

***B. I. T.***

***ANNUAL REPORT  
2002***

*Based on the Consolidated Financial Statements  
and Auditor's Report  
as of December 31, 2002 and 2001*

***N.B.***

## Consolidated Balance Sheet

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### ASSETS

	Notes	December 31,	
		2002 LBP'000	2001 LBP'000
Cash and due from Banks	2	26,454,793	24,510,311
Interest bearing deposits with Banks	2	68,568,320	63,940,099
Lebanese Treasury Bills	3	95,020,767	92,585,346
Securities	4	58,720,140	50,195,420
Loans and Advances, less provision for credit losses	5	147,558,822	140,822,906
Customers' acceptance liability		806,010	721,189
Other assets	6	7,514,413	6,808,740
Investments	7	991,535	970,015
Property and Equipment, less accumulated depreciation (2002 : LBP4,344 million ; 2001 : LBP3,613 million)	8	<u>20,723,012</u>	<u>21,081,033</u>
<b>Total Assets</b>		<b><u>426,357,812</u></b>	<b><u>401,635,059</u></b>
<b>FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS :</b>	19		
Guarantees and standby letters of credit		19,046,602	11,902,194
Documentary and commercial letters of credit		990,731	537,369
Fiduciary deposits	20	38,454,000	38,146,000

*See accompanying notes to financial statements*

Consolidated Balance Sheet

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## LIABILITIES AND SHAREHOLDERS' EQUITY

		December 31,	
Notes	2002	2001	
	LBP'000	LBP'000	
Banks and Financial Institutions	<u>103,643</u>	<u>24,952</u>	
Customers' Deposits and Credit Balances :	9		
- Demand Deposits	18,708,908	14,600,035	
- Time Deposits	24,818,766	20,481,867	
- Saving Accounts	<u>325,552,051</u>	<u>312,431,912</u>	
	<u>369,079,725</u>	<u>347,513,814</u>	
Accounts payable and Miscellaneous creditors	10	3,353,497	2,760,649
Outstanding Acceptances		806,010	721,189
Other liabilities	11	4,316,653	3,699,786
Provisions for losses and contingencies	12	<u>2,345,078</u>	<u>2,646,166</u>
		10,821,238	9,827,790
<b>Total Liabilities</b>		<b><u>380,004,606</u></b>	<b><u>357,366,556</u></b>
Shareholders' Transitory Account	5	<u>7,008,577</u>	<u>4,923,902</u>
Minority interest		<u>20</u>	<u>20</u>
<b><u>Shareholders' Funds</u></b>			
Shareholders' cash contribution to capital	13	<u>14,660,438</u>	<u>14,660,438</u>
Capital	14	4,000,000	4,000,000
Reserves	15	2,207,092	2,207,064
Revaluation surplus	16	18,477,079	18,477,079
Profit for the year		<u>-</u>	<u>-</u>
Shareholders' Equity		<u>24,684,171</u>	<u>24,684,143</u>
<b>Shareholders' Equity and Cash Contribution to Capital</b>		<b><u>39,344,609</u></b>	<b><u>39,344,581</u></b>
<b>Total Liabilities and Shareholders' Equity</b>		<b><u>426,357,812</u></b>	<b><u>401,635,059</u></b>

*See accompanying notes to financial statements*

## Consolidated Statement of Operations

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		Year Ended December 31,	
Notes	2002	2001	

		LBP'000	LBP'000
<b>Interest income:</b>			
Advances and overdrafts		13,401,688	13,155,649
Advances to sister companies	5	776,152	1,435,161
Lebanese Government securities		13,233,920	14,235,984
Securities		5,066,175	4,034,016
Deposits with Banks		<u>3,615,726</u>	<u>3,048,255</u>
		<u>36,093,661</u>	<u>35,909,065</u>
<b>Interest expenses:</b>			
Deposits and credit balances from customers		23,527,696	24,405,272
Deposits from sister companies	9	1,597,656	1,948,487
Deposits from banks		<u>26,521</u>	<u>68,361</u>
		<u>25,151,873</u>	<u>26,422,120</u>
<b>Net interest income</b>		<b>10,941,788</b>	<b>9,486,945</b>
<b>Commissions, fees and other revenues</b>		2,693,673	2,832,084
<b>Foreign exchange income</b>		<u>183,259</u>	<u>191,798</u>
<b>Net financial revenues</b>		<b><u>13,818,720</u></b>	<b><u>12,510,827</u></b>
<b>Other expenses:</b>			
Salaries and related charges		6,523,436	6,346,397
General operating expenses		3,275,751	3,414,309
Depreciation		<u>754,275</u>	<u>682,761</u>
		<u>10,553,462</u>	<u>10,443,467</u>
<b>Income, before provisions</b>		<b>3,265,258</b>	<b>2,067,360</b>
Provision for credit losses, net	5	<u>( 3,223,741)</u>	<u>( 1,946,323)</u>
<b>Income, before taxes</b>		<b>41,517</b>	<b>121,037</b>
Income tax provision		<u>( 41,517)</u>	<u>( 121,037)</u>
<b>Net income for the financial year</b>		<b>-</b>	<b>-</b>

*See accompanying notes to financial statements*

## Consolidated Statement of Cash Flows

	Year Ended December 31,	
	2002	2001
	LBP'000	LBP'000
<b>Cash flows from operating activities:</b>		

Net income	-	-
Adjustments for:		
Provision for credit losses	3,296,401	2,219,406
Provision for depreciation	754,275	682,761
Net increase/(decrease) in provision for losses and contingencies	( 301,088)	( 493,940)
Accretion of treasury bills	( 90,638)	( 70,640)
Net (increase)/decrease in accrued income, prepayments and other assets	( 700,595)	1,162,680
Net increase/(decrease) in accrued interest payable, charges and other payables	<u>611,818</u>	<u>( 298,959)</u>
<b>Net cash provided by operating activities</b>	<b><u>3,570,173</u></b>	<b><u>3,201,308</u></b>
<b>Cash flows from investing activities:</b>		
Increase in interest bearing deposits with banks	( 4,628,221)	( 2,925,839)
Increase/(decrease) in treasury bills	( 2,344,783)	13,583,600
Increase in investments	( 21,520)	( 75,000)
Increase in loans and advances	( 7,947,642)	( 5,016,856)
Increase in securities	( 8,524,720)	(12,711,876)
Increase in property and equipment	<u>( 396,255)</u>	<u>( 545,662)</u>
<b>Net cash used in investing activities</b>	<b><u>(23,863,141)</u></b>	<b><u>( 7,691,633)</u></b>
<b>Cash flows from financing activities:</b>		
Increase in customers' deposits and credit balances	22,158,759	8,415,142
Increase/(decrease) in due to banks	<u>78,691</u>	<u>( 1,153,085)</u>
<b>Net cash provided by financing activities</b>	<b><u>22,237,450</u></b>	<b><u>7,262,057</u></b>
<b>Net increase in cash and due from banks</b>	1,944,482	2,771,732
<b>Cash and due from banks at beginning of year</b>	<u>24,510,311</u>	<u>21,738,579</u>
<b>Cash and due from banks at end of year</b>	<b><u>26,454,793</u></b>	<b><u>24,510,311</u></b>

*See accompanying notes to financial statements*

## Notes to Consolidated Financial Statements

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December 31, 2002 and 2001

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Basis for Preparation of the Financial Statements:

The financial statements have been prepared in accordance with International Financial Reporting Standards, on the historical cost convention except for available-for-sale securities and owned properties which are stated at their fair value. Assets and liabilities are grouped according to their nature and are listed in an approximate order that reflects their relative liquidity.

**B. Consolidation:**

The consolidated financial statements of Banque de l'Industrie et du Travail sal include the accounts of the Bank and its subsidiary company, the Société Immobilière pour la Construction sal (SIPC), in which the Bank owns an equity stake of 99%. The business activity of SIPC is the ownership of a building of 7 floors located in the Banks' street in Beirut Central District, and where the Bank Headquarters are located.

