

Ladies & Gentlemen,

During the year 2004, most of the economic and monetary indicators sustained positive results. The Balance of payments registered a surplus of US\$169 Mio compared to a large surplus of US\$3,386 Mio in 2003, explained by money inflows following Paris II conference. The Central Bank kept a high level of Gross Foreign Reserves that amounted to US\$11.67 Bio at December 31, 2004.

On the other hand, Bank Interest Rates on LBP as well as Interest Rates on all categories of Treasury Bills pursued a downward trend since Paris II.

The Budget has registered a deficit of US\$2.01 Bio, outlining a decrease of 23.16% compared to 2003 deficit, and representing 28.7% of Total Budget. The Net Public Debt, which increased by 5.1% and reached the equivalent of US\$32.97 Bio, is a major constraint to a real growth of the Lebanese Economy.

In this context, BIT Bank has pursued its continuous solid performance during the year 2004:

The Net Income before provision for doubtful debts dropped by US\$2 Mio approximately comparing to 2003 Net Income and amounted to US\$1.13 Mio. In fact, the Bank's Management has reclassified some loans under substandard caption and accordingly has provided for related interest income.

Return on Assets and Return on paid up Capital reached in year 2004, 0.4% and 8% respectively.

The Bank continued in keeping a relatively high risk based capital ratio of 20% and a liquidity ratio of 77.3%.

BIT Bank, similarly to previous years, and in view to strengthen its provisions and net worth, has taken the profit realized in 2004 to provisions account; this practice has generated an over provision balance totaling US\$5.446 Mio which will be transferred later on to the capital account in consolidation of the shareholders' equity.

For the years to come, we aim for further growth, while maintaining our conservative operating policy. These targets could not be realized without the commitment and the professionalism of our staff and the steady trust of our clients in our institution for as many years.

Sincerely,



Fouad El Khazen
Chairman - General Manager

General Manager Message

Growth, Diversification, Expansion, Change are all happening at BIT Bank. The strategy we have set last year is moving forward.

Most of our objectives are being achieved, the remaining ones will follow in the near future.

We have already started by giving the Bank a new image, by changing its logo, changing the colors and adding up a more concise and easy nomination "BIT Bank". We have created new departments and jobs in compliance with international requirements for a sound banking practice.

New horizons are ahead of BIT Bank. An organic restructuring is taking place at the Bank. We are investing in our human resources. Professional, educational trainings and seminars are given to the Bank's staff to improve and motivate human talents.

In order to achieve the projected growth, the Bank's existing shareholders have committed to inject into equity by November 2005, the amount of \$ 4.5 millions. This amount will serve to reorganize the Bank. The restructuring process will affect existing banking activities and will aim to implement new ones.

Capital Markets, Treasury and Private Banking will be reinforced, restructured and consolidated under one operating unit, for better performance. It will be lead by a seasoned and well experienced professional with a whole new technical team. The Unit will be dealing with equities, fixed income instruments, treasury and all sort of Private Banking services. The Bank will deliver quality services to its clientele base with a full range of dedicated professional financial instruments and structured products.

New banking activities, risk averse, will be implemented: project finance and financial advisory, real estate investment, bancassurance. We are as well contemplating the setting of an independent finance company in association with international technical investors dealing with micro-lending.

These new consolidated services are expected to positively impact the Bank's future operations. It will also help in diversifying the Bank's income especially in fee based income.

This phase will be followed by another and more aggressive one. It will be materialized by a second increase in equity for \$25 Mio. This increase will be addressed to new shareholders in an attempt to diversify the Bank's shareholders' base. It will help as well to open new markets and new horizons for BIT.

We will strive to achieve our goals and ensure a better future for BIT Bank. We will continue to serve our customers with professionalism and commitment.

Sincerely,



Nabil Khairallah
Executive Director - General Manager

ECONOMIC & MONETARY INDICATORS

During 2004, several economic, financial and monetary indicators showed positive trends compared to 2003 results. The real growth of the Gross Domestic Product (GDP) is estimated to be at a rate of 5%.

- External Trade
- Balance of Payments and Central Bank Reserves
- Budget Deficit and Public Debt
- Exchange and Money Markers
- Banking Sector

External Trade

The Exports rose by 14.6% in 2004 compared to 2003, and the Imports increased by 31.1% for the same period, reaching respectively US\$1,747 Million and US\$9,397 Million. The Trade Balance deficit increased by 35.5% and reached the amount of US\$7,650 Million.

Balance of Payments and Central Bank Reserves

The Balance of Payments registered a surplus for 2004 amounting to US\$169 Million, compared with a surplus for 2003 amounting to US\$3,386 Million. The large difference is mainly due to considerable money inflows during 2003, following Paris II conference.

The Central Bank Gross Reserves in foreign currencies amounted to US\$11,672.4 Million at December 31, 2004, against US\$12,461 Million end of 2003, and total foreign reserves, including gold, reached US\$15,678.4 Million against US\$16,294.3 Million end of 2003.

Budget Deficit and Public Debt

The Budget Deficit amounted to LBP3,026 Billion (US\$2,007 Mio) in 2004 against LBP3,938 Billion (US\$2,612 Mio) in 2003, outlining a decrease of 23.16%. The Budget Deficit represented 28.7% and 37.2% of Total Budget, and 40.27% and 59.2% of total revenues, respectively. This decrease was generated by a decrease of 0.5% in total public expenditures during this period and an increase of 12.9% in total public revenues.

On the other hand, Public Debt Service dropped by 17.5%, from LBP4,874 Billion (US\$3,233 Mio) at 2003 year-end to LBP4,021 Billion (US\$2,667 Mio) at 2004 year-end. Public Debt Service represented 38.15% (46% for year 2003) of total public expenditures and 53.5% (73.2% for year 2003) of total public revenues for the year 2004.

The Net Public Debt reached the equivalent of US\$32.97 Billion end of 2004 against US\$31.37 Billion end of 2003 registering an increase of 5.1%:

The Net Domestic Debt decreased from LBP23,824 Billion end of 2003 to LBP22,008 Billion end of 2004. The Central Bank contribution in total public debt in Lebanese Pounds had increased in year 2004 to 40.4% as compared to 33.3% in year 2003. In figures, it amounted to LBP10,652 Billion end of 2004 against LBP8,938 Billion end of 2003. The contribution of the Commercial Banks had increased for the same period, from 45.8% to 46.3%, while in figures, it decreased from LBP12,303 Billion end of 2003 to LBP12,217 Billion end of 2004. It should be noted that the amounts starting from 2003 do not include the Obligatory placement with BDL, zero coupon.

The foreign-currency denominated Public Debt rose by 18.1% and registered US\$18,375 Million end of 2004 against US\$15,563.5 Million end of 2003. They represent 55.7% of total net Public Debt for year 2004 (49.6% for year 2003).

Exchange and Money Markets

The Lebanese Pound remained stable vis-a-vis the US Dollar during the year, with an exchange rate of LBP1,507.5 per US\$ at end of 2004 and 2003.

As for Bank Interest Rates, the average LBP lending rate declined from 11.32% in December 2003 to 10.48% in December 2004, and the average LBP deposit rate from 7.79% to 7.01% 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 2004, yields on the three-month, six-month, one-year and two-year Treasury Bills dropped from 5.48%, 6.53%, 6.87% and 7.99% as at end of 2003, to 5.22%, 6.31%, 6.69% and 7.89% respectively.

Banking Sector

The Banks' consolidated balance sheet noted a growth of 12.76% end of 2004 (14.37% in year 2003), standing at LBP102,187 Billion or US\$67.79 Billion.

The Volume of Deposits of Private Sector in the Banking System (including non-resident deposits) reported a net growth of 12.6% relative to 2003 (13.55% in year 2003). They amounted to LBP82,690 Billion equivalent to US\$54.85 Billion at the end of 2004.

Deposits in Lebanese Pounds decreased by 0.3% (increased by 25.2% in year 2003). They went down from LBP24,872 Billion at end-December 2003 to LBP24,796 Billion at end-December 2004, representing 30% of total bank deposits against 33.9% in year 2003.

While Deposits in Foreign Currencies rose by 19.2% in year 2004 (8.4% in year 2003). They increased from US\$32,227 Million at end-December 2003 to US\$38,405 Million at end-December 2004.

Loans and Advances to Private Sector (including loans to non-resident) increased by 6.76% in year 2004, reaching LBP25,364 Billion or US\$16.83 Billion (they increased by 0.3% in year 2003).

Loans in Lebanese Pounds rose by 10.7% (dropped by 6.8% in year 2003). They went up from LBP3,856 Billion at end-December 2003 to LBP4,268 Billion at end-December 2004, and their share of total bank credits reached 16.8% (16.2% in the previous year).

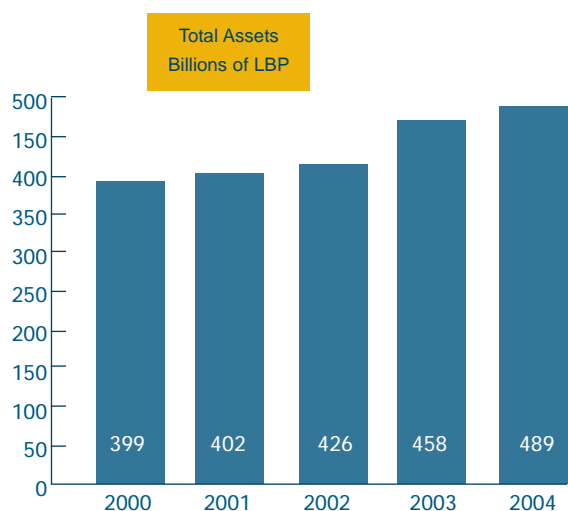
While Loans in Foreign Currencies increased by 6% (1.8% in the previous year). They went up from US\$13,202 Million at end-December 2003 to US\$13,994 Million at end-December 2004 .

