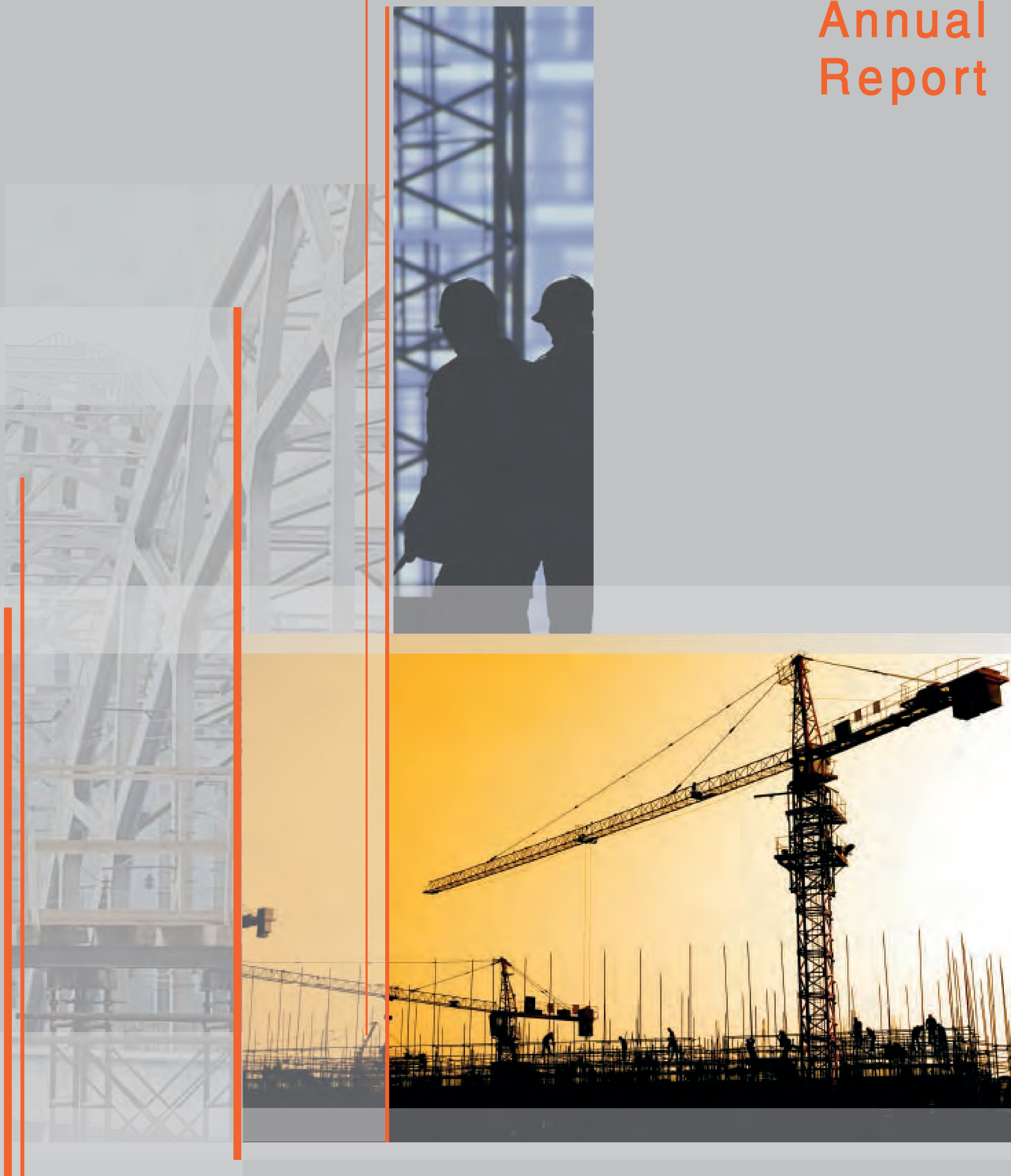
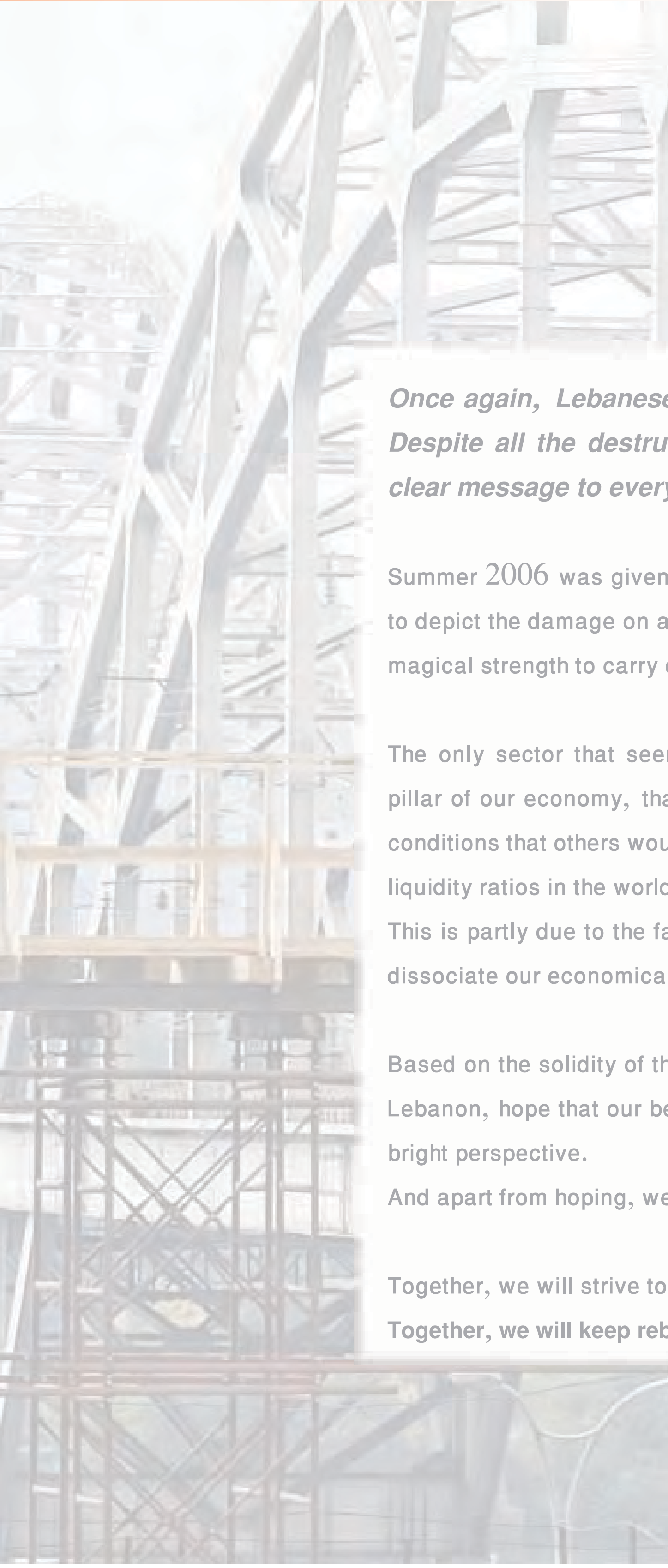
Annual Report 2006



Evolution

INTERCONTINENTAL BANK
OF LEBANON S.A.L



Once again, Lebanese people deserve a respectful standing ovation. Despite all the destruction, they have had one answer conveying a clear message to every enemy: RECONSTRUCTION.

Summer 2006 was given all possible adjectives but no term was strong enough to depict the damage on all levels. Yet, as usual, we, Lebanese people, have the magical strength to carry our burdens and carry on.

The only sector that seems to escape from harm remains the banking sector, pillar of our economy, that has remained strong, and despite all the events and conditions that others would have judged impossible, maintains one of the highest liquidity ratios in the world.
This is partly due to the fact that we have been used, in a protective impulse, to dissociate our economical sector from our constant political troubles.

Based on the solidity of this important sector, we, at the Intercontinental Bank of Lebanon, hope that our beloved country will have a solid future to look upon in a bright perspective.
And apart from hoping, we act towards this goal.

Together, we will strive to erase all the damage and live in peace.
Together, we will keep rebuilding.

Intercontinental Bank of Lebanon

Annual Report 2006

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رسالة الرئيس

المؤشرات الإقتصادية لعام ٢٠٠٦

لقد شهد الجو الإقتصادي اللبناني في عام ٢٠٠٦ تقلبات سريعة.
بالفعل، و بعد أن سجلت سنة ٢٠٠٥ نمواً ضعيفاً، كانت توقعات عام ٢٠٠٦ تشير الى نمو بنسبة ٦٪ ولكن بسبب الأوضاع السياسية والاقتصادية المتردية نتيجة حرب تموز ٢٠٠٦، فقد أشارت تقديرات وزارة المالية إلى نسبة نمو ٠٪.

على صعيد القطاع المالي، وبعد أحداث عام ٢٠٠٥ و حرب تموز ٢٠٠٦، أثبتت السلطات المالية قدرتها على مواجهة الأزمات السياسية و أبقت سعر صرف العملة الوطنية ثابتاً وبدون تغيير. مما يعني ان التطورات السياسية والإقتصادية الصعبة والمناعة البارزة التي اكتسبها السوق قد أعطت إشارات إيجابية لتطلعات السوق المالي اللبناني.

على صعيد القطاع المصرفي الذي يمثل حالياً ٣٣٠ ٪ من الاقتصاد المحليّ، و بالرغم من مرور سنتين مدويتين، فقد تخطى القطاع المصرفي كل الأزمات وذلك بفضل قدرته على مواجهتها،و حسن تطبيقه لادارة المخاطر وتعاونه المستمر مع السلطات الرقابية التي تعتبر الأكثر فعالية و تطورًا في العالم العربي.

كل هذه العوامل المشتركة أثّرت إيجاباً على تقوية الثقة في القطاع، إن من قبل مساهميه وعملائه أو من المجتمع الدولي. و هذا ما ظهر في تحسّن نتائج القطاع المصرفي خلال عام ٢٠٠٦ مقارنةً مع عام ٢٠٠٥، إذ زاد مجموع موجوداته بنسبة ٨,٣٪، في حين زادت ودائع العملاء بنسبة ٦,٢٪ و الأموال الخاصة بنسبة ٣٦٪ خلال الفترة عينها.

إنجازات بنك أنتركونتيننتال لبنان ش.م.ل. خلال عام ٢٠٠٦

لأن همّنا مصلحة عملائنا، جهّز المصرف خطة طوارئ تسمح له، وفي غضون ساعات قليلة، مواصلة العمل من مركزٍ آخر خارج بيروت أصبح مجهّزاً بصورةٍ كاملةٍ ويحتوي على جميع الامدادات السلكية واللاسلكية من شبكة السويفت، وشبكة رويترز، وأجهزة و برامج معلوماتيّة، كما وجرى تدريب موظفي المراكز الحساسة على كيفيّة العمل ضمن خطة الطوارئ هذه.

تميّزت سنة ٢٠٠٦ باستثماراتٍ مهمّة في الموارد البشرية حيث ان مصرفنا يعي أهميّة أن يكون موظفوه على مستوى عالٍ من التدريب والاختصاص والاندفاع.
في الواقع، ٩٠ مديراً وموظّفاً يمثّلون حوالي ٤٠٪ من مجموع الموظفين حضروا ٦٢ ندوةً خارجيّة مختلفة خلال العام.
علاوةً على ذلك، ولتفعيل استراتيجيّة الاستثمار في الموارد البشرية، أوجد مصرفنا مركز تدريب في مركزه في الدورة وجهّزه بأحدث التكنولوجيا وأجرى فيه دورات تدريبيّة مكثّفة خلال العام لجميع الموظفين تهدف الى المعرفة التقنية وكيفية حسن التصرف مع العميل.

وعزز بنك أنتركونتيننتال لبنان برامجه لصيرفة التجزئة بتقديم ١٢ منتوجاً جديداً للتأمين بأسعار تنافسية، و٣ قروض شخصية جديدة.

في إطار استراتيجيّته للتوسع الإقليمي، دشن مصرفنا مكتباً تمثيلياً في مدينة اربيل في العراق خلال الفصل الرابع من سنة ٢٠٠٦. يتم إدارة مكتب اربيل من قبل مجموعة من الموظفين المحليين الذين يتمتعون بخبرة واسعة وهم يتبعون لإدارة المركز الرئيسي. ونحن نتوقع لنشاطنا في اربيل نمواً أكيداً وثابتاً يعود لنوعية وجودة الخدمات التي نقدمها.

من المؤكد أن سنة ٢٠٠٦ كانت سنة التطور والإنجاز في بنك أنتركونتيننتال لبنان:

إن مصرفنا قد سجّل خلال عام ٢٠٠٦ نمواً بنسبة ٧,١٩٪ في مجموع موجوداته مقارنة مع سنة ٢٠٠٥، كما سجّل زيادة بنسبة ٦٩,١٠٪ في الأموال الخاصة للفترة عينها، علماً أنه، وكما أشارت إحصائيات شركة BANKDATA، لقد زادت الأموال الخاصة لمجموعة ألفا للمصارف اللبنانية بنسبة ٢٨,٩٠٪.
بلغ مجموع الأموال الخاصة لبنك أنتركونتيننتال لبنان بتاريخ ٢٠٠٦/١٢/٣١، ١٤٩,٤ مليار ليرة لبنانية أي ما يوازي ٩٩ مليون دولار أميركي وارتفعت نسبة ملاءة المصرف أو نسبة كفاية رأس المال حسب متطلبات إتفاقية بازل ١ من ٢٥,٥٪ للعام ٢٠٠٥ الى ٣٩,٠٪ للعام ٢٠٠٦.

لقد سجّلت ربحية المصرف تطوراً ملحوظاً في العام ٢٠٠٦ فجاءت نتيجة الدورة المالية للمصرف، قبل إقتطاع المؤونات والضرائب، ٣٩ مليار ليرة لبنانية أي حوالي ٢٦ مليون دولار أميركي. أما نتيجة الدورة المالية الاجمالية فبلغت ٢٩,٣ مليار ليرة لبنانية أي حوالي ١٩,٥ مليون دولار أميركي بزيادة نسبتها ٣١٪ للعام ٢٠٠٦ مقارنةً مع العام ٢٠٠٥.

لقد نجح مصرفنا بتحقيق هذه النتائج المالية مع حفاظه على نسبة سيولة بلغت ٩١,١٠٪ وهي نسبة مرتفعة جداً بحسب المعايير المحلية والعالمية.

على صعيد مؤشرات الدورة المالية لبنك أنتركونتيننتال لبنان للعام ٢٠٠٦ مقارنةً مع معدلات مجموعة ألفا للمصارف اللبنانية، وحسب إحصائيات شركة BANKDATA، حقق المصرف:

٢٦,٧٢٪ نسبة عائد على متوسط الأموال الخاصة مقابل ١١,٥٢٪ لمعدل مجموعة ألفا
و ١,٢١٪ نسبة عائد على متوسط مجموع الموجودات مقارنةً مع ١,٠٪ لمعدل مجموعة ألفا

وأخيراً أريد أن أِشكر جميع موظفي وأعضاء مجلس إدارة بنك أنتركونتيننتال لبنان على الجهود التي يقومون بها لدفع المصرف دائماً الى الأمام.

سليم حبيب

رئيس مجلس الادارة – المدير العام
بنك أنتركونتيننتال لبنان ش.م.ل.

Chairman's Letter

THE LEBANESE ECONOMY

Lebanon's economic environment witnessed an extensive volatility in 2006. In fact, the 2006 forecasts had initially shown an expected GDP growth of 6%, especially after an atone year in 2005. However, adverse politico-economic conditions mainly due to the July 2006 War, have resulted in a 0% real growth in GDP, according to the Ministry of Finance estimates.

At the monetary sector level, the monetary authorities' ability to face a political crisis and to sustain its currency has been positively tested in the aftermath of the tragic events of 2005 and 2006. In other words, the large-scale political and economical developments behind, and the significant extent of market immunity showed, provide positive signals to Lebanon's monetary outlook.

At the banking sector level, which represents more than 330% of the Local Economy (Banks Consolidated Assets to GDP), and despite two chaotic consecutive years, the Lebanese banking sector overcame these crises, thanks to its healthy risk-management practices; the unique Know-How accumulated by the sector in managing wide scale crises; and the active collaboration with the Banking Authorities, which are regarded to be one of the most efficient and sophisticated in the Arab region, as H. E. the Governor of the Central Bank Mr. Riad Salameh was awarded the "Best Governor" award by Euromoney magazine, in 2006.

All these combined factors have a positive effect on the strength of the Sector and the confidence it enjoys from both its different stakeholders (Clients, Shareholders, etc.) and from the International Community. This is reflected in the banking sector's strong results, which show an 8.3% growth in total assets, a 6.2% growth in total deposits, and a 36% growth in Shareholders' Equity in December 2006 as compared to December 2005.

INTERCONTINENTAL BANK OF LEBANON'S ACHIEVEMENTS

Having the security of our depositors in mind, the Bank has set up a Disaster Continuity Plan, which would enable it to operate within few hours from a remote location outside Beirut already set up with:

- ✓ Adequate Space
- ✓ Satellite Phones
- ✓ Direct Access to SWIFT
- ✓ Direct Access to Reuters System
- ✓ Online Mirror Database, etc.

While key staff and personnel have been trained to perform from this "Hot Site"

Further, the Bank is a firm believer in Human Capital, and 2006 was characterized by important investments, as Intercontinental Bank Of Lebanon is aware that Value Creation comes from highly-trained, qualified, and motivated staff. Indeed, 90 managers and staff, which represent 40% of our total employees, assisted to 62 different external seminars throughout the year.

Furthermore, as to implement our Human Capital development strategy, we have put in place an IBL Training Center in our locations at Dora equipped with state-of-the-art technologies. At our Training Center, intensive in-house trainings have taken place throughout the year, targeting all personnel, and focusing on:

- ✓ Technical knowledge
- ✓ Behavior with clients

Intercontinental Bank Of Lebanon also strengthened its range of retail products and services, as 12 new Bancassurance products have been launched during 2006, and 3 new loans have been packaged to reach all of our clients' needs.

The Bank's regional expansion has accelerated in 2006, as the Bank inaugurated its representative office in Erbil-Iraq in the Fourth Quarter of 2006. We have dispatched a team of experienced bankers from our Head-Office to manage our operations in Erbil with local professionals. We forecast a steady growth in our activities in Iraq, mainly thanks to our first-mover advantage, and the quality of the service offered.

Clearly, 2006 was a remarkable year to Intercontinental Bank Of Lebanon, who performed extremely well:

The Bank registered a 7.19% growth in total assets as compared to 2005, and a 69.10% growth in Shareholders' Equity as compared to 2005, while the Alpha Group average was 28.9% growth in Shareholders' Equity according to Bankdata (The Alpha Group is constituted of the top Lebanese banks). This Shareholders' Equity growth pushed our Capital to LBP 149.44 billion (USD 99 million) and the Bank's Capital Adequacy Ratio from 25.5% in 2005 to 39.0% in 2006.