**C. Translation of Foreign Currencies:**

Assets and liabilities denominated in foreign currencies are translated into Lebanese Pounds at the market rates of exchange prevailing at the end of the year, as published by the Central Bank of Lebanon. Revenues and expenses denominated in foreign currencies are translated at the rates in effect at inception dates during which the transactions were effected. Translation gains and losses are booked currently in the statement of operations.

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, except for cash and due from banks at beginning of year which is converted at prior year closing exchange rate, and effects of currency fluctuation is disclosed separately, if any.

The foreign currency accounts balances as at December 31, 2002 were translated into Lebanese Pounds at the closing exchange rate on the basis of LBP1,507.50 for each U.S.Dollar ( LBP1,507.50 for US\$ 1 in 2001).

**Notes to Consolidated Financial Statements**

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December 31, 2002 and 2001

**D. Property and Equipment:**

Except for the owned premises which are stated at current values (see Note 1(E) below), other property and equipment are stated at historical cost in Lebanese Pounds less accumulated depreciation and impairment loss, if any. Depreciation is

calculated using the straight-line method on the basis of the following annual depreciation rates:

Buildings	2½%
Furniture	9 %
Office equipment	13 %
Computer equipment	20 %
Vehicles	15 %

**E. Properties:**

The Bank's owned premises and investment in real estate assets are stated at current net realizable value, and mark up in carrying value resulting therefrom was booked to assets revaluation surplus under "Equity".

**F. Other Tangible Assets:**

Other tangible assets are stated at cost net of the accumulated depreciation.

**G. Employees' Termination Indemnities:**

Contributions paid regularly by the Bank to the Lebanese Social Security National Fund on account of employees' termination indemnities are computed on the basis of 8½ percent 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 last declared salary paid, times number of years of service, and differences between such amounts due and amounts already paid are settled to the Fund at that time. The Bank follows the policy of accruing for the abovementioned differences on a current basis. The related accruals which were booked in 2002 amounted to LBP197 Million of which LBP56 Million relate to non-adherent (LBP167 Million of which LBP48 Million to non-adherent in 2001).

## Notes to Consolidated Financial Statements

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December 31, 2002 and 2001

**H. Loans and Advances:**

Loans and advances are disclosed net of unearned interest and provision for credit losses. Bad and doubtful loans are carried on cash basis because of doubts and the probability of non-collection of principal and/or interest.

The provision for credit losses is set up against specific accounts to offset the losses that may result therefrom, determined on the basis of an assessment of credit risks

updated regularly. The impairment loss indicated above is assessed based on the difference between the asset carrying value and the present value of future anticipated cash flows, taking into consideration the liquidating value of the guarantee in hand.

Guarantee funds pledged by the shareholders to cover shortfall in provision for credit losses was deducted from the Loans and Advances portfolio in the financial statements.

**I. Securities:**

Investments in securities are recognized on a trade date basis and are initially measured at cost and are classified into four categories: trading securities, available-for-sale securities, held-to-maturity securities and securities consisting of originated loans.

**Trading securities** are measured at subsequent reporting dates at fair value and revaluation differences are included in the statement of operations.

**Available-for-sale securities** are measured at subsequent reporting dates at fair value and revaluation differences are booked to "Change in fair value of Available-for-sale securities" under shareholders' equity except for decreases in value considered other than temporary which are booked to the statement of operations.

**Held-to-maturity securities** are measured at subsequent reporting dates at amortized cost less any impairment loss recognized to reflect irrecoverable amounts. The amortization of any discount or premium on acquisition, is aggregated with the other investment income receivable over the term of the instrument.

**Securities consisting of originated loans** represent investments in debt securities which are funded directly to the issuer, and which the Bank intends to keep for a long period, are stated at amortized cost less any impairment loss. The amortization of any discount or premium on acquisition, is aggregated with the other investment income receivable over the term of the instrument.

## Notes to Consolidated Financial Statements

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December 31, 2002 and 2001

**J. Investments:**

Investments represent equity ownership below 20% stated at cost. Provision for permanent decline in value is charged to the statement of operations.

**K. Checks for collection:**

Checks deposited by customers for collection are recorded, prior to dispatch to the clearing house, under assets for collection in the off-balance sheet pending final collection.

## 2. CASH AND DEPOSITS WITH BANKS

Cash and deposits with banks comprise the following as of December 31, 2002

<b>(a) Cash and due from banks:</b>	<u>LBP'000</u>
Cash on hand	4,022,289
Current accounts with Central Bank of Lebanon	19,331,244
Demand deposits with banks	3,101,260
Checks for collection	-
	<b><u>26,454,793</u></b>
 <b>(b) Interest bearing deposits with banks:</b>	
Call and time deposits with Central Bank	50,190,522
Call and time deposits with correspondent banks	18,377,798
	<b><u>68,568,320</u></b>
Total cash and deposits with banks	<b><u>95,023,113</u></b>

## Notes to Consolidated Financial Statements

December 31, 2002 and 2001

Above is segregated as follows in term of LBP and F/Cy base accounts:

	<u>LBP</u> <u>LBP'000</u>	<u>F/Cy</u> <u>LBP'000</u>	<u>Total</u> <u>LBP'000</u>
<b>Cash and due from banks:</b>			
Cash on hand	1,790,329	2,231,960	4,022,289
Current accounts with Central Bank of Lebanon	16,372,202	2,959,042	19,331,244
Demand deposits with resident banks	19,629	1,079,091	1,098,720
Demand deposits with non-resident banks	<u>-</u>	<u>2,002,539</u>	<u>2,002,539</u>
	<b><u>18,182,160</u></b>	<b><u>8,272,632</u></b>	<b><u>26,454,792</u></b>

<b>Interest bearing deposits with banks:</b>			
Central Bank of Lebanon	12,250,000	37,940,522	50,190,522
Resident banks	702,801	-	702,801
Non-resident banks	-	17,674,998	17,674,998
	<u>12,952,801</u>	<u>55,615,520</u>	<u>68,568,321</u>
	<b><u>31,134,961</u></b>	<b><u>63,888,152</u></b>	<b><u>95,023,113</u></b>

Current accounts with the Central Bank of Lebanon as at December 31, 2002 include a current account in the amount of LBP19.85 Billion representing compulsory reserve determined as a percentage of the customers' deposits in Lebanese Pounds, in accordance with the Lebanese Banking Laws and Regulations.

Interest bearing deposits with the Central Bank include deposits in local and foreign currencies in the amount of LBP12.25 Billion and US\$25.2 Million respectively as of 2002 year-end, of which an amount of US\$24.1 Million represent obligatory deposits.

In addition to the compulsory reserves referred to above, the bank is required effective 2003 to maintain 10% of its deposits in local and foreign currencies as of October 31, 2002, in the form non-interest bearing two years treasury bonds amounting approximately to LBP35 Billion, in compliance with Banking Laws and Regulations.

Demand deposits with banks include an amount of approximately LBP457 Million as at December 31, 2002 (LBP775 Million in 2001) representing non-interest earning demand deposits with non-resident banks. These accounts represent the clearing and operating balances maintained with correspondent banks.

## Notes to Consolidated Financial Statements

December 31, 2002 and 2001

Call and time deposits with correspondents include interest deposits in the amount of LBP1.77 Billion (US\$1,176,392) as of December 31, 2002 (US\$900,000 in 2001) deposited with non-resident banks and pledged in their favour against financing of international trade facilities granted to the Bank.