Financial Review of the Bank

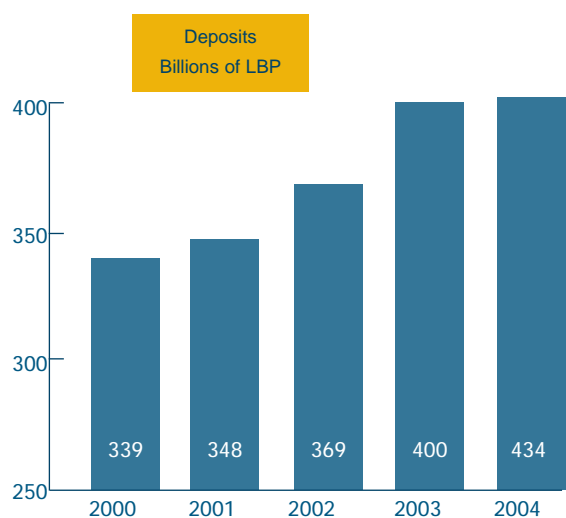
- Overview
- Sources of Funds
- Application of Funds
- Operating Results

I- OVERVIEW

BIT Bank's total assets registered a 6.8% growth at the end of 2004. It went up from LBP457.9 Billion (US\$303.74 Million) at the end of 2003 to LBP489.14 Billion (US\$324.5 Million) at the end of 2004.

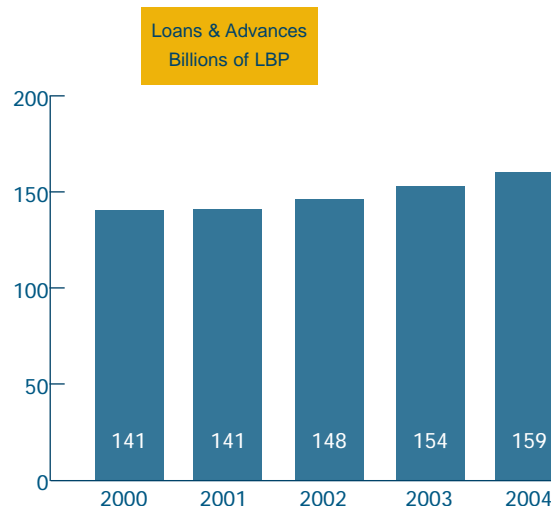


Deposits followed the same trend. They recorded a growth of 8.4% at the end of 2004 compared to a 12.6% growth in the Lebanese Banking Sector. Total deposits increased from LBP400.2 Billion (US\$265.45 Million) at the end of 2003 to LBP433.9 Billion (US\$287.82 Million) at the end of 2004.



Loans and Advances to customers continued to evolve at a slow shape.

In fact, they increased at the end of 2004 by 3.4%. They varied from LBP154.2 Billion (US\$102.27 Million) at the end of 2003 to LBP159.44 Billion (US\$105.77 Million).



Loans to Deposits ratio in Foreign Currencies decreased from 59.4% in 2003 to 49.2% in 2004 year-end. While the Loans to Deposits ratio in LBP increased from 5.9% in 2003 to 10.3% in 2004 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 improved from 75.4% in 2003 to 77.3% in 2004 and is composed of the following:

Net liquidity ratio	2004	2003
LBP	95.0%	93.4%
US\$	67.7%	62.4%
Compounded ratio	77.3%	75.4%

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

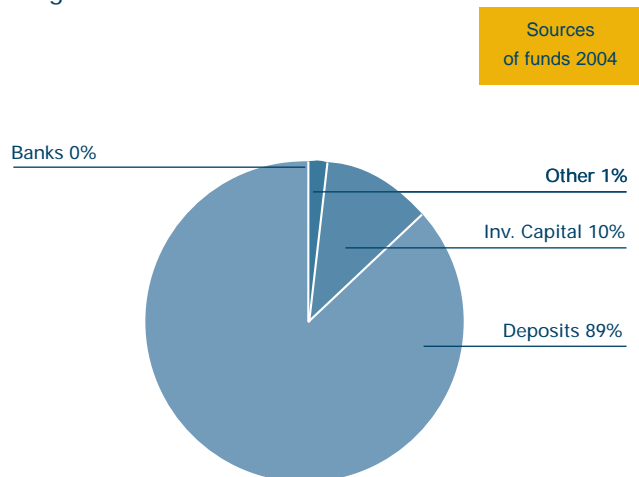
This ratio stood at 23.16% as at December 2004 (minimum required by said circular being 10%).

II - SOURCES OF FUNDS

Millions of LBP	2004	2003
Banks	23	19
Deposits	433,884	400,164
Other financial accounts	6,230	7,743
Shareholders' funds/ Equity	49,005	49,962

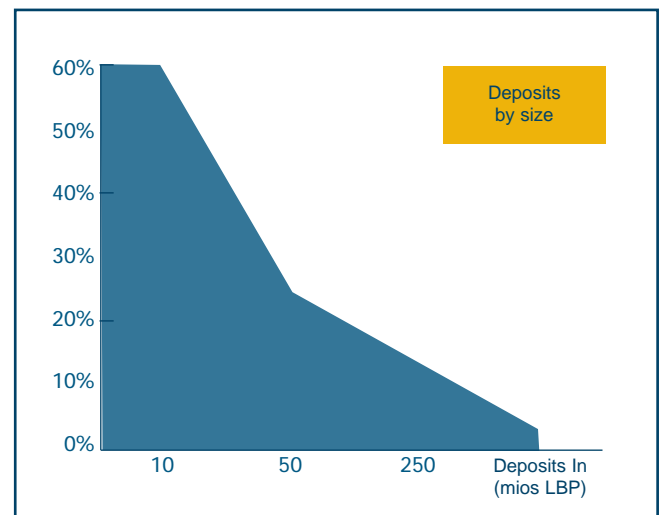
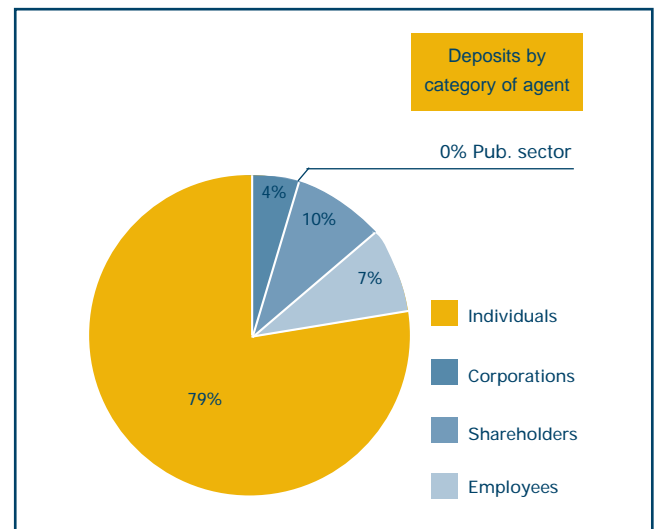
BIT Bank has a solid funding base. Customer deposits continued to be the major source of funds (88.7%).

About 10% of BIT Bank's funding is from Investment Capital. The share of Banks and Financial Institutions is insignificant.



a - Deposits:

They are allocated at December 31, 2004 for 68% in Foreign Currency, and for 32% in Lebanese Pound. Within these customer accounts, the majority (96%) are in the form of saving accounts or time deposits.



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 (S.T.F.) amounting to US\$5.446 Million at 2004 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 LBP49,005 Million or US\$32.51 Million at December 31, 2004 (LBP49,962 Million or US\$33.14 Million in 2003).

The following figures outline the Bank's capital base components and development since 2002:

Millions of LBP	2004	2003	2002
Capital/Reserves/Net Income for the year/Retained Earnings	7,040	6,207	6,207
Cash contribution to Capital (in US\$)	14,660	14,660	14,660
a- Tier I Capital	21,700	20,867	20,867
Capital gain on assets	19,095	19,095	18,477
b- Tier II Capital	19,095	19,095	18,477
Shareholders' Equity before S.T.F.(a + b)	40,795	39,962	39,344
Shareholders' transitory funds (S.T.F.)	8,210	10,000	7,009
Shareholders' Equity after S.T.F.	49,005	49,962	46,353

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

	2004	2003	2002
Ratio Equity after S.T.F. to Assets	10.02%	10.91%	10.87%
Solvency ratio	20.05%	22.05%	23.3%
Gearing ratio (deposits to equity)	10.64	10.01	9.38

III - APPLICATION OF FUNDS

Millions of LBP	2004	2003
Liquid Assets	297,256	273,579
Loans and Advances	159,442	154,172
Other financial accounts	12,269	10,232
Permanent assets	20,175	19,905

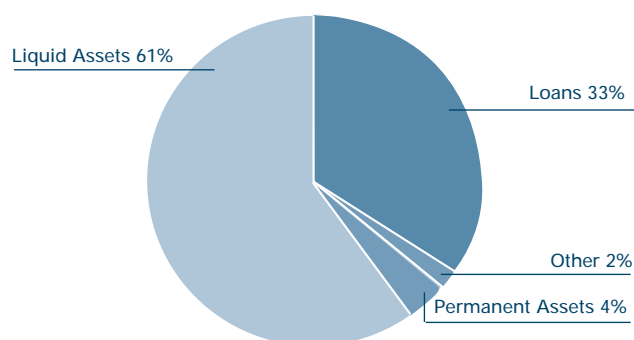
BIT Bank's assets are composed as follows:

-*Liquid assets*: around 61% (LBP297 Billion) out of which 6.7% (LBP33 Billion) are held in zero-interest government bonds, 18.7% (LBP91.5 Billion) in cash & deposits with banks, 13% (LBP63 Billion) represent Lebanese Treasury Bonds in US\$, 6% (LBP29 Billion) are held in LBP Certificates of Deposits and 13% (LBP64 Billion) in LBP Treasury Bonds.

- *Loan portfolio*: 32.6% (LBP159.4 Billion).

