Contents

Chairman's Letter 2

BBAC Organization Chart 4

BBAC Management

Summary of Performance 6
Board of Directors 8
Major Shareholders and General Management 9
Excerpts from the Shareholders Assemblies 10

BBAC Financial Statements

BBAC Balance Sheet 12
BBAC Income Statement 14

BBAC Management Discussion and Analysis

Basis of Presentation 16
Corporate Profile 16
Observance of Anti-Money Laundering Requirements 16

Developments

Economic Developments 17
- Restructuring
- Committees
- Divisions:
  - Support Division
  - Retail Banking Division
  - Assets Management Division

Human Resources

Risk Management

Risk Control 23
Asset - Liability Management 24
- Asset Management 26
- Liability Management 33
- LCs 35
- Asset Quality 35
- Regulatory Guidelines 36

Financial Performance Ratios

Liquidity 37
Profitability 38
Management Efficiency 39
Interest Margin 39
Non-Interest Income 40
General Operating Expenses 41
Net Financial Income 41

BBAC Auditor's Report

Independent Auditor's Report 45
Balance Sheet 46
Income Statement 47
Statement of Changes in Equity 48
Statement of Cash Flows 49
Notes to Financial Statements 50
Balance sheet presented in accordance with Bank of Lebanon Circular No. 33 86
Income statement presented in accordance with Bank of Lebanon Circular No. 33 87

BBAC Network

Branch Network and Addresses 90
Main Correspondents 91
Subsidiaries 92

Chairman's Letter

The year 2005 was characterized, by many analysts, as a difficult year on all levels. For BBAC s.a.l., it was a year of consolidation and building strength for the future amid uncertainties in Lebanon and the Middle East region in general. On the economic level, the Bank's strong local foundations will enable it to ride the storm and find its own profitable niche within the prevailing conditions.

Within this environment, BBAC s.a.l. is confident that weathering these hurdles remains a normal day's work. The Bank is prepared for local economic maturities as well as other regional events, and ready for international regulatory requirements, namely the Basle 2 criteria. The Bank's portfolio of Government securities is managed under a team of professionals who have structured their positions in a balanced manner to meet any and all eventualities and conserve the highest value and the most rewarding income. The Bank's liquidity is still one of the highest in the sector reaching 80.64% at the end of 2005, while profitability is maintained more than adequate recording an increase of 18.6% over the previous year.

Year after year, BBAC s.a.l. remains a success story. In prosperous times as in difficult ones, our outlook maintains its forward path. Our journey continues ahead toward excellence.

Chairman's Letter

Vision, focus and determination are what identify our Bank. Our vision aims at building the institution of tomorrow. Our focus is to satisfy the ever growing needs of our customers and always improve our products and services to meet these needs. And we are determined, with hard work and devotion, to achieve the best results for our Bank and our Shareholders.

In this context, the Bank has embarked on a major restructuring project commissioned to a top international management consultant. The aim is to rejuvenate the Bank along with modern managerial standards and to input controls and compliance with international requirements. In 2005, we have completed the administrative part of this restructuring process. In the year to come, we are looking forward to consolidate the process through the introduction of the required technologies, which will support the actual implementation of the new structure and put it to actual work.

For Basle 2, BBAC s.a.l. looked ahead to build its capital requirements and meet the standards of the future. An issue of Preferred Shares, amounting to USD 50 million, is planned for early 2006. These shares will, eventually, be listed and traded on the Beirut Stock Exchange. In addition to the Bank's internal resources and this share issue, once booked, our Capital Adequacy Ratio will increase to over 28%, while the required ratio is 8% internationally and 12% in Lebanon.