### 3. LEBANESE TREASURY BILLS

This caption represents bills bought directly from the issuer and considered as originated loans. It comprises the following:

	December 31, 2002		December 31, 2001	
	Balance LBP'000	Average Discount/ Coupon Rate %	Balance LBP'000	Average Discount/ Coupon Rate %
Treasury Bills in Lebanese Pounds:				
Discounted special treasury bills	2,593,276	6.00	2,592,849	6.00
Discounted ordinary treasury bills	<u>4,666,196</u>	11.56	<u>-</u>	
	7,259,472		2,592,849	
Coupon treasury bills (less discounts and premiums)	<u>87,761,295</u>	14.14	<u>89,992,497</u>	14.14
	<b><u>95,020,767</u></b>		<b><u>92,585,346</u></b>	

The discounted special and ordinary treasury bills are bought net of discount interest and stated in the balance sheet at their face value, less related unearned interest. The special treasury bills earn a low interest rate of 6% per annum and are held as part of the compulsory reserve requirements.

The coupon treasury bills carry two years maturity, and related interest is paid semi annually. Accrued interest receivable amounting to LBP3.97 Billion as at December 31, 2002 (LBP3.6 Billion in 2001) is included under "Other assets".

Discounts and premiums are amortized over the period to maturity of the related treasury bills and charged to the statement of operations.

## Notes to Consolidated Financial Statements

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### December 31, 2002 and 2001

The Lebanese treasury bills in Lebanese Pounds outstanding at 2002 year-end carry the following maturities in term of remaining period to maturity with the related applicable discount/coupon rates:

Period	Net Book Value LBP'000	Fair Value LBP'000	Weighted Average Discount/ Coupon Rates %	Market Interest Rate Applicable to the Respective Periods as of December 31, 2002 %
First quarter 2003	23,543,586	23,705,060	12.98	6.70
Second quarter 2003	11,938,662	12,195,593	13.94	8.56
Third quarter 2003	14,486,166	14,912,792	14.14	8.97

Fourth quarter 2003	5,343,299	5,570,130	13.38	8.95
First semester 2004	8,514,239	9,010,450	14.14	9.10
Second semester 2004	<u>31,194,815</u>	<u>33,560,106</u>	14.14	9.19
	<b><u>95,020,767</u></b>	<b><u>98,954,131</u></b>		

#### 4. SECURITIES

This section consists of the following:

	December 31,	
	2002 LBP'000	2001 LBP'000
Held-to-maturity debt securities issued by banks	5,427,000	-
Held-to-maturity Government bonds purchased from customers without recourse	-	4,065,920
Securities consisting of originated loans	<u>53,293,140</u>	<u>46,129,500</u>
	<b><u>58,720,140</u></b>	<b><u>50,195,420</u></b>

## Notes to Consolidated Financial Statements

December 31, 2002 and 2001

Debt securities issued by banks represent bonds bought from local financial institutions and banks and held-to-maturity as follows:

Issuer and Maturity Date	Interest Rate %	Nominal/ Carrying Value US\$	Fair Value US\$	Changes in Fair Value US\$
Banque de la Méditerranée s.a.l. <i>July 2004</i>	9.25	1,500,000	1,521,255	21,255
Banque de la Méditerranée s.a.l. <i>October 2003</i>	8.625	1,500,000	1,502,505	2,505
Banque de l'Habitat s.a.l., 2006	8.75	600,000	600,000	-
<b>Total in U.S.Dollars</b>		<b><u>3,600,000</u></b>	<b><u>3,623,760</u></b>	<b><u>23,760</u></b>
<b>C/V in LBP (000)</b>		<b><u>5,427,000</u></b>	<b><u>5,462,818</u></b>	<b><u>35,818</u></b>

The securities consisting of originated loans which represent Lebanese Treasury bonds in US Dollars, intended to be held to maturity, comprise the following:

<b>Maturity</b>	<b>Coupon Rate %</b>	<b>Par/ Carrying Value US \$</b>	<b>Fair Value US \$</b>	<b>Changes in Fair Value US \$</b>
September 2003	9.125	1,500,000	1,516,245	16,245
September 2003	Floating	1,500,000	1,450,005	( 49,995)
March 2004	8.50	2,000,000	1,993,340	( 6,660)
March 2004	8.50	2,000,000	1,993,340	( 6,660)
March 2004	9.00	3,000,000	2,990,010	9,990
December 2004	9.50	2,000,000	2,030,000	30,000
June 2005	9.375	4,000,000	4,023,320	23,320
June 2005	9.375	4,000,000	4,023,320	23,320
April 2006	9.875	5,000,000	5,050,000	50,000
April 2006	9.875	3,000,000	3,030,000	30,000
August 2008	10.125	1,000,000	993,330	( 6,670)
August 2006	10.50	3,352,000	3,395,308	43,308
October 2009	10.25	1,500,000	1,489,995	( 10,005)
October 2009	10.25	<u>1,500,000</u>	<u>1,489,995</u>	<u>( 10,005)</u>
		<b><u>35,352,000</u></b>	<b><u>35,468,208</u></b>	<b><u>116,208</u></b>
<b>C/V in LBP (000)</b>		<b><u>53,293,140</u></b>	<b><u>53,468,324</u></b>	<b><u>175,184</u></b>

Accrued interest receivable as at 2002 aggregating to LBP1.63 Billion (US\$1,086,340) is included under "Other assets" (LBP1.47 Billion representing the counter-value of US\$978,078 in 2001). Discount were directly charged to the statement of operations at purchase of the bonds due to immateriality.

## Notes to Consolidated Financial Statements

December 31, 2002 and 2001

### 5. LOANS AND ADVANCES

This caption comprises the following:

	<b>December 31,</b>	
	<b>2002 LBP'000</b>	<b>2001 LBP'000</b>
Loans and advances to customers	112,759,408	106,180,498
Discounted bills	1,907,575	3,195,138
Creditors accidentally debtors	1,133,648	1,105,532
Loans and advances to sister companies and directors	11,842,940	9,893,253
Bad and doubtful loans	50,561,550	49,983,560
<u>Less: Provision for credit losses</u>	<u>( 21,648,203)</u>	<u>( 18,452,304)</u>
<u>Less: Guarantee Funds</u>	<u>( 8,998,096)</u>	<u>( 11,082,771)</u>
	<b><u>147,558,822</u></b>	<b><u>140,822,906</u></b>

Loans and advances to customers include advances secured by cash collateral aggregating to LBP12.36 Billion (LBP11.4 Billion in 2001) with offsetting credit balances included in the "Saving accounts" under "Customers' deposits and credit balances", in the amount of LBP17.99 Billion (LBP17.2 Billion in 2001). Advances to customers include also commercial loans secured by mortgage and/or negative pledge on real estate properties in the aggregate of approximately LBP69.3 Billion as of December 31, 2002 (LBP66.62 Billion in 2001).

Loans and advances to sister companies and directors, in the amount of LBP11.8 Billion at 2002 year-end (LBP9.89 Billion in 2001), are secured by pledged funds in the aggregate of LBP11.15 Billion (LBP9.25 Billion in 2001).

Bad and doubtful loans of LBP50.56 Billion are stated net of unearned interest of LBP69.13 Billion (LBP55.45 Billion in 2001). Most of these accounts, which are fully covered as indicated hereunder, are delinquent since many years and are subject to various law suits pending before the court and there is reasonable doubt regarding their collectibility, except for certain accounts balances which cannot be quantified at present, that can be realized from proceeds of foreclosure of mortgaged properties.

Provision for credit losses in respect of the indicated doubtful loans was set up in various currencies to the extent of LBP21.65 Billion up to December 31, 2002. Furthermore, pledged guarantee funds aggregating LBP9 Billion as of December 31, 2002 were deposited by the shareholders of the Bank in order to cover the shortfall in the amount of provisions set up for bad and doubtful loans.

