group		7,320,575	5,626,565
Minority interest		(24,570)	(24,964)

BANQUE BEMO S.A.L.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity Attribution				
	<u>Capital</u> LBP'000	<u>Treasury</u> <u>Shares</u> LBP'000	<u>Preferred</u> <u>Shares</u> LBP'000	<u>Shareholders'</u> <u>Cash Contribution</u> <u>to Capital</u> LBP'000	<u>Legal</u> <u>Reserve</u> LBP'000
Balances at December 31, 2006	16,000,000	(2,099,459)	30,150,000	29,104,984	4,019,362
Change in fair value of available-for-sale net of deferred tax	-	-	-	-	-
Allocation of income of the year 2006	-	-	-	-	953,395
Transfer to other reserves	-	-	-	-	-
Dividends paid	-	-	-	-	-
Minority Interest	-	-	-	-	-
Income for the 1 st semester 2007	-	-	-	-	-
Balance June 30, 2007	16,000,000	(7,657,612)	30,150,000	29,104,984	5,601,600
4,972,757	6,310,125	12,587,998	5,199,886	236,360	-
Income for the 1 st semester 2007	-	-	-	-	-
Income for the year 2007	-	-	-	-	-
Change in fair value of available-for-sale net of deferred tax	-	-	-	-	-
Acquisition of treasury shares	-	1,658,250	-	-	-
Balances at December 31, 2007	16,000,000	(5,999,362)	30,150,000	29,104,984	4,972,757
Change in fair value of available-for-sale net of deferred tax	-	-	-	-	-
Income for the 1 st semester 2008	-	-	-	-	-
Allocation of income of the year 2007	-	-	-	-	947,993
Dividends paid	-	-	-	-	-
Acquisition of treasury shares	-	4,000,905	-	-	-
Minority interest	-	-	-	-	-
Balances as at June 30, 2008	<u>16,000,000</u>	<u>(1,998,457)</u>	<u>30,150,000</u>	<u>29,104,984</u>	<u>5,920,750</u>

BANQUE BEMO S.A.L.
CONSOLIDATED STATEMENT OF CASH FLOWS

	<u>June 30,</u>	
	<u>2008</u>	<u>2007</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Cash flows from operating activities:		
Income before tax	8,335,678	6,123,454
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Income tax paid	(549,552)	(305,021)
Depreciation and amortization	1,032,294	865,847
Provision for end of service indemnities	86,980	125,678
Provision for assets acquired in satisfaction of Debt	221,430	
Provision for risk and charges	687,101	211,650
Minority interest	236,523	291,096
Write-back/collective provision for loan impairment	(79,002)	(216,385)
(Loss)/gain on trading securities	535,252	129,458
Equity income from investment in associates	(2,034,560)	(1,400,845)
Loss/(gain) from sale of property and equipment	(4,966)	65,145
Gain from sale of investment properties	-	-
Gain from sale of investment in related companies	-	(291,039)
Accretion of Lebanese treasury bills discount	(594,901)	(1,537,246)
Settlement of end-of-service indemnity	(103,528)	(36,732)
Net (increase)/decrease in other assets	(4,946,099)	(4,060,484)
Net (decrease)/increase in other liabilities	424,666	1,366,819
Others (including effect of exchange rates changes)	(4,240)	(21)
Net cash provided by operating activities	<u>3,243,076</u>	<u>1,331,374</u>
Cash flow from investing activities:		
Term deposits with banks and financial institutions	(23,118,254)	32,628,753
Loans and advances	(16,383,732)	(33,973,303)
Securities	(44,190,588)	(10,059,717)
Investment in associates	(2,180,027)	(158,571)
Treasury shares	4,000,905	(5,558,153)
Assets acquired in satisfaction of loans	-	(3,114)
Property and equipment	(309,942)	(3,738,383)
Investment properties	-	-
Proceeds from sale of property and equipment	-	36,180
Proceeds from sale of investment in associates	-	293,960
Net cash used in investing activities	<u>(82,181,638)</u>	<u>(20,532,348)</u>
Cash flows from financing activities:		
Dividends paid	(5,918,775)	(5,529,935)
Customers' and related parties' deposits at amortized cost	58,429,351	2,060,090
Non-interest earning compulsory reserve	<u>2,445,284</u>	<u>2,372,039</u>
Net cash provided by financing activities	<u>54,955,860</u>	<u>(1,097,806)</u>
Net decrease in cash and cash equivalents	(23,982,702)	(20,298,780)
Cash and cash equivalents - Beginning of year	<u>122,252,438</u>	<u>301,279,942</u>
Cash and cash equivalents - Ending of year	<u>98,269,736</u>	<u>280,981,162</u>

BANQUE BEMO S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2007

1. GENERAL INFORMATION

Banque Bemo S.A.L. is a Lebanese joint-stock company listed on Beirut Stock Exchange and registered in the Commercial Register under Number 17837 and on the list of banks published by the Central Bank of Lebanon under Number 93. The Bank's headquarters are located in Beirut.