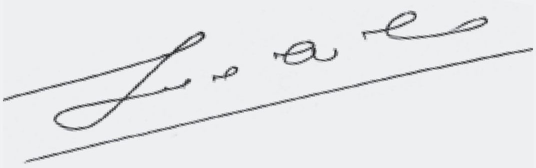
This growth in a difficult operating environment was not realized at the detriment of financial performance, as the Bank's various business lines performed extremely well in 2006, which led to a Profit before provisions of LBP 39 billion (USD 26 million) and Gross Profits of the Year of LBP 29.3 billion (USD 19.5 million) showing a 31% growth in December 2006 as compared to December 2005.

The Bank realized its strong financial results notwithstanding its high liquidity with a Total Liquidity Ratio of 91.1% as at December 2006, a very high ratio by local and international standards.

Furthermore, Intercontinental Bank Of Lebanon's profitability ratios skyrocketed in 2006, as the Bank's Return on Average Equity (ROAE) reached 26.72% in December 2006 while the Alpha Group Average is 11.52% according to Bankdata, and the Bank's Return on Average Assets (ROAA) reached 1.21% in December 2006 while the Alpha Group Average is 1% according to Bankdata.

Finally, I would like to express my sincere thanks to the Board of Directors and the Bank's staff for their continuous efforts to push the Bank towards higher summits.

Salim Habib



Chairman - General Manager
Intercontinental Bank Of Lebanon sal

The Bank traces its roots back to 1961 when it was established by a group of investors lead by Mr. Joseph Saab. The Bank was incorporated on May 5, 1961, as a Société Anonyme Libanaise (joint stock company) under the name of "Development Bank SAL" with a capital of LBP 8 million for a period of 99 years.

In 1996, the Bank's capital was raised to LBP 5 072 million.

In September 1998, the majority of the Bank's shares were purchased by a group of Lebanese and foreign investors, and the Bank's capital was raised to the level of LBP 10 250 million.

A year later, in September 1999, the Bank acquired the total share capital of BCP Oriel Bank, and consequently all branches of the acquired bank are to this date operating under Intercontinental Bank of Lebanon SAL.

Mr. Salim Habib has been Chairman General Manager of the Bank since 1998.

The current group of shareholders that took over the Bank in 1998 pursued a policy towards raising the Bank into the top national banks.

While the Bank was ranked fifty-sixth in Lebanon in terms of total assets in 1999, according to Bankdata, it was ranked thirteenth in terms of total assets as at December 31, 2006.

Since September 1998, the Bank's capital was raised five times to reach LBP 46 557 million at the end of 2005.

On December 27, 2005, and during the Extraordinary General Assembly Meeting, IBL shareholders approved the decision to increase the capital to LBP 52 857 million by issuing 840000 Non-Cumulative, Convertible, Redeemable Series 1, Preferred Shares for a total amount of USD 25 200 000. The issue price was USD 30 per share, of which the amount equivalent to LBP 7 500 represented the par value of each Series 1 Preferred Shares, with the balance maintained in USD consisting of issue premium.

On August 20, 2007, the shareholders of IBL held an Extraordinary General Assembly meeting and decided a new increase of the capital from LBP 52 857 million to LBP 84 000 million which means a raise of LBP 31 143 million or the equivalent of USD 20.7 million.

The Bank has achieved a significant growth in total assets as well as in the main components of its balance sheet, during the last years.
Its total assets grew from USD 437 million in 2000 to reach more than USD 1 600 million at the end of 2006, meaning an increase of almost 266 %.

Despite its strong expansion in total assets since 2000, the Bank translated this growth into enhanced financial profits, with the net income attaining USD 17 040 million at the end of 2006 after taxes and reserves, representing an improvement of 1 150 % over net income of USD 1 363 million as at December 31, 2000.

These results are driven by the continuing augmentation of the Bank's net interests and net commissions, as well as by the solid increase of the customers' base and deposits. Deposits topped at more than USD 1 400 million in 2006 from USD 384 million in 2000.

Furthermore, the actual shareholders have a policy of continuously improving the capital levels of the Bank, as its Share Capital grew from USD 9.6 million in 2000 to USD 35.1 million in 2006, while the Total Shareholders' Equity grew from USD 18,4 million in 2000 to USD 101 million as at December 31, 2006.
The Bank has actually 13 active branches spread all over Lebanon, one new branch under constitution, one active representative office in Sao-Paolo, Brazil, and one active representative office in Erbil, Iraq.

The strong growth the Bank has achieved since 1998, has been accompanied and fostered by continuous investment in Human Capital, either organically (through seminars, training and effective Human Resources management) or externally by recruiting skilled managers and dynamic young staff.

The Bank's total employees went from 166 in 2000 to 231 in 2006.

Currently, the Bank, strong amid its track record of solid growth, rigorous risk management and adequate Capital levels, is in the process of developing its international network.

The Bank's head office and main branch are located in Achrafieh, Beirut.

Mr. Salim Habib	Chairman, General Manager
His Excellency Mr. Elie Ferzli	Member Ex-Deputy Speaker of The Lebanese Parliament
His Excellency Dr. Mohammad Abdel Hamid Baydoun	Member Ex-Minister of Energy and Water
Mr. Kamal Abi Ghosn	Member, Deputy General Manager
Prince Sager Sultan Al Sudairy	Member
MM. Bicom SAL. Holding	Member (Represented by Mr. Garabed Kalaidjian Ex Vice Governor of the Central Bank)
MM. Anler Trading Limited	Member
Mr. Merhy Abou Merhy	Member
Me. Mounir Fathallah	Member
Me. Ziad Fakhoury	Secretary of the Board

Jewel of the development of Beirut

Legal Advisors and Auditors

Cabinet Me. Rizkallah Makhlouf

Me. Rizkallah Makhlouf	Legal Advisor

Fakhoury & Fakhoury Law Firm
(Chawki Fakhoury & Associates)

Me. Ziad Fakhoury	Legal Advisor

MM. Deloitte & Touche	External Auditors

Mr. Salim Habib	Chairman, General manager
Mr. Kamal Abi Ghosn	Deputy General Manager
Mr. Jean-Philippe Lefèvre	Assistant General Manager
Dr. Tony J. Ghorayeb	Advisor to the Chairman
International Banking Division	
Mr. Samir Tawilé	Senior Manager
Treasury and Financial Markets	
Mr. Nakhlé Khoneisser	Senior Manager
Financial Division	
Mrs. Dolly Merhy	Senior Manager
Risk Management Division	
Mrs. Tania Tayah	Senior Manager
Mr. Imad Hasbani	Deputy Manager
Retail Banking Division	
Mr. Habib Lahoud	Senior Manager
Credit Department	
Mr. Garabed Saboundjian	Manager
Corporate Banking	
Mr. Ghassan El Rayess	Manager
Compliance Unit	
Mr. Sami Najem	Manager
Human Resources	
Mr. Khalil Salameh	Manager

Treasury Back-office	
Mr. Antoine Achou	Manager
Internal Audit	
Mr. Antoine Assaad	Manager
Mr. Elias El Khazen	Controller
Information Technology	
Mr. Elie Hlayel	Head of Department
IT Consultancy	
Mr. Salim Jabaji	Advisor
Operations Department	
Mr. Habib Abou Merhy	Head of Department
IT Security	
Mr. Esber Wehbé	Head of Unit
Organization and methods	
Mr. Charbel Eid	Head of Unit
Financial Control	
Mr. Karim Habib	Head of Unit

Head of Representative office in Sao Paolo-Brazil

Mr. Georges Karam

Head of Representative office in Erbil-Iraq

Mr. Ramzi Dib

The Bank has several functional Committees including the Management Committee, the Internal Audit Committee, the Asset-Liability Committee, the Senior Credit Committee, the Junior Credit Committee, the Compliance Committee, the IT Committee, the IT Security Committee, the Organization and Methods Committee.

MANAGEMENT COMMITTEE. The Management Committee acts as an advisory body to the Chairman General Manager on all issues relating to the Bank's general policies. It ensures the day-to-day management of the Bank according to prevailing laws, rules, regulations, best practices as well as the effective management of operational risks arising from inadequate or failed internal processes, people and systems or from external events.

It defines the Bank's medium and long-term goals and strategy, and the business plan for achieving these goals. It outlines the Bank's medium and long-term growth plans, including branch networks and recommends the improvement of the Bank's organization structure, if needed.

INTERNAL AUDIT COMMITTEE. The Internal Audit Committee, which is composed of three members of the Board of Directors, ensures the existence and the regular enhancement of an adequate system of internal controls. It receives reports from, and reviews the work of, the internal and external auditors and ensures compliance with International Accounting Standards.

ASSET-LIABILITY COMMITTEE (ALCO). The ALCO is responsible for setting up and supervising the implementation of asset/liability management policy, which the Treasury is responsible to execute. Its primary objective is to oversee the management of the balance sheet structure and liquidity of the IBL, to maximize income from interest spread and trading activity within the approved risk and gap parameters.
The ALCO is also responsible for assessing market conditions according to economic and political developments.

SENIOR CREDIT COMMITTEE. The Senior Credit Committee sets up the framework for credit risks, sectorial distributions, classification and provisioning policies, subject to the Board of Directors for approval. It is in charge of studying credit applications that exceed the limits of the Junior Credit Committee, loans to financial institutions, recovery processes and credit products proposals.

Junior Credit Committee. The Junior Credit Committee evaluates and approves all corporate and commercial loans and facilities with a tenor not exceeding one year provided that they comply with the credit strategy approved by the Board of Directors and provided that the aggregate total cumulative secured and clean facilities granted to one client or group of interrelated names through commercial association and/or through common ownership/management control do not exceed USD 400 000.

Compliance Committee. The Compliance Committee is responsible of checking the good execution as well as the effectiveness of procedures and systems adopted for anti-money laundering. It reviews and updates these procedures, on a regular basis, according to the latest applied approaches.

IT Committee. The mission of the IT Committee is to set the IT strategy. It should establish and apply a structured approach regarding the long-range planning process, which should take into account risk assessment results, including business, environmental, technology and human resources risks.

IT Security Committee. The IT Security Committee develops the Bank's IT security policy and monitors IT security issues and follow-up on all incidents. It deals with any security breach and takes appropriate measures to avoid facing it another time.

Organization and Methods Committee. The role of the Organization and methods committee, which is composed from highly-qualified professionals in the fiels of Reengineering Process, Information Technology, Risk Management and Audit, is to review the process modelling and to settle on the right solutions. It aims to enhance procedures by implementing Information technology, increasing the quality of operation management and control to reduce the time loss.

Teamwork achieves outstanding results

The Bank has been actively building up its domestic franchise in the last few years, as reflected by the significant rise in total assets and deposits.

The Bank's principal activities are divided into three major areas:
Retail Banking; Commercial Banking and Trade finance; Treasury and Capital Market Operations.

Retail Banking. The Bank's management believes that retail banking is an efficient way to diversify earnings and risk, as well as a mean to consolidate its relationship with all its customers, and consequently emphasizes and focuses on this business line. The retail department has been consistently empowered with Human Capital and has been introducing new products ranging from bancassurance to retail loans to deposits programs, which are regarded as less risky and high yielding.

Commercial Banking and Trade Finance. The Bank provides its clients with a full range of commercial banking services and products, in addition to trade finance services through its network of international correspondent banks. The Bank's loans are mainly granted on a short-term basis, and are denominated predominantly in US Dollars, having a maturity of up to one year, with the possibility of renewal. Furthermore, the Bank has concluded several agreements with eminent Arab institutions, such as the Arab Trade Financing Program (ATFP), the Inter-Arab Investment Guarantee Corporation and the Saudi Fund for Development, in order to finance inter-Arab commercial operations, and to develop Arab trade activities, as well as agreements with International Development Banks as the European Investment Bank (EIB).

Treasury and Capital Markets Operations. The Bank's treasury operations consist of managing and placing the Bank's liquidity. The Treasury department invests those funds with prime international banks as well as with the Central Bank of Lebanon and other Lebanese banks. The Bank in the course of its activity on the Lebanese interbank market defines individual limits per bank, and deals only with prime banks. The Bank provides its customers with securities brokerage and trading activities. However the National Regulator has put in place strict regulations concerning proprietary and customer trading activities that limit Lebanese banks range of services and operations.

Working on the top

METHODS AND ORGANIZATION

A dedicated department has been instigated in 2006 : The Organization Department, which is chiefly responsible of continuously reviewing and updating the Bank's procedures.

The Bank is implementing a new culture in recognizing and managing risks:
An Organization and Methods Committee has been established, in order to validate procedures and enhance good management techniques while limiting operational risk in various departments.
Procedures are being documented:
A manual was elaborated in 2006 is to be periodically updated through circulars issued by the Organization and Methods Committee.
Management seeks to integrate the procedures in the electronic mail under assistance function.

Procedures are continuously reviewed in terms of:

- Productivity
- Risk Priorities
- Risk Management
- Segregation of Duties
- Evolution of Business Lines, Services, Clients' Behavior and environment

INTERNAL AUDIT DEPARTMENT

Controls are under the Responsibilities of the Internal Audit Department
The Internal Audit function reports to the Board of Directors, as stipulated by the National Regulator. It is the responsibility of the Board of Directors to set annually a full audit program and make sure it is applied. Currently, the Audit Committee follows-up the completion of the Audit Plan.
The Bank is offering proper training and equipment including several IT Tools to the Audit Department, in order to give them continual access to the whole system and especially the Audit Trail.

The Audit Department is responsible of:

- Installing systems of internal control, as well as identifying, evaluating, and implementing control assessment methodologies
- Recognizing risks by priority and monitoring them, while recommending controls to address related risks
- Establishing and adapting procedures in coordination with the Organization department
- Concluding on the effectiveness of controls on behalf of the management
- Audit on credits (documentation, evolution, follow-up, etc.)
- Audit on systems
- Other control activities...

HUMAN RESOURCES MANAGEMENT

HUMAN RESOURCES POLICIES

IBL makes every effort to attract and retain high-quality staff.
Personnel rating includes the notion of function's standards and quantifiable objectives by employee, in order to assess objectively the performance and to evaluate the contribution of employees to the Bank's growth.

The Culture of Clear Lines of Responsibilities and of Authority in order to enhance Accountability, is fostered at IBL through:

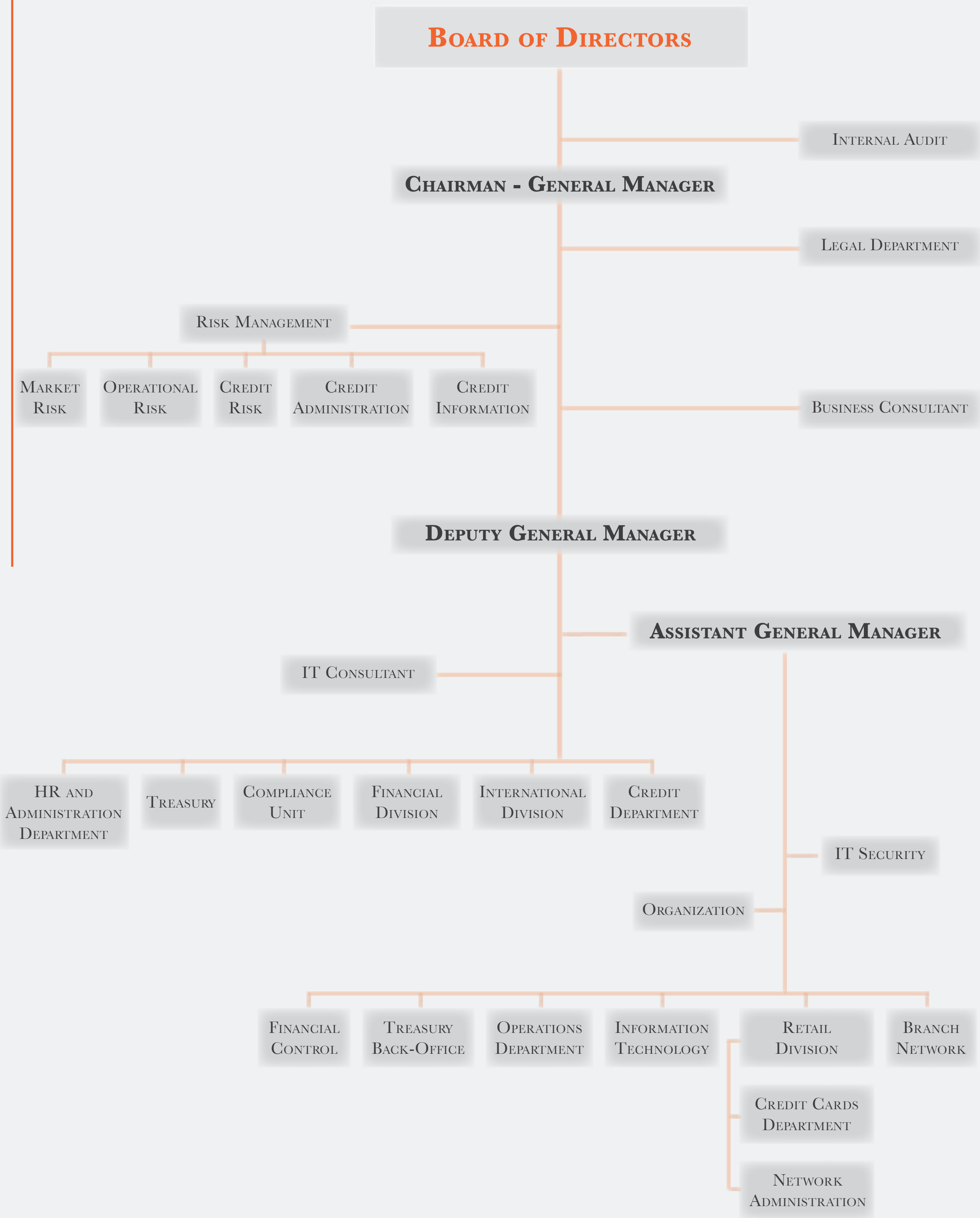
- The definition of objectives, which reaches each employee and is converted into qualitative and quantitative forms.
- The recognition of a standard for the Bank's principal functions, defined by the HR Department, with the assistance of General Management, and approved by the Board of Directors. Clear Job Descriptions and Organizational Chart, help IBL employees and Managers to be better located and to have better self management.
- The establishment of a bonus policy related to performance is sustained. The relation between bonus and performance is comprehensive in order to avoid ambiguity in evaluation.

To this purpose, clear jobs description have stemmed from an Organizational Chart approved and upheld by the Board of Directors.

THE ORGANIZATIONAL CHART

The Bank has implemented an organizational chart which enhances duality and segregation in decision making.
The organizational chart in place reflects the commercial objective of the Bank, taking into consideration the constraints of productivity and risks related to the business.
The organizational chart stresses on the commercial orientation of the Bank, through the creation of services by type of business line and by type of customers.
IBL has qualified personnel with high capacities of adaptation.

Organizational Chart



The management of risk is a fundamental activity performed at all levels in the Bank. As such, it underpins the Bank's reputation, performance and future success. It is therefore critically important that the adequacy and effectiveness of our risk management processes are of appropriate standards.

To achieve this task, the Bank established a risk management framework comprising:

- Management, strategy and culture set by the Board of Directors and put into effect throughout the organization.
- Policies, procedures, processes and systems to execute effective risk management.
- A comprehensive committee structure to approve and review actions taken to manage risk.