## Notes to Consolidated Financial Statements

December 31, 2002 and 2001

The movement of the provision for credit losses in 2002 and 2001 consists of the following:

	December 31,	
	2002 LBP'000	2001 LBP'000
Balance, beginning of year	18,452,304	17,554,759
Provision set up during the year	3,296,401	2,216,906
Write back during the year	( 99,480)	( 270,583)
Transfer from unearned interest	-	( 19,394)
Provision for bad debts transferred to the off-balance sheet	-	( 1,029,384)
Effects of exchange rate changes	( 1,022)	-
Balance, end of year	<u>21,648,203</u>	<u>18,452,304</u>
Pledged guarantee funds, beginning of year	11,082,771	11,006,673
Funds transferred to shareholders' transitory account	( 2,084,675)	<u>76,098</u>
Pledged guarantee funds, end of year	<u>8,998,096</u>	<u>11,082,771</u>
Total provision for credit losses and guarantee funds	<u>30,646,299</u>	<u>29,535,075</u>

The excess of bad and doubtful loans over provision for credit losses and guarantee funds is secured by cash guarantee and mortgages.

The shareholders' transitory account referred to above, amounting to LBP7 Billion at 2002 year-end (LBP5 Billion in 2001), represents excess of pledged guarantee funds over the shortfall of provisions for credit losses which will be allocated to enhance the core capital of the Bank. This account is reflected under liabilities in the balance sheet.

The Banking Control Commission approved the provision for credit losses setup in the amounts of LBP74 Million, US\$244,380 and LBP2.85 Billion in January, February and March 2002, respectively. These provisions are therefore, tax deductible in accordance with local tax laws and regulations.

The movement of the unearned interest in 2002 and 2001 was as follows:

	December 31,	
	2002 LBP'000	2001 LBP'000
Balance, beginning of year	55,458,442	47,145,922
Unearned interest for the year	13,808,206	12,201,753
Write back during the year	( 134,363)	-
Transfer to provision for bad debts	-	19,394
Unearned interest on bad debts transferred to the off-balance sheet	-	( 3,908,627)
Balance, end of year	<b><u>69,132,285</u></b>	<b><u>55,458,442</u></b>

## Notes to Consolidated Financial Statements

.....

December 31, 2002 and 2001

According to Decree No. 83 of June 27, 1977, provisions set up by banks for bad and doubtful debts are considered as deductible charges for tax purposes, provided the approval of the Banking Control Commission is secured. Effective January 1, 1991, banks were requested by the Banking Control Commission to stop accruing interest on doubtful debts and to disclose such amounts of interest, had it been accrued for.

### 6. OTHER ASSETS

This section consists of the following:

	December 31,	
	2002 LBP'000	2001 LBP'000
Accrued interest receivable (Notes 3 and 4)	6,382,094	5,599,284
Prepaid expenses	301,684	459,405
Refundable deposits	25,340	25,340
Sundry debtors	<u>805,295</u>	<u>724,711</u>
	<b><u>7,514,413</u></b>	<b><u>6,808,740</u></b>

## 7. INVESTMENTS

This section comprise the following non-current equity securities:

	<b>LBP'000</b>
KAFALAT sal	50,000
Banque Nationale pour le Développement Industriel et Touristique sal	1,000
Banque de l'Habitat sal	662,180
Sté Financière du Liban sal	800
Sté Financière et Immobilière du Port de Beyrouth sal	1,897
Cie de Gestion et d'Exploitation du Port de Beyrouth sal	5,868
Starco Center	7,646
BMB Technology and Telecommunication Investment Co.	153,765
Berytech	75,000
National Institution for Guarantee of Deposits (fully amortized)	-
Other	33,379
	<b><u>991,535</u></b>

The non-current equity securities are all stated at their original cost in Lebanese Pounds.

## Notes to Consolidated Financial Statements

December 31, 2002 and 2001

## 8. PROPERTY AND EQUIPMENT

This caption comprises the following:

In LBP (000)	December 31,			
	2002		2001	
	Bank	SIPC	Bank	SIPC
<b>Depreciable Assets:</b>				
Land	-	2,479	-	2,479
Owned premises	6,693,214	13,775,106	6,693,214	13,771,246
Pre-operating expenses	24,534	-	24,534	-
Key money	190	-	190	-
Freehold improvement and Installation	834,763	-	597,099	-
Furniture and fixtures	832,655	405,503	790,161	422,661
Computer Equipment	2,029,440	-	1,923,567	-
Vehicles	58,676	-	58,676	-
	<u>10,473,472</u>	<u>14,183,088</u>	<u>10,087,441</u>	<u>14,196,386</u>
Accumulated depreciation	( 3,619,513)	( 724,181)	( 2,969,761)	( 643,179)
Net book value	<u>6,853,959</u>	<u>13,458,907</u>	<u>7,117,680</u>	<u>13,553,207</u>
Advance payment on purchase of fixed assets	<u>37,863</u>	-	<u>37,863</u>	-
Properties acquired in settlement of debts	<u>372,283</u>	-	<u>372,283</u>	-
	<u>7,264,105</u>	<u>13,458,907</u>	<u>7,527,826</u>	<u>13,553,207</u>

The current net realizable value of the Bank's owned premises was estimated according to an independent valuation at approximately US\$12,325,000. The revaluation surplus resulting therefrom, was booked as an adjustment to the carrying value of these properties. This revaluation was approved by the Central Bank of Lebanon and the tax authorities.

In accordance with the Banking Control Commission requirements, a provision for properties acquired in satisfaction of debts was set up by the end of year 2000 in the amount of US\$649,180 as discussed under Note 12.

Depreciation charges for 2002 amounted to LBP656 Million for the bank and LBP98 Million for the subsidiary company.

## Notes to Consolidated Financial Statements

.....

December 31, 2002 and 2001

### 9. CUSTOMERS' DEPOSITS AND CREDIT BALANCES

The customers' deposit base as at December 31, 2002 consists of Lebanese Pounds and foreign currency deposits to the extent of 35% and 65% respectively, carrying short term maturities. In this connection, it should be noted that there is a concentration in the distribution of the foreign currency deposits among customers.

Customers' deposits include code number deposit accounts stated at LBP5.69 Billion as at December 31, 2002 (LBP4.8 Billion in 2001). These accounts were opened in the Bank under the provisions of Article 3 of the Banking Secrecy Law. 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 its independent public accountants.

The average balances of deposits and allocation between currency base were as follows over the last three years:

Year	Average balance	Allocation of deposits		Cost	Average
	of deposits	LBP	F/Cy	of funds	Interest Rate
	LBP'000	%	%	LBP'000	%
2002	368,954,000	32	68	24,949,000	6.76
2001	354,800,000	34	66	26,183,000	7.38
2000	352,800,000	44	56	30,110,000	8.54

Customers' deposits include balances aggregating LBP13.82 Billion as at December 31, 2002 pledged in the Bank's favour against credit facilities extended to customers. It also includes funds in the amount of LBP11.15 Billion (US\$7.4 Million) and LBP9.25 Billion (US\$6.13 Million) as at December 31, 2002 and 2001, respectively, pledged by related parties against facilities granted to the group subsidiaries.

## Notes to Consolidated Financial Statements

.....

December 31, 2002 and 2001

### 10. ACCOUNTS PAYABLE AND MISCELLANEOUS CREDITORS

This section comprises the following:

	<b>December 31,</b>	
	<b>2002</b>	<b>2001</b>
	<b>LBP'000</b>	<b>LBP'000</b>
Withheld taxes	142,282	248,286
Checks and orders to be paid	69,600	103,289
Margins on letters of credit	370,677	304,108
Margins on letters of guarantee and others	1,286,653	1,093,883
Miscellaneous creditors	<u>1,484,285</u>	<u>1,011,083</u>
	<b><u>3,353,497</u></b>	<b><u>2,760,649</u></b>

The Bank's tax returns for the years 2001 and 2002 remain subject to examination and acceptance by the tax authorities.