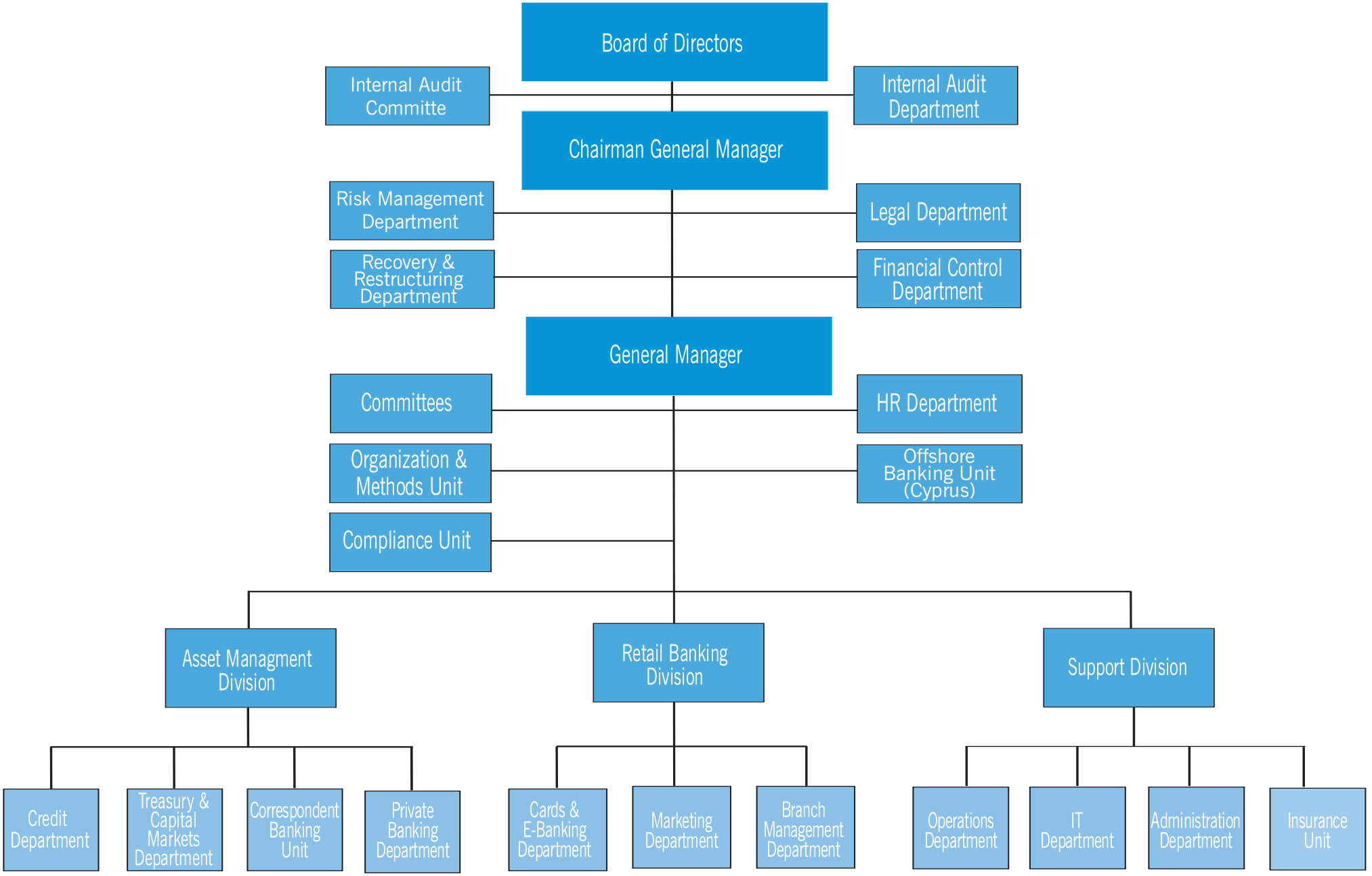
The Bank's unique family of products is growing, both in Lebanese Pounds, U.S. Dollars and Euro, securing a high degree of safety and the best return for customers and investors. A full range of Cards is now a reality at BBAC s.a.l. with all its features and facilities for our customers, and soon more products will be initiated.

On the regional level, we are taking our strategic alliances to higher levels, and new borders are being explored. We are planning a restructuring process for our Limassol Branch which will become a full service on-shore unit, in anticipation of Cyprus joining the EC. Our negotiations, for a strategic alliance with a financial institution in the Gulf region, are underway. We are exploring the opportunities in the African continent to serve our Lebanese Diaspora. Furthermore, BBAC will soon establish business in Syria, joined by prominent Syrian investors, and is finalizing a similar venture in Iraq.

This is only a brief preview of our vision for the future. BBAC s.a.l. is looking ahead for the next 50 years. In the first half a century of existence, we have achieved a solid presence in the banking community. We now rank the eleventh largest Bank in Lebanon. Our dreams are many and our goals are high. With you customers, shareholders and staff, there are no limits to what we can together achieve for our Bank.

Ghassan T. Assaf
Chairman General Manager

BBAC Organization Chart



BBAC Management

Summary of Performance

(in millions)	2005	2004	Change 2005-2004
Total Assets			
LL	3,821,665	3,460,055	10.45%
USD C/V	2,535	2,295	
Total Loans and Advances			
LL	588,143	564,647	4.16%
USD C/V	390	375	
Total Net Liquidity			
LL	2,945,612	2,686,530	9.64%
USD C/V	1,954	1,782	
Deposits from Customers			
LL	3,360,040	3,086,871	8.85%
USD C/V	2,229	2,048	
Shareholders' Equity*			
LL	193,099	176,433	9.45%
USD C/V	128	117	
Profits-after tax			
LL	26,364	22,229	18.60%
USD C/V	17	15	

* Including only LL 10 billion accepted in owners' equity, out of LL 21.061 billion of revaluation variance of tangible fixed assets.