Where appropriate, this is replicated at a divisional level.

The Bank has set up a Risk Management Division to propose and review the overall risk policy for the Bank in anticipation of, and in compliance with, new rules and regulations including the Basel II international standards. This Division oversees the management of relevant risks in compliance with the policy set forth by the Board of Directors and the Management, the Credit and the Asset/Liability Management Committees.

The Risk Management function is independent of the commercial function, and therefore directly related to the Chairman General Manager and the Board of Directors.

In carrying out its business, the Bank is exposed to a number of risks, including: Credit Risk, Liquidity Risk, Market Risk, Capital Adequacy Risk, and Operational Risk.

The Bank's guidelines for managing relevant risks are as follows:

A. Credit Risk Management

Credit Risk is the risk of incurring a financial loss arising from the possibility of a counterparty's failure to meet its obligations.

Various factors may affect the ability of borrowers to repay loans in full and many circumstances may affect the Bank's ability to resolve non-performing loans. As a result, actual losses incurred in a problem loan recovery process may also affect the Bank's capital adequacy.

The Board of Directors and the Senior Credit Committee define the credit risk strategy of the Bank and approve both policy changes as well as other enhancements to the credit risk management framework.

In Managing Credit Risk, the Bank has set up clear processes for credit approval that include credit policies and procedures with clear credit concentration limits, approval limits depending on the size of business and/or the size of the credit line as well as credit risk mitigation techniques.

The Risk Management Division comprises the Credit Risk Management function and the Portfolio Management function.

B. Liquidity Risk Management

Liquidity Risk is the risk that the Bank may fail to meet its funding requirements at acceptable rates and appropriate maturities, i.e. available liquid assets cannot cover unexpected liabilities demand.

Liquidity Risk Factors include competition among commercial banks for larger market shares in deposits and coping with an unstable or potentially violent domestic political situation.

Liquidity Management within the Bank focuses on both overall balance sheet structure and the control within prudent limits of risk arising from the mismatch of maturities across the balance sheet and from contingent obligations.

The structure of the Bank's balance sheet is managed to maintain substantial diversification, to minimize concentration across its various deposit sources and to contain the level of reliance on total and net short-term wholesale sources of funds within prudent levels.

The Bank seeks to minimize its liquidity costs in line with market conditions by closely managing its liquidity position daily and on long-term basis. It also considers plans for raising capital in line with market conditions.

C. Market Risk Management

Market Risk is the risk of losses arising from fluctuations in interest rates, foreign exchange rates or the prices of instruments in the money and capital markets, which may affect the financial performance of the Bank.

Interest Rate Risk. The Bank is exposed to interest rate risk as interest rates for assets and liabilities may be adjusted at different times or subject to different contractual maturities or the movements of the interest rates on assets may be inconsistent with those on liabilities, thus impacting on the Bank's net interest spreads.

Interest Rate Risk Factors include market competition, particularly over deposits, which are the primary source of funds for the Bank, thus impacting the Bank's net interest income.

Foreign Exchange Rate Risk arises when the Bank is involved in foreign currency transactions, which may result in deficits or surpluses in the foreign currency position.

Market Risk Management. The Bank manages market risk through its Market Risk Management framework that specifies the global activity and individual limits, together with, but not limited to, stress testing and scenario analysis. Stress testing measures the impact of adverse changes in prices and interest rates on the fair value of the Bank's portfolio.

The Bank generally aims to match foreign currency assets and liabilities. In case of mismatches, the Bank will hedge exposures in various ways like interest rate swaps or forward contracts. The Board of Directors approves the foreign exchange position limits in line with the risk appetite determined by the Asset/Liability Committee (ALCO).

The ALCO operates with support from the Market Risk function, under the Risk Management Division and independent from the business units.

The Treasury Division manages and controls day-to-day trading activities under the supervision of ALCO, which ensures that the level of assumed risks is maintained at or below the approved level.

D. Capital Adequacy Risk Management

Capital Adequacy Risk is the risk that the Bank may not have enough capital and reserves to conduct normal business or to absorb unexpected losses arising from market, credit and operational risk factors.

Capital Adequacy Management policy aims to ensure that the Bank maintains an adequate level of capital to support growth strategies and to meet regulatory requirements and market expectations.

E. Operational Risk Management

Operational Risk is the risk of potential losses from inadequate or failed internal processes, people and systems or from external events.

Operational Risk Management's objective is to ensure that the Bank has in place appropriate policies, processes and procedures and gathers relevant information relating to operational risks so as to avoid operational failures and minimize losses.

The Bank's operational risk control includes the definition of risks, risk assessment, risk monitoring and risk mitigation and control. The primary responsibility of managing operational risks rests with each operating unit in adopting proper internal control measures under the control of the Operational Risk Management Department established within the Risk Management Division.

The Bank is preparing itself to comply with Basle II requirements by managing operational risks in a systematic manner and quantifying these risks to determine capital adequacy. The Bank has restructured its organization, set up an Operational Risk Department, established an Operational Risk Management Policy, identified and started implementing an operational risk management framework. To be able to monitor and prevent operational risk, the Bank is collecting and analyzing data about potential threats of operational nature and is determining appropriate methods for calculating capital reserves in anticipation of operational risks.

The Bank recognizes the importance of Business Continuity Planning in mitigating and avoiding negative impacts from external events and is regularly testing and reviewing business continuity plans.


Mr. Kamal Abi Ghosn


Mr. Jean-Philippe Lefèvre


Dr. Tony J. Ghorayeb


Mr. Samir Tawilé


Mrs. Dolly Merhy


Mr. Khalil Salameh


Mr. Habib Lahoud


Mr. Karim Habib


Mrs. Tania Tayah


Mr. Imad Hasbani


Risk Management Team


Mr. Nakhlé Khoneisser


Dealing room


Mr. Garabed Saboundjian

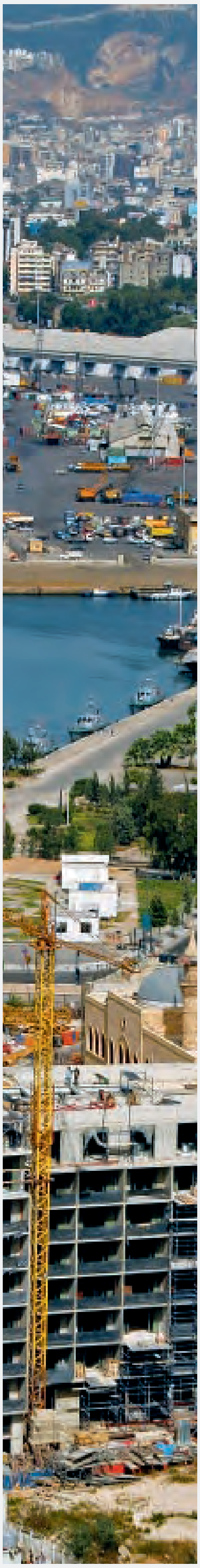

Mr. Ghassan El Rayess


Mr. Sami Najem


Mr. Antoine Assaad


Mr. Elie Hlayel


Mr. Habib Abou Merhy



The year 2006 was a year of extensive economic volatility.
Actually, it started with positive prospects that were reflected in the first half through the flow of Foreign Direct Investments and the improvement in the tourism and real estate sectors. The projected growth in Lebanon's Gross Domestic Product (GDP) was 6%. However, the Lebanese Economy's growth was severly hit by the July 2006 war. In fact,the pace of growth in foreign investments in the country decelerated in the second half of the year which resulted in a 0% real growth in GDP, down from an overall 1% growth recorded in 2005, according to the Ministry of Finance estimates.

Key Factors of the Lebanese Banking Sector 2006

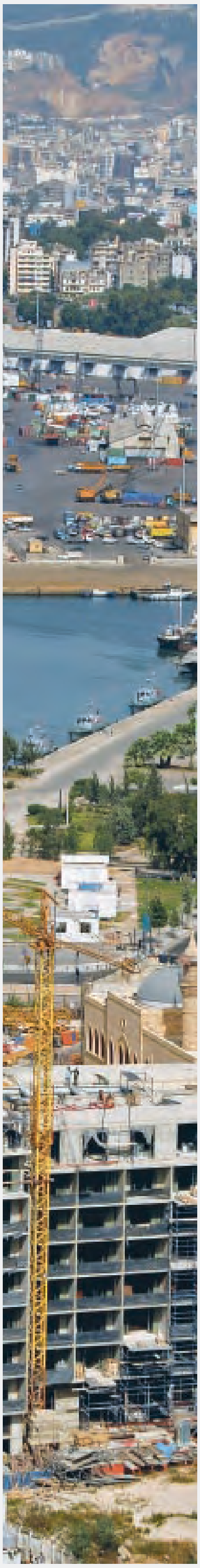
The Lebanese Banking Sector currently represents the main financing source to the local economy, given the weakness of the Capital and Equity Markets. As a matter of fact, the Banking sector represents more than 330% of the Local Economy (Banks Consolidated Assets to GDP).
Besides, despite two chaotic consecutive years, (2005 with the assassination of Prime Minister Hariri, and the July War in 2006), the Lebanese Banking sector overcame the crises, thanks to its healthy risk-management practices, the active collaboration with the Banking Authorities, and the unique Know-How accumulated by the sector in managing wide-scale crises.

Further, the Banking Sector, starting the 1st of January 2008, must be compliant with the Basel II International Banking Regulations. These Regulations, do not only consist in higher capital requirements, but mainly in putting in place a comprehensive approach to identify, measure and manage risks more effectively. These Risks are not new, but the Basel II approach should make our risk taking activities more efficient. As of today, IBL Bank is Basel II ready, as are the majority of Local Banks.

All these combined factors (Size of the Banking sector, Proper crises and Risk Management, Implementation of Basel II) have a positive effect on the strength of the Sector and the confidence he enjoys from both its different stakeholders (Clients, Shareholders, etc.) and from the International Community.

This is reflected in the Banking Sector results:

- Total Lebanese Banking sector Assets reached USD 76.2 billion as at 31 December 2006 as compared to USD 70.3 billion as at 31 December 2005, reflecting an annual increase of 8.3%
- Total Customer deposits held by the Lebanese Banking sector grew by 6.2% in 2006, increasing from USD 58.1 billion as at 31 December 2005 to USD 61.7 billion as at 31 December 2006.
- Total Shareholder's Equity grew from USD 4.3 billion as at 31 December 2005 to USD 5.8 billion as at 31 December 2006, meaning an increase of 36.0%.



IBL Achievements during 2006:

The Consequences of the July 2006 War

- The War definitely hampered the Bank's projected growth, but showed nonetheless the good quality of our deposits and the efficient management of the Crisis.

- In this difficult political situation, the Bank has set up a Disaster Continuity Plan, which would enable us to operate within few hours from a remote location outside Beirut already set up with Adequate Space, Satellite Phones, Direct Access to SWIFT, Direct Access to Reuters System, Online Mirror Database, etc... While key staff and personnel have been trained to perform from this "Hot Site".

Moreover, our Disaster Continuity Plan, also takes into consideration the likelihood of a wider span disaster with the setup of a second "Cold Site" which would be operational within 24 hours.

The Representative Office in Iraq :

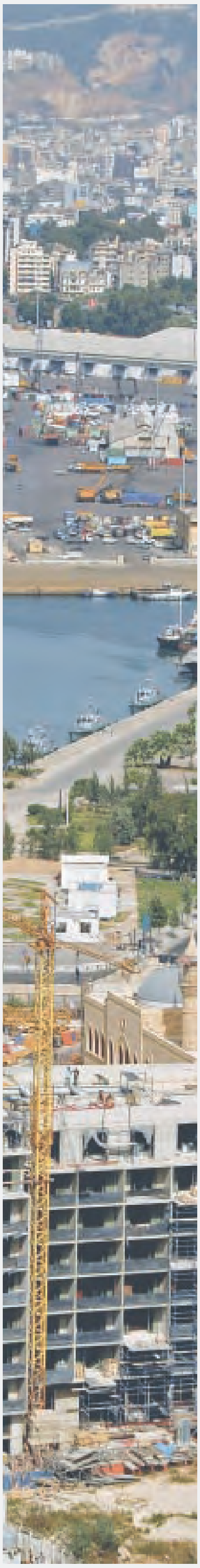
The Bank has inaugurated its representative office in Erbil, Iraq in the Fourth Quarter of 2006.
A team of 5, out of which 3 Lebanese expatriates, are currently managing, on a full-time basis, our office in Erbil.
Our main activity in Erbil consists in "Correspondent Banking", which represents a highly profitable and Low Risk activity. We forecast a steady growth in our activities in Iraq, mainly thanks to our first mover advantage, our close collaboration with the Host Central Bank, and the quality of the service offered.

The Internal Development

A/ Investment in Human Capital

The Year 2006 has been characterized by important investments in Human Capital, as the Bank is aware that Value Creation comes from highly trained, qualified, and motivated staff.
90 managers and staff, which represent 40% of our total employees, assisted to 62 different external seminars throughout the year.
Furthermore, as to implement our Human Capital development strategy, we have put in place an IBL Training Center in Dora equipped with state of the art technologies.

At our Training Center, intensive in-house training have taken place throughout the year to all personnel focusing on Technical Knowledge and Comportmental Behavior with clients.



B/ Retail Banking Program

The Year 2006 was definitely the year of Business Development at our Bank.
In fact, the Bank's clients base grew by nearly 10% as new products and services have been offered:

a) Bancassurance Products: IBL currently offers a complete range of Bancassurance products to its customers at very competitive rates. Indeed we have designed 12 new products in this business line.

b) Retail Loans: A complete range of retail loans are currently available at our Bank's counter (Consumer, Car, Home).

C/ Risk Management Division

IBL Bank have put in place its Risk Management Division in 2006.
This Division is directly attached to the Chairman - General Manager and helps in identifying, quantifying and mitigating the risks our Bank is facing.
We have defined these risks in 3 main branches:

- Credit Risk
- Market Risk
- Operational and Other Risks

In this Division, important investments in Human Capital, and technologies have been realized in 2006 and are expected to continue in the future. Indeed, we believe that adequate risk management would allow us to properly choose our risk taking activities and hence create further value to the Shareholders.

IBL Bank Strategy

Our strategy is focused on a simple yet powerful principle : Value Creation to Shareholders
In our point of view, the best way to implement this strategy is by insuring continuous profitable growth, while diversifying our sources of income and maintaining proper controls in an adequate Corporate Governance Framework.
Practically our strategy is two-folded:

- Local Market Strategy
- Regional Development Strategy

A/ Local Market Strategy

We have set up our development strategy, while taking into consideration Diversification, Growth, Profitability and Controls.
Our Primary strategic target for the Local Market is to increase the size of our Balance Sheet above the USD 2 billion threshold.

We believe this target would be attained by :

- Public Relations of the Management
- Maintaining and expand the relation with existing customers
- Attracting New Clients
- Innovative Deposit-based products
- Branding, which would be enhanced by :
  - ~ The new Logo and Visual Identity of the Bank
  - ~ A comprehensive marketing plan

a) Retail Banking : Our retail banking plan seeks to expand our customers base, while increasing the profitability of our operations and enhancing controls.
Furthermore, the Bank has identified key success factors:

- Attracting new clients with Salaries Domiciliation
- Increasing the number of products sold per client

b) Corporate Banking : The Bank seeks to expand its lending portfolio to top Corporate.

- Currently we are in the final stages of restructuring our Corporate Department
- We seek to attract clients with solid financial background

B/ Regional Development Strategy

Regional development is at the core of our strategy, as it meets our goal of value creation and diversification. Further we have defined a comprehensive Investment Strategy and Control Framework in order to assess our Investment Opportunities.
Our current vision is three-folded:

Iraq : Our current position on the market shows a promising growth. Hence, we are currently studying the possibility of transforming our Representative Office into a Full Branch. The Business would focus on Correspondent Banking and on Selective Retail Banking.

Cyprus : The Central Bank of Lebanon has already approved the opening of a new IBL branch in Limassol, Cyprus. The rationale behind it is:

- To develop international trade finance activities for the Levant countries .
- To serve as part of the Bank's disaster recovery and contingency plan.
- To provide the Bank's customer base with a regulated and secured market.
- To benefit from its proximity to Lebanon.

GCC Area : As it is difficult to obtain a full banking license in the Gulf, we are currently studying different Investment opportunities, such as the opening of a Representation Office or the set up of a Financial Institution which offers near-banking services.

On November 04, 2006, IBL Bank promoted a special event with the "Ordre des dentistes Du Liban Nord".

During this ceremony that was held at the Quality Inn Hotel, Tripoli, IBL presented its wide range of products and services.

Moreover, the launching of its new product "packaged professional loan" was very successful and had a great responsiveness from all attendees.

2006 witnessed the launch of the wide variety of products offered by Intercontinental Bank of Lebanon to guarantee the best value around.
From car loans to car insurance, consumer loans and education plans, we accomodate all the needs of our clients.

Miss Ketty Aoun (Dora Branch Manager) retired after 46 years of loyalty and devotion at Intercontinental Bank Of Lebanon, as well as Mr. Mahfouz El Jamal (Assistant Branch Manager – Dora) after 44 years at the Bank.

As a token of recognition, the Bank celebrated their retirement at a special yet bittersweet event at the Metropolitan Hotel.