Additional taxes in the amount of LBP42 Million were incurred by the Bank during 2002 and charged to the statement of operations as a result of the review carried out by the tax authorities on the year 2000 accounts.

Income tax on the Bank's 2002 net income excluding the subsidiary was calculated as follows:

	<b><u>LBP' 000</u></b>
Net income before tax	385,320
<u>Add:</u> Tax paid	49,430
Charges not deductible	18,122
<u>Less:</u> Dividends from participations	(243,488)

Change in the provision for exchange fluctuation	( 3,273)
Taxable income	<u>206,111</u>
Corporate tax payable	<u>30,917</u>

## Notes to Consolidated Financial Statements

.....

December 31, 2002 and 2001

### 11. OTHER LIABILITIES

This section comprises the following:

	December 31,	
	2002 LBP'000	2001 LBP'000
Unearned interest and commissions	319,944	168,863
Accrued expenses	908,543	632,890
Accrued interest payable	2,994,651	2,798,894
Social security dues	<u>93,515</u>	<u>99,139</u>
	<b><u>4,316,653</u></b>	<b><u>3,699,786</u></b>

### 12. PROVISIONS FOR LOSSES AND CONTINGENCIES

This section comprises the following items:

	December 31,	
	2002 LBP'000	2001 LBP'000
Provision for end-of-service indemnities	1,361,545	1,659,360
Provision for exchange fluctuations	2,125	5,398
Provision for contingencies	2,771	2,771
Provision for properties acquired in satisfaction of debts	<u>978,637</u>	<u>978,637</u>
	<b><u>2,345,078</u></b>	<b><u>2,646,166</u></b>

The provision for properties acquired in satisfaction of debts represents provisions set up by the end of 2000 to the extent of the value of these properties of US\$649,180 as appraised during 1998 by the Banking Control Commission.

## Notes to Consolidated Financial Statements

.....

December 31, 2002 and 2001

### 13. SHAREHOLDERS' CASH CONTRIBUTION TO CAPITAL

This caption represents a non-refundable capital injection of US\$9,725,000 (US\$9,725,000 in 2001), interest free, made by the major shareholders. This sort of equity financial instrument has the advantage of being booked and maintained in foreign currency thus providing a hedging against national currency fluctuation.

According to Local Banking Laws and Regulations, shareholders' cash contribution to capital is considered as Tier I Capital for the purpose of computation of the risk-based capital ratio.

### 14. CAPITAL

This section represents the Bank's fully paid up capital in the amount of LBP4 Billion divided into 4,000,000 shares at LBP1,000 each.

As of December 31, 2002, the Bank's solvency ratio was as follows:

	<u>LBP '000</u>
Weighted risk assets and off-balance sheet financial instruments	168,686,000
Tier I and Tier II Capital	39,326,000
Risk based capital ratio	23.31%

### 15. RESERVES

This caption includes the following:

December 31,				
	2002		2001	
	Bank LBP'000	SIPC LBP'000	Bank LBP'000	SIPC LBP'000
Reserve for general banking risks	1,284,976	-	987,814	-
Legal reserve	206,649	1,500	164,418	1,500
General reserve	<u>711,279</u>	<u>2,688</u>	<u>628,361</u>	<u>424,971</u>
	<b><u>2,202,904</u></b>	<b><u>4,188</u></b>	<b><u>1,780,593</u></b>	<b><u>426,471</u></b>

## Notes to Consolidated Financial Statements

.....

December 31, 2002 and 2001

In accordance with the requirements of Article 133 of the Lebanese Money and Credit Law, and as stipulated by the Bank's bylaws, the Bank has transferred from its inception to December 31, 2002, 10% of its net income, to the legal reserve account. This legal reserve is not available for distribution. An amount of LBP48 Million was transferred to this account out of 2001 profits.

The Bank is required according to local banking regulations to set up a reserve for general banking risks at the rate of 0.2% of the weighted asset risk and off-balance sheet instruments. In this connection, an amount of LBP297 Million was transferred to this account out of the 2001 profits.

### 16. REVALUATION SURPLUS

Revaluation surplus resulted from the revaluation at current net realizable value of the Bank's premises, and investment in the wholly owned subsidiary. The revaluation differences were reflected in the balance sheet net of tax paid.

According to local banking regulations, the revaluation surplus of owned premises is eligible to be incorporated in the Tier II capital for the purpose of computation of the risk based capital ratio.

### 17. COST OF FUNDS

Interest expense on customers' deposits includes an amount of LBP176 Million (LBP172 Million in 2001) representing premiums due to the National Institution for Guarantee of Deposits.

## 18. GENERAL OPERATING EXPENSES

This section includes an amount of LBP385 Million (LBP343 Million in 2001) representing charges accrued for at 2002 year-end due to a sister company.

## Notes to Consolidated Financial Statements

December 31, 2002 and 2001

## 19. 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.

## 20. FIDUCIARY TRANSACTIONS

Fiduciary transactions as at 2002 and 2001 year-ends include the following:

	<b>2002</b>	<b>2001</b>
	<b>LBP'000</b>	<b>LBP'000</b>
Back to back lending from resident depositors	<u>29,924,582</u>	<u>29,778,000</u>
Fiduciary deposits with non-resident banks	<u>8,529,418</u>	<u>8,368,000</u>

Fiduciary deposits with non-resident banks are distributed as follows:

	<b>2002</b>	<b>2001</b>
	<b>LBP'000</b>	<b>LBP'000</b>
Resident depositors	<u>8,406,810</u>	<u>8,247,000</u>
Non-resident depositors	<u>122,608</u>	<u>121,000</u>

Fiduciary transactions are subject to interest differential of 0.5% to 2% representing a fee income to the Bank. The Bank's participation in the credit risk of the above

debtors amounts to LBP11.35 Billion (US\$7.5 Million) as of December 31, 2002 (LBP11.52 Billion the equivalent of US\$7.6 Million in 2001).

## **ECONOMIC AND MONETARY INDICATORS**

## Economic & Monetary Indicators

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The slowing down of the Lebanese Economy persisted during 2002. However, some of the economic and monetary indicators showed an improvement compared to 2001 results.

- **External Trade**

The Exports rose by 17.6% in 2002 compared to 2001 exports, and the Imports decreased by 11.6%, reaching respectively US\$1,045.4 Million and US\$6,445 Million. Thus the Trade Balance deficit decreased by 15.7% to the amount of US\$5,400 Million.

- **Balance of Payments and Central Bank Reserves**

The Balance of Payments registered a large surplus for 2002 amounting to US\$1,564 Million, compared with a deficit for 2001 amounting to US\$1,169 Million. This surplus has been reflected on the Central Bank Gross Reserves in foreign currencies, which amounted to US\$7,191 Million at December 31, 2002, against US\$4,966 Million end of 2001, and total foreign reserves, including gold, which reached US\$10,407 Million against US\$7,527 Million end of 2001.

- **Budget Deficit and Public Debt**

The Budget Deficit amounted to LBP4,292 Billion in 2002 against LBP4,229 Billion in 2001, outlining an increase of 1.5%. It represented 42.3% and 47.7% of Total Budget, and 73.4% and 91% of total revenues, respectively. This result was generated by an increase of 14.2% in total public expenditures during this period and a higher increase of 25.8% in total public revenues.

The Net Public Debt reached the equivalent of US\$29.36 Billion end of 2002 against US\$27 Billion end of 2001 registering an increase of 8.7%:

The Net Domestic Debt dropped from LBP26,301 Billion end of 2001 to LBP22,339 Billion end of 2002. It should be noted that the Central Bank contribution in total public debt in Lebanese Pounds had decreased in year 2002 to 2.86% as compared to 22.15% in year 2001. In figures, it amounted to LBP723 Billion end of 2002 against LBP6,251 Billion end of 2001. While the contribution of the Commercial Banks had increased for the same period by 8.7%, from 56.1% (LBP15,830 Billion) to 68% (LBP17,212 Billion).