The Bank provides a full range of commercial, corporate and private banking activities through a network of 8 opened branches in Lebanon in addition to a branch in Limassol, Cyprus.

2. SIGNIFICANT ACCOUNTING POLICIES

A. Statement of Compliance

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

B. Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- Financial assets and liabilities at fair value through profit and loss are measured at fair value.
- Available-for-sale financial assets are measured at fair value.
- Derivative financial instruments are measured at fair value.

The principal accounting policies are set out below:

C. Basis of Consolidation:

The consolidated financial statements of Banque Bemo S.A.L. incorporate the financial statements of the Banque Bemo S.A.L. (the "Bank") and enterprises controlled by the Bank (its subsidiaries). Control is achieved when, among other things, the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The consolidated subsidiaries consist of:

<u>Company</u>	<u>Country of Incorporation</u>	<u>Date of Acquisition or Incorporation</u>	<u>Percentage of Ownership</u> %	<u>Business Activities</u>
Bemo Securitisation S.A.L.	Lebanon	1998	94.50	Securitization & Structured Finance
Ferticed Limited Holding	Luxembourg	1995	100.00	Holding Company
Depository & Custody Company S.A.L.	Lebanon	2007	100.00	Depository and custody of securities

During 2007, the Bank sold a 5.5% equity stake in Bemo Securitization S.A.L. The effective date of the sale was January 1, 2007.

During 2007, the Group incorporated a new company, Depository & Custody Company S.A.L., to undertake depository and custody of securities activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

D. Foreign Currencies:

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

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

E. Financial assets and Liabilities:

Recognition and Derecognition:

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

Offsetting:

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

Fair Value Measurement:

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

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities (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.

Impairment of Financial Assets:

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, the liquidating value of any security on hand for non-performing loans and advances to customers.

The carrying amount of the financial asset is reduced by the impairment loss directly through the use of an allowance account. When a loan or advance to a customer is uncollectible, it is written off against the provision account. Changes in the carrying amount of the provision account are recognized in the income statement.

In respect of available-for-sale equity securities, any increase/decrease in fair value subsequent to an impairment loss is recognized directly in equity.

F. Investment Securities:

Held-to-Maturity Investment Securities:

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

Available-for-Sale Investment Securities:

Available-for-sale (“AFS”) investments are non derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. Gains and losses arising from 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 the income statement.

G. Trading Securities:

Trading securities are initially recognized at fair value. Transaction costs are included in the income statement. Subsequent changes in fair value of these securities are recognized immediately in profit or loss. Financial assets held-for-trading are stated at fair value, with any resultant gain or loss recognized in profit or loss.

H. Loans and Advances:

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are disclosed at amortized cost net of unearned interest and after provision for credit losses where applicable. Bad and doubtful debts are carried on a cash basis because of doubts and the probability of non-collection of principal and/or interest.

I. Investments in Associates:

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

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group’s share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group’s interest in that associate (which includes any long-term interests that, in substance, form part of the Group’s net investment in the associate) are not recognized, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

K. Property and Equipment

Property and equipment are stated at historical cost, less accumulated depreciation and impairment loss, if any.

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

	<u>Rate</u> %
Property	2.5
Furniture and fixtures	7.5
Equipment	10
Computer hardware	20
Office equipment	15 to 20
Vehicles	12

Leasehold improvements are depreciated over the shorter of the lease term and their useful lives estimated at five years.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

L. Intangible Assets:

Intangible assets consisting of computer software are amortized over a period of 3 to 5 years.

M. Assets acquired in satisfaction of loans

Non-financial assets acquired in satisfaction of loans are reported separately in the balance sheet as their acquisition is regulated by the local banking authorities and do not meet the definition of investment properties nor the definition of non-current assets held for sale. These assets are recorded at the lower of their fair value and the carrying amount of the loan at the date of exchange and are subsequently carried at cost less any impairment loss. Assets acquired in satisfaction of loans are subject to a regulatory reserve appropriated from income for the year in case these assets are not liquidated within 2 years from acquisition.

N. Employees' Benefits:

Obligations for contributions to defined employees' benefits are recognized as an expense on a current basis.

Employees' End-of-Service Indemnities: (Under the Lebanese Jurisdiction)

The provision for staff termination indemnities is based on the liability that would arise if the employment of all the staff were terminated at the balance sheet date. This provision is calculated in accordance with the directives of the Lebanese Social Security Fund and Labor laws based on the number of years of service multiplied by the monthly average of the last 12 months remunerations and less contributions paid to the Lebanese Social Security National Fund.