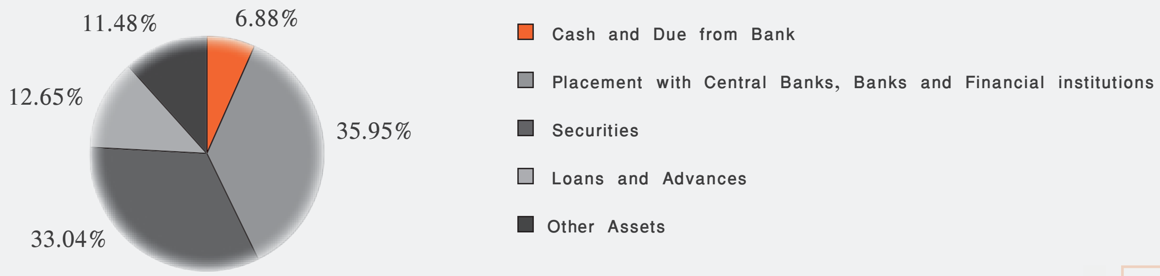
Management Analysis

KEY FIGURES (in millions of LBP)

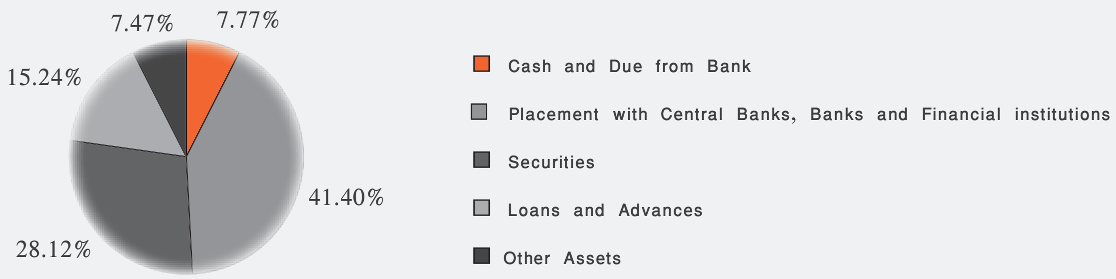
AS AT 31 DECEMBER	2006 million LBP	%GROWTH 2005/2006	2005 million LBP	%GROWTH 2004/2005	2004 million LBP	%GROWTH 2003/2004	2003 million LBP	%GROWTH 2002/2003	2002 million LBP
Total Assets	2428626	7.18	2265946	-1.21	2293649	53.34	1495780	48.19	1009384
Customer Deposits	2090610	4.49	2000810	-3.41	2071507	56.80	1321078	50.80	876056
Shareholders' Equity	149445	69.10	88377	36.65	64673	21.96	53027	37.70	38510
Loans & Advances to Customers	307248	-11.07	345503	2.34	337618	45.63	231829	6.86	216939
Net Profit for the Year	25689	31.41	19549	29.90	15049	30.19	11559	115.45	5365
Liquidity Ratio in LBP	108.2		104.27		101.77		102.23%		100.02%
Liquidity Ratio in FCY	76.85		69.31		70.35		68.79%		64.88%
Liquidity Ratio in LL & FCY	91.1		86.65		87.07		83.39%		76.29%
Return on Average Assets	1.25%		0.98%		0.92%		1.07%		0.73%
Return on Average Equity	26.72%		33.01%		33.04%		30.98%		17.00%

NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

	END 2006
Cash and Due from Banks	6.88%
Placements with Central Bank, Banks and Financial institutions	35.95%
Securities	33.04%
Loans and Advances	12.65%
Other Assets	11.48%
	100.00%



	END 2005
Cash and Due from Banks	7.77%
Placements with Central Bank, Banks and Financial institutions	41.40%
Securities	28.12%
Loans and Advances	15.24%
Other Assets	7.47%
	100.00%



NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

"Cash and due from banks", which represents 6.88% of total assets as at december 2006 as compared to 7.77% as at december 2005, are constituted up to 84.23% in december 2006 of compulsory reserves with the lebanese central bank as compared to 80.94% in december 2005.

"Placements with central bank, banks and financial institutions" decreased from 41.40% of total assets as at the year ending december 2005 to 35.95% as at the year ending december 2006.

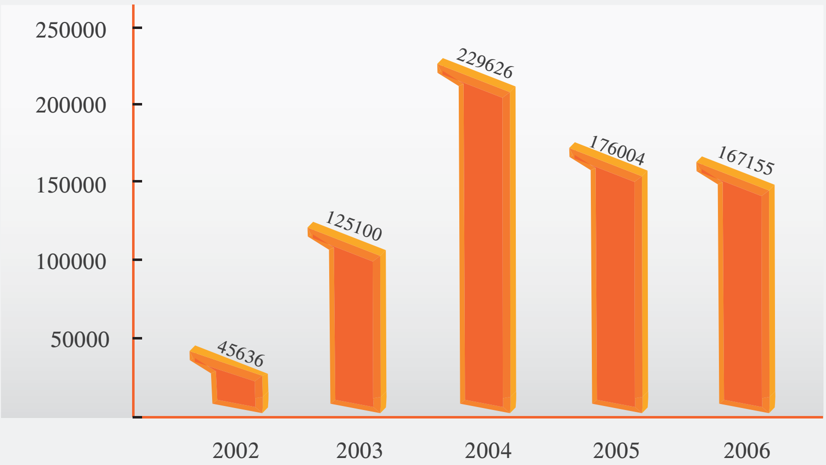
"Securities" include bonds and certificates of deposit that are classified as available for sale and held to maturity: the share of securities increased from 28.12% of total uses of funds at the year end 2005 to 33.04% at the year end 2006.

"Loans and advances" share decreased from 15.24% to 12.65% between december 2005 and december 2006 and this decrease reflects the bank's prudent lending policy.

"Other assets" consist of accrued interests receivable relating mainly to the interest accrued on central bank deposits in lebanese pounds.

CASH AND DUE FROM BANKS (in millions of LBP)

2002	2003	2004	2005	2006
45636	125100	229626	176004	167155



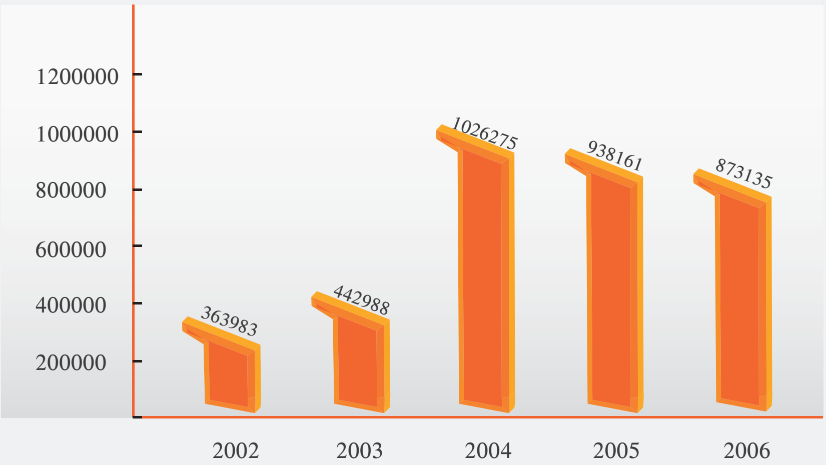
NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

"Cash and Due from Banks" comprises non-interest bearing balances held by IBL with the Central Bank of Lebanon in compliance with the banking laws and regulations in Lebanon which require banks to maintain cash compulsory reserve in Lebanese Pounds (non-interest bearing) representing 15% to 25% of the deposits in Lebanese Pounds and in foreign currencies representing 15% of the deposits in foreign currencies (interest bearing).

"Cash and Due from Banks" also includes demand deposits with commercial banks which represented 6.99% of total "Cash and due from Banks" as at December 31, 2006.

PLACEMENTS WITH CENTRAL BANK, BANKS AND FINANCIAL INSTITUTIONS (in millions of LBP)

2002	2003	2004	2005	2006
363983	442988	1026275	938161	873135



NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

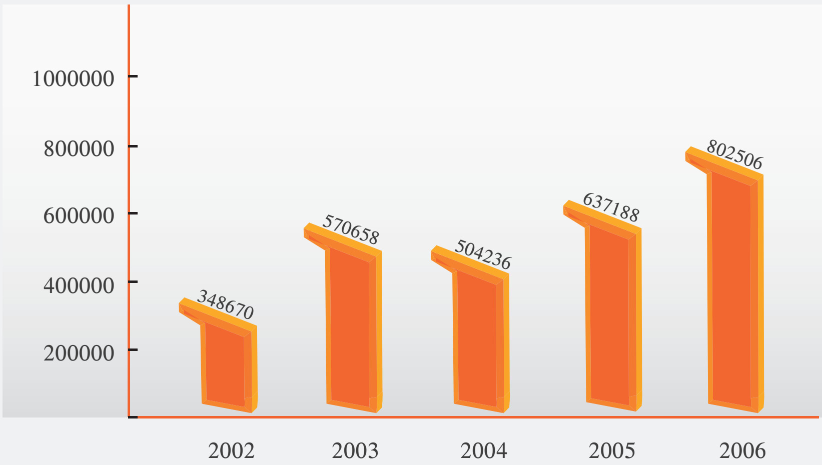
Time deposits with the Central Bank as at end of year 2006 constituted 87.80% of the total "Placements with Central Bank, Banks and Financial Institutions" compared to 85.99% as at end of year 2005.

Time deposits with the Central Bank decreased by 7.45% during 2006, following the Bank's strategy of seeking higher Assets diversification.

As at end of year 2006, 67.77% of "Placements with Central Bank, Banks and Financial Institutions" were in Lebanese Pounds.

SECURITIES (in millions of LBP)

2002	2003	2004	2005	2006
348670	570658	504236	637188	802506



NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

The Bank's portfolio "Securities" constituted 33.04% of total uses of funds as at 31 December 2006 as compared to 28.12% as at 31 December 2005.
It is divided into the following categories:

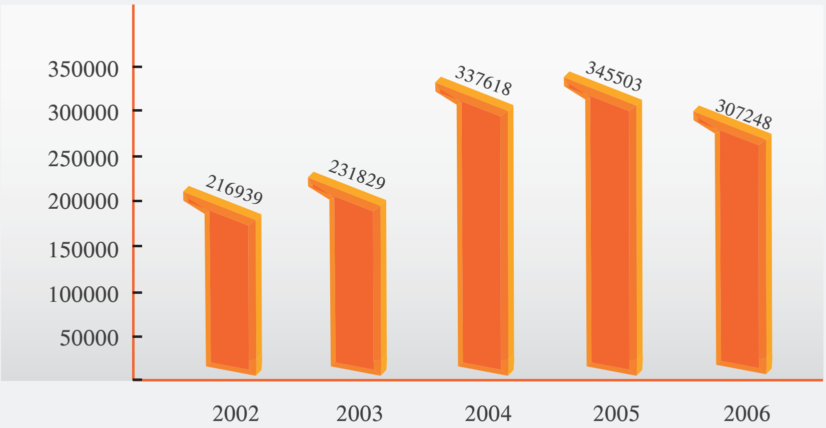
A/ Held to maturity securities
B/ Available for sale securities

Held to maturity investments are non-derivative assets with determinable payments and fixed maturity, that the bank has the positive intent to hold to maturity.
They are carried at amortized cost using the straight line method.
Lebanese Government Eurobonds constitute 89.27% of total Held-to-maturity securities.
The balance also includes Discounted Treasury Bills which are pledged against the soft loan taken with an amount of LBP 22 000 million.

Available for sale investments are non-derivative assets that are not designated as another category of financial assets.
They are carried at fair value and unrealized gains or losses are included in equity.
Available-for-sale securities are mainly constituted of Certificates of deposits issued by the Central Bank of Lebanon in a percentage of 63.53% and Lebanese Government Bonds in a percentage of 33.67%.

LOANS AND ADVANCES TO CUSTOMERS (in millions of LBP)

2002	2003	2004	2005	2006
216939	231829	337618	345503	307248



NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

As shown in the column chart above, total loans and advances decreased by 11% during 2006, from LBP 345503 million at the end of 2005 to LBP 307248 million at the end of 2006.

This demonstrates the conservative lending policy that our bank followed during 2006 to preserve high liquidity ratios.

Therefore, the bank maintained a low net loans and advances to total deposits ratio of 14.69% in 2006, compared to 17.27% in 2005.

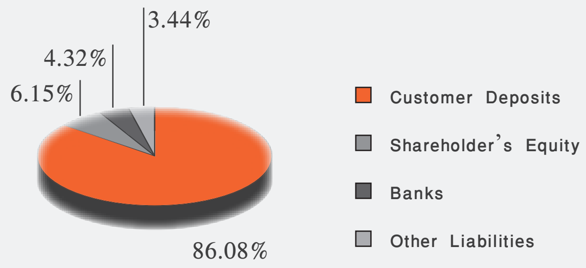
Loans and advances as at December 31, 2006 are allocated between residents and non-residents to the extend of 92% and 8% respectively.

Short term loans and advances to customers constituted, as at December 31, 2006, 82.81% of the total loan portfolio.

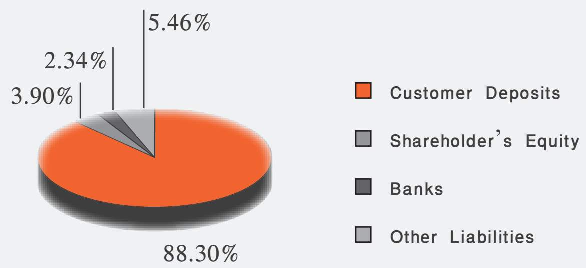
Loans and advances include advances against pledged accounts in the amount of LBP 144400 million as of December 31, 2006 meaning 41.8% of the total loan portfolio.

SOURCES OF FUNDS (in millions of LBP)

	END 2006
Customer Deposits	86.08%
Shareholder's Equity	6.15%
Banks	4.32%
Other Liabilities	3.44%
	100.00%



	END 2005
Customer Deposits	88.3%
Shareholder's Equity	3.90%
Banks	2.34%
Other Liabilities	5.46%
	100.00%



NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

The Bank's efforts in 2006 were focused on enhancing its sources of funds, by strengthening its capital base, which reached a satisfactory level of 6.15%.

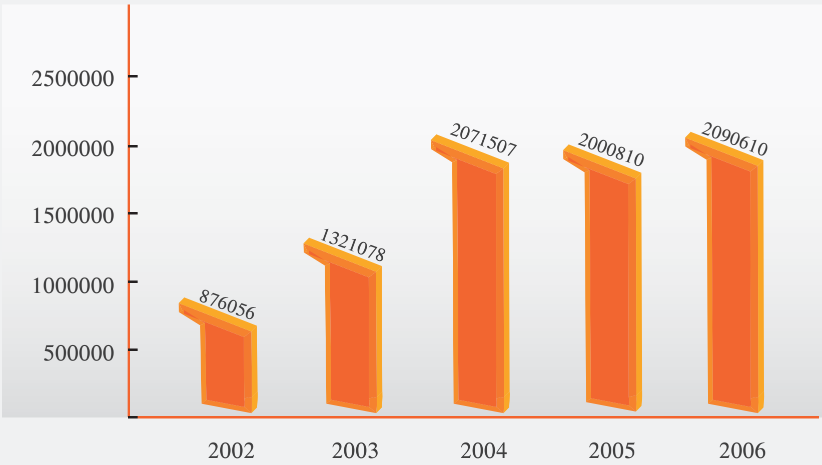
This increase is mainly due to the issue of IBL series 1 preferred shares and to an increase of 31.41% of the financial result of the year.

Funding is still predominantly based on customer deposits whose share slightly decreased from 88.30% to 86.08% at the end of 2006.

Banks and financial institutions accounted for 4.32% of total funding at year end 2006 as compared to 2.34% in 2005, showing hence a better diversification in the Bank's sources of funds.

CUSTOMER DEPOSITS (in millions of LBP)

2002	2003	2004	2005	2006
876056	1321078	2071507	2000810	2090610



NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

In 2006, customer deposits grew by LBP 89800 million or by 4.48% in percentage terms to reach a total of LBP 2090610 million as at December 31, 2006.
This slower growth is due to the Bank's decision to consolidate its expansion and to focus on enhancing the Bank's profitability and restructuring its organization.

The Bank's total deposits constitute the main portion of the Bank's total liabilities and as percentage of total assets, total customer deposits represents 86.08% as at December 2006, as compared to 88.30% as at December 2005.

As at December 31, 2006 customer deposits held in foreign currencies represented 54.40% of total customer deposits, as compared to 49.83% as at December 31, 2005.
This increase in the dollarisation rate of deposits is in line with the trend shown by the Lebanese Banking sector whose deposits dollarization rate increased from 73.13% as at year-end 2005 to 76.21% as at year-end 2006 as a result of some customers shifting their deposits from Lebanese Pounds to Foreign Currency.
The Bank's Foreign Currency Deposits primarily comprise time deposits and saving accounts.

SHAREHOLDERS EQUITY (in millions of LBP)

2002	2003	2004	2005	2006
38510	53027	64673	88377	149445

NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

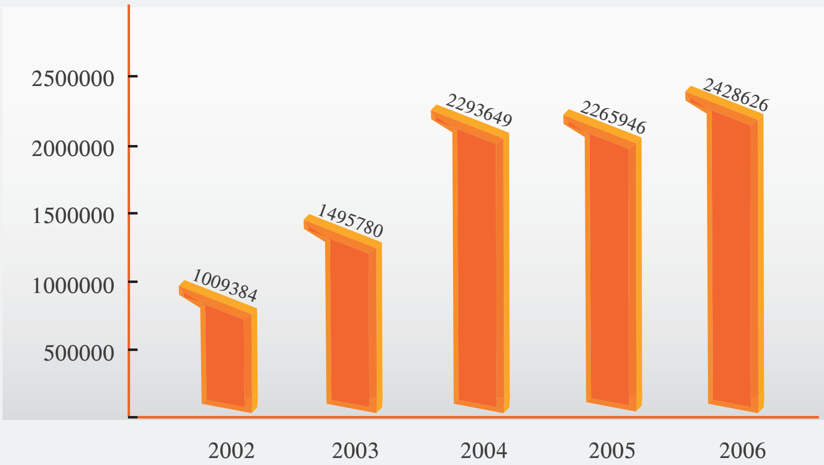
The Bank's equity grew between 2005 and 2006 by LBP 61068 million representing an increase of 69.10%, as compared to an increase of 36.65% between 2004 and 2005.

Actually, during 2006, IBL was the second most growing bank in terms of shareholders equity, as compared to the Alpha Group (Group constituted of the top Lebanese banks) according to Bankdata statistics.
This increase in the Bank's equity is due to the incorporation of the net profits of the year and especially to the successful issuing of the Series 1 Preferred Shares which constitutes a part of Tier I capital.
In April 2006, IBL issued 840000 Non-Cumulative, Convertible Redeemable Series 1 Preferred Shares for an aggregate amount of USD 25200000. The issue was realized at a nominal value of LBP 7500 for each preferred share and an aggregate share premium, which amounted to LBP 31660 million.

Distributions to the holders of Series 1 Preferred Shares on account 2006 and subsequent years shall be payable, in an aggregate amount equivalent to 13.86% of the Bank's Distributable Net Profit for the year, subject to a minimum of 8.50% and a maximum of 12% of the Issue Price.
For the year 2006 a Dividends yield of 9.37% of the issue price was distributed to the holders of IBL Series 1 Preferred Shares.

TOTAL ASSETS (in millions of LBP)

2002	2003	2004	2005	2006
1009384	1495780	2293649	2265946	2428626



NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

As at 31 December 2006, total assets amounted to LBP 2428626 million as compared to LBP 2265946 as at 31 December 2005, reflecting an increase of LBP 162680 million or 7.19% in terms of percentage.

This increase in our total assets is primarily due to the increase in the shareholders' equity after incorporation of the profits and after the successful issuing of our Series 1 preferred shares.

Breakdown of Intercontinental Bank of Lebanon's total assets:

1- Total Cash and Due from Banks slightly decreased in 2006 by 5.03%.
2- Placements with Central Bank, Banks and Financial Institutions decreased by 6.94% in 2006.
3- Total Securities increased by 25.94% in 2006.
4- Other Assets increased by 64,75% during 2006. Other Assets, mainly reflect the accrued interest receivable on Bank accounts and deposits.