The foreign-currency denominated Public Debt rose by 52.2% and registered US\$14,542 Million end of 2002 against US\$9,553.6 Million end of 2001. They represent 49.5% of total net Public Debt for year 2002 (35.4% for year 2001).

On the other hand, Public Debt Services represent 45.6% (48.6% for year 2001) of total public expenditures and 79% (92.8% for year 2001) of total public revenues for the year 2002.

## Economic & Monetary Indicators

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- **Exchange and Money Markets**

The Lebanese Pound remained stable vis-à-vis the US Dollar during the year, with an exchange rate of LBP1,507.5 per US\$ at end of 2002 and 2001.

As for Bank Interest Rates, the average LBP lending rate declined from 16.76% in December 2001 to 16.10% in December 2002, and the average LBP deposit rate from 10.15% to 9.83% for the same period.

Remaining stable since October 1999, the Interest Rates on all categories of Treasury Bills followed a downward trend after Paris II. Thus, at end of 2002, yields on the three-month, six-month, one-year and two-year Treasury Bills dropped from 11.18%, 12.12%, 13.43% and 14.64% as at end of 2001, to 7.77%, 9.15%, 9.13% and 9.41% respectively.

- **Banking Sector**

The Banks' consolidated balance sheet noted a growth of 10.1% end of 2002 (5.84% in year 2001), standing at LBP79,118 Billion or US\$52.48 Billion.

The Volume of Deposits of Private Sector in the Banking System (including non-resident deposits) reported a net growth of 6.21% relative to 2001 (6.67% in year 2001). They amounted to LBP64,274 Billion equivalent to US\$42.64 Billion at the end of 2002.

Deposits in Lebanese Pounds increased by 18.4% (decreased by 11.5% in year 2001). They went up from LBP16,627 Billion at end-December 2001 to LBP19,685 Billion at end-December 2002, representing 30.6% of total bank deposits against 27.5% in year 2001.

While Deposits in Foreign Currencies rose by 1.6% only in year 2002 (15.67% in year 2001). They increased from US\$29,113 Million at end-December 2001 to US\$29,577 Million at end-December 2002.

Loans and Advances to Private Sector (including loans to non-resident) increased by 2.72% in year 2002, reaching LBP23,573 Billion or US\$15.64 Billion (they remained stable in year 2001).

Loans in Lebanese Pounds rose by 28% (11% in year 2001). They went up from LBP3,207 Billion at end-December 2001 to LBP4,107 Billion at end-December 2002, and their share of total bank credits reached 17.4% (around 14% in the previous year).

While Loans in Foreign Currencies decreased by 1.4% (and by 1.72% in the previous year). They went down from US\$13,095 Million at end-December 2001 to US\$12,912 Million at end-December 2002.

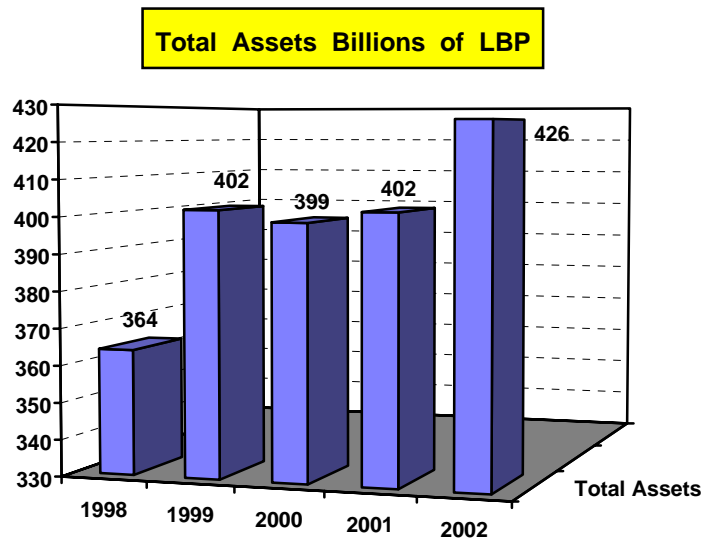
# **FINANCIAL REVIEW OF THE BANK**

# Financial Review of the Bank

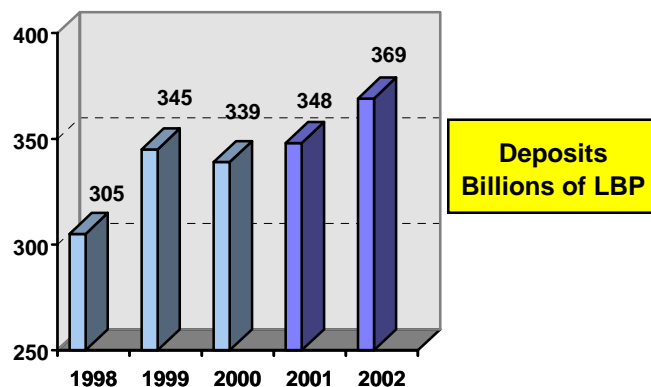
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## I - OVERVIEW

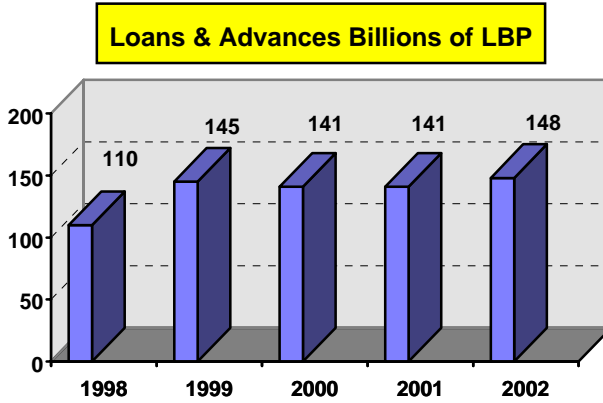
Despite an unfavorable economic environment, BIT's total assets registered a 6.15% growth at the end of 2002, compared to a growth of 10.1% in the Lebanese Banking Sector. It went up from LBP401.6 Billion (US\$266.4 Million) at the end of 2001 to LBP426.3 Billion (US\$282.8 Million) at the end of 2002.



Deposits followed the same trend. They recorded the same rate of growth than the Banking Sector one - 6.2% - at the end of 2002. Total deposits increased from LBP347.5 Billion (US\$230.5 Million) at the end of 2001 to LBP369 Billion (US\$244.8 Million) at the end of 2002.



## Financial Review of the Bank



Total Loans and Advances to customers also increased at the end of 2002 by 4.8%, reaching LBP147.5 Billion, up from LBP140.8 Billion at the end of 2001. They increased by 2.7% in the whole banking sector.

Loans to Deposits ratio in FC increased from 57.9% in 2001 to 58.2% in 2002 year-end. While the Loans to Deposits ratio in LBP dropped from 7.4% in 2001 to 5.8% in 2002 year-end.

The liquidity of the Bank has been maintained on a high level to secure a better and more sound assets readiness.

The liquidity ratio (cash, banks, T/Bs in LBP and US Dollar and available-for-sale securities over deposits net of cash collateral) has developed as follows:

Net liquidity ratio	2002	2001
• LBP	101.8%	100.3%
• US\$	55.4%	56.1%
• Compounded ratio	72.9%	71.9%

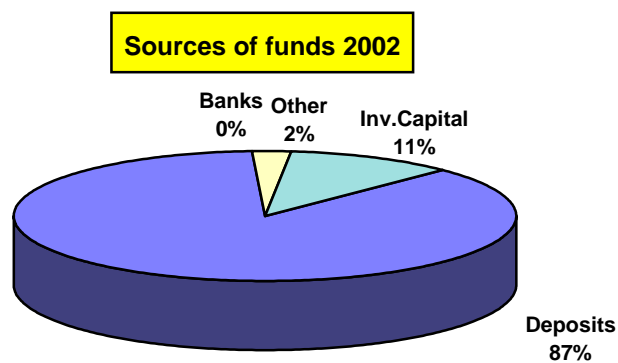
On the other hand, the Banking Control Commission had recommended a new calculation of the net liquidity ratio in US\$ which excludes TBs in F/Cy and the compulsory reserve deposit at the BDL according to circular #236.