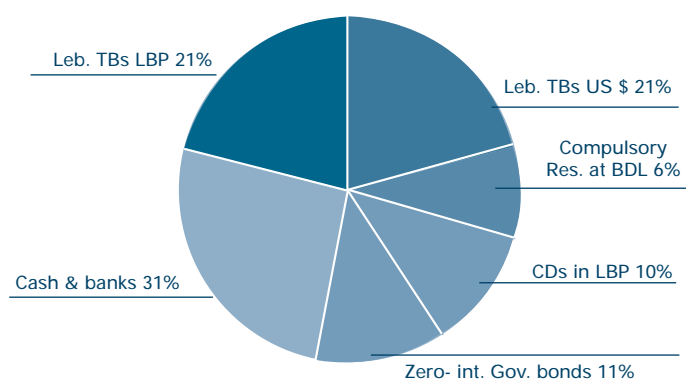
- *Permanent Assets*: 4% (LBP20 Billion) representing owned premises, computer equipments,...

Application of funds 2004

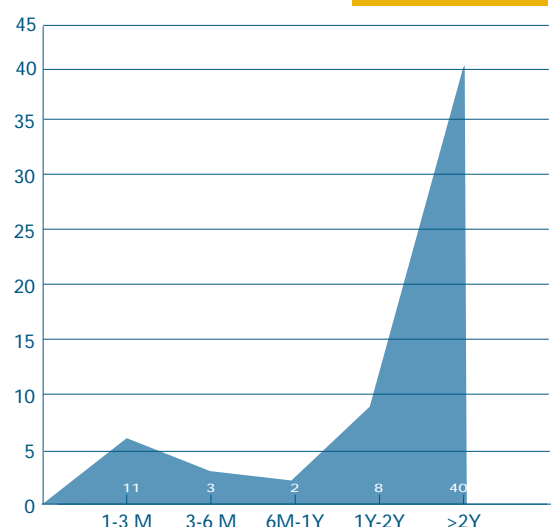


a - Liquid Assets:

Breakdown of liquid assets

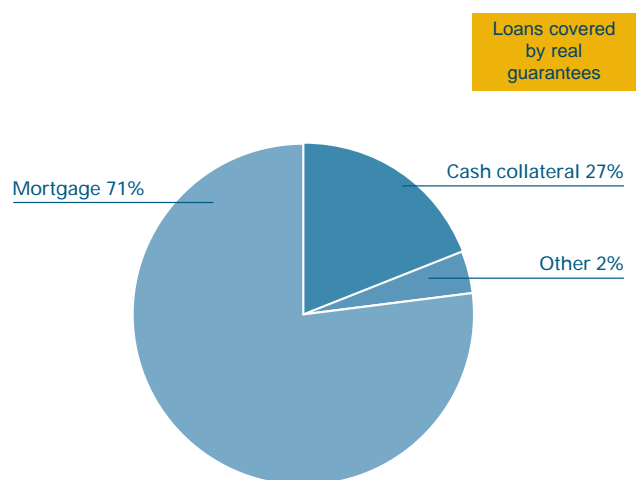


Lebanese TBs in LBP Billions of LBP

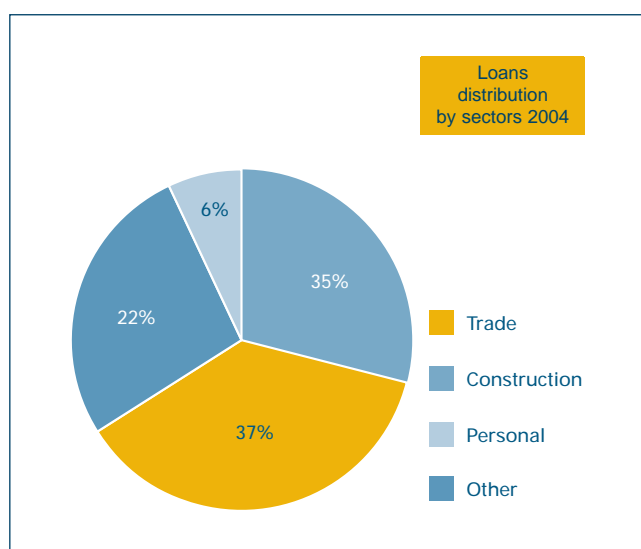


b - Loans and Advances:

They are allocated at December 31, 2004 for 91% loans in Foreign Currency, and for only 9% loans in Lebanese Pound. Within loans and advances to customers, the majority (78.4%) are covered by real guarantees (mortgage, cash collateral,...), the remaining, 21.6%, are covered by personal guarantees.



37% of loans were allocated to Trade and Services, 35% to Construction, 6% to personal loans and 22% to other sectors.



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\$5.446 Million (LBP8.2 Billion) as at 31 December 2004 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, 2004 financial statements of the Bank.

As to the shareholders' transitory fund referred to above, and amounting to US\$5.446 Million at 2004 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.

IV - OPERATING RESULTS

BIT Bank's operating policy is a very conservative one. Keeping at December 31, 2004 a risk based capital ratio of 20% and a liquidity ratio of 77.3% reduces in fact the profitability of the Bank. In spite of these ratios, BIT Bank has realized during the last three years an average yearly net income of US\$2.16 Million. Its potential in this respect is much higher.

In Thousands of US\$	2004	2003	2002
Net interest income	7,235	8,852	7,258
Net financial revenues before provision for doubtful debts	8,212	10,185	9,167
Net income before provision for doubtful debts	1,126	3,204	2,138

In 2004, and in the context of the restructuring process taking place at the Bank, Management has reclassified some of the loans in the amount of US\$17 Million approximately under substandard caption and accordingly has provided for related interest income. Therefore, the 2004 Net Income has dropped by US\$2 Million approximately.

In 2005, the Bank has recovered its profitable situation by increasing its placements in the Capital Markets in sovereign debts.

The main profitability ratios of the Bank:

	2004	2003	2002
R.O.A.	0.36%	1.09%	0.78%
Return on paid up capital	7.98%	23.15%	15.45%
Net Margin	13.71%	31.46%	23.33%
Overhead to revenue	32.41%	29.31%	29.24%
Cost of resources to revenue	66.31%	62.82%	69.68%

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\$3,204,000 and an amount of US\$779,000 relating to years 2003 and 2004 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.

**Consolidated Financial
Statements and
Auditor's Report
year ended
December 31, 2004**

- **Independent Auditor's Report**
- **Consolidated Balance Sheet**
- **Consolidated Statement of Operations**
- **Consolidated Statement of Cash Flows**
- **Consolidated Statement of Changes in Shareholders' Equity**
- **Notes to the Consolidated Financial Statements**



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INDEPENDENT AUDITOR S REPORT

To the Shareholders
Banque de l Industrie et du Travail S.A.L.
Beirut, Lebanon

We have audited the accompanying Consolidated Balance Sheet of BANQUE DE LINDUSTRIE ET DU TRAVAIL S.A.L. and its subsidiary as of December 31, 2004, and the related Statements of Income, Cash Flows and Changes in Shareholders Equity for the year then ended. These financial statements are the responsibility of the Bank s Management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements within the limitations imposed by the existing banking laws in Lebanon which preclude verification procedures on coded accounts. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Banque de l Industrie et du Travail S.A.L. and its subsidiary as of December 31, 2004 and the results of their operations and cash flows for the year then ended in conformity with International Financial Reporting Standards.

Beirut, Lebanon
March 31, 2005

Consolidated Balance Sheet

D e c e m b e r 3 1

ASSETS	Notes	2004 LBP'000	2003 LBP'000
Non-interest earning compulsory reserves and obligatory placements	3	50,098,154	51,163,565
Cash and deposits with banks	4	10,381,052	10,521,214
Interest earning deposits with banks	4	81,086,807	64,591,388
Securities:	5		
Available-for-sale		1,300,863	991,535
Held-to-maturity		32,612,463	80,495,387
Originated loans		127,053,343	69,069,043
Loans and advances (net of provision for credit losses)	6	159,442,223	154,171,615
Customers' acceptance liability	7	514,743	649,342
Regularization accounts and other debit balances	8	6,477,472	6,329,922
Property and equipment (net of accumulated depreciation)	9	20,174,828	19,905,001
Total Assets		489,141,948	457,888,012

FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS 20

Guarantees and standby letters of credit		33,632,135	17,012,266
Documentary and commercial letters of credit		929,436	1,521,569
Fiduciary deposits	21	33,445,677	33,972,000

See accompanying notes to the consolidated financial statements

Consolidated Balance Sheet

D e c e m b e r 3 1

LIABILITIES	Notes	2004 LBP'000	2003 LBP'000
Banks and financial institutions:			
Demand deposits		22,955	18,948
		22,955	18,948
Customers' deposits and credit balances:	10		
Demand deposits		17,428,005	16,699,379
Time deposits		17,572,949	23,225,027
Saving accounts		355,918,494	329,460,325
Pledged accounts		42,964,732	30,778,858
		433,884,180	400,163,589
Accounts payable and miscellaneous creditors	11	2,013,536	2,901,093
Outstanding acceptances	7	514,743	649,342
Regularization accounts and other credit balances	12	2,842,972	3,257,261
Provisions for losses and contingencies	13	858,412	935,768
Total liabilities		440,136,798	407,926,001
Shareholders' transitory account	6	8,209,945	10,000,000
SHAREHOLDERS' EQUITY			
Capital	14	4,000,000	4,000,000
Shareholders' cash contribution to capital	15	14,660,438	14,660,438
Reserves	16	2,259,829	2,070,765
Assets revaluation surplus	17	19,094,461	19,094,461
Change in fair value of available-for-sale securities	5	309,328	-
(Accumulated losses)/retained earnings		(52,737)	136,327
Net income for the year		523,866	-
		40,795,185	39,961,991
Minority interest	2(A)	20	20
Total equity		40,795,205	39,962,011
Total Liabilities and Equity		489,141,948	457,888,012