LIQUIDITY RATIO

	2002	2003	2004	2005	2006
IN LBP & FCY	76.29%	83.39%	87.07%	86.65%	91.10%

NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

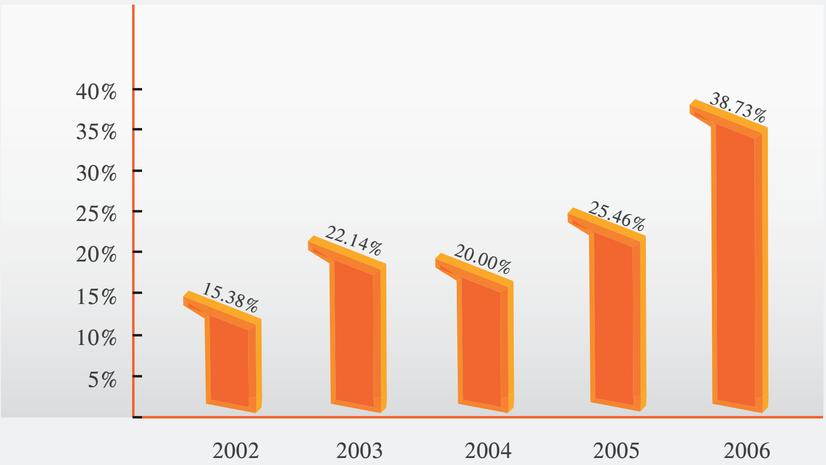
The Bank's strategy regarding Liquidity is to remain highly liquid, hence minimizing risks and ensuring high asset quality.
In fact, the Bank maintained in 2006 a high level of liquidity by local and international standards with a total liquidity ratio in both LBP and FCY of 91.10% as at December 2006 as compared to 86.65% as at December 2005.

At the year ended December 2006, the liquidity ratio in foreign currencies was 79.85% whereas the liquidity ratio in Lebanese Pounds was 108.20% meaning an available liquidity covering LBP deposits in total.

Our Bank, along with all Lebanese Banks, witnesses mismatches in maturities. While the gap is negative for maturities of up to one year, it turns back positive for maturities of over one year.

CAPITAL ADEQUACY RATIO

	2002	2003	2004 consolidated	2005 consolidated	2006 consolidated
	15.38%	22.14%	20.00%	25.46%	38.73%
REQUESTED BY BDL	8%	12%	12%	12%	12%



NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

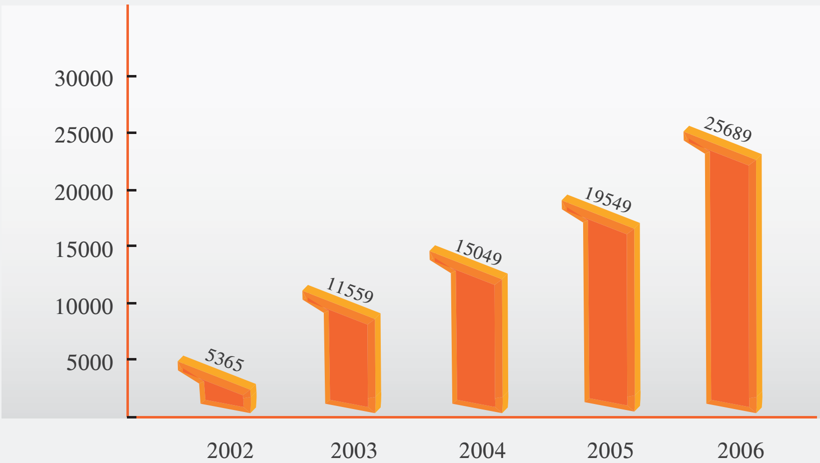
While the Lebanese Central Bank requires having a minimum Capital Adequacy Ratio of 12%, the Bank has a significant cushion of regulatory capital above the minimum required.

As at December 31, 2006, the Bank's consolidated Capital Adequacy Ratio was 38.73% (after dividend distribution) as compared to 25.46% as at December 31, 2005.

This increase is mainly due to the successful issuing of our first Series 1 Preferred shares (Tier 1 capital) which increased the Bank's shareholders equity by USD 25.2 million, and to the incorporation of the net profits of the year which increased by 31.40%.

PROFITABILITY (in millions of LBP)

	2002	2003	2004	2005	2006
NET PROFITS OF THE YEAR	5365	11559	15049	19549	25689



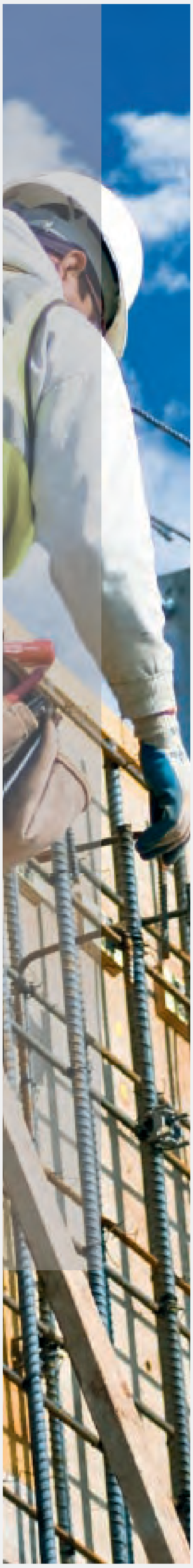
NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

Net profits in 2006 increased by 31.40% year-on-year to LBP 25689 million as compared to LBP 19549 million in 2005.

Return on average equity (ROAE) decreased in 2006 to 26.72% down from 32% in 2005.
This is due to the issue of USD 25.2 million of Tier I perpetual preferred shares in 2006, which led to an increase of 69.1% in the Bank's shareholders' equity.

In fact, the Bank's ROAE excluding the preferred shares would be 33.30% in 2006 as compared to a ROAE of 32% in 2005.

The Bank's Return on average assets (ROAA) increased to 1.21% in 2006 up from 0.98% in 2005 while total assets increased by 7.18%.



THE ORDINARY GENERAL ASSEMBLY - HELD ON AUGUST 20, 2007

RESOLUTION 1:

The Ordinary General Assembly, after listening to the reports of the Board of Directors and the external Auditors regarding the accounts of the year 2006, and after reviewing the balance sheet and the profit and loss accounts for the same year, decided:

The ratification of the reports, the balance sheet and all other accounts of the Bank relating to the fiscal year ending on 31/12/2006.

Decision taken unanimously.

RESOLUTION 2 :

The Ordinary General Assembly, after taking note of the net profits realized during 2006, which amounted to LBP 25 688,652,338 decided:

1) The Distribution of approximately USD 2,400,000 to the holders of series 1 preferred shares, amount which represent 13.86% of the net non consolidated profits of the Bank pursuant to the first decision (Item 5) of the Extraordinary General Assembly held on December 27, 2005.

2) The distribution of approximately USD 2,000,000 what is the equivalent of LBP 3,000,000,000 from these profits to the Common Shareholders in proportion of their participation in the Bank's Capital.

It was also decided to transfer the remaining balance of the net profits of the year 2006 to retained earnings (previous results).

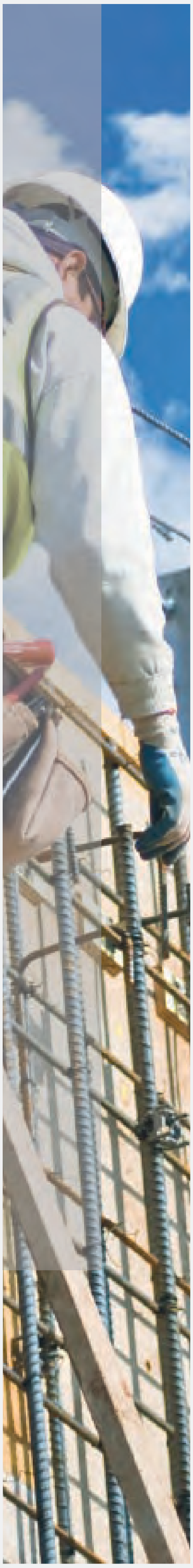
Decision taken unanimously.

RESOLUTION 5:

The Ordinary General Assembly, after going through the reports of the Board of Directors and the external Auditors in compliance with article 158 of the Code of Commerce, and article 152 paragraph 4 of the Code of Money and Credit, decided:

The ratification of the activities carried out in accordance to the above-mentioned laws, and renewal of the prior authorization given to the Directors to act according to those articles, in addition to the prior authorization of article 159 of the Code of Commerce.

Decision taken unanimously.



THE EXTRAORDINARY GENERAL ASSEMBLY - HELD ON AUGUST 20, 2007

RESOLUTION 1 :

The Extraordinary General Assembly, after being aware of the Board of Directors proposal to increase the Bank's capital and its justifications, and , in accordance with item 7 of the Articles of Association, decides to increase the Bank's capital from LBP 52.9 billion to LBP 66.4 billion, and this by transferring the amount from the accounts of legal reserve and retained earnings.

New shares will be distributed to the actual common shareholders according to the percentage of their participation in the total of the common shares.

Decision taken unanimously.

RESOLUTION 5:

The Extraordinary General Assembly, in accordance with the Board of Directors proposal, and pursuant to the item 7 of the Articles of Association, decides to increase the Bank's capital from LBP 66.4 billion to LBP 84.0 billion.

This increase will be paid in cash by the actual common shareholders.

Decision taken unanimously.

CORRESPONDENT	CITY	SWIFT CODE
National Bank of Abu Dhabi	Abu Dhabi	NBADAEAA
The Housing Bank for Trade & Finance	Amman	HBHOJOAX
Jordan Ahli Bank PLC	Amman	JONBJOAX
Bank Austria Creditanstalt AG	Austria	BKAUATWW
Bank of Baghdad	Baghdad	BABIIQBA
Iraqi Middle East Investment Bank	Baghdad	IMEBIQBA
ING Belgium SA/NV	Brussels	BBRUBEBB010
Byblos Bank Europe SA	Brussels	BYBBBEBB
Danske Bank A/S	Copenhagen	DABADKKK
Doha Bank	Doha	DOHBQAQA
BLC Bank (France) SA	Dubai	LICOAEAD
Mashreq Bank	Dubai	BOMLAEAD
Central Bank of Kurdistan Region Minare Bank	Erbil	XXXXXXXX
Deutsche Bank AG	Frankfurt	DEUTDEFF
Dresdner Bank AG	Frankfurt	DRESDEFF
Commerzbank AG	Frankfurt	COBADEFF
Bankmed (Suisse) SA	Geneva	MEDSCHGG
SG Private Banking (Suisse) SA	Geneva	BCLACH22
Banque Cantonale de Genève	Geneva	BCGECHGG
The National Commercial Bank	Jeddah	NCBKSAJE
The Commercial Bank of Kuwait	Kuwait	COMBKWKW
Wachovia Bank, NA	London	PNBPGB2L
EFG Private Bank Ltd	London	EFGBGB2L
Banco Popular Español	Madrid	POPUESMM
Banco de Sabadell SA	Madrid	ATLAESMM
Intesa Sanpaolo spa (formerly Banca Intesa spa)	Milano	BCITITMM
The Bank of New York	New York	IRVTUS3N
Wachovia Bank, NA	New York	PNBPUS3NNYC
Bank of Cyprus Public Company LTD	Nicosia	BCYPCY2N
DNB Nor Bank ASA	Oslo	DNBANOKK
BLC Bank (France) SA	Paris	LICOFRPP
Banque Audi Saradar (France) SA	Paris	AUDIFRPP
Al Rajhi Bank (Head office) SA	Riyadh	RJHISARI
Banca Nazionale del Lavoro SPA	Roma	BNLIITRR
Skandinaviska Enskilda Banken	Stockholm	ESSESESS
The Commonwealth Bank of Australia	Sydney	CTBAAU2S
The Bank of New York	Tokyo	IRVTJPJX
IntesaBCI S.P.A.	Tokyo	BCITJPJT
The Royal Bank of Canada	Toronto	ROYCCAT2
Rabobank Nederland	Utrecht	RABONL2U

Financial Statements and Auditor's Report
Year Ended December 31, 2006

BT 32289/DTT

To the Shareholders
Intercontinental Bank of Lebanon S.A.L.
Beirut, Lebanon

We have audited the accompanying financial statements of INTERCONTINENTAL BANK OF LEBANON S.A.L., which comprise the balance sheet as at December 31, 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.
The financial statements as of, and for, the year ended December 31, 2005 were audited by another audit firm who issued an unqualified audit opinion thereon, dated April 30, 2006.

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 the Bank as of December 31, 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Beirut, Lebanon
July 24, 2007

Deloitte & Touche

ASSETS	Notes	December 31, 2006 LBP'000	December 31, 2005 LBP'000
Non-interest earning compulsory reserves	6	140,795,142	142,456,895
Cash and due from banks	7	26,359,645	33,546,708
Placements with the central bank, banks and financial institutions	7	873,134,583	938,161,276
Available-for-sale securities	8	593,546,439	503,897,337
Held-to-maturity securities	8	208,959,488	133,290,647
Loans and advances	9	307,248,949	345,503,153
Investment in a subsidiary	10	18,244,302	11,291,224
Banks' acceptances		3,436,891	6,258,720
Accrued interest and other assets	11	242,198,790	143,612,151
Assets acquired in satisfaction of debts	12	9,795,091	2,718,493
Property and equipment	13	4,907,117	5,208,956
Total Assets		2,428,626,437	2,265,945,560

FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS:

	2006	2005
Letters of guarantee	40,583,062	41,081,113
Letters of credit	30,906,158	29,174,158
Forward exchange contracts	16,518,050	92,094,210

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

LIABILITIES	Notes	December 31, 2006 LBP'000	December 31, 2005 LBP'000
Banks and financial institutions:			
• Demand deposits	14	23,467,287	12,832,341
Loans from banks		80,997,555	39,265,060
Loans from financial institutions		527,625	1,017,563
		104,992,467	53,114,964
Customers' deposits and other credit balances:	15		
• Demand deposits		101,498,901	207,382,140
• Saving accounts		1,071,468,260	977,047,179
• Time deposits		646,213,418	538,491,511
• Related parties		6,659,728	826,252
Pledged accounts		200,704,740	201,296,133
• Other credit balances		64,065,009	75,767,330
		2,090,610,056	2,000,810,545
Central Bank Soft Loan	16	22,000,000	22,000,000
Miscellaneous creditors	17	30,402,612	65,704,916
Engagements by acceptances		3,436,891	6,258,720
Accrued interest and other liabilities	18	18,757,298	22,111,411
Provisions	19	2,832,345	2,034,321
Subordinated loan	20	6,149,542	5,533,351
		83,578,688	123,642,719
Total liabilities		2,279,181,211	2,177,568,228
EQUITY			
Common shares	21	46,557,248	46,557,248
Preferred shares	22	6,300,000	-
Preferred share premium	22	31,657,500	-
Legal reserve	23	4,178,944	1,936,131
General reserve	23	3,475,654	2,839,419
Asset revaluation surplus	24	3,634,712	3,689,336
Cumulative change in fair value of			
available-for-sale securities	8	1,288,534	2,598,821
Retained earnings		22,990,060	8,328,250
Net income for the year		29,362,574	22,428,127
Total equity		149,445,226	88,377,332
Total Liabilities and Equity		2,428,626,437	2,265,945,560

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

	Notes	Year Ended December 31, 2006 LBP'000	2005 LBP'000
Interest income:			
Loans and advances		26,299,008	23,998,333
Securities		71,140,811	71,095,186
Deposits with banks		107,491,440	96,176,601
		204,931,259	191,270,120
Interest expenses:			
Customers' deposits and credit balances			
from customers	15	142,305,072	137,170,511
Deposits from banks		6,718,294	5,401,086
Other interest expense		1,043,172	1,072,006
		150,066,538	143,643,603
Net interest income		54,864,721	47,626,517
Provision for credit losses (less write-back)	9	(2,751,702)	(5,474,002)
Provisions for loans assessed collectively	9	(1,101,917)	(430,636)
Net interest income after loans provision		51,011,102	41,721,879
Commissions, fees and other revenues, net	26	2,042,476	1,608,163
Exchange gain (net)		1,590,919	1,748,299
Net financial revenues		54,644,497	45,078,341
Other expenses:			
Salaries and related charges	27	(9,625,349)	(8,686,991)
General operating expenses	28	(8,967,769)	(7,274,879)
Provision on impairment in subsidiary		-	(1,000,000)
Provision for depreciation of assets			
Acquired in satisfaction of debts		(108,167)	(182,222)
Depreciation and amortization		(1,404,818)	(1,353,073)
Other revenues/expenses (net)		183,589	(18,746)
		(19,922,514)	(18,515,911)
Net income, before income tax		34,721,983	26,562,430
Income tax expense	17	(5,359,409)	(4,134,303)
Net income for the year	25	29,362,574	22,428,127

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

Statement of Changes in Shareholder's Equity

	Notes	Common Share LBP'000	Preferred Shares LBP'000	Preferred Share Premiums LBP'000	Legal Reserve LBP'000	General Reserves LBP'000	Revaluation Surplus LBP'000	Available -for-sale Securities LBP'000	Cumulative Change in Fair Value Retained Earnings LBP'000	Net Income for the Year LBP'000	Total Equity LBP'000
Balance, December 31, 2005		46,557,248	-	-	1,936,131	2,839,419	3,689,336	2,598,821	8,328,250	22,428,127	88,377,332
Change in fair value of available-for-sale securities (net of deferred tax)			-		-			(1,310,287)	-	-	(1,310,287)
Decrease of assets revaluation surplus upon disposal		-	-	-	-	-	(54,624)	-	-	-	(54,624)
Net income for the year 2006		-	-	-	-	-	-	-	-	29,362,574	29,362,574
Comprehensive income 2006		-	-		-	-	(54,624)	(1,310,287)	-	29,362,574	27,997,663
Issuance of preferred shares	22	-	6,300,000	-	-	-	-	-	-	-	6,300,000
Preferred shares	22	-		31,657,500	-	-	-	-	-	-	31,657,500
Dividends declared during 2006		-	-	-	-	-	-	-	(4,887,269)	-	(4,887,269)
Allocation of 2005 net income	25	-	-		2,242,813	636,235	-	-	19,549,079	(22,428,127)	-
Balance, December 31, 2006		46,557,248	6,300,000	31,657,500	4,178,944	3,475,654	3,634,712	1,288,534	22,990,060	29,362,574	149,445,226

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

	Notes	Year Ended December 31, 2006 LBP'000	2005 LBP'000
Cash flows from operating activities:			
Net income for the year		29,362,574	22,428,127
Adjustments to reconcile net income to net cash			
provided by/(used in) operating activities:			
Provision for credit losses (less write-back)		2,751,702	5,474,002
Provision for loans assessed collectively		1,101,917	421,016
Depreciation and amortization		1,404,818	1,353,073
Provision for impairment of investment in subsidiary		-	1,000,000
Provision for assets acquired in satisfaction of debts		108,167	182,222
Accretion of Lebanese treasury bills		(415,034)	(378,989)
Gain on sale of property and equipment		(67,657)	(3,478)
Increase in provisions		885,451	295,459
Settlements of provisions		(87,427)	(108,626)
(Decrease)/Increase in miscellaneous creditors		(35,302,304)	21,638,285
Increase in accrued interest and other assets		(98,752,269)	(55,580,095)
(Decrease)/Increase in accrued interest and other liabilities		(3,354,113)	4,535,770
Net cash (used in)/provided by operating activities		(102,364,175)	1,256,766
Cash flows from investing activities:			
Securities		(166,213,196)	(59,988,509)
Loans and advances		27,009,130	(26,594,539)
Placements with banks and financial institutions		65,026,693	88,113,717
Proceeds from sale of assets acquired in satisfaction of debts		206,690	365,574
Proceeds from sale of Property and equipment		270,319	47,575
Property and equipment		(1,194,635)	(1,248,139)
Investment in a subsidiary		(6,953,078)	-
Net cash (used in) / provided by investing activities		(81,848,077)	695,679
Cash flows from financing activities:			
Customers' deposits and other credit balances		89,799,511	(65,486,536)
Banks and financial institutions		51,877,503	16,675,101
Capital		-	16,557,248
Preferred shares		6,300,000	-
Preferred share premium		31,657,500	-
Dividends paid		(4,887,269)	(17,880,415)
Subordinated loan		616,191	(827,988)
Net cash provided by/(used in) financing activities		175,363,436	(50,962,590)
Net decrease in cash and cash equivalents		(8,848,816)	(49,010,145)
Cash and cash equivalents -- Beginning of year	30	176,003,603	225,013,748
Cash and cash equivalents -- End of year	30	167,154,787	176,003,603

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

1. OBJECTIVE AND ACTIVITIES OF THE BANK

Intercontinental Bank of Lebanon S.A.L. was established in 1961 and registered in the Lebanese commercial register under No. 10472 and in the list of banks published by the Central Bank of Lebanon under No. 52.