This ratio stood at 15.27% as at December 2002 (minimum required being 10%).

## Financial Review of the Bank

## II - SOURCES OF FUNDS

Millions of LBP	2002	2001
Banks	104	25
Deposits	369,080	347,514
Other financial accounts	10,821	9,828
Shareholders' funds/ Equity	46,353	44,268

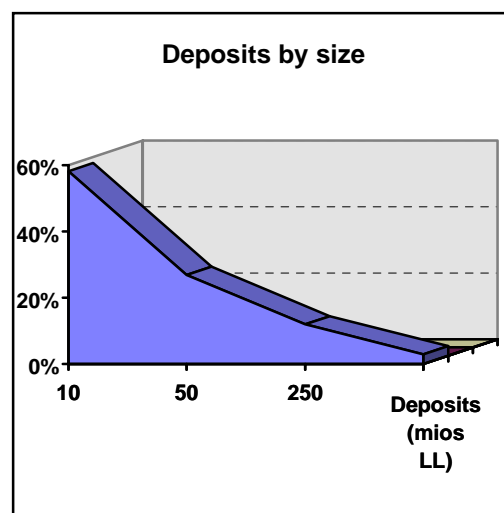
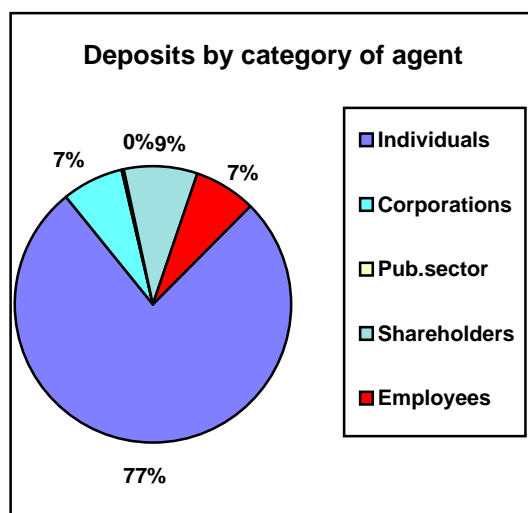


BIT has a solid funding base. Customer deposits continued to be the major source of funds (86.6%).

Only 0.02% of BIT's funding is from Banks and Financial Institutions and about 11% from Investment capital.

### a - Deposits:

They are allocated at December 31, 2002 for 65% in Foreign Currency, and for 35% in Lebanese Pound. Within these customer accounts, the majority (95%) are in the form of saving accounts or time deposits.



## Financial Review of the Bank

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b - Shareholders' Funds/ Equity

The Bank continued to enforce its capital base. For that, between 1992 and 1997, the shareholders made a non refundable and interest free capital injection of US\$9.725 Million. This amount was booked and maintained in foreign currency thus providing a hedge against national currency fluctuation. The Central Bank of Lebanon considers shareholders' cash contribution to capital to be Tier I Capital.

Further, the Bank has conducted a partial revaluation of assets originally booked at long-out-of-date acquisition prices, revalued in 1996 to take advantage of tax laws allowing a concessionary tax rate of only 1.5% on such revaluations. Another advantage of the revaluation is a 5% saving on dividend withholding taxes to the extent dividends do not exceed the amount of the revaluation surplus. The Central Bank of Lebanon has given its approval on this revaluation on 18.07.1997.

Included as well in this caption, the shareholders' transitory fund amounting to US\$4.649 Million at 2002 year end. It represents the excess of pledged guarantee funds over the shortfall of provisions for credit losses which will be allocated to enhance the core capital of the Bank.

Consequently, the Bank's net worth, together with the shareholders' transitory fund, amounted to LBP46,353 Million or US\$30.75 Million at December 31, 2002 (LBP44,268 Million or US\$29.36 Million in 2001).

The following figures outline the Bank's capital base components and development since 2000:

In Millions of LBP	2002	2001	2000
• Capital/Reserves/Retained Earnings	6,207	6,207	6,208
• Cash contribution to Capital (in US\$)	<u>14,660</u>	<u>14,660</u>	<u>14,660</u>
<b>a- Tier I Capital</b>	<b>20,867</b>	<b>20,867</b>	<b>20,868</b>
• Capital gain on assets	<u>18,477</u>	<u>18,477</u>	<u>18,477</u>
<b>b- Tier II Capital</b>	<b>18,477</b>	<b>18,477</b>	<b>18,477</b>
<b>Shareholders' Equity before T.S.F.(a + b)</b>	<b>39,344</b>	<b>39,344</b>	<b>39,345</b>
• Transitory shareholders' funds	<u>7,009</u>	<u>4,924</u>	<u>5,000</u>
<b>Shareholders' Equity after T.S.F.</b>	<b>46,353</b>	<b>44,268</b>	<b>44,345</b>

Financial Review of the Bank

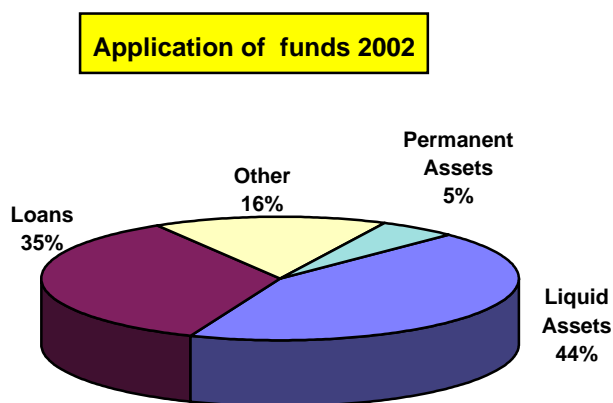
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The ratios indicated here under are an indication of the financial strength of the Bank in respect of its level of capitalization.

	2002	2001	2000
Ratio Equity to Assets	9.23%	9.80%	9.85%
Solvency ratio	23.3%	26.5%	31%
Gearing ratio (deposits to equity)	9.38	8.83	8.61

### III - APPLICATION OF FUNDS

Millions of LBP	2002	2001
Liquid Assets	190,044	181,036
Loans and Advances	147,559	140,823
Other financial accounts	68,032	58,695
Permanent assets	20,723	21,081



BIT's assets distribution shows that about 44% of these assets are liquid.