O. Revenue and Expense Recognition:

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

Interest income and expense presented in the income statement include:

- Interest on financial assets and liabilities at amortized cost.
- Interest on available-for-sale investment securities.
- Fair value changes in qualifying derivatives and related hedged items when interest rate risk is the hedged risk.

Net trading income presented in the income statement includes:

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

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

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

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

Where the outcome of a securitization contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion.

Where the outcome of a contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately

P. Treasury Shares:

Treasury shares are stated at cost. Any gain or loss on sale is reflected as an adjustment to reserves.

Q. 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.

R. 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.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Bank's accounting policies, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant.

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

A. Critical accounting judgments in applying the Group's accounting policies:

(i) Classification of Financial Assets:

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

B. 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 period.

(i) Impairment losses on loans and advances

The Bank reviews its loan portfolio to assess impairment on a regular basis. In determining whether an impairment loss should be recorded, the Group 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 Group, or national or local economic conditions that correlate with defaults on assets in the Group. 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 Group evaluates among other factors, the normal volatility in share price. In addition, the Group considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

4. CASH, COMPULSORY RESERVES AND DEPOSITS AT CENTRAL BANKS

	<u>June 30 2008</u>	<u>Dec 31 2007</u>
	LBP'000	LBP'000
Cash on hand	4,454,081	5,391,808
Current accounts with Central Bank of Lebanon (of which compulsory reserves LBP7.87billion in 2007 and LBP8.31billion in 2008)	12,430,194	14,984,536
Current accounts with others Central Banks	6,821,753	6,717,195
Term placements with Central Bank of Lebanon	122,700,700	110,859,300
Term placements with other central banks		753,750
Certificate of deposit issued by the central bank of Lebanon	27,255,600	7,537,500
Accrued interest receivable	<u>1,593,445</u>	<u>882,823</u>
	<u>175,255,773</u>	<u>147,126,912</u>

Compulsory deposits with central banks are not available for use in the Group's day-to-day operations and are reflected at amortized cost.

The non-interest earning cash compulsory reserves with the Central Bank of Lebanon represent deposits in Lebanese Pounds and computed on the basis of 25% and 15% of the average weekly sight and term customers' deposits in Lebanese Pounds in accordance with the local banking regulations.

5. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

	<u>June 30 2008</u> <u>LBP'000</u>	<u>Dec 31 2007</u> <u>LBP'000</u>
Checks in course of collection	9,220,998	15,932,601
Current accounts	39,479,542	24,796,417
Term placements	244,047,770	272,867,921
Pledged deposits	12,433,414	12,201,055
Accrued interest receivable	<u>1,895,136</u>	<u>2,221,875</u>
	<u>307,076,860</u>	<u>328,018,869</u>

Pledged deposits are blocked against trade finance and treasury transactions and banking facilities.

6. TRADING ASSETS

	<u>June 30 2008</u> <u>C/V of F/Cy</u> <u>LBP'000</u>	<u>Dec 31 2007</u> <u>C/V of F/Cy</u> <u>LBP'000</u>
Corporate bonds		439,898
Equity securities - Quoted	<u>7,399,359</u>	<u>7,492,962</u>
	<u>7,399,359</u>	<u>7,932,860</u>

7. LOANS TO BANKS

Loans to banks are reflected at amortized cost and represent letters of credit and acceptances discounted by customers and maturing in the year 2008.

8. LOANS AND ADVANCES TO CUSTOMERS

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

	<u>June 30 2008</u> <u>LBP'000</u>	<u>Dec 31 2007</u> <u>LBP'000</u>
Advances in current account	364,956,536	353,522,562
Discounted and Direct Bills	11,440,893	9,850,031
Loans	108,088,927	98,542,945
Substandard Loan (Net of U.I)	2,239,413	3,616,760
Doubtful Account (Net of U.I)	1,994,182	2,554,615
Provision	<u>(1,553,653)</u>	<u>(2,012,843)</u>
Accrued interest receivable	<u>813,173</u>	<u>379,927</u>
	<u>487,979,471</u>	<u>466,453,997</u>

9. LOANS AND ADVANCES TO RELATED PARTIES

	<u>June 30 2008</u> LBP'000	<u>Dec 31 2007</u> LBP'000
Advances in current account	1,064,587	1,364,197
Loans	7,532,113	8,876,276
Accrued interest receivable	<u>442,488</u>	<u>176,443</u>
	<u>9,039,188</u>	<u>10,416,916</u>