See accompanying notes to the consolidated financial statements

Consolidated Statement of Operations

Year Ended - December 31

	Notes	2004 LBP'000	2003 LBP'000
Interest income:			
Advances and overdrafts		11,912,789	13,902,482
Advances to related parties		851,984	723,893
Securities and Lebanese Government bonds		16,053,968	18,004,706
Deposits with banks		3,554,051	3,245,790
		32,372,792	35,876,871
Interest expenses:			
Deposits and credit balances from customers	18	19,649,670	20,900,624
Deposits from related parties		1,789,206	1,611,747
Deposits from banks		26,378	20,480
		21,465,254	22,532,851
Net interest income		10,907,538	13,344,020
Commissions, fees and other revenues	19 & 22	1,352,912	1,874,239
Foreign exchange gain, net		119,247	135,185
Net financial revenues		12,379,697	15,353,444
Other expenses:			
Salaries and related charges	22	6,741,643	6,544,332
General operating expenses	22	3,105,153	3,342,059
Depreciation	22	645,928	625,615
		10,492,724	10,512,006
Income, before provisions		1,886,973	4,841,438
Provision for credit losses, net	6	(1,174,125)	(4,830,070)
Income, before taxes		712,848	11,368
Income tax provision		(188,982)	(11,368)
Net income for the year	23	523,866	-

See accompanying notes to the consolidated financial statements

Consolidated Statement of Cash Flows

Year Ended December 31, 2004

	2004	2003
	LBP'000	LBP'000
Cash flows from operating activities:		
Net income for the year	523,866	-
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Provision for credit losses	1,174,125	4,830,070
Depreciation	645,928	625,615
Accretion of treasury bills	(162,663)	(97,162)
Net decrease in provisions for losses and contingencies	(77,356)	(355,791)
Net (increase)/decrease in regularization accounts and other debit balances	(147,551)	1,184,489
Net decrease in regularization accounts and other credit balances	(414,289)	(1,032,996)
Net cash provided by operating activities	1,542,060	5,154,225
Cash flows from investing activities:		
(Increase)/decrease in securities	(9,938,713)	13,273,639
Increase in interest earning deposits with banks	(16,495,419)	(5,023,068)
Increase in loans and advances	(8,234,788)	(8,526,321)
Increase in property and equipment	(915,754)	(167,588)
Net cash used in investing activities	(35,584,674)	(443,338)
Cash flows from financing activities:		
Increase in customers' deposits and credit balances	32,833,034	30,603,794
Decrease/(increase) in non-interest earning compulsory reserves and obligatory placements	1,065,411	(34,791,362)
Increase/(decrease) in due to banks and financial institutions	4,007	(84,696)
Net cash provided by/(used in) financing activities	33,902,452	(4,272,264)
Net (decrease)/increase in cash and deposits with banks	(140,162)	438,623
Cash and deposits with banks — Beginning of year	10,521,214	10,082,591
Cash and deposits with banks — End of year	10,381,052	10,521,214

See accompanying notes to the consolidated financial statements

Consolidated Statement of Changes in Shareholders Equity

Year ended December 31, 2004

	Capital	Shareholders' Cash Contribution to Capital	Reserves	Assets Revaluation Surplus	Change in Fair Value of Available-for-sale Securities	(Accumulated Losses)/ Retained Earnings	Net income for the Year	Minority Interest	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Balance — January 1, 2003	4,000,000	14,660,438	1,697,953	19,094,461	-	509,139	-	20	39,962,011
Allocation from retained earnings	-	-	372,812	-	-	(372,812)	-	-	-
Balance - December 31, 2003	4,000,000	14,660,438	2,070,765	19,094,461	-	136,327	-	20	39,962,011
Allocation from retained earnings	-	-	189,064	-	-	(189,064)	-	-	-
Change in fair value of available-for-sale securities	-	-	-	-	309,328	-	-	-	309,328
Net Income for the year 2004	-	-	-	-	-	-	523,866	-	523,866
Balance - December 31, 2004	4,000,000	14,660,438	2,259,829	19,094,461	309,328	(52,737)	523,866	20	40,795,205

See accompanying notes to the consolidated financial statements

1. ORGANIZATION AND ACTIVITIES OF THE BANK

Banque de l'Industrie et du Travail S.A.L. was established on October 28, 1960 and registered in the Lebanese commercial register under No. 9849 and in the list of banks published by the Central Bank of Lebanon under No. 48. The Bank is owned to the extent of 52.22% by Al Bustania S.A.L. and provides banking services through a network of twelve branches in the different regions of Lebanon with approximately 192 employees at the end of 2004 (187 employees in 2003). The Bank headquarters are located in Beirut, Central District.

The consolidated financial statements are presented in Lebanese Pounds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards. Assets and liabilities are grouped according to their nature and are listed in an approximate order that reflects their relative liquidity.

The consolidated financial statements are prepared on the historical cost basis, except for owned real estate properties recorded at revalued amounts and measurement at fair value of certain financial instruments.

The significant accounting policies adopted are set out below:

A. Basis of Consolidation:

The consolidated financial statements of Banque de l'Industrie et du Travail S.A.L. include the accounts of the Bank and its subsidiary company, the Société Immobilière pour la Construction (SIPC) S.A.L. owned by the Bank to the extent of 99%. Control of a company is

achieved when the Bank has the power to govern the financial and operating policies of the investee company. The business activity of (SIPC) is the ownership of a building of 7 floors located in the Banks' street in Beirut Central District, where the Bank headquarters are located.

The Bank investment in the subsidiary company is held at cost. Minority interest in the net assets of the consolidated subsidiary company is identified and presented separately in the consolidated financial statements under shareholders' equity.

Inter-company balances and transactions have been eliminated in the consolidated financial statements.

B. Translation of Foreign Currencies:

Assets and liabilities denominated in foreign currencies are translated into Lebanese Pounds at year-end exchange rates, as published by the Central Bank of Lebanon. Translation gains and losses are included in the determination of net income. Transactions effected during the year in foreign currencies, including revenues and expenses, are translated into Lebanese Pounds using rates of exchange prevailing at the transaction date.

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-end closing exchange rates.

C. Property and Equipment:

Property and equipment are stated at historical cost.

The Bank reviews at year end the book value of its assets to ascertain it approximates the net realizable value.

The Bank's owned premises previously acquired are stated at revalued amounts which represents the fair value at the date when evaluated less accumulated depreciation. The related revaluation surplus is disclosed under "Shareholders Equity". Impairment loss, if any is booked to the profit and loss account or deducted from the revaluation surplus, where applicable. Depreciation is calculated using the straight-line method calculated on the estimated useful lives on the basis of the following annual rates:

Owned premises	2 $\frac{1}{2}$ %
Furniture and fixtures	9%
Office equipment	13%
Computer equipment	20%
Vehicles	15%

D. Employees' End-of-Service 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 8 $\frac{1}{2}$ % 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.

E. 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

F. Securities:

Investments in securities are recognized on a trade date basis and are initially measured at cost and are classified as available-for-sale, held-to-maturity or originated:

- Held-to-maturity securities are stated at subsequent reporting dates at amortized cost taking into consideration other than temporary impairment losses which are accounted for in the income statement.
- Originated loans represent investments in debt securities which are funded directly to the issuer, and which the Bank intends to keep for non-current periods, are stated at amortized cost taking into consideration any impairment losses where applicable.
- Non-interest earning obligatory investments are considered as originated loans and stated in the financial statements at cost.
- Due to lack of adequate information in certain instances, about their fair value, most of the available-for-sale securities consisting of investments in equity stakes below 20% are stated at cost taking into consideration other than temporary impairment losses which are accounted for in the income statement.

Effective January 1, 2005, in line with the revisions made to IAS 39, originated loans were reclassified as held-to-maturity securities.

G. 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

H. Trade and Settlement Date Accounting:

All regular way purchases and sales of financial assets are recognized on the settlement date, i.e. the date that the entity settles or delivers the assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

I. Revenue Recognition:

Interest income and expense are recognized in the income statement on the accrual basis based on interest market rates. Fee income from banking services are recognized based on adequate fee rates applied.

J. Income Tax:

Taxation is provided for in accordance with the Lebanese income tax law and regulations. The tax payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of operations because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Provision for income tax is reflected in the balance sheet net of taxes previously settled in the form of withholding tax.

K. Fair Value of Securities and Investments:

For investments traded in organized financial markets, fair value is determined by reference to stock exchange quoted average market prices.

For investments where there is no quoted price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows, or the underlying net asset base of the investment.

3. NON-INTEREST EARNING COMPULSORY RESERVES AND OBLIGATORY PLACEMENTS

This caption is composed of the following:

	D e c e m b e r 3 1	
	2004	2003
	LBP'000	LBP'000
Cash compulsory reserves at Central Bank of Lebanon	17,343,017	18,408,428
Obligatory placements	32,755,137	32,755,137
	50,098,154	51,163,565

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. Therefore, compulsory reserves required to be maintained as of December 31, 2004 and 2003 amounted to approximately LBP16.9billion and LBP16.5billion respectively. In this connection, actual cash compulsory reserves in the amount of approximately LBP17.3billion and LBP18.4billion were maintained in the current account with the Central Bank of Lebanon at December 31, 2004 and 2003 respectively.

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 of non-interest earning two years treasury bonds or deposit certificates in compliance with banking laws and regulations, excluding deposits blocked against facilities and cash margins. The above required subscriptions amounted to LBP32,755million were fully subscribed by the Bank during 2003 and funded from the Bank's available liquidity and partially from discount of Lebanese treasury bills and Lebanese Government bonds and mature during year 2005.