BBAC Management

(percentage)	2005	2004
Liquidity Ratios		
Net Liquidity LL	91.64%	92.88%
Net Liquidity FC	85.81%	83.80%
Net Liquidity Total	87.67%	87.03%
Loans / Deposits LL	14.81%	14.16%
Loans / Deposits FC	18.76%	20.58%
Loans / Deposits Total	17.50%	18.29%
Liquid Assets / Assets	80.64%	79.66%
Asset Quality *		
Doubtful Loans / Gross Loans	15.71%	17.77%
Provisions for Doubtful Loans / Doubtful Loans	70.59%	66.99%
Provisions for Loans / Gross Loans	12.16%	13.02%
Net Doubtful / Assets	0.81%	1.10%
Capital Adequacy Ratios		
Total Capital Adequacy Ratio	19.80%	19.48%
Including After Tax Profits	22.47%	23.50%
Profitability Ratios		
Return on Average Assets ROAA after tax	0.72%	0.67%
Return on Average Equity ROAE after tax	14.27%	13.24%
Number of Shares Outstanding (million)	72	72
Earnings per Share EPS in LL after tax	366	309
Dividends per Share DPS in LL**	89	65
Dividends Payout Ratio	29.49%	25.99%
Retention Ratio	70.51%	74.01%
Net Asset Value per Share in LL	2,836	2,604
Management Efficiency		
Interest Paid / Interest Received	78.12%	77.27%
Cost per Average Branch (LL million)	1,445	1,295
Net Commissions / Net Financial Income	17.37%	20.75%
Cost / Income (Efficiency Ratio)	60.21%	61.61%
Exchange Rate (LL/USD)* **	**1507.5**	**1507.5**

* Non-accrual interest is included in non-performing loans; unrealized interest is included in provisions.
** An additional interest payment of about LL 1.194 billion was made on the cash contributions.
*** The closing rate of the Lebanese Pound against the USD as set by the Central Bank.

Board of Directors

- **Chairman General Manager** Mr. Ghassan T. Assaf
- **Vice Chairman** Mr. Abbas Halabi
- **Member** Mr. Walid T. Assaf
- **Member** Mr. Ali Assaf
- **Secretary** Mr. Amine Rizk
- Late Mr. Habib Maamari (not in the picture).

Major Shareholders and Management

Major Shareholders

Assaf Family	53.85 %
Fransabank s.a.l.	37.05 %
Other Shareholders	9.10 %

Board of Directors

Mr. Ghassan Assaf	Chairman & General Manager
Me. Abbas Halabi	Vice Chairman & Legal Advisor
Mr. Habib Maamari	Member
Mr. Walid Assaf	Member
Mr. Ali Assaf	Member
Me. Amine Rizk	Secretary of the Board

Solicitors

Me. Chafic Khalaf
Me. Amine Rizk
Me. Ramzi Haykal
Me. Assaad Najm
Me. Paul Morcos

Auditors

PriceWaterhouse Coopers

Executive Advisors to the Chairman

Mr. Georges Mirza	Credit and Recovery
Mr. Omar Saab	Business & Development
Dr. Amalia Azouri	Economic Studies

General Management

Dr. Saad Andary	Deputy General Manager Asset Management Division
Mr. Jean Mohana	Assistant General Manager Retail Banking Division
Mr. Claude Khayat	Support Division
Mr. Elie Francis	Human Resources Department
Dr. Adnan Aridi	Organization and Methods Unit
Mr. Raja Makarem	Risk Management Department
Mr. Marwan Tayara	Recovery and Restructuring Department
Mr. Sami Saliba	Accounting and Financial Control Department
Mr. Nadim Hamade	Credit Department
Mr. Walid Haddad	Operations Department
Mr. Michel Kazan	Business Development
Mr. Chawki Badr	Administrative Support
Miss Wafaa Abed	Internal Audit Department
Mrs. Sabah Khatounian	Administration Department
Mr. Talal Abou Ziki	Compliance Unit
Mr. Ramzi Abi Fares	Marketing Department
Mrs. Lina Makarem	Treasury & Capital Markets Department
Mr. Salim Karam	Insurance Unit
Me. Amine Rizk	Legal Department
Mr. Pierrot Atallah	IT Department
Mr. Chadi Chami	Cards & E-Banking Department
Mr. Hassan Chedid	Correspondent Banking Unit
Miss. Dina Bou Saba	Private Banking Unit

Excerpts from BBAC's Ordinary General Shareholders' Assembly

1- Ordinary General Shareholders' Assembly

June 29, 2006

Resolution no. 2
The Ordinary General Assembly of BBAC Shareholders approved the activities, accounts, balance sheet and the profit and loss accounts for the year ending on December 31, 2005.