10. INVESTMENT SECURITIES

	<u>June 30, 2008</u>				
	<u>Available-for-Sale</u>			<u>Held-to-Maturity</u>	
	<u>LBP</u> LBP'000	<u>C/V of F/Cy</u> LBP'000	<u>Total</u> LBP'000	<u>C/V of F/Cy</u> LBP'000	<u>Total</u> LBP'000
Quoted equity securities	-	8,164,654	8,164,654	-	-
Unquoted equity securities	-	1,797,845	1,797,845	-	-
Lebanese treasury bills	83,652,576	-	83,652,576	-	-
Foreign treasury bills	-	-	-	2,256,559	2,256,559
Lebanese government bonds	-	42,003,291	42,003,291	2,198,123	2,198,123
Corporate bonds	-	20,552,412	20,552,412	19,541,957	19,541,957
Accrued interest receivable	<u>1,846,122</u>	<u>1,189,531</u>	<u>3,035,653</u>	<u>311,357</u>	<u>311,357</u>
	<u>85,498,698</u>	<u>73,707,733</u>	<u>159,206,431</u>	<u>24,307,996</u>	<u>24,307,996</u>

	<u>December 31, 2007</u>				
	<u>Available-for-Sale</u>			<u>Held-to-Maturity</u>	
	<u>LBP</u> LBP'000	<u>C/V of F/Cy</u> LBP'000	<u>Total</u> LBP'000	<u>C/V of F/Cy</u> LBP'000	<u>Total</u> LBP'000
Quoted equity securities	-	5,202,595	5,202,595	-	-
Unquoted equity securities	-	1,802,895	1,802,895	-	-
Lebanese treasury bills	58,335,620	-	58,335,620	-	-
Foreign treasury bills	-	-	-	3,759,529	3,759,529
Lebanese government bonds	-	20,792,510	20,792,510	2,099,436	2,099,436
Corporate bonds	-	5,326,576	5,326,576	30,424,945	30,424,945
Accrued interest receivable	<u>1,513,573</u>	<u>565,286</u>	<u>2,078,859</u>	<u>569,432</u>	<u>569,432</u>
	<u>59,849,193</u>	<u>33,689,862</u>	<u>93,539,055</u>	<u>36,853,342</u>	<u>36,853,342</u>

A. Available-for-sale investment securities:

Available-for-sale securities and related cumulative change in fair value and accrued interest are distributed between Lebanese Pounds and foreign currencies as follows:

	June 30, 2008					
	LBP Base Accounts				F/C	
	Amortized Cost	Fair Value	Cumulative Change in Fair Value	Accrued Interest Receivable	Amortized Cost	Fair Value
	LBP'000	LBP'000	LBP'000	LBP'000	C/V	F/C
LBP'000	C/V LBP'000	C/V LBP'000	C/V LBP'000			
Quoted equity securities	-	-	-	-	5,670,656	8,164,000
Unquoted equity securities at cost	-	-	-	-	1,959,449	1,797,000
Lebanese treasury bills	83,151,536	83,652,576	501,040	1,846,122	-	-
Lebanese Government bonds	-	-	-	-	42,714,726	42,003,000
Corporate bonds	-	-	-	-	22,045,252	20,552,000
	<u>83,151,536</u>	<u>83,652,576</u>	<u>501,040</u>	<u>1,846,122</u>	<u>72,390,083</u>	<u>72,518,000</u>

	December 31, 2007					
	LBP Base Accounts				F/C	
	Amortized Cost	Fair Value	Cumulative Change in Fair Value	Accrued Interest Receivable	Amortized Cost	Fair Value
	LBP'000	LBP'000	LBP'000	LBP'000	C/V	F/C
LBP'000	C/V LBP'000	C/V LBP'000	C/V LBP'000			
Quoted equity securities	-	-	-	-	3,957,261	5,202,000
Unquoted equity securities at cost	-	-	-	-	1,959,448	1,802,000
Lebanese treasury bills	57,864,509	58,335,620	471,111	1,513,573	-	-
Lebanese Government bonds	-	-	-	-	21,501,182	20,792,000
Corporate bonds	-	-	-	-	5,831,234	5,326,000
	<u>57,864,509</u>	<u>58,335,620</u>	<u>471,111</u>	<u>1,513,573</u>	<u>33,249,125</u>	<u>33,124,000</u>

B. Held-to-maturity investment securities

Held-to-maturity investment securities are denominated in foreign currencies and consist of the following:

	<u>June 30, 2008</u>		
	<u>Amortized</u>	<u>Accrued</u>	<u>Fair</u>
	<u>Cost</u>	<u>Interest</u>	<u>Value</u>
	<u>LBP'000</u>	<u>Receivable</u>	<u>LBP'000</u>
	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>
Foreign treasury bills	2,256,559	14,714	2,277,230
Lebanese Government bonds	2,198,123	17,315	2,149,744
Corporate bonds	<u>19,541,957</u>	<u>279,328</u>	<u>19,365,948</u>
	<u>23,996,639</u>	<u>311,357</u>	<u>23,792,922</u>