Non-interest earning obligatory placements as at December 31, 2004 are composed of the following:

	D e c e m b e r 3 1	
	2004	2003
	LBP'000	LBP'000
Certificates of deposit in Lebanese Pounds - issued by the Central Bank of Lebanon	6,551,640	6,551,640
Certificates of deposit in U.S. Dollars - issued by the Central Bank of Lebanon	11,163,704	11,163,704
Lebanese Government bonds in U.S. Dollar	4,557,173	4,557,173
Lebanese treasury bills	10,482,620	10,482,620
	32,755,137	32,755,137

Notes to the Consolidated Financial Statements

The above non-interest earning certificates of deposits, Lebanese Government bonds and Lebanese Treasury Bills outstanding as at December 31, 2004 mature as follows:

Maturity Date	Nominal Value		National Discounted Value
	US\$	LBP'000	LBP'000
Certificates of Deposit in LBP:			
February 15, 2005	-	6,551,640	6,511,983
Certificates of Deposit in US\$:			
January 14, 2005	4,346,030	6,551,640	6,532,237
June 28, 2005	1,738,412	2,620,656	2,558,659
July 29, 2005	1,321,000	1,991,408	1,934,400
		11,163,704	11,025,296
Lebanese Government Bonds in US\$:			
May 16, 2005	3,023,000	4,557,173	4,473,683
Lebanese Treasury Bills In LBP:			
Mach 15, 2005	-	6,551,640	6,483,592
June 28, 2005	-	3,930,980	3,814,772
		10,482,620	10,298,364
Total		32,755,137	32,309,326

4.CASH AND DEPOSITS WITH BANKS

Cash and deposits with banks comprise the following:

	D e c e m b e r 3 1	
	2004	2003
	LBP'000	LBP'000
Cash and Current Accounts with Banks:		
Cash on hand	4,116,444	4,380,796
Current accounts with Central Bank of Lebanon	2,121,315	2,969,412
Demand deposits with banks	4,143,293	3,171,006
	10,381,052	10,521,214
Interest Earning Deposits with Banks:		
Call and time deposits with Central Bank	47,758,660	48,398,248
Call and time deposits with banks	33,328,147	16,193,140
	81,086,807	64,591,388

Notes to the Consolidated Financial Statements

The above mentioned cash and deposits with banks balances are segregated as follows in terms of Lebanese Pounds and foreign currencies base accounts:

D e c e m b e r 3 1 , 2 0 0 4

	LBP	F/Cy	Total
	LBP'000	LBP'000	LBP'000
Cash and current Accounts with Banks:			
Cash on hand	1,271,674	2,844,770	4,116,444
Central Bank of Lebanon	-	2,121,315	2,121,315
Resident banks	34,130	1,636,376	1,670,506
Non-resident banks	-	2,472,787	2,472,787
	1,305,804	9,075,248	10,381,052
Interest Earning Deposits with Banks:			
Central Bank of Lebanon	700,000	47,058,660	47,758,660
Resident banks	3,034	-	3,034
Non-resident banks	-	33,325,113	33,325,113
	703,034	80,383,773	81,086,807

D e c e m b e r 3 1 , 2 0 0 3

	LBP	F/Cy	Total
	LBP'000	LBP'000	LBP'000
Cash and Current Accounts with Banks:			
Cash on hand	1,638,797	2,741,999	4,380,796
Central Bank of Lebanon	-	2,969,412	2,969,412
Resident banks	324,559	2,019,159	2,343,718
Non-resident banks	-	827,288	827,288
	1,963,356	8,557,858	10,521,214
Interest Earning Deposits with Banks:			
Central Bank of Lebanon	8,600,000	39,798,248	48,398,248
Resident banks	3,409,415	-	3,409,415
Non-resident banks	-	12,783,725	12,783,725
	12,009,415	52,581,973	64,591,388

Notes to the Consolidated Financial Statements

Interest earning deposits with banks as at December 31, 2004, mature in the subsequent period according to the following schedule:

Maturity	D e c e m b e r 3 1 , 2 0 0 4		D e c e m b e r 3 1 , 2 0 0 3	
	LBP or Equivalent in LBP	Average Interest Rate	LBP or Equivalent in LBP	Average Interest Rate
	LBP'000	%	LBP'000	%
1st quarter 2005 (2004 for 2003)	52,893,522	3.48	3,31,426,140	3.25
2nd quarter 2005 (zero for 2003)	10,552,500	8.25	-	-
2nd half 2005 (2004 for 2003)	3,018,035	5.44	15,452,030	8.67
Year 2006 (2005 for 2003)	1,507,500	2.88	17,713,218	8.20
Year 2007 (zero for 2003)	12,361,500	3.58	-	-
Year 2009 (zero for 2003)	753,750	3.71	-	-
	81,086,807		64,591,388	

The average interest rate applicable on these deposits, which are denominated mainly in foreign currencies, amounted to 4.18%.

Interest earning deposits with Central Bank of Lebanon include deposits in Lebanese Pounds and foreign currency in the amount of LBP0.7billion and USD31.22million as at December 31, 2004 (LBP8.6billion and USD26.4million in 2003), out of which USD29.5million in 2004 are held as obligatory foreign currency interest earning deposits to the extent of 15% of its total foreign currency customers' deposit base, certificates of deposit and borrowings from non-resident banks and financial institution (USD25.6million in 2003), representing mainly the maturities of year 2005.

Demand deposits with banks include an amount of approximately LBP2.473million as at December 31, 2004 (LBP827million in 2003) representing non-interest earning demand deposits with non-resident banks. These accounts represent clearing and operating balances maintained with the correspondent banks.

Call and time deposits with banks include interest deposits in the amount of LBP1.36billion (USD900,000) (USD1,053,105 in 2003) deposited with non-resident banks and pledged in their favour against the financing of international trade facilities granted to the Bank.

5. Securities

This caption consists of the following:

	D e c e m b e r 3 1 , 2 0 0 4		
	Lebanese Treasury Bills LBP'000	Other Securities LBP'000	Total LBP'000
Available-for-sale securities	-	1,300,863	1,300,863
Held-to-maturity securities	2,002,711	30,609,752	32,612,463
Originated loans	61,683,011	65,370,332	127,053,343
	63,685,722	97,280,947	160,966,669

Notes to the Consolidated Financial Statements

D e c e m b e r 3 1 , 2 0 0 3

	Lebanese Treasury Bills LBP'000	Other Securities LBP'000	Total LBP'000
Available-for-sale securities	-	991,535	991,535
Held-to-maturity securities	39,039,137	41,456,25	80,495,387
Originated loans	19,066,403	50,002,640	69,069,043
	58,105,540	92,450,425	150,555,965

Available-for-sale securities comprise the following unquoted equity securities stated at fair value, if available or cost in Lebanese Pounds as follows:

	No. of Shares LBP'000	2004 LBP'000	2003 LBP'000
KAFALAT S.A.L.	500	50,000	50,000
Banque Nationale pour le Développement Industriel et Touristique S.A.L.	11,000	1,000	1,000
Banque de l'Habitat S.A.L.	83,935	662,180	662,180
Société Financière du Liban S.A.L.	16,000	159,990	800
Société Financière et Immobilière du Port de Beyrouth S.A.L.	11,789	1,897	1,897
Compagnie de Gestion et l'Exploitation du Port de Beyrouth S.A.L.	5,332	5,868	5,868
Starco Center	1,976	7,646	7,646
BMB Technology and Telecommunication Investment Co.	1,000	153,765	153,765
Berytech	500	75,000	75,000
National Institution for Guarantee of Deposits (fully amortized)	100	-	-
Arab Financial Services Company (E.C.)	10,000	150,448	310
Other		33,069	33,069
		1,300,863	991,535

The increase in "Société Financière du Liban S.A.L." and "Arab Financial Services Company (E.C.)" represents the change in fair value of these investments as at December 31, 2004 included under a separate caption in the shareholders' equity. The held-to-maturity securities as at December 31, 2004 are stated at amortized cost and consist of Lebanese Government Eurobonds and debt securities issued by Lebanese banks in foreign currencies detailed as follows::

	Coupon Rate %	Maturity Date	Nominal Value US\$	Carrying Cost US\$	Fair Value US\$	Net Changes in Fair Value US\$
Lebanese Government Eurobonds - U.S. Dollar:						
	9.875	April 24, 2006	3,000,000	3,008,720	3,165,000	156,280
	10.500	August 2, 2006	4,000,000	4,275,187	4,295,120	19,933
	8.625	October 31, 2007	500,000	528,011	527,085	(926)
	7.000	December 14, 2009	5,500,000	5,484,857	5,467,935	(16,922)
	7.875	May 20, 2011	5,000,000	4,971,048	5,068,750	97,702
			18,000,000	18,267,823	18,523,890	256,067
Debt Securities Issued by a Lebanese Bank - U.S. Dollar:						
Banque de la Méditerranée S.A.L.	6.375	October 6, 2006	2,000,000	2,037,154	2,005,000	(32,154)
			20,000,000	20,304,977	20,528,890	223,913
Counter value in LBP'000			30,150,000	30,609,753	30,947,302	337,549

Notes to the Consolidated Financial Statements

Accrued interest receivable as at December 31, 2004 aggregating to LBP496 million is included under "Other Assets" - Note 8. Securities classified as originated loans as at December 31, 2004 and stated at amortized cost or nominal value, consist of certificates of deposit in Lebanese Pounds issued by the Central Bank of Lebanon, Lebanese Government Eurobonds in foreign currencies and debt securities issued by a Lebanese bank are broken down as follows:

	Coupon Rate	Maturity Date	Nominal Value	Carrying Cost	Fair Value	Net Changes in Fair Value
	%		US\$	US\$	US\$	US\$
Lebanese Government Eurobonds - U.S. Dollar:						
	9.875	April 24, 2006	5,000,000	5,000,000	5,275,000	275,000
	10.500	August 2, 2006	3,352,000	3,352,000	3,599,311	247,311
	10.125	August 6, 2008	1,000,000	1,000,000	1,105,020	105,020
	10.250	October 6, 2009	3,000,000	3,000,000	3,354,990	354,990
	7.125	March 5, 2010	3,500,000	3,488,910	3,485,405	(3,505)
	7.750	September 7, 2012	8,000,000	7,685,347	7,970,160	284,813
			23,852,000	23,526,257	24,789,886	1,263,629
Counter value in LBP'000			35,956,890	35,465,832	37,370,753	1,904,921
Debt Securities issued by a Lebanese Bank - U.S. Dollar:						
Banque de l'Habitat S.A.L.	8.750	July 15, 2006	600,000	600,000	600,000	-
Counter value in LBP'000			904,500	904,500	904,500	-
Certificates of Deposit in LBP - Central Bank of Lebanon:						
	8.25	Second quarter of year 2005	2,000,000	2,000,000	2,000,000	-
	8.00	Second half of year 2005	7,000,000	7,000,000	7,000,000	-
	10.19	Year 2006	20,000,000	20,000,000	20,000,000	-
			29,000,000	29,000,000	29,000,000	-
Total securities classified as originated loans in LBP'000			65,861,390	65,370,332	67,275,253	1,904,921

Accrued interest receivable as at December 31, 2004 aggregating to LBP2,475million, is included under "Other Assets" - Note 8.