The Bank provides banking services through a network of thirteen branches. Six branches are located in Beirut and the seven others are spread in different regions across the Lebanese territory. The Bank's headquarter is located in Beirut, Central District.

The Bank owns 99.97% of the capital of Al Ittihadiah real estate S.A.L. which owns the headquarters and some branches.
The Bank has two representative offices, in Brazil and in Iraq.

2. BASIS OF PREPARATION

A. Statement of Compliance:

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

During the year 2006, the Bank adopted the amendments to IAS39 financial guarantees as mentioned in Note 3J. This amendment has been applied effective 2006 and had a negative impact on 2006 reported profits by LBP107million.

B. Basis of Measurement:

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

- Lands and buildings acquired before 1996 are measured at fair value based on 1996 market value.
- Available-for-sale financial assets are measured at fair value.

C. Functional and Presentation Currency:

These financial statements are presented in Lebanese Pounds which is the Bank's reporting currency. However, the currency of the economical environment in which the Bank operates is the U.S. Dollar.

D. Use of Estimates and Judgments:

The preparation of financial statements requires management to make hypothesis, judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Significant estimates are detailed in Note 4.

3. Summary of Significant Accounting Policies

The significant accounting policies are summarized as follows:

A. Foreign Currencies:

Transactions in foreign currencies, including those involving revenues and expenses, are recorded at the prevailing exchange rates. Monetary assets and liabilities denominated in foreign currencies are retranslated into Lebanese Pounds at the market rates of exchange prevailing at the balance sheet date as published by the Central Bank of Lebanon. Translation gains and losses are included in the income statement.

Cash flows provided and used in foreign currencies under various activities as included in the statement of cash flows, are converted into Lebanese Pounds at year-end exchange rates. Cash and cash equivalents at the beginning of the year are converted at prior year closing exchange rates.

B. Financial assets and Liabilities:

Recognition and Derecognition:

The Bank initially recognizes loans and advances and deposits on the date that they are originated. All other financial assets and liabilities are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.
The Bank derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset.

Offsetting:

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

Fair Value Measurement:

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets plus incremental direct transaction costs. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models.

Impairment of Financial Assets:

At each balance sheet date the Bank assesses whether there is objective evidence that a financial asset not carried at fair value through profit or loss is impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against assets. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss such as the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset.

Impairment losses on available-for-sale investment securities are recognized by transferring the difference between the amortized acquisition cost and current fair value out of equity to profit or loss. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss. However, impairment is not reversed where the available-for-sale asset is an equity instrument reflected at cost.

C. Investment Securities:

Investment securities are initially measured at fair value plus incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity or available-for-sale.

Held-to-Maturity Securities:

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

Held-to-maturity investments are carried at amortized cost using the straight line method which approximates the effective interest method.

Available-for-Sale Securities:

Available-for-sale investments are non derivative investments that are not designated as another category of financial assets. Equity securities classified by the Bank as available-for-sale that are not quoted in an active market and whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value and unrealized gains or losses are included in equity.

Debt securities exchanged against securities with longer maturities with similar risks, and issued by the same issuer, are not derecognized 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.

Due to the non-availability of the financial information about fair value in certain situations, equity securities, which represent less than 20% of the total voting rights, are presented at cost less any provision for other than temporary decline in the value of the security which is included in the income statement.

D. 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 measured at amortized cost less unearned interest and provision for credit losses where applicable.

Bad and doubtful loans are carried on a cash basis because of doubts and the probability of non-collection of principal and/or interest.

E. Property and Equipment:

Property and equipment, except for land and buildings acquired after 1997, are stated at historical cost, less accumulated depreciation and impairment loss, if any. Land and building acquired before 1997 are stated at their revalued amounts, less accumulated depreciation and impairment loss, if any. Resulting revaluation surplus is reflected under “Equity”.

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 as follows:

Buildings	2.5%
Freehold improvements	25.0%
Furniture and fixtures	7.5%
Computer equipment	13-20%
Vehicles	15.0%

F. Impairment of Tangible and Intangible Assets:

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 of the asset or the cash generating units to which the asset belongs is estimated in order to determine the extent of impairment loss, if any.

Recoverable amount is the higher of fair value, less costs to sell and value in use.

Value in use represents the estimated future cash flows generated by the continuous of the asset discounted to their present value using an appropriate discount rate.

If the recoverable amount of an asset is estimated less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount, and an impairment loss is recognized in the income statement unless the asset has been revalued, then the impairment loss is deducted from the revaluation surplus.

If an asset's impairment loss booked in previous periods is written back, the asset's book value is raised to the extent of its recoverable amount providing that the raise does not exceed the book value in case there are no impairments for previous periods. The write back is recognized in the income statement unless the asset has been revalued, then the impairment loss is added to the revaluation surplus.

G. Employees' End-of-Service Indemnities:

Contributions paid regularly by the Bank to the Lebanese National Social Security Fund on account of employees' end-of-service indemnities are computed on the basis of 8.5% of the actual employees' earnings. However, upon completion of twenty years of service or upon termination of employment, and for those employees wishing to settle their account with the Fund, the related indemnities are computed on the basis of the average of the last 12 salaries, times the number of years of service, and differences between such amounts due and amounts already paid computed on the basis of 8% are settled to the Fund at that time.
The Bank follows the policy of accruing for the above-mentioned differences on a current, non-discounted basis.

H. Revenue and Expense Recognition:

Interest income and expense are recognized on a time proportion basis, taking account of the principal outstanding and the rate applicable except for bad and doubtful loans recognized on cash basis and for which interest income is only recognized upon realization. Interest income and expense include the amortization discount or premium. Other revenues are recognized when contractually earned.

I. Financial Guarantees:

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognized at their fair value, and subsequently carried at the higher of the amount of this fair value and the amount of the present value of expected payments (when a payment under the guarantee has become probable).

Financial guarantees are included under liabilities.

J. Income Tax:

Income tax expense is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Income tax represents the current tax, due to the fact that taxable profit does not include temporary differences.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date. Income tax provision is reflected in the balance sheet net of tax previously settled in the form of withholding tax on certain interest revenues.

K. Investment in a Subsidiary:

Investment in a subsidiary is stated at cost less any impairment.
Separate consolidated financial statements are issued for the Bank and its subsidiary.

4. Key Sources of Estimation Uncertainty

Key hypothesis related to the future and the other principal sources of uncertainty related to estimates as at the closing date which require management to make judgments, could affect the reported amounts of assets and liabilities. These judgments and estimates are based on historical experience as well as other factors.

Critical accounting judgments made in applying the Bank's accounting policies include the following as detailed in Note 3.

Estimation Uncertainty

Allowance for Credit Losses:

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment. This method applies on classified loans and advances and factors taken into consideration in estimating the allowance for credit losses include the counterparty's credit limit excess, the counterparty's ability to generate cash flows sufficient to settle his advances and the net realizable value of collateral. Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar characteristics.

Fair Value of Financial Assets:

The determination of fair value of financial assets unquoted in an active market requires the use of valuation techniques as described in Note 3C.

Fair Value of Financial Guarantees Contracts:

The valuation of fair value of issued financial guarantees contracts, in the application of the accounting policy described in Note 3J, consists of deferring earned commission on these non covered contracts until their maturities.

Judgments in Applying the Bank's Accounting Policies:

Particular judgments made by management in applying the Bank's accounting policies include the classification of securities into different categories based on specific conditions. In classifying financial assets as held-to-maturity, the Bank has determined that it has both the positive intention and ability to hold the assets until their maturity date as described in Note 3E.

5. NEW STANDARDS AND INTERPRETATIONS NOT YET 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 but not yet effective for the year ended December 31, 2006 are the following:

- IFRS 7 "Financial Instruments: Disclosures"
- Amendments on IAS 1: Disclosures on capital.

The adoption of IFRS 7 and the amendment on IAS 1 are effective from January 1, 2007 and require the Bank to disclose information on the impact of financial instruments on its financial position and its performance in addition to qualitative and quantitative information on the risks to which the Bank is exposed as well as on capital.

6. NON-INTEREST EARNING COMPULSORY RESERVES

Banking laws and regulations in Lebanon require banks to maintain cash compulsory reserves on customers' deposits in Lebanese Pounds with the Central Bank of Lebanon in the basis of 25% and 15% of the weekly average demand deposits and term deposits respectively.

7. CASH AND DUE FROM BANKS

	December 31, 2006 LBP'000	December 31, 2005 LBP'000
(a) Cash and Current Accounts with Banks:		
Cash on hand	10,409,372	8,964,604
Current accounts with Central Bank of Lebanon	874,286	1,866,488
Demand deposits with commercial banks	11,692,412	18,107,030
Checks for collection	3,383,575	4,608,586
	26,359,645	33,546,708

	December 31, 2006 LBP'000	December 31, 2005 LBP'000
(b) Placements with the Central Bank, Banks and financial institutions:		
Time deposits with Central Bank of Lebanon	766,638,000	806,811,920
Time deposits with banks and financial institutions	106,496,583	131,349,356
	873,134,583	938,161,276

Time placements mature according to the following schedule:

	December 31, 2006				
	LBP LBP'000	Average Interest Rate (Yield) %	Foreign Currencies LBP'000	Average Interest Rate %	Total LBP'000
Year 2007	4,140,000	5.22	281,394,583	5.24	285,534,583
Year 2009	562,600,000	13.25	-	-	562,600,000
Year 2010	25,000,000	13.25	-	-	25,000,000
	591,740,000		281,394,583		873,134,583

	December 31, 2005				
	LBP LBP'000	Average Interest Rate (Yield) %	Foreign Currencies Equivalent in LBP LBP'000	Average Interest Rate %	Total LBP'000
Year 2006	4,600,000	5.22	345,961,276	4.14	350,561,276
Year 2009	562,600,000	13.25	-	-	562,600,000
Year 2010	25,000,000	13.25	-	-	25,000,000
	592,200,000		345,961,276		938,161,276

Obligatory deposits with Central Bank of Lebanon are held in accordance with local banking laws and regulations to the extent of 15% of total customers' deposits in foreign currencies and certificates of deposit and loans obtained from non-resident financial sector.
The balance of these obligatory deposits aggregated to LBP140.8billion as at December 31, 2006 and maintained in foreign currencies (LBP142.5billion as at December 31, 2005).

Accrued interest receivable on Bank accounts and deposits amounted to LBP205million as at December 31, 2006 (LBP113million as at December 31, 2005) reflected under "Other Assets".

8. Securities

(a) Available-for-Sale Securities:

	December 31, 2006 LBP'000	December 31, 2005 LBP'000
Equity securities	2,019,077	1,613,733
Coupon treasury bills (net of discounts and premiums)	8,818,520	8,591,267
Lebanese government bonds	199,881,899	95,961,160
Certificates of deposit issued by Lebanese banks	5,758,650	13,567,500
Certificates of deposit issued by Central Bank of Lebanon	377,068,293	384,163,677
	593,546,439	503,897,337

Equity securities consist of the following:

	December 31, 2006 Number of Shares	Book Value LBP'000	Fair Value LBP'000	Cumulative Change in Fair Value LBP'000	December 31, 2005 LBP'000
Bank of Beirut S.A.L.	50,000	866,813	866,813	-	866,813
Solidere shares	39,884	601,249	962,002	360,753	586,598
Société Financière du Liban S.A.L.	16,000	800	160,000	159,200	160,000
IBL Brokerage insurance Co. S.A.L.	998	29,940	29,940	-	-
Banque de l'Habitat S.A.L.	1,200	300	300	-	300
Others		1	22	21	22
		1,499,103	2,019,077	519,974	1,613,733

Coupon treasury bills are composed of the following:

Maturity	Coupon Rate %	Nominal Value LBP'000	Cost LBP'000	Fair Value LBP'000	Cumulative Change in Fair Value LBP'000
March 25, 2010	11.300	8,818,520	8,635,183	8,818,520	183,337

Accrued interest receivable on the coupon treasury bills amounted to LBP254million as at December 31, 2006 (251million as at December 31, 2005) reflected under "Other Assets".

Lebanese Government bonds classified available-for-sale are composed of the following:

Maturity	Coupon Rate %	Nominal Value USD	Cost USD	Fair Value USD	Cumulative Change in Fair Value USD
June 20, 2008	7.375	3,475,000	3,468,933	3,420,095	(48,838)
August 6, 2008	10.125	11,450,000	12,003,695	11,712,205	(291,490)
May 11, 2008	7.000	75,000,000	74,968,950	73,575,000	(1,393,950)
October 6, 2009	10.250	500,000	540,765	518,400	(22,365)
December 14, 2009	7.000	2,500,000	2,491,680	2,393,000	(98,680)
May 5, 2010	7.125	3,822,000	3,814,358	3,658,801	(155,557)
May 20, 2011	7.875	2,584,000	2,572,140	2,500,795	(71,345)
June 20, 2013	8.625	2,475,000	2,459,804	2,438,370	(21,434)
January 19, 2016	8.500	4,830,000	4,794,137	4,650,807	(143,330)
May 11, 2016	11.625	6,380,000	7,316,200	7,364,434	48,234
April 12, 2021	8.250	2,099,000	2,084,834	1,935,908	(148,926)
November 30, 2009	FTR	3,000,000	3,000,000	3,017,400	17,400
		118,115,000	119,515,496	117,185,215	(2,330,281)
Counter Value LBP'000		178,058,363	180,169,610	176,656,714	(3,512,896)
	%	Euro	Euro	Euro	Euro
May 20, 2009	7.250	7,395,000	7,448,273	7,437,891	(10,382)
April 12, 2012	5.875	4,000,000	3,998,848	4,023,200	24,352
		11,395,000	11,447,121	11,461,091	13,970
Counter Value LBP'000		22,594,120	22,697,465	22,725,167	27,702
	%	USD	USD	USD	USD
December 22, 2010	6.000	379,076	352,585	331,692	(20,893)
Counter Value LBP'000		571,457	531,516	500,018	(31,498)
Total in LBP'000		201,223,940	203,398,591	199,881,899	(3,516,692)

Accrued interest receivable on above securities amounted to LBP3.5billion as at December 31, 2006 (LBP1.4billion as at December 31, 2005) reflected under "Other Assets".

Certificates of deposit issued by Lebanese banks and classified available-for-sale are composed of the following:

Maturity	Coupon Rate %	Nominal Value USD	Cost USD	Fair Value USD	Cumulative Change in Fair Value USD
December 14, 2012	7.6250	4,000,000	3,976,300	3,820,000	(156,300)
Counter Value LBP'000		6,030,000	5,994,272	5,758,650	(235,622)

Accrued interest receivable on above securities amounted to LBP21million as at December 31, 2006 (8million as at December 31, 2005) reflected under "Other Assets".

Certificates of deposit issued by Central Bank of Lebanon and classified available-for-sale are composed of the following:

Maturity	Coupon or Discount Rate %	Nominal Value LBP'000	Cost LBP'000	Fair Value LBP'000	Cumulative Change in Fair Value LBP'000
October 17, 2008	13.25	38,000,000	38,000,000	40,372,758	2,372,757
March 25, 2010	11.300	108,000,000	105,754,602	108,000,000	2,245,398
Counter Value LBP'000		146,000,000	143,754,602	148,372,758	4,618,155
	%	USD	USD	USD	USD
March 21, 2008	7.5000	76,609,000	76,609,000	75,721,756	(887,244)
July 20, 2009	7.5000	13,500,000	13,500,000	13,135,500	(364,500)
July 24, 2009	7.5000	30,800,000	30,800,000	29,965,320	(834,680)
August 8, 2009	7.5000	6,839,000	6,839,000	6,650,928	(188,072)
April 25, 2015	10.0000	24,850,000	23,992,474	26,231,660	2,239,186
		152,598,000	151,740,474	151,705,164	(35,310)
Counter Value LBP'000		230,041,485	228,748,765	228,695,535	(53,230)
Total in LBP'000		376,041,485	379,366,921	377,068,293	4,564,925

Interest on Certificates of deposits that mature during October 2008 is payable at maturity.

Accrued interest receivable on above securities amounted to LBP27.09billion as at December 31, 2006 (24.12billion as at December 31, 2005) reflected under "Other Assets".

Certificates of deposit that mature during 2015 were purchased with the option of early redemption during 2012 at a price of 91.63%, after seven years from purchase date. Interest is recognized on these securities based on the yield to put date.

The Cumulative change in fair value of available-for-sale securities, reflected under equity, is composed of the following as at December 31, 2006:

	LBP'000
Equity Securities	519,974
Coupon treasury bills	183,337
Lebanese government Eurobonds	(3,516,692)
Certificates of deposit issued by resident banks	(235,622)
Certificates of deposit issued by Central Bank of Lebanon	4,564,925
	1,515,922
Deferred tax obligation	(227,388)
	1,288,534

(b) Held-to-Maturity Securities:

	December 31, 2006 LBP'000	December 31, 2005 LBP'000
Discounted treasury bills (net of unearned interest)	22,415,040	22,378,991
Lebanese Government Eurobonds	186,544,448	110,911,656
	208,959,488	133,290,647

Discounted treasury bills classified as held-to-maturity are composed of the following:

Maturity	Coupon Rate %	Nominal Value LBP'000	Book Value LBP'000	Fair Value LBP'000	Change in Fair Value LBP'000
September 27, 2007	7.19	23,699,240	22,415,040	22,784,125	369,085

Discounted treasury bills are bought net of discount interest and stated in the balance sheet at their par value, less related unearned interest amounting to LBP1.28billion as at December 31, 2006 (LBP1.28billion as at December 31, 2005).
These securities are pledged against the soft loan (Note 16).