	<u>December 31, 2007</u>		
	<u>Amortized</u>	<u>Accrued</u>	<u>Fair</u>
	<u>Cost</u>	<u>Interest</u>	<u>Value</u>
	<u>LBP'000</u>	<u>Receivable</u>	<u>LBP'000</u>
	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>
Foreign treasury bills	3,759,529	46,720	3,763,487
Lebanese Government bonds	2,099,436	65,149	2,032,902
Corporate bonds	<u>30,424,945</u>	<u>457,563</u>	<u>30,157,778</u>
	<u>36,283,910</u>	<u>569,432</u>	<u>35,954,167</u>

11. CUSTOMERS' LIABILITY UNDER ACCEPTANCES

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

12. ASSETS ACQUIRED IN SATISFATION OF LOANS

Assets acquired in satisfaction of loans have been acquired through enforcement of security over loans and advances. These assets have been separately classified because their acquisition is regulated by the local banking authorities and do not meet the definition of investment properties nor the definition of non-current assets held for sale.

The acquisition of assets in settlement of loans requires the approval of the banking regulatory authorities and these should be liquidated within 2 years. In case of default of liquidation at the end of the two years liquidation period, a regulatory reserve should be appropriated from the yearly net profits over a period of 5 years, or 20 years, if the conditions of intermediary circular No. 41 are met and the approval of the Banking Control Commission is obtained.

13. PROPERTY AND EQUIPMENT

In 2007, the Group acquired plot No. 444 located in Achrafieh for an amount of USD2,200,000 (LBP3.32billion) to be used as the Bank's new headquarters. The purchase amount was settled in full through two equal payments during January and May 2007.

14. DEPOSITS AND BORROWINGS FROM BANKS AND FINANCIAL INSTITUTIONS

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

	June 30, 2008			December 31, 2007		
	LBP LBP'000	C/V of F/Cy LBP'000	Total LBP'000	LBP LBP'000	C/V of F/Cy LBP'000	Total LBP'000
Current deposits of banks and financial institutions	750	39,726,163	39,726,913	810	27,359,107	27,359,917
Money market deposits	27,000,000	10,296,663	37,296,663	11,514,765	382,604	11,897,369
Accrued interest payable	7,904	24,212	32,116	6,035	4,766	10,801
	<u>27,008,654</u>	<u>50,047,038</u>	<u>77,055,692</u>	<u>11,521,610</u>	<u>27,746,477</u>	<u>39,268,087</u>

15. CUSTOMERS' ACCOUNTS AT AMORTIZED COST

	June 30, 2008		
	LBP LBP'000	Counter Value in LBP of F/Cy LBP'000	Total Customers' Deposits LBP'000
Deposits from customers:			
- Current and demand deposits	13,464,959	193,587,403	207,052,362
- Term deposits	39,576,946	545,207,835	584,784,781
- Collateral against loans and advances	1,201,940	177,552,338	178,754,278
Margins and other accounts:			
- Margins for irrevocable import letters of credit	-	9,850,165	9,850,165
- Margins on letters of guarantee	128,511	4,229,004	4,357,515
- Other margins	250	894,427	894,677
Accrued interest payable	<u>295,028</u>	<u>5,154,885</u>	<u>5,449,913</u>
Total	<u>54,667,634</u>	<u>936,476,057</u>	<u>991,143,691</u>

	December 31, 2007		
	LBP	Counter Value in LBP of F/Cy	Total Customers' Deposits
	LBP'000	LBP'000	LBP'000
Deposits from customers:			
- Current and demand deposits	9,464,464	161,564,354	171,028,818
- Term deposits	27,128,886	537,977,276	565,106,162
- Collateral against loans and advances	884,513	165,533,693	166,418,206
Margin and other accounts:			
- Margins for irrevocable import letters of credit	-	11,678,702	11,678,702
- Margins on letters of guarantee	94,511	3,865,787	3,960,298
- Other margins	50,250	188,615	238,865
Accrued interest payable	<u>851,417</u>	<u>3,962,813</u>	<u>4,814,230</u>
Total	<u>38,474,041</u>	<u>884,771,240</u>	<u>923,245,281</u>

Time deposits at amortized cost as at June 30, 2008 include fiduciary deposits received from a non-resident affiliated bank in the amount of LBP12.88billion (LBP8.67billion for December 2007).