Lebanese treasury bills portfolio as at December 31, 2004 and 2003 comprise the following:

	D e c e m b e r 3 1 , 2 0 0 4		D e c e m b e r 3 1 , 2 0 0 3	
	Balance LBP'000	Average Interest Rate %	Balance LBP'000	Average Interest Rate %
Held-to-Maturity Securities:				
Coupon treasury bills (net of discount and premiums)	2,002,711	8.21	39,039,137	15.85
	2,002,711		39,039,137	
Originated Loans:				
Discounted ordinary treasury bills (net of unearned interest)	4,881,763	6.25	2,561,434	7.46
Coupon treasury bills (net of discount and premiums)	56,801,248	8.75	16,504,969	10.36
	61,683,011		19,066,403	
	63,685,722		58,105,54	

Notes to the Consolidated Financial Statements

Discounted ordinary treasury bills are bought net of discount interest and stated in the balance sheet at their par value, less related unearned interest, which amounted to LBP118million as at December 31, 2004 (LBP39million as at December 31, 2003).

The coupon treasury bills carry two and three years maturity periods, and related interest is paid semi-annually. Accrued interest receivable amounting to LBP1.64billion as at December 31, 2004 (LBP2.14billion as at December 31, 2003) is included under "Other assets" - Note 8 in the accompanying balance sheet.

Accretion of discounts and amortization of premiums representing a yield adjustment are accounted for in the consolidated income statement as an adjustment to interest income.

The Lebanese treasury bills in Lebanese Pounds outstanding at December 31, 2004 carry the following maturities in term of remaining period to maturity date:

Period	December 31, 2004			
	Net Book Value	Fair Value	Weighted Average Discount/Coupon Rates	Market Interest Rate Applicable to the Respective Periods
	LBP'000	LBP'000	%	%
First quarter 2005	10,999,274	11,045,199	9.29	4.26
Second quarter 2005	2,921,078	2,921,872	6.28	6.23
Second half 2005	1,961,885	1,972,979	7.06	6.48
First half 2006	1,999,770	2,020,062	7.81	6.88
Second half 2006	6,001,613	6,053,346	8.05	7.52
2007	39,802,102	40,124,438	8.68	8.27
	63,685,722	64,137,896		

Period	December 31, 2003			
	Net Book Value	Fair Value	Weighted Average/ Discount/Coupon Rates	Market Interest Rate Applicable to the Respective Periods
	LBP'000	LBP'000	%	%
First quarter 2004	6,285,433	6,325,621	12.38	5.03
Second quarter 2004	4,889,936	5,045,907	12.88	6.05
Second half 2004	33,924,882	35,823,473	14.14	6.37
First half 2005	10,004,303	10,247,776	9.60	8.30
Second half 2005	1,000,393	1,000,051	7.84	8.13
2006	2,000,593	1,999,668	8.68	8.70
	58,105,540	60,442,496		

According to Lebanese banking regulations, treasury bills are considered as quasi-cash items for the purpose of computing the liquidity ratio in Lebanese Pounds. These treasury bills can be liquidated prior to redemption date with the Central Bank of Lebanon at current discount rates. Most customers' deposits in Lebanese Pounds, which carry short-term maturities are mainly invested in Lebanese treasury bills, maturing mostly in 2007.

Effective January 1, 2005, in line with the revisions to IAS 39, securities classified as originated loans were reclassified by the Bank as held-to-maturity securities.

6. LOANS AND ADVANCES

This caption comprises the following:

	D e c e m b e r 3 1	
	2004	2003
	LBP'000	LBP'000
Short term loans and advances to customers	80,741,686	103,031,310
Medium and long term loans and advances to customers	10,494,430	11,069,698
Discounted bills	1,336,770	1,051,211
Creditors balances in debit	2,787,374	1,761,579
Loans and advances to sister companies and directors	14,663,756	12,324,557
Substandard loans (net of unearned interest)	21,903,576	13,144,530
Bad and doubtful loans (net of unearned interest)	47,121,753	38,967,848
Less: Provision for credit losses	(11,810,394)	(21,172,445)
Less: Guarantee funds	(7,796,728)	(6,006,673)
	159,442,223	154,171,615

Loans and advances to customers are allocated between foreign currencies and Lebanese Pounds accounts to the extent of 91% and 9% respectively (94% and 6% respectively in 2003). Advances in foreign currencies include advances in the U.S. Dollar to the extent of 90%

Loans and advances to customers are allocated in terms of guarantees as follows:

	D e c e m b e r 3 1 , 2 0 0 4		D e c e m b e r 3 1 , 2 0 0 3	
	Long Term	Short Term	Long Term	Short Term
	LBP'000	LBP'000	LBP'000	LBP'000
Clean overdrafts	-	3,561,260	-	6,092,608
Loans against personal guarantees	5,177,704	10,950,744	2,638,380	14,965,936
Loans against mortgage of real estate	5,316,726	45,570,692	8,431,318	61,347,842
Loans against cash collateral	-	19,071,426	-	16,755,694
Loans against bills and shares	-	1,578,192	-	2,125,463
Other loans	-	9,372	-	1,743,767
	10,494,430	80,741,686	11,069,698	103,031,310

Loans and advances as at December 31, 2004 are allocated between residents and non-residents to the extent of 90.1% and 9.9% respectively.

The weighted average interest rate applied during 2004 on the total loans and advances portfolio on accrual basis, amounted to 10%.

Accrued interest receivable on loans and advances as at December 31, 2004 amounted to LBP214million (LBP147million in 2003) and is reflected under "Other Assets" - Note 8.

The loans and advances portfolio is allocated among the various economic sectors as follows:

Economic Sector	D e c e m b e r 3 1	
	2004	2003
	%	%
Contracting and construction	35	27
Commerce and trade	37	37
Personal	6	7
Other sectors	22	29
	100	100

The loans and advances to customers portfolio reflects a concentration in the distribution of loans among debtors and in specific economic sectors.

Loans and advances to customers include advances secured by cash collaterals aggregating to LBP19.07billion (LBP13.66billion in 2003). The related credit balances in the "Savings accounts" reflected under "customers' deposits and credit balances", amount to LBP27.8billion (LBP18.68billion in 2003).

Advances to customers include also commercial loans secured by mortgage and/or negative pledge on real estate properties in the aggregate of approximately LBP50.87billion as at December 31, 2004 (LBP69.77billion in 2003).

Loans and advances to sister companies and directors are secured by pledged funds in the aggregate of LBP14.25billion (LBP12.10billion in 2003).

Bad and doubtful loans and substandard loans are stated net of unearned interest of LBP55.6billion (LBP73.11billion in 2003) and LBP6.4billion (LBP3.7billion in 2003) respectively. Most of these accounts, which are covered by provision as indicated herebelow, 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 LBP11.8billion up to December 31, 2004 (LBP21.17billion in 2003). Furthermore, pledged guarantee funds amounting to LBP7.8billion as at December 31, 2004 (LBP6billion in 2003) 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 the Consolidated Financial Statements

The movement in the provision for credit losses in 2004 and 2003 consists of the following:

	2004	2003
	LBP'000	LBP'000
Balance — Beginning of year	21,172,445	21,648,203
Provision set up during the year	2,399,353	4,830,070
Write backs during the year	(1,225,228)	-
Provision transferred to the off-balance sheet	(10,536,233)	(5,305,942)
Effects of exchange rates changes	57	114
Balance — End of year	11,810,394	21,172,445
Pledged guarantee funds — Beginning of year	6,006,673	8,998,096
Funds transferred from/(to) shareholders' transitory account	1,790,055	(2,991,423)
Pledged guarantee funds — End of year	7,796,728	6,006,673
Total provision for credit losses and guarantee funds	19,607,122	27,179,118
Bad and doubtful loans (net of unearned interest)	47,121,753	38,967,848

The excess of bad and doubtful loans in 2004 and 2003 over provision for credit losses and guarantee funds is secured by real guarantees and mortgages.

The shareholders' transitory account referred to above, amounting to LBP8.2billion at 2004 year-end (LBP10billion in 2003), 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 accompanying balance sheet.

The movement of unearned interest on bad and doubtful loans and substandard loans during 2004 and 2003, was as follows:

	2 0 0 4		2 0 0 3	
	Doubtful Loans LBP'000	Substandard Loans LBP'000	Doubtful Loans LBP'000	Substandard Loans LBP'000
Balance — Beginning of year	73,114,478	3,722,733	67,402,507	1,729,778
Unearned interest for the year	19,175,421	2,746,327	15,629,967	1,992,955
Write-backs during the year	(26,668)	-	(40,432)	-
Write-offs during the year	(6,479)	-	-	-
Unearned interest on bad debts transferred to the off-balance sheet	(36,653,708)	-	(9,877,564)	-
Balance — End of year	55,603,044	6,469,060	73,114,478	3,722,733

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.