Resolution no. 3
The Ordinary General Assembly of BBAC Shareholders decided on the appropriation of the profits for the passing year of 2005 as follows:

LL thousands	
Profits for the year 2005	26,364,338
Less: Appropriation of 10% to Legal reserves	2,636,434
Appropriation for General Banking Risks	2,000,000
Profits Carried Forward for 2004	7,502,367
Less: Dividend of LL 89 per Share	6,408,000
Less: Interest on Cash Contribution	1,193,691
Less: Reserves for Capital Increase	1,486,697
Profits Carried Forward for 2005	20,141,883

2- Extraordinary General Meeting of shareholders

April 10, 2006

The extraordinary meeting of shareholders decided to issue 5,000,000 Non-Cumulative Redeemable Preferred Shares A for an aggregate amount of US$50,000,000, each with a nominal value of LL1,000 at an Issue Price of US$10 per Preferred Share A; the difference between the Issue Price and the nominal value constitutes a share premium.

BBAC Financial Statements

Balance Sheet as at December 31, 2005

ASSETS (LL Millions)	LL	FX	2005	LL	FX	2004
Cash and Bank of Lebanon	408,088	550,202	958,290	395,696	457,048	852,744
Lebanese Treasury bills	562,525	606,463	1,168,988	614,541	493,459	1,108,000
Loans And Advances to banks	10,576	920,153	930,729	12,248	752,278	764,526
Trading Securities	548	9,630	10,178	548	5,735	6,283
Loans and advances to customers *	158,118	430,025	588,143	155,550	409,097	564,647
Debtors by acceptances	0	64,512	64,512	9	59,281	59,290
Investment Securities	562	13,229	13,791	562	24,191	24,753
- available-for-sale	562	0	562	562	0	562
- held-to-maturity	0	13,229	13,229	0	24,191	24,191
Investments in Subsidiaries	3,524	0	3,524	3,524	0	3,524
Property acquired in settlement of debt	696	18,176	18,872	449	12,676	13,125
Investment property	10,129	0	10,129	10,271	0	10,271
Intangible assets	598	146	744	1,098	177	1,275
Property and equipment	30,922	193	31,115	32,046	147	32,193
Other Assets	5,104	17,546	22,650	3,166	16,258	19,424
Total Assets	1,191,390	2,630,275	3,821,665	1,229,708	2,230,347	3,460,055
Total Assets C/V in thousand USD	790,308	1,744,793	2,535,101	815,727	1,479,500	2,295,227
Off-Balance Sheet			1,900,603			1,253,390
Engagements by signature received from financial intermediaries			566			2,893
Other engagement received			1,900,037			1,250,497
*** After deduction of:**			**74,238**			**77,296**
Provisions for doubtful loans			46,093			47,224
Unrealized interest for doubtful loans			28,145			30,072
*** After deduction of:**			**14,095**			**17,383**
Payables against receivables			14,095			17,383
*** Including net non-performing loans:**			**11,619**			**12,838**
Substandard loans			18,793			20,089
Unrealized interest for substandard loans			7,174			7,251

BBAC Financial Statements

Balance Sheet as at December 31, 2005

LIABILITIES & SHAREHOLDERS' EQUITY (LL Millions)	LL	FX	2005	LL	FX	2004
Liabilities						
Deposits from banks	3,679	132,685	136,364	3,214	66,562	69,776
Due to customers	1,067,876	2,292,164	3,360,040	1,098,599	1,988,272	3,086,871
Engagements by acceptances	0	64,512	64,512	9	59,281	59,290
Other liabilities	8,733	34,964	43,697	4,409	40,737	45,146
Current income tax liability	1,079	0	1,079	74	0	74
Retirement benefit obligations	11,071	742	11,813	10,657	747	11,404
Total Liabilities	1,092,438	2,525,067	3,617,505	1,116,962	2,155,599	3,272,561
Shareholders' equity						
Share capital and cash contribution to capital	72,000	42,120	114,120	72,000	21,697	93,697
Legal reserve	23,582	0	23,582	20,946	0	20,946
Other reserves	2,485	0	2,485	0	0	0
Reserve for unidentified banking risks	13,682	0	13,682	11,682	0	11,682
Revaluation variance of tangible fixed assets *	21,061	0	21,061	21,061	0	21,061
Retained earnings	24,223	5,007	29,230	36,597	3,511	40,108
Total Shareholders' Equity	157,033	47,127	204,160	162,286	25,208	187,494
Total Liabilities & Shareholders' Equity	1,249,471	2,572,194	3,821,665	1,279,248	2,180,807	3,460,055
Total Liabilities & Shareholders' Equity in thousand USD	828,836	1,706,265	2,535,101	848,589	1,446,638	2,295,227
Off-Balance Sheet						
Engagements by endorsement given to:			90,007			76,635
Financial intermediaries			53,027			42,139
Customers			36,980			34,496

* Including LL 10 billion accepted in owners' equity.