16. RELATED PARTIES' ACCOUNTS AT AMORTIZED COST

	June 30, 2008				
	LBP		Counter Value in LBP of F/Cy		Total Customers' Deposits
	Interest Bearing	Total	Interest Bearing	Total	
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Current and demand deposits	39,655	39,655	544,420	544,420	584,075
Term deposits	-	-	414,976	414,976	414,976
Collateral against loans and advances	12,000	12,000	5,512,063	5,512,063	5,524,063
Accrued interest payable	-	-	<u>334,070</u>	<u>334,070</u>	<u>334,070</u>
Total	<u>51,655</u>	<u>51,655</u>	<u>6,805,529</u>	<u>6,805,529</u>	<u>6,857,184</u>

	December 31, 2007				Total Customers' Deposits LBP'000
	LBP		Counter Value in LBP of F/Cy		
	Interest Bearing LBP'000	Total LBP'000	Interest Bearing LBP'000	Total LBP'000	
Collateral against loans and advances	-	-	6,856,226	6,856,226	6,856,226
Accrued interest payable	-	-	<u>146,132</u>	<u>146,132</u>	<u>146,132</u>
Total	<u>-</u>	<u>-</u>	<u><u>7,002,358</u></u>	<u><u>7,002,358</u></u>	<u><u>7,002,358</u></u>

17. PROVISIONS FOR RISKS AND CHARGES

Provisions consist of the following:

	<u>June 30 2008</u> LBP'000	<u>Dec 31 2007</u> LBP'000
Provision for contingencies	2,770,155	2,104,554
Provision for loss on foreign currency position	<u>279,654</u>	<u>258,154</u>
	<u><u>3,049,809</u></u>	<u><u>2,362,708</u></u>

18. SUBORDINATED BONDS

This caption consists of the following:

	<u>June 30 2008</u> LBP'000	<u>Dec 31 2007</u> LBP'000
Subordinated bonds	22,612,500	22,612,500
Accrued interest payable	<u>63,578</u>	<u>67,818</u>
	<u><u>22,676,078</u></u>	<u><u>22,680,318</u></u>

The ordinary general assembly approved in an exceptional meeting on May 17, 2004 the issuance of subordinated bonds for an amount of USD15,000,000 divided into 1,500 bonds of USD10,000 nominal value each. These bonds were issued in July 2004 and mature on July 26, 2009. The bonds' annual yield of 6.5% is set net of the 5% tax on interest revenues and is payable on December 15 and June 15 of each year.

The Bank maintains enough liquid funds within its liquidity to redeem these bonds at maturity.

In accordance with banking laws and regulations, subordinated bonds are considered as Tier II capital for the purposes of computation of Risk Based Capital Ratio, to be decreased by 20% on a yearly basis.

19. SHARE CAPITAL

The capital is represented by 16,000,000 nominative shares authorized and fully paid with a par value of LBP1,000 per share and divided as follows:

- Listed Shares : 5,333,334
- Unlisted Shares : 10,666,666

20. PREFERRED SHARES

On June 1, 2006, the Bank issued preferred shares in the amount of USD20million (LBP30billion) on the basis of 200,000 share at USD100.

The preferred shares are callable five years from the issuance date on June 1, 2011 and bear interest on a non-cumulative basis at an annual rate of 8%.

21. SHAREHOLDERS' CASH CONTRIBUTION TO CAPITAL

This caption represents capital injection of USD19,306,789 made by shareholders, in the form of shareholders' cash contribution to capital, each to the extent of his/her shareholding in the Bank's equity. Effective July 2002, the cash contribution is subject to an interest rate of Libor + 1%.

This sort of equity instrument consists of non-refundable capital injection which could be converted into share capital and it has the advantage of being booked and maintained in foreign currencies which allows for hedging against national currency fluctuation.

Interest on shareholders' cash contribution is payable yearly from the Bank's unrestricted net profits after receiving the approval of the Banking Control Commission.

22. RESERVES

Reserves consist of the following as at December 31, 2007 and 2006:

	<u>June 30 2008</u>	<u>Dec 31 2007</u>
	LBP'000	LBP'000
Legal reserve	5,939,306	4,972,757
Reserve for general banking risks	7,631,500	6,310,125
Other reserves	<u>12,717,364</u>	<u>12,587,998</u>
	<u>26,288,170</u>	<u>23,870,880</u>

In accordance with the requirements of the Lebanese Money and Credit Law, the Bank transfers since its inception 10% of its net income to the legal reserve account. This reserve is not available for distribution.

The reserve for general banking risks is constituted according to local banking regulations from income on the basis of a minimum of 2 per mil and a maximum of 3 per mil of the total risk weighted assets, off-balance sheet risk and global exchange position as defined for the computation of the solvency ratio at year-end. This reserve is constituted in Lebanese Pounds and in foreign currencies to the extent of LBP1.26billion and LBP5.05billion, respectively, in proportion to the composition of the Group's total risk weighted assets and off-balance sheet items. This reserve is not available for distribution.

During 2007, the Bank transferred LBP12billion from retained earnings to other reserves in accordance with the General Assembly of Shareholders' resolution dated May 19, 2007.