The provision for credit losses setup during 2004 in the amount of LBP2.4billion were accounted for based on the Banking Control Commission report issued during 2004. Consequently, these provisions are tax deductible in 2004 in accordance with local tax laws and regulations.

According to Central Bank of Lebanon Circular No. 41 dated November 17, 2003, all banks are required to take full provision for all bad and doubtful debts for which no agreement have been reached up to 2005 year-end, and that within a maximum period ending December 31, 2008.

7. CUSTOMERS' ACCEPTANCES LIABILITY

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

8. REGULARIZATION ACCOUNTS AND OTHER DEBIT BALANCES

This section consists of the following:

	D e c e m b e r 3 1	
	2004 LBP'000	2003 LBP'000
Accrued interest receivable:		
Loans and advances	213,869	147,275
Banks	422,098	469,817
Lebanese treasury bills	1,635,342	2,135,806
Securities	2,971,580	2,407,551
Prepaid expenses	259,703	443,770
Deferred charges	285,967	75,594
Commissions due not yet received	26,538	-
Sundry debtors	662,375	650,109
	6,477,472	6,329,922

"Prepaid Expenses" as at December 31, 2004 includes LBP64million deferred tax related to revenues realized on the sale of Lebanese Government bonds, resulting from a "Swap" transaction effected during 2004.

9. PROPERTY AND EQUIPMENT

This caption comprises the following:

	December 31, 2004		December 31, 2003	
	BANK LBP'000	SIPC LBP'000	BANK LBP'000	SIPC LBP'000
Depreciable Assets:				
Land	-	2,479	-	2,479
Owned premises	6,714,922	13,578,138	6,693,214	13,578,138
Freehold improvement	1,487,705	208,882	849,822	196,968
Pre-operating expenses	24,534	-	24,534	-
Key money	190	-	190	-
Office equipment	753,417	-	715,588	-
Furniture and fixtures	278,354	5,743	161,917	5,743
Computer equipment	2,198,683	1,734	2,137,119	-
Electrical equipment	-	231,531	-	217,803
Industrial equipment	-	181,957	-	181,957
Vehicles	58,676	-	58,676	-
	11,516,481	14,210,464	10,641,060	14,183,088
Accumulated depreciation	(4,757,225)	(843,785)	(4,195,654)	(772,386)
Net book value	6,759,256	13,366,679	6,445,406	13,410,702
Advances on fixed assets	37,863	-	37,863	-
Properties acquired in satisfaction of debts	1	-	1	-
Other fixed assets	11,029	-	11,029	-
	6,808,149	13,366,679	6,494,299	13,410,702

The current net realizable value of the Bank's owned premises and properties acquired in satisfaction of debts was estimated according to an independent valuation at approximately USD12,645,338 in 1996. The revaluation surplus resulting therefrom, was booked as an adjustment to the carrying value of these properties and was reflected under a separate caption in shareholders' equity. This revaluation was approved by the Central Bank of Lebanon and the tax authorities.

Depreciation charges for 2004 amounted to LBP575million for the Bank and LBP71million for the subsidiary company (LBP577million and LBP48million respectively for 2003).

Acquisition of assets in satisfaction of debts is approved by the Lebanese banking regulatory authorities. These assets should be liquidated within two years as from the date of approval given by the Central Bank of Lebanon to acquire these properties. In the event of default of liquidation, such properties should be fully provided for over a period of five years, commencing in the last year of the period during which assets should have been liquidated. In this connection, approval of the banking regulation was obtained in prior years and the regulatory provision for impairment set up by the Bank as at December 31, 2004 amounted to LBP0.98billion (LBP0.98billion as at December 31, 2003) and covered the total value of the acquired properties, detailed as follows:

	LBP'000
Assets acquired in satisfaction of debts	361,257
Revaluation surplus	617,382
	978,639
Less: Regulatory provision for impairment	(978,638)
	1

Notes to the Consolidated Financial Statements

Fixed assets' movement during the year 2004 is summarized as follows:

	Opening Balance LBP'000	Additions LBP'000	Disposals LBP'000	Closing Balance LBP'000
Cost:				
Land	2,479	-	-	2,479
Owned premises	20,271,352	21,708	-	20,293,060
Freehold improvement	1,046,790	649,794	-	1,696,587
Pre-operating expenses	24,534	-	-	24,534
Key money	190	-	-	190
Office equipment	715,588	50,786	(12,956)	753,417
Furniture and fixtures	167,660	116,437	-	284,097
Computer equipment	2,137,119	63,297	-	2,200,416
Electrical equipment	217,803	13,728	-	231,531
Industrial equipment	181,957	-	-	181,957
Vehicles	58,676	-	-	58,676
	24,824,148	915,750	(12,956)	25,726,944
Accumulated Depreciation:				
Land	-	-	-	-
Owned premises	1,228,933	191,931	-	1,420,864
Freehold improvement	811,067	248,875	-	1,059,942
Pre-operating expenses	24,534	-	-	24,534
Key money	190	-	-	190
Office equipment	569,139	35,748	(12,956)	591,930
Furniture and fixtures	74,301	15,217	-	89,517
Computer equipment	1,841,488	137,884	-	1,979,372
Electrical equipment	217,803	-	-	217,803
Industrial equipment	174,524	7,433	-	181,957
Vehicles	26,061	8,840	-	34,901
	4,986,041	645,928	(12,956)	5,601,010
Net Balance	19,856,108			20,125,934
Advances on fixed assets	37,863			37,863
Properties acquired in satisfaction of debts	1			1
Other fixed assets	11,029			11,029
	19,905,001			20,174,828

10. CUSTOMERS' DEPOSITS AND CREDIT BALANCES

The customers' deposit base as at December 31, 2004 consists of Lebanese Pounds and foreign currency deposits to the extent of 32% and 68% respectively (39% and 61% respectively in 2003), which are of short term maturities and reflect a concentration in the distribution of deposits among account holders.

Customers' deposits include coded accounts stated at LBP7.38billion as at December 31, 2004 (LBP5.12billion as at December 31, 2003). These accounts are subject to the provisions of Article 3 of the Banking Secrecy Law date 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 its auditors.

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

Year	Deposits as at	Average Annual	Allocation of Deposits		Cost of funds	Average
	December 31	Balance of deposits	LBP.	F/Cy.	LBP'000	Cost of Funds
	LBP'000	LBP'000	%	%		%
2004	433,884,180	422,471,174	32	68	21,438,877	5.07
2003	400,163,589	385,426,000	35	65	22,512,371	5.84
2002	369,357,701	368,954,000	32	68	24,949,000	6.76

Customers' deposits are segregated between residents and non-residents to the extent of 94% and 6% respectively as at December 31, 2004 and 2003 respectively.

Customers' deposits include balances aggregating to LBP42.45billion as at December 31, 2004 (LBP32.02billion as at December 31, 2003) of related parties and Bank's management, including funds pledged in favour of the Bank against credit facilities.

Customers' deposits include balances aggregating to LBP27.80billion as at December 31, 2004 (LBP18.68billion as at December 31, 2003) pledged in the Bank's favour against credit facilities extended to customers. It also includes funds in the amount of LBP14.25billion and LBP12.1billion as at December 31, 2004 and 2003, respectively, pledged by related parties against facilities granted to the group subsidiary and related companies.

In addition to the compulsory reserve requirements applied on Lebanese Pound deposits and the obligatory deposit required to be maintained with the Central Bank of Lebanon applied on foreign currency deposits as referred to in Notes 3 and 4 and based on new regulations from 2003, the Bank should subscribe in non-interest earning two-year Lebanese treasury bills or Eurobonds or certificates of deposit issued by the Central Bank of Lebanon for an amount of LBP32.7billion, representing 10% of customers' and financial sector deposits in all currencies, excluding Euro CDs and cash pledged against loans and advances, outstanding as at October 1, 2002. This amount was funded from the available liquidity of the Bank and partially from discount of Lebanese treasury bills and Lebanese Government bonds. All of these subscriptions will mature in 2005.

11. ACCOUNTS PAYABLE AND MISCELLANEOUS CREDITORS

This section comprises the following:

	D e c e m b e r 3 1	
	2004	2003
	LBP'000	LBP'000
Withheld taxes	245,749	317,909
Provision for income tax	63,985	-
Checks and orders to be paid	63,344	66,012
Margins on letters of credit	186,917	160,450
Margins on letters of guarantee and others	1,013,357	1,099,885
Miscellaneous creditors	440,184	1,256,837
	2,013,536	2,901,093

Tax returns for 2001 were reviewed in 2003 and no additional tax amounts were levied up to the date of this report. The Bank's tax returns for the years 2001 till 2004 remain subject to examination and final tax assessment by the tax authorities.

Withheld taxes include 5% tax withheld on interest paid on customers' deposits, applicable effective February 2003 as required by the income tax law Article 51 of 2003 budget law, amounting to LBP116million as at December 31, 2004 (LBP117million as at December 31, 2003).

The provision for income tax in the amount of LBP64million as at December 31, 2004 is stated net of withholding taxes on certain interest income.