Lebanese Government Eurobonds classified held-to-maturity are composed of the following:

Maturity	Coupon Rate %	Nominal Value USD	Book Value USD	Fair Value USD	Change in Fair Value USD
November 30, 2009	Floating	13,000,000	13,000,000	12,948,349	(51,651)
December 14, 2009	7.000	12,000,000	11,960,064	11,486,643	(473,421)
March 5, 2010	7.125	14,200,000	14,198,012	13,593,352	(604,660)
May 20, 2011	7.875	9,000,000	8,957,853	8,710,544	(247,309)
September 7, 2012	7.750	12,900,000	12,898,933	12,277,787	(621,146)
April 12, 2021	8.250	26,000,000	26,018,550	24,625,935	(1,392,615)
		87,100,000	87,033,412	83,642,610	(3,390,802)
Counter Value LBP'000		131,303,250	131,202,868	126,091,235	(5,111,633)

Maturity	Coupon Rate %	Nominal Value Euro	Book Value Euro	Fair Value Euro	Change in Fair Value Euro
May 20, 2009	7.250	9,900,000	9,894,050	9,956,984	62,934
April 12, 2012	5.875	18,000,000	18,016,632	17,070,509	(946,123)
		27,900,000	27,910,682	27,027,493	(883,189)
Counter Value LBP'000		55,320,399	55,341,580	53,590,383	(1,751,197)
		186,623,649	186,544,448	179,681,618	(6,862,830)

Accrued interest receivable on held to maturity securities amounted to LBP4.37billion as at December 31, 2006 (LBP3.19billion as at December 31, 2005) reflected under "Other Assets".

9. Loans And Advances

This caption comprises the following:

	December 31, 2006 LBP'000	December 31, 2005 LBP'000
Short term loans and advances to customers	254,429,846	288,238,253
Medium and long term loans to customers	25,281,240	37,630,655
Discounted bills (net of unearned interest)	2,208,339	691,097
Loans and advances to sister companies and directors	4,992,069	370,845
Substandard loans (net of unearned interest)	1,184,855	3,848,352
Bad and doubtful loans (net of unearned interest)	52,244,812	45,512,955
Less: Provision for credit losses	(32,444,981)	(30,387,072)
Less: Provisions for loans assessed collectively	(647,231)	(401,932)
	307,248,949	345,503,153

Accrued interest receivable on loans and advances as at December 31, 2006 amounted to LBP32million (LBP36million in 2005) and is reflected under "Other Assets".

Loans and advances as at December 31, 2006 are allocated between residents and non-residents to the extent of 92% and 8% respectively.

Interest on doubtful and substandard accounts is not recognized and earned in income, it is disclosed as a deduction from loans.

Loans and advances are stated net of multi-currency accounts in the aggregate of LBP15.1billion which are offset against the related credit balances; The resulting excess of exposure over the related credit balances in the amount LBP2.0billion is classified under short term loans and advances to customers.

The margins against multi-currency trading in the amount of LBP5.3billion are reflected under "Miscellaneous Creditors".

Loans and advances include advances against pledged accounts in the amount of LBP144.4billion as of December 31, 2006, out of which balances aggregating LBP28.7billion are denominated in U.S. Dollars, are granted against pledged deposits in Lebanese Pounds.

Loans and advances to customers dropped by approximately LBP17billion up to May 2007.

The movement of unearned interest on substandard debts during 2006 and 2005 was as follows:

	2006 LBP'000	2005 LBP'000
Balance - Beginning of year	783,236	828,729
Additions	226,430	1,073,080
Write-back	(850)	(1,104,443)
Write-off	(333,680)	-
Effect of exchange rates changes	(2,086)	(14,130)
Balance - End of year	673,050	783,236

The movement of unearned interest on bad and doubtful debts during 2006 and 2005 was as follows:

	2006 LBP'000	2005 LBP'000
Balance - Beginning of year	18,722,876	13,272,931
Additions	5,189,908	5,502,164
Write-back	(101,195)	(45,933)
Write-off	(4,052,178)	-
Transfer from collective provision	-	183,764
Effect of exchange rates changes	162,057	(190,050)
Balance - End of year	19,921,468	18,722,876

The movement in the provision for credit losses in 2006 and 2005 consists of the following:

	2006 LBP'000	2005 LBP'000
Balance -- Beginning of year	30,387,072	25,820,939
Transfer from/to collective provisions	358,894	1,148,555
Additions	3,345,873	5,851,209
Less:		
Provision write-back	(594,171)	(377,207)
Provision written-off	(2,678,813)	-
Others	96,021	209
Effects of exchange rates changes	1,530,105	(2,056,633)
Balance - End of year	32,444,981	30,387,072

The movement in the provisions for loans assessed collectively consists of the following:

	2006 LBP'000	2005 LBP'000
Balance - Beginning of year	401,932	1,313,334
Additions	1,101,917	430,636
Transfer to provision for credit losses	(358,894)	(1,148,555)
Transfer to provision for contingencies	(497,475)	-
Transfer to unearned interest	-	(183,764)
Effects of exchange rates changes	(249)	(9,719)
Balance - End of year	647,231	401,932

The excess of bad and doubtful loans in 2006 and 2005 over provision for credit losses is mainly secured by real guarantees and mortgages.

Provisions for credit losses are considered as deductible charges for tax purposes, provided the approval of the Banking Control Commission is secured.

According to Central Bank of Lebanon Circulars, all banks are required to take provisions between 60% and 100% for all bad and doubtful debts for which no settlement agreements have been reached up to 2006 and 2007 year-end within a maximum period ending December 31, 2007 and 2008 respectively.

10. Investment in a Subsidiary

The Bank owns 99.97% of the share capital in Al Ittihadiah Real Estate S.A.L. which owns the Bank headquarters in Achrafieh and some other branches.

During 2006, the capital of the company was increased by LBP6.95billion.

11. ACCRUED INTEREST AND OTHER ASSETS

This section consists of the following:

	December 31, 2006 LBP'000	December 31, 2005 LBP'000
Accrued interest receivable:		
Banks	205,012,263	112,670,483
Loans and advances	32,492	36,093
Lebanese treasury bills	253,912	251,178
Lebanese Government bonds	7,871,049	4,569,952
Certificates of deposits issued by resident bank	21,415	7,861
Certificates of deposits issued by the Central Bank of Lebanon	27,099,179	24,124,693
Prepaid expenses	466,638	360,998
Deferred charges	757,551	883,069
Net forward exchange position	-	361,144
Sundry debtors	684,291	346,680
	242,198,790	143,612,151

Accrued interest receivable on banks' accounts relates mainly to the interest accrued on Central Bank deposits in Lebanese Pounds maturing in 2009, in principal and interest, and yielding 13.25% per annum.

12. ASSETS ACQUIRED IN SATISFACTION OF DEBTS

In accordance with local regulations, banks are required to liquidate these assets within two years. In the event of default of liquidation, such properties should be fully provided for over a period of five years as from the date commencing in the last year of the period during which assets should have been liquidated.

The movement of properties acquired in settlement of debts during 2006 and 2005 is summarized as follows:

	2006 LBP'000	2005 LBP'000
Acquisition Value:		
Beginning balance	3,823,126	2,056,681
Properties acquired as settlement of debts	7,391,455	2,203,583
Disposals	(316,317)	(437,138)
Ending balance	10,898,264	3,823,126
Less Provisions:		
Beginning balance	1,104,633	993,975
Additions	108,167	182,222
Disposals	(109,627)	(71,564)
Ending balance	1,103,173	1,104,633
	9,795,091	2,718,493

13. PROPERTY AND EQUIPMENT

The movement of property and equipment during the year ended December 31, 2006 is as follows:

	Buildings LBP'000	Freehold Improvements LBP'000	Furniture and Equipment LBP'000	Computer Equipment LBP'000	Vehicles LBP'000	Advance on Capital Expenditures LBP'000	Total LBP'000
Historical Cost:							
Balances at December 31, 2005	2,787,244	5,063,799	1,808,735	1,959,553	158,213	5,344	11,782,888
Acquisitions	-	216,722	431,923	197,471	125,904	222,615	1,194,635
Disposals	(23,935)	-	(56,296)	(4,478)	(16,960)	(221,901)	(323,570)
Balances at December 31, 2006	2,763,309	5,280,521	2,184,362	2,152,546	267,157	6,058	12,653,953
Accumulated Depreciation:							
Balances at December 31, 2005	731,563	3,293,157	811,278	1,587,314	150,620	-	6,573,932
Additions	69,282	807,744	201,341	155,649	5,172	-	1,239,188
Retirements	(3,241)	-	(43,609)	(2,388)	(17,046)	-	(66,284)
Balance at December 31, 2006	797,604	4,100,901	969,010	1,740,575	138,746	-	7,746,836
Net Book Value:							
December 31, 2006	1,965,705	1,179,620	1,215,352	411,971	128,411	6,058	4,907,117
December 31, 2005	2,055,681	1,770,642	997,457	372,239	7,593	5,344	5,208,956

14. BANKS AND FINANCIAL INSTITUTIONS

This caption comprises the following:

	December 31, 2006 LBP'000	December 31, 2005 LBP'000
Banks' current accounts	23,467,287	12,832,341
Loans from banks	80,997,555	39,265,060
Loans from Financial institutions	527,625	1,017,563
	104,992,467	53,114,964

December 31, 2006

	LBP LBP'000	F/CY LBP'000	Total LBP'000
Banks and Financial institutions - Resident	64,486,452	601,510	65,087,962
Banks and Financial institutions - Non-resident	-	39,904,505	39,904,505
	64,486,452	40,506,015	104,992,467

December 31, 2005

	LBP LBP'000	F/CY LBP'000	Total LBP'000
Banks and financial institutions - Resident	17,128,877	14,578,173	31,707,050
Banks and Financial institutions - Non-resident	-	21,407,914	21,407,914
	17,128,877	35,986,087	53,114,964

15. CUSTOMERS' DEPOSITS AND OTHER CREDIT BALANCES

Customers' deposits include coded accounts stated at LBP83,7billion as at December 31, 2006 (LBP86.6billion 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, in the normal course of business, cannot reveal the identities of these depositors to third parties, including the external auditors.

The average balances of deposits and related cost of funds were as follows over the last two years:

Year	Deposits as at December 31 LBP'000	Average Annual Balance of deposits LBP'000	Allocation of Deposits LBP %	Allocation of Deposits F/Cy %	Cost of Funds LBP'000	Average Cost of Funds %
2006	2,090,610,056	2,032,440,162	50	50	142,305,072	7.00
2005	2,000,810,545	1,951,246,269	50	50	137,170,511	7.03

Most of customers' deposits are of short-term maturities.

Customers' deposits as at December 31, 2006 reflect a certain concentration among accounts' holders as shown below:

Bracket of Deposits From LBP'000	To LBP'000	Account Balances in LBP LBP'000	Percentage %	Account Balances in F/Cy LBP'000	Percentage %	% of Total Account Number %
-	50,000	57,227,310	6	49,150,907	4	78
50,001	250,000	140,783,729	15	146,451,385	13	15
250,001	750,000	120,174,381	13	170,673,430	15	5
750,001	1,500,000	82,008,223	8	107,874,125	10	1
1,500,001	and Above	553,158,986	58	663,107,580	58	1
		953,352,629		1,137,257,427		

Customers' deposits include accounts of fiduciary nature to the extent of LBP61.6billion that were deposited by banks and financial institutions. (LBP73.9 billion as of December 31, 2005)

Customers' deposits are segregated between residents and non-residents to the extent of 83% and17% respectively as at December 31, 2006.

The customers' deposits have increased by approximately LBP56billion up to May 2007.

16. CENTRAL BANK SOFT LOAN

Upon the Central Bank approval on September 15, 1999 of the acquisition of B.C.P Orial Bank S.A.L., The Bank was granted a soft loan in the amount of LBP22billion payable on a balloon basis after eight years, during 2007 and comprises the following details:

	2006	2005
Soft loan value - as at December 31,	LBP22billion	LBP22billion
Maturity date	November 21, 2007	November 21, 2007
Applied annual interest rate for the year	4.338%	3.948%
Interest expense for the year	LBP962million	LBP870million
Guarantee	Lebanese treasury bills	Lebanese treasury bills
Guarantee Nominal value	LBP23,70billion	LBP23,43billion
Unearned interest - as at December 31,	LBP1,28billion	LBP1,28billion
Applied annual interest on the pledged Treasury bills	7.19%	6.27%

17. MISCELLANEOUS CREDITORS

This section comprises the following:

	December 31, 2006 LBP'000	December 31, 2005 LBP'000
Margins on letters of credit and guarantees	16,613,065	36,339,496
Margins on speculative transactions	5,305,386	4,087,251
Taxes payable	5,912,653	3,853,310
Checks and orders to be paid	2,118,823	7,499,862
Social security dues	102,097	93,134
Advance payments on preferred shares	-	13,792,195
Other creditors	350,588	39,668
	30,402,612	65,704,916

Provision for income tax can be reconciled as follows:

	2006 LBP'000	2005 LBP'000
Income before tax	34,794,710	26,562,430
Adjustment of income before tax:		
Non-deductible expenses	8,373,176	5,006,171
Non-taxable revenues	(5,328,839)	(1,553,504)
Taxable income	37,839,047	30,015,097
Income tax on the basis of 15%	5,359,409	4,134,303
Less: Tax settled in the form of withholding tax	(2,036,923)	(2,412,423)
Provision for income tax at year end	3,322,486	1,721,880

The tax returns for 2002 were reviewed by the tax authorities in 2006, and resulted in an additional tax amount of LBP73million was settled and recorded in 2006. The Bank's tax returns for the years 2003 until 2006 remain subject to examination and final assessment by the tax authorities.

18. ACCRUED INTEREST AND OTHER LIABILITIES

This section comprises the following:

	December 31, 2006 LBP'000	December 31, 2005 LBP'000
Accrued interest payable:		
Banks and Financial institutions	388,884	374,310
Customers' deposits	14,648,131	17,862,609
Unearned revenues	1,799,183	2,116,968
Accrued expenses	779,593	795,885
Due to employees	295,000	295,000
Others	846,507	666,639
	18,757,298	22,111,411

19. PROVISIONS

This section comprises the following:

	December 31, 2006 LBP'000	December 31, 2005 LBP'000
Provision for employees end-of-service indemnities	2,201,984	1,901,435
Provision for currency fluctuation	87,250	87,250
Provision for contingencies	543,111	45,636
	2,832,345	2,034,321

The movement in the provisions is summarized as follows:

	2006 LBP'000	2005 LBP'000
Balance - Beginning of year	2,034,321	1,847,488
Add: Provision set up during the year	885,451	295,459
Less: Settlements	(87,427)	(108,626)
Balance - End of year	2,832,345	2,034,321

The provision for currency fluctuation represents the provision set up by the Bank as a percentage of foreign exchange position at year-end, in conformity with local regulations.

20. SUBORDINATED LOAN

Subordinated loan, in the amount of LBP6.15billion, represent the counter value of Euro3,101,428 of floating rate notes that were issued on January 11, 2002 based on the general assembly resolution dated December 21, 2001.

These notes bear interest from January 11, 2002 till maturity at the rate of Euribor 3 months plus margin (2% per annum), payable quarterly up to the maturity as at January 11, 2008.

Interest expense on this loan amounted to LBP277million during 2006 (153million during 2005) and Accrued interest payable amounted to LBP78million as at December 31, 2006 (LBP70million as at December 31, 2005) and are reflected under "Regularization accounts and other liabilities".

21. COMMON SHARES

As at December 31, 2006 and 2005 common shares consist of 6,207,633 shares of LBP7,500 par value each, authorized, issued and fully paid.

Up to December 31, 2006 year-end, the Bank established a fixed exchange position of USD6,300,000 as a hedge of capital as authorized by Central Bank of Lebanon.

The Bank's risk based capital ratio was 32.54% at 2006 year-end (20.85% at 2005 year-end), computed as follows (without taking into consideration the net profit of the year).

	December 31,	
	2006 In million LBP	2005 In million LBP
Assets and off-balance sheet weighted risk	368,832	318,118
Tier I and Tier II capital	120,039	66,337
Risk based capital ratio	32.54	20.85

22. Preferred Shares

On April 4, 2006, the extraordinary general assembly of shareholders resolved to issue 840,000 preferred shares at LBP7,500 par value and a premium of USD 25 per share.

These shares are redeemable in full or in part at no less than 20% at the discretion of the Bank and at any time in case of any new regulatory event; or after 60 days of the annual general assembly meeting of shareholders which will be held to approve the annual accounts for the fiscal year 2010 and the years after. The preferred shareholders are entitled to dividends at the rate of 13.86% of the non-consolidated Bank net income for 2006 and each year thereafter.
These dividends should not fall below 8.5% or above 12% of the issue price.

Theses shares are convertible into common shares on one to one basis after 30 days following the 60 days of the annual general assembly meeting of shareholders which will be held to approve the annual accounts for the fiscal year 2015.

The right of dividends is non-cumulative, and such dividend distribution shall be made from free profits.

23. Reserves

The legal reserve is constituted in conformity with the requirements of the Lebanese Money and Credit Law on the basis of 10% of net income. This reserve is not available for distribution.

The general reserve for banking risks is constituted according to local banking regulations on the basis of a maximum 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 in proportion to the composition of the Bank's total risk weighted assets and off-balance sheet items. This reserve is not available for distribution.

24. Revaluation Surplus

Revaluation surplus resulted from the revaluation at current net realizable value during 1996 of the Bank's premises.

25. ALLOCATION OF NET INCOME

The board of directors held on July 23, 2007, proposed to allocate net income for the year 2006 as follows:

	December 31, 2006 LBP'000	December 31, 2005 LBP'000
Legal reserve	2,936,257	2,242,813
Reserve for general banking risk	737,664	636,235
Dividends to common shareholders	3,000,000	4,887,269
Dividends to preferred shareholders (Note 22)	4,070,000	-
Retained earnings	18,618,653	14,661,810
	29,362,574	22,428,127

26. COMMISIONS, FEES AND OTHER REVENUES

	Year Ended December 31, 2006 LBP'000	Year Ended December 31, 2005 LBP'000
Commissions on cash deposits	719,753	51,926
Commissions on letters of guarantee	592,916	634,870
Commissions on letters of credit	414,088	294,638
Commissions on transfers	362,611	313,608
Domiciliation (telephone, cellular, electricity)	211,718	206,304
Dividends from equity securities	158,882	432
Other commissions earned	569,946	223,578
Commissions paid	(987,438)	(117,193)
	2,042,476	1,608,163

27. SALARIES AND RELATED CHARGES

Salaries and related charges consist of the following:

	Year Ended December 31,	
	2006 LBP'000	2005 LBP'000
Salaries	7,744,788	6,949,633
Social Security contributions	1,063,403	979,118
Other charges	429,181	462,781
Provision for end-of-service indemnity	387,977	295,459
	9,625,349	8,686,991

28. GENERAL OPERATING EXPENSES

	Year Ended December 31,	
	2006 LBP'000	2005 LBP'000
Rent and services expense	1,318,870	1,249,130
Legal, professional fees	1,523,832	1,306,175
Advertising expense	944,484	1,076,065
Telecommunications and postage	529,302	538,154
Maintenance and repair	497,367	434,297
Traveling expenses	468,868	432,313
Electricity and heat expenses	400,354	355,540
Printing and stationery	249,908	188,524
Insurance and medical expenses	191,049	182,065
Donations	16,029	13,637
Other expenses	2,827,706	1,498,979
	8,967,769	7,274,879

29. NON CASH ITEMS

The cash flow statement is prepared after excluding the effect of non-cash transactions as follows:

1. Decrease in fair value of available for sale securities in the amount of LBP1.08billion during 2006. (LBP2.15billion during 2005).