Income Statement for the year ended December 31, 2005

(LL Millions)	LL	FX	2005	LL	FX	2004
Interest and similar income	**82,996**	**135,064**	**218,060**	**97,453**	**98,495**	**195,948**
Lebanese T-bills	40,711	46,821	87,532	55,394	35,866	91,260
Deposits and similar funds at banks and financial institutions	29,861	52,331	82,192	30,526	30,873	61,399
Loans and advances to customers	12,416	34,201	46,617	11,530	29,165	40,695
Investment Securities	0	1,478	1,478	0	2,252	2,252
Related parties loans and advances	8	233	241	3	339	342
Interest and similar charges	**80,568**	**89,788**	**170,356**	**85,514**	**65,896**	**151,410**
Deposits and similar funds from banks and financial institutions	3,105	2,436	5,541	854	2,242	3,096
Due to customers	76,693	86,183	162,876	84,022	62,587	146,609
Deposits from related parties	770	1,169	1,939	638	1,067	1,705
Other interest and similar charges	0	0	0	0	0	0
Interest margin	**2,428**	**45,276**	**47,704**	**11,939**	**32,599**	**44,538**
Net Provisions (releases) on loans and advances	**5,923**	**-6,306**	**-383**	**3,912**	**-4,712**	**-800**
Provisions for customers loans and advances	6,950	906	7,856	4,506	2,882	7,388
Release of provisions and unrealized interest on doubtful and substandard loans	1,027	7,212	8,239	594	7,594	8,188
Net Interest Received	**-3,495**	**51,582**	**48,087**	**8,027**	**37,311**	**45,338**
Dividend income	**48**	**179**	**227**	**84**	**78**	**162**
Net Commission	**2,424**	**11,334**	**13,758**	**2,846**	**11,117**	**13,963**
Fee and commission income	2,573	12,600	15,173	2,918	12,296	15,214
Fee and commission expense	149	1,266	1,415	72	1,179	1,251
Net trading income	**8,109**	**6,584**	**14,693**	**1,953**	**3,121**	**5,074**
Foreign exchange	2,258	103	2,361	1,953	172	2,125
Interest rate instruments	5,851	3,720	9,571	0	2,658	2,658
Equities	0	2,761	2,761	0	291	291
Other operating income	**2,732**	**-310**	**2,422**	**2,394**	**358**	**2,752**
Operating expenses	**45,260**	**2,415**	**47,675**	**38,893**	**2,561**	**41,454**
Staff Costs	24,723	696	25,419	23,450	567	24,017
Other operating expenses	16,910	1,647	18,557	11,643	1,920	13,563
Depreciation and amortization	3,627	72	3,699	3,800	74	3,874
Net income of the year before taxes	**-35,442**	**66,954**	**31,512**	**-23,589**	**49,424**	**25,835**
Taxes	**4,892**	**256**	**5,148**	**3,446**	**160**	**3,606**
Net profits for the year	**-40,334**	**66,698**	**26,364**	**-27,035**	**49,264**	**22,229**

BBAC Management Discussion & Analysis

Basis of Presentation

The content of the management discussion and analysis was prepared based on the bank's financial statements drawn up according to the International Accounting Standards (IAS).

BBAC s.a.l. along with its subsidiaries and international branches are referred to within this report as BBAC.

All figures are denominated in Lebanese Pounds. US Dollars amounts were translated at the Central Bank's December 31, 2005 closing rate of 1507.5 LL/USD.

Corporate Profile

BBAC is a commercial bank that was established in 1956 by a group of prominent investors consisting of Mr. Toufic Assaf, Mr. Nashaat Sheiklard, and Mr. Jamal Shehaiber. In Year 2005, Fransabank acquired Sheiklard's shares in BBAC.

BBAC provides its services through a wide network of 32 Lebanese branches, an International Banking Unit in Limassol, as well as an Off-Shore Banking Unit in Damascus Free Zone.

BBAC's mission is to:

- Satisfy its clients' financial needs using its ever-developing resources.
- Provide a wide range of personalized services to its clients: retail and commercial banking services, private banking services, electronic banking and internet facilities, as well as bancassurance products.