Provision for income tax for the year 2004 can be reconciled as follows:

	LBP'000
Income before tax	712,848
Adjustment of income before tax:	
Non-deductible expenses	575,747
Non-taxable revenues	(89,554)
Losses of subsidiary company	487,404
Taxable income	1,686,445
Income tax	252,967
Less: Tax settled in the form of withholding tax	(188,982)
Provision for income tax at year end	63,985

12. REGULARIZATION ACCOUNTS AND OTHER CREDIT BALANCES

This section comprises the following:

	D e c e m b e r 3 1	
	2004	2003
	LBP'000	LBP'000
Accrued interest payable:		
Customers deposits	1,757,958	2,166,430
Banks	-	1,254
Unearned interest and commissions	224,075	246,512
Accrued expenses	753,524	735,533
Social security dues	107,415	107,532
	2,842,972	3,257,261

13. PROVISIONS FOR LOSSES AND CONTINGENCIES

This section comprises the following:

	D e c e m b e r 3 1	
	2004	2003
	LBP'000	LBP'000
Provision for employees end-of-service indemnities	852,857	932,080
Provision for exchange fluctuations	2,784	917
Provision for contingencies	2,771	2,771
	858,412	935,768

The movement in the provision for employees end-of-service indemnities during 2004 and 2003 is summarized as follows:

	D e c e m b e r 3 1	
	2004	2003
	LBP'000	LBP'000
Balance — Beginning of year	932,080	1,361,545
Provision set up during the year	188,215	222,964
Settlements	(267,438)	(652,429)
Balance — End of year	852,857	932,080

14. CAPITAL

This section represents the Bank's fully paid up capital in the amount of LBP4billion divided into 4,000,000 shares at LBP1,000 each.

The Bank's solvency ratio as at December 31, 2004 and 2003 amounted to 20.05% and 22.05% respectively, detailed as follows:

	2004	2003
	LBP'000	LBP'000
Assets and off-balance sheet weighted risk	198,761,000	178,352,000
Tier I and Tier II capital	39,860,000	39,326,000
Risk based capital ratio	20.05%	22.05%

15. SHAREHOLDERS' CASH CONTRIBUTION TO CAPITAL

This caption represents a non-refundable capital injection of USD9,725,000 interest free, made by the major shareholders in accordance with the local laws and regularities. 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.

16. RESERVES

This caption includes the following:

	December 31, 2004		December 31, 2003	
	BANK	SIPC	BANK	SIPC
	LBP'000	LBP'000	LBP'000	LBP'000
Reserve for general banking risks	1,979,050	-	1,622,347	-
Legal reserve	274,450	1,500	242,089	1,500
General reserve	4,829	-	4,829	200,000
	2,258,329	1,500	1,869,265	201,500

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, 10% of its net income, to the legal reserve account. This legal reserve is not available for distribution.

The Bank is required according to local banking regulations to set up a reserve for general banking risks at the rate of 0.2% up to 0.3% of the weighted asset risk and off-balance sheet instruments.

17. 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 as follows:

	LBP'000
Bank premises	6,287,200
Subsidiary company owned properties (SIPAC)	12,189,879
Fixed assets acquired in satisfaction of debts	617,382
	19,094,461

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.

18. COST OF FUNDS

Interest expense on customers' deposits includes an amount of LBP203million in 2004 (LBP188million in 2003) representing premiums due to the National Institution for Guarantee of Deposits.

19. COMMISSIONS, FEES AND OTHER REVENUES

	Year Ended December 31	
	2004 LBP'000	2003 LBP'000
Rent income (subsidiary company)	167,505	269,697
Revenues from investments	89,554	272,207
Commission fees from fiduciary transactions	135,081	134,003
Commissions on letters of guarantee	366,558	328,240
Commissions on letters of credit	38,964	41,142
Commissions on credit files and statements' fee	103,881	122,884
Domiciliation (telephone, cellular, electricity)	90,166	95,278
Commissions on treasury bills	109,112	95,764
Commissions on check books and credit cards	120,230	170,120
Commissions on safe locker rental	31,580	31,494
Other commissions	100,281	313,410
	1,352,912	1,874,239

20. 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.

21. FIDUCIARY TRANSACTIONS

Fiduciary transactions as at 2004 and 2003 year-ends include the following:

	D e c e m b e r 3 1	
	2004 LBP'000	2003 LBP'000
Back to back lending from resident depositors	28,161,889	29,449,500
Fiduciary deposits with non-resident banks	761,288	-
Other placements	4,522,500	4,522,500
	33,445,677	33,972,000

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 LBP13billion (USD8.6million) as of December 31, 2004 (LBP12billion the equivalent of USD8million in 2003).

22. SEGMENT REPORTING OF EXPENSES AND OTHER REVENUES

The statement of operations for the year ended December 31, 2004 includes the Bank's and Subsidiary's income and expenses after the elimination of intra-company transactions as follows:

	BANK LBP'000	SIPC LBP'000	TOTAL LBP'000
Commissions, fees and other revenues	(1,186,161)	(166,751)	(1,352,912)
Salaries and related charges	6,467,266	358,513	6,825,779
General operating expenses	2,919,391	185,762	3,105,153
Depreciation	574,529	71,399	645,928
Accrued income tax	188,982	-	188,982

23. NET INCOME FOR THE YEAR

The consolidated income is segregated as follows:

	Bank's Share LBP'000
Net income for the Bank	1,011,270
Net results of SIPC S.A.L. (a subsidiary company)	(487,404)
Total	523,866

24. COMPARATIVE FINANCIAL STATEMENTS

Certain 2003 comparative figures were reclassified to conform with the current year's presentation.

25. FINANCIAL INSTRUMENTS 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. The held-for-trading, available-for-sale securities and securities consisting of originated loans and intended to be held for short terms are reflected at their fair value. The securities consisting of originated loans and intended to be held for long terms and held-to-maturity securities are carried at cost and adjusted for non-temporary decline in value and/or impairment loss. Fair values of these instruments are disclosed in Note 5.

CREDIT RISK

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

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

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

The debt instruments included in investment portfolio are mainly sovereign risk. For details of the composition of the loans and advances refer to Note 6.

MARKET RISK

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

Currency Risk:

The Bank carries on exchange exposure to effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Alco Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions in line with the limits authorized by the regulatory authorities. Furthermore, the Bank hedges its capital against currency fluctuation by maintaining a fixed position in foreign currency within the ratio of 60% of its net equity in Lebanese Pounds, 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 that mature or re-price in a given period. The Bank manages this risk by matching the re-pricing of assets and liabilities through risk management strategies regularly reviewed by the Alco Committee.

The Bank has no off-balance sheet instruments subject to interest rate risk exposure.

The effective interest rate (effective yield) of a monetary financial instruments 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.

LIQUIDITY RISK

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

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

DISTRIBUTION OF ASSETS AND LIABILITIES BETWEEN MAJOR CURRENCIES AS OF 2004 YEAR END

	LBP	US	Euro	Other Currencies	Total
	LBP'000 In 000	C/V in LBP In 000	C/V in LBP In 000	C/V in LBP In 000	LBP'000
ASSETS:					
Non-interest earning compulsory reserve and obligatory placements	34,377,277	15,720,877	-	-	50,098,154
Cash and deposits with banks	1,305,804	6,635,922	1,768,100	671,226	10,381,052
Interest bearing deposits with banks	703,034	74,707,050	3,384,315	2,292,408	81,086,807
Securities	93,811,195	67,155,474	-	-	160,966,669
Loans and advances (net of provision for credit losses)	12,773,680	128,234,294	18,428,701	5,548	159,442,223
Customers' acceptance liability	-	449,650	65,093	-	514,743
Regularization accounts and other debit balances	4,136,959	2,277,625	21,170	41,718	6,477,472
Property and equipment (net of accumulated depreciation)	19,233,664	941,164	-	-	20,174,828
Total Assets	166,341,613	296,122,056	23,667,379	3,010,900	489,141,948
LIABILITIES:					
Due to banks and financial institutions:					
Demand deposits	22,955	-	-	-	22,955
Customers deposits and credit balances	137,024,829	270,259,969	23,748,365	2,851,017	433,884,180
Accounts payable and miscellaneous creditors	787,918	1,152,588	69,680	3,350	2,013,536
Outstanding acceptances	-	449,650	65,093	-	514,743
Regularization accounts and other credit balances	1,448,299	1,379,916	10,691	4,066	2,842,972
Provisions for losses and contingencies	858,412	-	-	-	858,412
Shareholders' transitory account	-	8,209,945	-	-	8,209,945
Total Liabilities	140,142,413	281,452,068	23,893,829	2,858,433	448,346,743
Net currencies risks	26,199,200	14,669,988	(226,450)	152,467	40,795,205

DISTRIBUTION OF ASSETS AND LIABILITIES ACCORDING TO MATURITIES AS OF 2004 YEAR END

	Non-Financial LBP'000	Less than Three Months LBP'000	Between Three and Six Months LBP'000	Between Six Months and One Year LBP'000	More than One Year LBP'000	Total LBP'000
ASSETS:						
Non-interest earning compulsory reserve and obligatory placements	-	36,997,938	11,108,809	1,991,407	-	50,098,154
Cash and deposits with banks	-	10,381,052	-	-	-	10,381,052
Interest bearing deposits with banks	-	52,893,523	10,552,500	3,018,034	14,622,750	81,086,807
Securities	-	11,308,602	4,921,078	8,961,885	135,775,104	160,966,669
Loans and advances (net of provision for credit losses)	-	-	-	148,947,794	10,494,429	159,442,223
Customers' acceptance liability	-	514,743	-	-	-	514,743
Regularization accounts and other debit balances	-	6,477,472	-	-	-	6,477,472
Property and equipment (less accumulated depreciation)	20,174,828	-	-	-	-	20,174,828
Total assets	20,174,828	118,573,330	26,582,387	162,919,120	160,892,283	489,141,948
LIABILITIES:						
Due to banks and financial institutions:						
Demand deposits	-	22,955	-	-	-	22,955
Customers deposits and credit balances	-	417,319,180	7,849,000	8,716,000	-	433,884,180
Accounts payable and miscellaneous creditors	-	2,013,536	-	-	-	2,013,536
Outstanding acceptances	-	514,743	-	-	-	514,743
Regularization accounts and other credit balances	-	2,842,972	-	-	-	2,842,972
Provision for losses and contingencies	-	-	-	-	858,412	858,412
Shareholders' transitory account	-	-	-	-	8,209,945	8,209,945
Total liabilities	-	422,713,386	7,849,000	8,716,000	9,068,357	448,346,743
Net Assets	20,174,828	(304,140,056)	18,733,387	154,203,120	151,823,926	40,795,205

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.