23. INCOME FOR THE YEAR

The consolidated income is allocated as follows between the Bank and its subsidiaries:

	June 30, 2008		
	Bank's Share	Minority Share	Total
	LBP'000	LBP'000	LBP'000
Income of the Bank	7,970,114	-	7,970,114
Income of subsidiaries:			
Bemo Securitization S.A.L.	(422,158)	(24,570)	(446,728)
Depository and Custody Co. S.A.L.	(1,319)		(1,319)
Deferred tax on profit from associates	(226,062)	-	(226,062)
Total	<u>7,320,575</u>	<u>(24,570)</u>	<u>7,296,005</u>

	June 30, 2007		
	Bank's Share	Minority Share	Total
	LBP'000	LBP'000	LBP'000
Income of the Bank	6,211,381	-	6,211,381
Income of subsidiaries:			
Bemo Securitization S.A.L.	(428,931)	(24,964)	(453,895)
Deferred tax on profit from associates	(155,885)	-	(155,885)
Total	<u>5,626,565</u>	<u>(24,964)</u>	<u>5,601,601</u>

24. DIVIDENDS PAID

The following dividends were declared and paid by the Bank:

	June 30	
	2008	2007
	LBP'000	LBP'000
LBP225 and LBP200 per ordinary share paid by the Bank in 2008 and 2007 respectively	3,506,774	3,117,933
USD8 per preferred share paid by the Bank in 2008 and 2007	<u>2,412,000</u>	<u>2,412,000</u>
	<u>5,918,774</u>	<u>5,529,933</u>

25. INTEREST INCOME

	June 30	
	2008	2007
	LBP'000	LBP'000
Deposits with Central Banks	2,692,291	3,209,466
Deposits with banks and financial institutions	6,018,134	8,633,209
Deposits with related party banks and financial institutions	201,627	382,533
Available-for-sale investment securities	4,623,457	2,928,719
Held-to-maturity investment securities	1,521,842	1,204,634
Loans and advances to customers	19,536,682	15,512,967
Interest realized on impaired loans and advances to customers	<u>140,175</u>	<u>620,986</u>
	<u>34,734,208</u>	<u>32,492,514</u>

Interest income on trading portfolio is included under net interest and other (losses)/gains on trading portfolio.

26. INTEREST EXPENSE

	June 30	
	2008	2007
	LBP'000	LBP'000
Deposits and borrowings from banks and financial institutions	801,376	506,885
Deposits and borrowings from related party banks and financial institutions	290,922	398,517
Customers' accounts at amortized cost	20,263,265	19,976,027
Subordinated bonds	771,466	767,227
Shareholders' cash contribution to capital	<u>763,458</u>	<u>919,051</u>
	<u>22,890,487</u>	<u>22,567,707</u>

27. FEE AND COMMISSION INCOME

This caption consists of the following:

	June 30	
	2008	2007
	LBP'000	LBP'000
Commission on documentary credits	1,048,059	914,962
Commission on letters of guarantee	294,735	264,587
Service fees on customers' transactions	2,958,203	2,211,718
Other	18,843	17,309
	<u>4,319,840</u>	<u>3,408,576</u>

28. FEE AND COMMISSION EXPENSE

	June 30	
	2008	2007
	LBP'000	LBP'000
Commission on transactions with banks	358,519	186,219
Other	98,064	77,255
	<u>456,583</u>	<u>263,474</u>

29. NET INTEREST AND OTHER (LOSSES)/GAINS ON TRADING PORTFOLIO

	June 30	
	2008	2007
	LBP'000	LBP'000
Interest income on Lebanese Government bonds held for trading	4,584	8,738
Dividends received on trading equity securities	413,607	522,874
Interest on held for trading corporate bonds	226,038	134,254
Change in fair values of trading portfolio (net)	(535,252)	(129,458)
Net gain/loss on sale of trading assets	546,915	21,258
Other income	555,189	706,675
	<u>1,211,081</u>	<u>1,264,341</u>

30. STAFF COSTS

This caption consists of the following:

	June 30	
	2008	2007
	LBP'000	LBP'000
Salaries	4,759,953	4,079,071
Social Security contributions	615,962	575,575
Provision for end-of-service indemnities	66,755	125,676
Other benefits	<u>936,297</u>	<u>809,690</u>
	<u>6,378,967</u>	<u>5,590,012</u>

31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group holds and issues financial instruments for three main purposes:

- to earn an interest margin or a fee;
- to finance its operations; and
- to manage the interest rate and currency risks arising from its operations and from its sources of finance.

The Group has exposure to the following risks arising from financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established a credit and market risk management department, an operational risk management department and various Committees to develop and monitor the Group's risk management policies and their implementation.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its management standards and procedures, aims to develop a disciplined control environment, in which employees understand their roles and obligations.