Observance of Anti-Money Laundering Requirements

BBAC complies with all the regulations that are set out in the Anti-Money Laundering Lebanese Law No. 318 of April 20, 2001 and its amendments. This law aims to detect and prevent money laundering and potential terrorist financing, and its implementation is supervised by the Special Investigation Commission (SIC). BBAC also complies with the circulars of the Central Bank of Lebanon establishing procedures for controlling financial operations and activities for the prevention of Money Laundering; BBAC have already taken three major actions:

- Implementation of an Anti-Money Laundering program that includes written policies and procedures; an independent auditor has tested the effectiveness of the program.
- Designation of an Anti-Money Laundering officer and controllers.
- Execution of a regular training program for all BBAC's staff.

Developments

Economic Developments

The following information has been extracted from publicly available sources of information including the most recent documentation prepared in connection with the sovereign bond offerings of the Lebanese Republic. The information has been updated with the latest available data published by the Central Bank of Lebanon, the Ministry of Finance, and other publicly available economic publications.

Statistical weaknesses constitute serious obstacles to the analysis of the economy of the Lebanese Republic, and most available data should be viewed as best estimates by potential investors.

Table 1: Lebanese Republic Selected Indicators

In millions of USD where applicable	2000	2001	2002	2003	2004	2005 (est.)
Nominal GDP, USD mn.	16,399	16,660	17,292	18,042	19,516	20,100
GDP per capita, current USD	4,753	4,734	4,817	4,928	5,263	5,300
Real GDP, % change	-0.5	2.0	2.0	3.0	5.0	0.5
Consumer price inflation, an.avg,%	-0.4	-0.4	1.8	1.3	3.0	2.4
Budget balance, % GDP	-23.8	-15.7	-15.1	-13.7	-9.9	-8.8
Primary Budget Balance, % GDP	-6.8	1.0	1.5	2.4	2.3	1.8
Interest Payment, % revenue	88.4	92.7	79.1	73.3	53.5	53.2
Gross Public Debt, % GDP	152.2	169.8	181.4	184.9	183.7	191.5
Local currency debt, %GDP	109.9	112.3	97.1	98.7	89.6	96.2
Foreign currency debt, % GDP	42.4	57.5	84.3	86.2	94.1	95.3
Net Public Debt, % GDP	141.6	162.2	170.0	173.8	168.9	173.0
Consolidated public debt, % GDP*	133.2	130.7	156.6	175.0	163.7	152.9
Current A/C balance, % GDP	-19.0	-22.7	-14.9	-13.6	-16.1	-20.3
External debt, % GDP	92.3	101.4	100.1	119.1	129.5	129.0
External debt, % current A/C receipts	228.0	250.6	221.7	237.4	242.0	NA
Public external debt, %GDP	29.3	32.3	40.6	46.3	46.9	NA
External debt, % current A/C receipts	72.5	79.9	90.0	92.4	87.5	
Gross official reserves(excl. gold)	5,748	4,361	5,070	10,197	9,494	11,800
Net official reserves (excl. gold)**	2,533	-1,252	-504	2,250	823	NA
External liquidity ratio***, %	141.1	120.4	132.8	148.1	140.5	NA

* Central government debt net of central bank and other public institutions' holdings of government debt + Central Bank CDs.
** Gross reserves net of estimated foreign currency deposits held by commercial banks with the Central Bank.
*** Gross official reserves (excl. gold) and commercial banks' foreign assets as a percentage of external debt falling due within a year (including non-resident deposits).

The above economic indicators suggest:

- Heavy indebtedness and financing risks

Large financing requirements and high debt levels make Lebanon vulnerable to changes in market sentiment and to a reversal of deposit flows in the banking sector in particular. With a debt stock equivalent to 173% of GDP at end-2005, the central government is the most indebted of all sovereigns rated by CI. The government has a limited funding base and depends on the domestic banking sector to rollover maturing obligations and to subscribe to new debt to cover the budget deficit. Heightened political uncertainty has arrested deposit growth and unless confidence returns in the near future the government may be forced to rely increasingly on the Central Bank to meet its financing needs. However, deficit monetization in the context of a fixed exchange rate and a reduction in the demand for local currency would hasten a decline in the

Central Bank's foreign exchange reserves and could fuel devaluation expectations.

- Weak budgetary structure and limited fiscal flexibility

The budget deficit has declined over the past four years but remains comparatively high at around 8.8% of GDP. Efforts to increase revenue mobilization have not been matched by reforms to the expenditure side of the budget, mainly because of political resistance to public sector reform, and the reduction in the deficit in 2005 was entirely due to a decline in interest payments. Interest payments and wages together accounted for 68% of total government spending last year and absorbed almost all fiscal revenue. This underscores the difficulty Lebanon faces in generating the requisite primary surpluses for debt reduction. The decline in interest payments is partly attributable to temporary factors including concessional finance from donor countries following the Paris II conference in late 2002 and debt operations with domestic banks. The debt service burden is likely to increase again unless the government implements further fiscal reforms.