2. Assets acquired in satisfaction of debt in the amount of LBP 7.39billion during 2006. (LBP2.20billion during 2005).

3. Decrease in the revaluation provision of assets acquired in satisfaction of debts in the amount of LBP 55million during 2006. (nul during 2005).

30. CASH AND CASH EQUIVALENTS

For the purpose of preparing the cash flow statement, cash and cash equivalent include the following:.

	Cash Compulsory Reserves LBP'000	Cash and due from Banks LBP'000	Total LBP'000
Cash and Cash Equivalent			
Beginning of year	142,456,895	33,546,708	176,003,603
Cash and Cash Equivalent - End of year	140,795,142	26,359,645	167,154,787

31. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS

The guarantees and the documentary and commercial letters of credit represent financial instruments with contractual amounts representing credit risks. The guarantees 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 a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore, have significantly less risks.

32. COMPARATIVE FINANCIAL STATEMENTS

Certain 2005 comparative figures were reclassified to conform to the current year presentation.

33. FAIR VALUE AND RISK MANAGEMENT

FAIR VALUE

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 difference 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. Available-for-sale securities are reflected at their fair value. Held-to-maturity securities are carried at cost and adjusted for non-temporary decline in value and/or impairment loss, as applicable. Fair values of these instruments are disclosed in Note 8.

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 mitigate credit risk through obtaining mortgages on real estate properties as a guarantee against defaulted loans.

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.
In this connection, loans portfolio structure includes large accounts' balances with concentration of risks among debtors' exposures.

The debt instruments included in investment portfolio are mainly sovereign risk.
For details of the composition of the investment securities and loans and advances refer to Notes 8 and 9.

MARKET RISK

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

Exchange Risk:

The Bank attempts to cover the exchange risk rate might affect its financial position, its profitability and cash flows through operating within the operational exchange position limits set by the Alco Committee. Furthermore, the Bank hedges its capital against currency fluctuation by maintaining a fixed position in foreign currency in line with the regulatory authorized limits.

Interest Rate Risk:

Interest sensitivity of assets, liabilities and off balance sheet items.

The Bank is exposed to various risk associated with the effect 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 in Lebanese Pounds and foreign currencies that mature or re-price in a given period. The Bank has no off-balance sheet instruments subject to interest rate risk exposure.

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

SEGREGATION OF ASSETS AND LIABILITIES AMONG MAJOR CURRENCIES

December 31, 2006

	LBP LBP'000	USD LBP'000	Euro LBP'000	Yen LBP'000	Other Currencies LBP'000	Total LBP'000
ASSETS						
Non-interest earning compulsory reserves	140,795,142	-	-	-	-	140,795,142
Cash and due from banks	5,295,466	9,252,327	3,061,687	21,919	8,728,246	26,359,645
Placements with Central Bank, banks and financial institutions	591,740,000	143,697,007	128,894,627	-	8,802,949	873,134,583
Available-for-sale securities	157,381,540	413,439,733	22,725,166	-	-	593,546,439
Held-to-maturity securities	22,415,040	131,202,868	55,341,580	-	-	208,959,488
Loans and advances	15,242,543	227,491,509	63,776,867	1,266,185	(528,155)	307,248,949
Investment in a subsidiary	18,244,302	-	-	-	-	18,244,302
Customer's acceptances	-	3,148,112	288,779	-	-	3,436,891
Accrued interest and other assets	227,642,144	10,954,774	3,596,000	-	5,872	242,198,790
Assets acquired in satisfaction of debts	(386,617)	10,181,708	-	-	-	9,795,091
Property and equipment	4,907,117	-	-	-	-	4,907,117
Total Assets	1,183,276,677	949,368,038	277,684,706	1,288,104	17,008,912	2,428,626,437
LIABILITIES						
Due to banks and financial institutions	64,486,452	37,074,982	2,201,175	1,203,018	26,840	104,992,467
Customers deposits and credit balances	953,352,629	862,485,467	264,139,181	79,299	10,553,480	2,090,610,056
Soft loan	22,000,000	-	-	-	-	22,000,000
Miscellaneous creditors	16,298,111	12,462,573	1,616,882	-	16,136	30,393,702
Engagements by acceptances	-	3,148,112	288,779	-	-	3,436,891
Accrued interest and other liabilities	12,873,356	5,237,527	613,254	-	33,161	18,757,298
Provisions	2,011,590	820,755	-	-	-	2,832,345
Subordinated loan	-	-	6,149,542	-	-	6,149,542
Total Liabilities	1,071,022,138	921,229,416	275,008,813	1,282,317	10,629,617	2,279,172,301
Forward contracts bought	-	8,254,570	-	-	-	8,254,570
Forward contracts sold	-	(1,982,810)	-	(6,280,670)	(8,263,480)	
Derivatives -net	-	8,254,570	(1,982,810)	-	(6,280,670)	(8,910)
Net exchange position	112,254,539	36,393,192	693,083	5,787	98,625	149,445,226

SEGREGATION OF ASSETS AND LIABILITIES AMONG MAJOR CURRENCIES

December 31, 2005

	LBP LBP'000	USD LBP'000	Euro LBP'000	Yen LBP'000	Other Currencies LBP'000	Total LBP'000
ASSETS						
Non-interest earning compulsory reserves	142,456,895	-	-	-	-	142,456,895
Cash and due from banks	3,129,695	14,497,217	8,265,610	4,609,527	3,044,659	33,546,708
Placements with banks and financial institutions	592,200,000	88,422,981	248,710,706	-	8,827,589	938,161,276
Available-for-sale securities	231,190,351	260,359,559	12,347,427	-	-	503,897,337
Held-to-maturity	22,378,991	91,951,391	18,960,265	-	-	133,290,647
Loans and advances	19,612,705	313,756,969	10,195,086	1,692,653	245,740	345,503,153
Investment in a subsidiary	11,291,224	-	-	-	-	11,291,224
Banks' acceptances	-	5,859,812	379,445	-	19,463	6,258,720
Other assets	134,168,818	7,388,567	1,691,289	-	2,333	143,251,007
Assets acquired in satisfaction of debts	(321,448)	3,039,941	-	-	-	2,718,493
Property and equipment	5,208,956	-	-	-	-	5,208,956
Total Assets	1,161,316,187	785,276,437	300,549,828	6,302,180	12,139,784	2,265,584,416
LIABILITIES						
Due to banks and financial institutions	17,128,877	34,219,230	181,528	-	1,585,329	53,114,964
Customers deposits and credit balances	1,009,306,402	685,189,321	295,372,830	738,093	10,203,899	2,000,810,545
Miscellaneous creditors	16,682,137	28,244,633	20,694,392	79,595	4,159	65,704,916
Engagements by acceptances	-	5,859,812	379,445	-	19,463	6,258,720
Soft loan	22,000,000	-	-	-	-	22,000,000
Accrued interest and other liabilities	18,072,779	3,754,147	222,855	-	61,630	22,111,411
Provisions	1,762,484	271,837	-	-	-	2,034,321
Subordinated debt	-	-	5,533,351	-	-	5,533,351
Total Liabilities	1,084,952,679	757,538,980	322,384,401	817,688	11,874,480	2,177,568,228
Forward contracts bought		3,471,990	37,466,730	-	-	40,938,720
Forward contracts sold	-	(37,958,473)	(2,619,103)	-	-	(40,577,576)
Derivatives-net	-	(34,486,483)	34,847,627	-	-	361,144
Net exchange position	76,363,508	(6,749,026)	13,013,054	5,484,492	265,304	88,377,332

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.
The Bank's deposits base consists mainly of deposits with short term maturities and reflect a concentration among large accounts' balances.

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

OPERATIONAL RISK

Operational risk is the risk that might cause losses to the Bank resulting from deficiency of computer processing from deficiencies and lack of procedures, and inappropriate behavior of employees. The Bank manages this risk through regular training and seminars to employees and through putting in place procedures for proper internal control and segregating of duties.

34. RELATED PARTY TRANSACTIONS

Credit facilities granted and utilized by the member of Board of Directors or companies in which those members are either chairman or board members are shown under related party loans and advances and customers' deposits.

The remuneration of the chairman and executive board members amounted to LBP1,07billion in 2006 (LBP842million in 2005).

35. APPROVAL OF THE FINANCIAL STATEMENTS

The Board of Directors has approved the financial statements for the year ended December 31, 2006 in its meeting held on July 23, 2007.

Consolidated Financial Statements and Auditor's Report
Year Ended December 31, 2006

BT 32289/DTT

To the Shareholders
Intercontinental Bank of Lebanon S.A.L.
Beirut, Lebanon

We have audited the accompanying consolidated financial statements of INTERCONTINENTAL BANK OF LEBANON S.A.L. AND SUBSIDIARY (the Bank), which comprise the balance sheet as at December 31, 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.
The consolidated financial statements as of and for the year ended December 31, 2005 were audited by another audit firm who issued an unqualified audit opinion thereon, dated April 30, 2006.

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 the Bank as of December 31, 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Beirut, Lebanon
July 24, 2007

Deloitte & Touche

ASSETS	December 31, 2006 LBP'000	December 31, 2005 LBP'000
Non-interest earning compulsory reserves	140,795,142	142,456,895
Cash and due from banks	26,359,645	33,546,708
Placements with the Central Bank,		
banks and financial institutions	873,134,583	938,161,276
Available-for-sale securities	593,546,439	503,897,337
Held-to-maturity securities	208,959,488	133,290,647
Loans and advances	302,256,880	345,132,308
Banks' acceptances	3,436,891	6,258,720
Accrued interest and other assets	242,198,877	143,251,093
Assets acquired in satisfaction of debts	9,795,091	2,718,493
Property and equipment	23,065,331	23,367,170
Total Assets	2,423,548,367	2,272,080,647

FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS:

	2006	2005
Letters of guarantee	40,583,062	41,081,113
Letters of credit	30,906,158	29,174,158
Forward exchange contracts	16,518,050	92,094,210

LIABILITIES	December 31, 2006 LBP'000	2005 LBP'000
Banks and financial institutions:		
• Demand deposits	23,467,287	12,832,341
• Loans from banks	80,997,555	44,329,312
• Loans from financial institutions	527,625	1,017,563
	104,992,467	58,179,216
Customers' deposits and other credit balances:		
• Demand deposits	101,498,901	206,555,888
• Saving accounts	1,071,468,260	977,047,179
• Time deposits	646,213,418	538,491,511
• Related parties	6,659,728	826,252
• Pledged accounts	200,704,740	201,296,133
• Other credit balances	57,405,281	75,767,330
	2,083,950,328	1,999,984,293
Central Bank Soft Loan	22,000,000	22,000,000
Miscellaneous creditors	31,195,166	66,944,504
Engagements by acceptances	3,436,891	6,258,720
Accrued interest and other liabilities	18,839,105	22,227,503
Provisions	2,854,813	2,055,787
Subordinated loan	6,149,542	5,533,351
	84,475,517	125,019,865
Total liabilities	2,273,418,312	2,183,183,374
EQUITY		
Common shares	46,557,248	46,557,248
Preferred shares	6,300,000	-
Preferred share premium	31,657,500	-
Legal reserve	4,178,944	1,936,131
General reserve	3,475,654	2,839,419
Asset revaluation surplus	3,634,712	3,689,336
Cumulative change in fair value of available-for-sale securities	1,288,534	2,598,821
Retained earnings	23,511,923	8,799,923
Net income for the year	29,525,540	22,476,395
Total equity	150,130,055	88,897,273
Total Liabilities and Equity	2,423,548,367	2,272,080,647

	Year Ended December 31, 2006 LBP'000	2005 LBP'000
Interest income:		
Loans and advances	26,299,008	23,998,333
Securities	71,140,811	71,095,186
Deposits with banks	107,491,440	96,176,601
	204,931,259	191,270,120
Interest expenses:		
Customers' deposits and credit balances	142,196,241	137,143,218
Deposits from banks	6,908,787	5,617,356
Other interest expense	1,043,172	1,072,006
	150,148,200	143,832,580
Net interest income	54,783,059	47,437,540
Provision for credit losses (less write-back)	(2,751,702)	(5,474,002)
Provisions for loans assessed collectively	(1,101,917)	(430,636)
Net interest income after loans provision	50,929,440	41,532,902
Commissions, fees and other revenues, net	2,042,476	1,608,163
Exchange gain (net)	1,356,426	1,462,286
Net financial revenues	54,328,342	44,603,351
Other expenses:		
Salaries and related charges	(9,789,861)	(8,851,869)
General operating expenses	(8,323,914)	(6,436,743)
Provision on impairment in subsidiary	-	(1,000,000)
Provision for depreciation of assets acquired in satisfaction of debts	(108,167)	(182,222)
Depreciation and amortization	(1,404,818)	(1,353,073)
Other revenues/expenses (net)	333,367	(18,746)
	(19,293,393)	(17,842,653)
Net income, before income tax	35,034,949	26,760,698
Income tax expense	(5,509,409)	(4,284,303)
Net income for the year	29,525,540	22,476,395

	Common Shares LBP'000	Preferred Shares LBP'000	Preferred Share Premiums LBP'000	Legal Reserve LBP'000	General Reserve LBP'000	Revaluation Surplus LBP'000	Cumulative Change in Fair Value of Available-for-sale Securities LBP'000	Retained Earnings LBP'000	Net Income for the Year LBP'000	Total Equity LBP'000
Balance, December 31, 2005	46,557,248	-	-	1,936,131	2,839,419	3,689,336	2,598,821	8,799,923	22,476,395	88,897,273
Change in fair value of available-for-sale securities (net of deferred tax)	-		-			(1,082,899)	-	-	(1,082,899)	
Decrease of assets revaluation surplus upon disposal	-	-	-	-	-	(54,624)	-	-	-	(54,624)
Net income for the year 2006	-	-	-	-	-	-	-	-	29,525,540	29,525,540
Comprehensive income 2006	-	-		-	-	(54,624)	(1,082,899)	-	29,525,540	28,388,017
Issuance of preferred shares	-	6,300,000	-	-	-	-	-	-	-	6,300,000
Preferred shares	-	-	31,657,500	-	-	-	-	-	-	31,657,500
Adjustments	-	-	-	-	-	-	-	1,922	-	1,922
Dividends declared during 2006	-	-	-	-	-	-	-	(4,887,269)	-	(4,887,269)
Allocation of 2005 net income	-	-	-	2,242,813	636,235	-	-	19,597,347	(22,476,395)	-
Balance, December 31, 2006	46,557,248	6,300,000	31,657,500	4,178,944	3,475,654	3,634,712	1,515,922	23,511,923	29,525,540	150,357,443

	Year Ended December 31, 2006 LBP'000	Year Ended December 31, 2005 LBP'000
Cash flows from operating activities:		
Net income for the year	29,525,540	22,476,395
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Provision for credit losses (less write-back)	2,751,702	5,474,002
Provision for loans assessed collectively	1,101,917	421,016
Depreciation and amortization	1,404,818	1,353,073
Provision for assets acquired in satisfaction of debts	108,167	182,222
Accretion of Lebanese treasury bills	(415,034)	(378,989)
Gain on sale of property and equipment	(67,657)	(3,478)
Increase in provisions	886,453	296,459
Settlements of provisions	(87,427)	(108,626)
(Decrease) /increase in miscellaneous creditors	(35,749,338)	22,053,874
Increase in accrued interest and other assets	(99,111,492)	(55,073,790)
(Decrease) /increase in accrued interest and other liabilities	(,388,398)	5,652,018
Net cash (used in) /provided by operating activities	(103,040,749)	2,344,176
Cash flows from investing activities:		
Securities	(166,213,196)	(59,988,509)
Loans and advances	31,630,354	(26,594,539)
Placements with banks and financial institutions	65,026,693	88,113,717
Proceeds from sale of assets acquired in satisfaction of debts	206,690	365,574
Proceeds from sale of Property and equipment	270,319	47,575
Property and equipment	(1,194,635)	(1,248,139)
Net cash (used in) / provided by investing activities	(70,273,775)	695,679
Cash flows from financing activities:		
Customers' deposits and other credit balances	83,966,035	(65,216,200)
Banks and financial institutions	46,813,251	15,317,354
Capital	-	16,557,248
Preferred shares	6,300,000	-
Preferred share premium	31,657,500	-
Dividends paid	(4,887,269)	(17,880,415)
Subordinated loan	616,191	(827,988)
Net cash provided by/(used in) financing activities	164,465,708	(52,050,001)
Net decrease in cash and cash equivalents	(8,848,816)	(49,010,146)
Cash and cash equivalents -- Beginning of year	176,003,603	225,013,748
Cash and cash equivalents -- End of year	167,154,787	176,003,603

Branches

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CURRENT GEOGRAPHICAL REPRESENTATION OF IBL

The Bank has thirteen operational branches, out of which five, along with the head office, are located in the Greater Beirut region; Three branches in the North of Lebanon; two branches in the South of Lebanon; two branches in the region of Mount Lebanon; and one branch in the Bekaa.

In the last six years, the Bank expanded its network by opening eleven new branches, most of which resulted from the acquisition of BCP Oriel Bank in 1999.
During the year 2004, the Bank opened two new branches, one in Chtaura (Bekaa) and one in Tyr (South of Lebanon), and during the first quarter of 2005, the Bank opened a new branch in Hazmieh (Baabda).
A new branch in the region of Antelias is currently under constitution.
Furthermore, during the last three years, the Bank has undergone a substantial process of modernization and harmonization of its branches, in order to support its image as a leading bank in the market, and to rationalize the workflow, so as to enhance branches' productivity and customers' satisfaction.

The Bank inaugurated its first representative office in 2004, in Sao Paolo, Brazil and established one representative office in the Kurdistan region in the northern region of Iraq in Erbil in July 2006.

The Bank sees its representative offices network as a mean to diversify its stream of deposits, investments and revenues.
In fact, consequent to the opening of Latin American and Arab offices, the Bank is aiming to attract deposits and banking business through the important Lebanese and Arab communities in these regions.
For instance, the Lebanese community in Brazil is considered to be 8.5 million strong and could be seriously attracted by the presence of a Lebanese bank, facilitating trade business between the Lebanese community located abroad and their home country.

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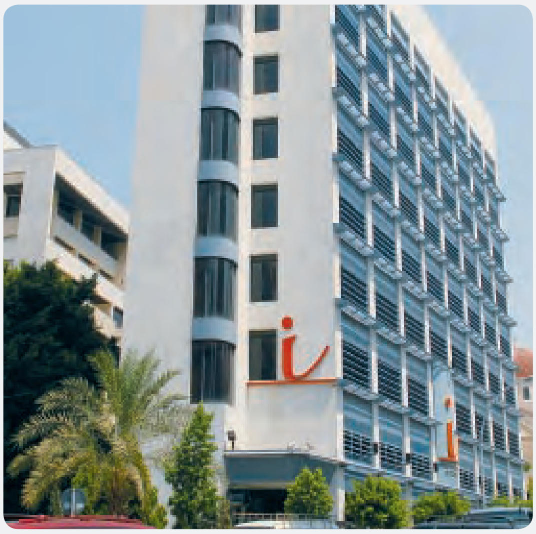
- **CYPRUS - LIMASSOL**

UNDER CONSTITUTION



IBL Ashrafieh

IBL Hamra

IBL Saida roundabout

Expansion
Growth

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