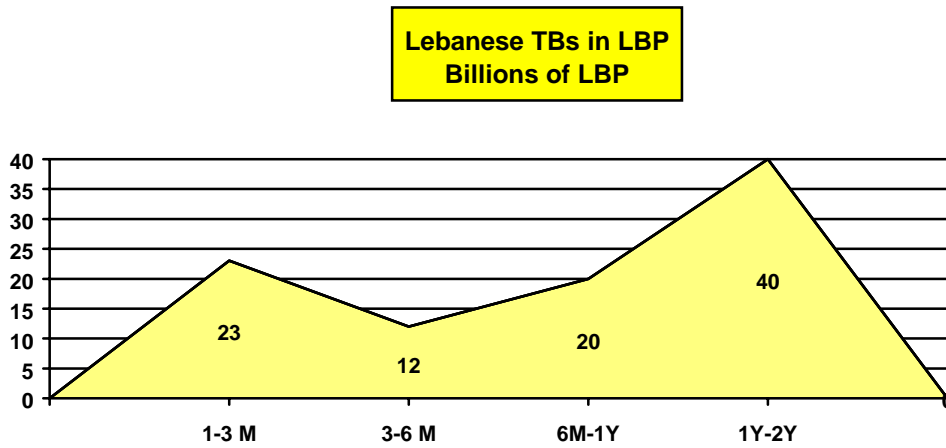
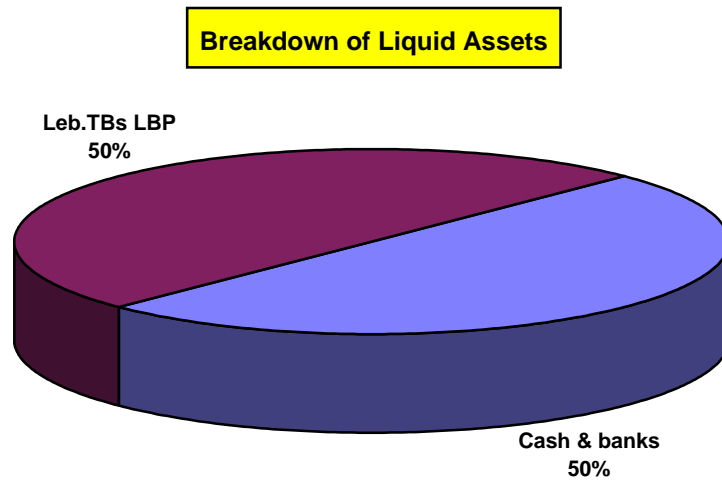
35% are allowed to loan portfolio.

78.3% of Other financial accounts are composed of Lebanese treasury bonds in US Dollars.

### Financial Review of the Bank

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a - Liquid Assets:

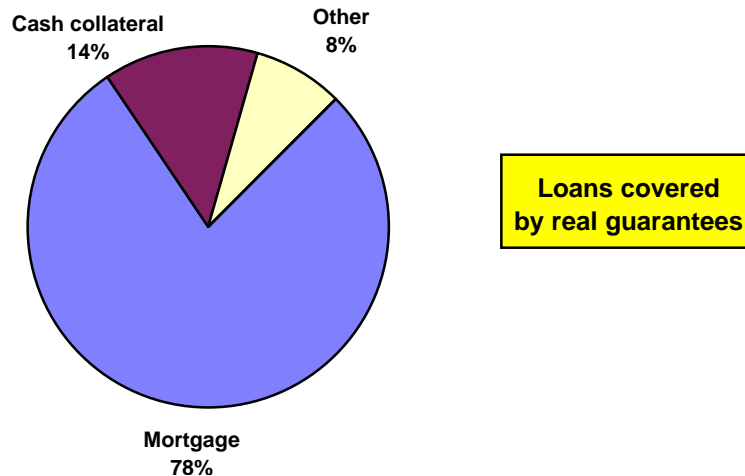


Financial Review of the Bank

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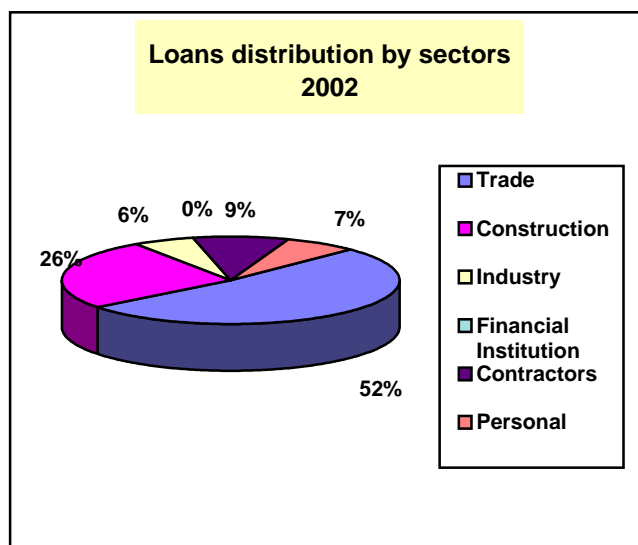
b - Loans and Advances:

They are allocated at December 31, 2002 for 95% loans in Foreign Currency, and for only 5% loans in Lebanese Pound. Within loans and advances to customers, the majority (78.4%) are covered by real guarantees (mortgage, cash collateral,...), 15.4% are covered by personal guarantees and 6.2% in blank.



52% of loans were allowed to Trade and Services (the average in the Banking Sector was 45%), 26% to Construction (19% in the Banking Sector), and 6% to Industry (13% in the Banking Sector).

As a result of an aggressive retail banking strategy, the share of personal loans grew from 3.7% in 1998 to 10% in 2000. It dropped to 7% in 2002 year-end (13% in the Banking Sector).



## Financial Review of the Bank

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The provisions for bad debts are set up against specific accounts to offset the losses that may result therefrom. These provisions are determined on the basis of an

assessment of credit risks updated regularly. This credit loss assessment is made by three different parties:

1. The Internal Audit department of the Bank which is a dependent party and performs its credit risk assessment regularly every 3 months.
2. The external Auditors Messrs. Deloitte & Touche who perform their credit risk assessment while conducting their annual audit of the Bank's accounts. And,
3. The Banking Control Commission which is an independent institution acting as a regulatory and as a control body on behalf of the Central Bank of Lebanon.

The Bank has complied with the risk assessment of all above parties and maintains therefore adequate provisions covering 100% the required provisions by these parties. The Bank has an excess amount in provisions for bad debts for approximately US\$4.649 Million as at 31 December 2002 which is reflected under Shareholders' Transitory Fund.

The credit loss assessment is made based on objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is based on the value of real guarantees supporting the debt, discounted to 60% of its estimated value and, impairment loss being assessed based on the difference between the asset carrying value and the recoverable amount estimated as indicated above and is provided for and included in the determination of the results of operations. Starting fiscal year 2001 and in conformity with International Accounting Standard #39, the impairment loss indicated above would be assessed based on the difference between the asset carrying value and the present value of future anticipated cash flows, taking into consideration the liquidation value of the guarantee in hand. There was no impact resulting from the application of this principle on the December 31, 2002 financial statements of the Bank.

As to the shareholders' transitory fund referred to above, and amounting to US\$4.649 Million at 2002 year end, it represents the excess of pledged guarantee funds over the shortfall of provisions for credit losses which will be allocated to enhance the core capital of the Bank.

## Financial Review of the Bank

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### IV - OPERATING RESULTS

BIT's operating policy is a very conservative one. Keeping at December 31, 2002 a risk based capital ratio of 23.3% and a liquidity ratio of 72.9% reduces in fact the

profitability of the Bank. In spite of these ratios, BIT has realized during the last three years an average yearly net income of US\$1.96 Million. Its potential in this respect is much higher.

In Thousands of US\$	2002	2001	2000
Net interest income	7,258	6,293	7,684
Net financial revenues before provision for doubtful debts	9,167	8,299	9,654
Net income before provision for doubtful debts	2,138	1,291	2,459

The main profitability ratios of the Bank:

	2002	2001	2000
R.O.A.	0.78%	0.48%	0.92%
Return on paid up capital	15.45%	9.33%	17.76%
Net Margin	23.33%	15.56%	25.47%
Overhead to revenue	29.24%	29.08%	25.69%
Cost of resources to revenue	69.68%	73.58%	72.22%

It is the Bank's policy that a big portion of the yearly profits be allocated to provisions for credit losses; in this respect, an amount of US\$1,291,000 and an amount of US\$2,138,000 relating to years 2001 and 2002 respectively, were transferred from related years profits to the provision account.

The allocation of profits between provisions for credit losses and net income is to a large extent driven to strengthen the bank's provisions. It should be noted that the provisions for credit losses are charged to P & L in order to release by the same amount, the shareholders' account held to cover the probable shortfall in the provision for credit losses. Accordingly, the released provisions come to add up to the existing shareholders' equity at the end of each respective year.