- Political risk and policy drift

The reform process has been stalled for more than a year due to a power struggle in ruling circles and divisions among the political elite over economic policy. The financial benefits of Paris II and an upturn in the economy in 2003-04 appear to have weakened the resolve of policymakers to tackle Lebanon's serious fiscal and economic imbalances, and few of the reforms promised at Paris II have been implemented. The deterioration in the political situation following the assassination of former Prime Minister Rafic Hariri in February 2005 has deepened the policy paralysis. The political outlook remains unclear and the likelihood of a broad-base consensus for reforms appears low at present.

- Adequate but declining external liquidity

The increase in political uncertainty since September 2004 has triggered the substitution of foreign currency deposits for local currency deposits and has contributed to capital flight. The upshot has been a decline in official foreign exchange reserves, although from historically high levels. Despite the difficult conditions, official reserves (excluding gold) of USD7.5 billion in April 2005 are almost four times as high as amortization on government foreign currency debt falling due over the next 12 months. Official reserves and the external assets of commercial banks combined, more than cover the sum of external debt due within a year (including all non-resident deposits) plus government principal repayments in foreign currency. Consequently, Lebanon's international liquidity position should provide a reasonable cushion against a shock of moderate intensity in the near term.

Recent Economic and political developments

The 2002 Paris II conference had increased investors' confidence and this resulted in high capital inflows and renewed confidence in the local currency. However, despite the improvements in external liquidity and near-term budget financing conditions, the government was unable to secure any long lasting changes to its creditworthiness.

The beginning of the 2005 witnessed a deteriorated political situation and this was intensified following the assassination of Mr. Hariri in February 2005. As a result, the existing government resigned and a new cabinet was appointed. The main concern of this government was to complete the June 2005 parliamentary election, which ended in a shift of the balance of power to the opposition parties. The post-election government was mainly focusing on constitutional and security issues and less on economic policies.

These political events have weakened the domestic and international confidence in Lebanon. Thus, economic activities slowed sharply as political uncertainty has undermined consumer spending, business investment, and deterred foreign capital and tourists. This resulted in the decline of budget revenues and the government had to borrow more in 2005 than initially expected.

As a matter of fact, the first quarter of 2005 witnessed a huge outflow of funds from the local banking system – from both residents and non-residents. However, despite this, Lebanon's International liquidity position continues to provide an adequate cushion against additional temporary shock of moderate intensity occurring in the near term. Moreover, in order to boost the reserves, the Central Bank announced plans to issue up to USD 2 billions of US dollar denominated certificate of deposits (CDs).

These uncertain political dynamics have added to the long-standing concerns about the sustainability of the public finances and have increased the risk of Lebanese assets.

Actually, the government highly depends on borrowing from the domestic banking system in order to meet the bulk of its very large gross financing needs. Therefore, sustained deposit outflows or even sluggish deposit growth would undermine the ability of banks to provide funds at the available rates. These banks currently appear to be both willing and able to rollover maturing obligations.

Another financing alternative is to borrow more heavily from the Central Bank. However, this would result in the erosion of foreign currency reserves and could fuel devaluation expectations.

Despite these, foreign currency near-term financing needs appear to be manageable due to the debt exchange conducted in 2004 & 2005. Also, the government was able to exchange the USD 2.5 billion of euro bonds maturing in 2006 at a reasonable cost. The financial and fiscal situation improved during the fourth quarter of 2005. The financial situation improved due to the large capital inflows from the Arabian Gulf which were fueled by high oil prices. Moreover, the government was able to return to the market in order to finance its needs, however, at higher terms. Also, the Central Bank was able to re-sell a large number of government bonds that were acquired during the first half of the year.

The year of 2005 ended with a reduction of public deficit from 10% in 2004 to 9% of GDP. However, debt to GDP ratio continued to grow, in which it actually reached 173% of GDP.

Therefore, the preparation of a comprehensive plan of reform that tackles the problem at their roots is highly needed. Such a plan should be able to embrace simultaneously fiscal, social as well as economic issues.

Restructuring

The main consequence of the 2004 Deloitte and Touch study was the restructuring of the whole bank. In a corporate governance frame, the new structure set clear grounds for control, authority segregation, job specialization, responsibility and accountability.