A. Credit Risk

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

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

1. Management of credit risk

The Group manages credit risk by developing policies and procedures to maintain the integrity and independence of the decision-making process. Credit policies and procedures are regularly reviewed to ensure that they are appropriate to ensure continuous effective credit risk management in light of changes in business strategy.

Credit risk management policies and practices define lending limits, credit approval authorization matrices, and risk identification and monitoring systems. The Group applies a well-established internal credit rating system to assess the creditworthiness of new and existing counter parties before entering into and throughout the duration of any transaction giving rise to credit risk. This system takes into account criteria related to the borrower (e.g. nature of the activity, financial performance and structure, credit history, cash flows, projected financials and management) and to the credit quality (e.g. purpose, amount, tenor, collateral presented as a second way out). The Group has nine rating categories ranging from A+ to E; A+ being the highest rating assigned to prime borrowers and E being the lowest rating assigned to borrowers' exposures classified as loss. Lending limits set by the Group are as follows:

- Exposure to an obligor (individual or group) shall not exceed 18% of capital
- Exposure to a Group of obligors operating in the same industry shall not exceed 120% of capital.

All credit exposures have to be in compliance with the credit policies and procedures set and approved and in compliance with regulatory requirements imposed by the central banks of the countries in which the Group operates.

B. Liquidity Risk

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

1. Management of liquidity risk

Liquidity risk is the Group's ability to ensure the availability of funding to meet commitments, both on-balance and off-balance sheet commitments, at a reasonable cost on time. The management of liquidity should not lead to threats to the Group's solvency.

Liquidity risk arises when in case of crisis, refinancing may only be raised at higher market rates (funding risk), or assets may only be liquidated at a discount to market rates (market liquidity risk). Liquidity risk is also caused by mismatches in the maturities of assets and liabilities (uses and sources of funds).

The Group sets policies and procedures to ensure that its individual entities are in compliance with liquidity ratios imposed by the regulators in the countries in which each of these entities operates in addition to other internal limits and thresholds.

C. Market Risks

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

1. Management of market risks:

Market risks include interest rate risk and exchange risk.

The Group has established an Assets and Liabilities Management Committee (ALCO) to manage market risks. ALCO's primary objective is to maximize interest income spread and trading income while maintaining market risks at an appropriate level through regular management and measurement of these risks.

The Group has developed policies and procedures to manage market risks including measurement techniques that are applied in order to measure interest rate and exchange risks. These policies and procedures were developed to ensure compliance with regulatory requirements and limits in addition to internal risk strategies and limits.

D. Operational Risk

Operational risk is the risk that might cause losses to the Group resulting from deficiency in computer processing, from deficiencies and lack of procedures, and inappropriate behavior of employees.

The Operational Risk Management unit is a separate risk management function that builds an operational risk focus approach, implements a dynamic Operational Risk Management program; and ensures a strong operational risk-aware culture at all levels, an effective escalation of overall exposure to the Board and Senior Management and sponsoring of the Business Continuity Management.

An Operational Risk Management Committee has been instituted to approve ORM policies and procedures; review operational risk exposures, type of losses and their impact; and ensure that proper tools and systems are available to manage operational risk efficiently.

The Group's principles are set in line with regulators' and Basel II principles for a sound operational risk management environment.

Operational Risk Management Principles and Tools

Fundamental principles of the Group's approach to operational risk management are the:

- Setting operational risk policies and procedures including ORM tools, risk appetite and measurement approach adopted by the Group being the Basic Indicator Approach.
- Assessment of operational risk inherent in any new/significant change of products, activities, processes and systems prior to their implementation.
- Implementation of Risk & Control Self-Assessment (RCSA) to identify, assess, mitigate and monitor the operational risks of the units assessed.
- Identification and analysis of Key Risk Indicators designed to provide a series of "warning signals" and trigger appropriate actions.
- Collection, recording and analysis of operational losses and near miss events that occurred.
- Sponsoring Business Continuity Management in terms of drawing, updating and testing of IT Contingency, Disaster Recovery and Business Continuity Plans.
- Sponsoring Group's procedures manual.
- Quarterly reporting to Senior Management and Board of Directors on operational risk exposure and risk-response action plans.
- Adherence to capital requirement for Operational Risk.
- Disclose in the annual report and on the website, the achievements of Operational Risk Management and the processes applied for managing operational risk.

Operational Risk Awareness

Creating a risk-aware culture is a key benefit in ORM, the better the awareness, the better the understanding and commitment to the risk-response action plans throughout the Group.

The ORM unit focuses on the overall operational risk awareness among all staff members through involving them in the RCSA process and workshops, in addition to regular training conducted on importance of ORM tools.