The year 2005 was a "bee hive" witnessing the accomplishment of:
- The issuance of the job description of committees, departments, branches as well as other main jobs.
- The redeployment of employees into jobs that best suits their qualifications and potentials.
- The initiation of detailed description of processes and workflows for all job routes.

a- Committees

BBAC Board fully apprizes all decisions governing the Bank's overall operations as submitted and recommended by the various committees. The Bank's committees are established with clear missions stipulated as follows:

Committees	Mission
Internal Audit Committee	- Ensure the existence and the regular enhancement of an adequate system of internal controls. - Reinforce the internal and the external audit. - Ensure compliance with International Auditing Standards.
Assets and Liabilities Committee (ALCO)	- Maximize interest spread income and trading income within appropriate risk parameters. - Promote the Bank in becoming one of the outstanding funding and trading financial institutions in Lebanon.
Management Committee	- Ensure the day-to-day management of the Bank according to prevailing laws, rules, regulations and best practices. - Ensure effective management of operational risks arising from inadequate or failed internal processes, people and systems or from external events.
Senior Credit Committee	- The mission of the Senior Credit Committee is to evaluate and approve proposals associated with credit risk. All credits have to be approved by the credit committees. - The Board of Directors commits the Bank up to its legal lending limit. It also sets lending limits for the different credit committees.
Junior Credit Committee	- The mission of the Junior Credit Committee is to evaluate and approve proposals related to credit products falling within the budgets and limits approved by the Senior Credit Committee and ALCO.
Recovery & Restructuring Committee	- The mission of the Recovery & Restructuring Committee is to evaluate and approve proposals related to problematic, doubtful and bad loans.
Compliance Committee	- The Compliance Committee is responsible for the application of BDL circular number 83 and intermediary circulars number 20 and 35 dated May 31, 2002 and September 17, 2002 respectively.
IT Committee	- The IT Committee is responsible for setting the IT strategy and IT security policy.
Purchasing Committee	- The mission of the purchasing committee is to evaluate and approve proposals related to the Bank's purchases, insurance policies and maintenance contracts.

b- Divisions

Support Division

The mission of the Support Division is to manage the bank's activities related to operations, information technology, administration and insurance, and ensuring the efficiency and effectiveness of those activities and their alignment with the bank's overall strategy.
Embracing two major areas – cost control, and minimizing operation risk - the first phase that was achieved in order to modernize the procedures encompasses the following:

1- Operation level

The target is to reduce time consumed by services production and delivery through redesigning and centralizing operations; in this regard, the Operation Department and Organization and Methods Units described the detailed workflow of each operation.

2- Information technology level

IT Department targets for year 2005 were to ensure business continuity under risk environment, enhance productivity, and provide programs needed to cover the technical aspect of new products and procedures; in 2005 the following projects were achieved:

- Enhance the redundancy of telecom infrastructure eliminating single points of failure including HSRP functionality. Implement a new mail server with exchange 2003. Upgrade the Swift system. Eliminate the complexity of handling ATM & POS transactions by implementing an online / real-time linkage of cards switch to the core banking application.
- Implement a new system for Loan origination to automate the full process. Start the

centralization of various operations allowing defined transactions to be posted automatically and thus reducing human intervention. Accomplish the checks clearing centralized system automation eliminating the physical movement of checks. Initiate the implementation of new dynamic application to automate bancassurance sales activity.
- Reporting enhancement: implement the latest system related to "central des risques" in a redistributed architecture between the branches and head office. Achieve the complete set of Cyprus branch reporting system to comply with the European requirements.

On the other hand, a dedicated insurance unit runs the relation with BBAC sister company, Capital Insurance and Reinsurance Co., and other companies of which Société Nationale d'Assurances s.a.l; the Insurance Unit and IT department introduced a new software allowing products to be issued immediately in BBAC branches and delivered to the customers with automatic monthly renewal option.

Retail Banking Division

The division oversees the bank's activities related to cards, e banking, marketing and branch management. The target is to ensure the complementarities and harmonization of the homogeneous actions taken by these functions.

1- Branch Management

The Branch Management Department is a new business unit that is fully responsible for branches activity and profitability. The department secures the best quality and standard services to local and expatriate clients, and acts as a liaison between all branches and the General Management providing branches with all the business and administrative support they need. During year 2005, the department supervised all internal works to shift branches dynamics from classic distribution work to real points of sale.

2- Marketing

The Marketing Department aligns its actions with the new era of expansion emphasizing on both channels of distribution, product development and promotion. Moreover, innovated selling techniques mark the marketing department activity; a new CRM system is about to be implemented allowing a detailed segmentation of the market and deeper understanding of clients' needs. The department assists the branch management in setting the sales targets.

3- Cards and E- Banking

The bank's network keeps on developing and currently comprises 38 ATMs that are spread in most Lebanese areas.

Electronic-systems offer smoother solutions to retail payment transaction, driven by innovative technologies. BBAC continues its effort to enhance payment tools whenever the opportunity occurs. In 2005, BBAC successfully launched the first of its kind in Lebanon the **"Transparent Card"** which provides enhanced security for cardholders through its chip feature. Moreover, BBAC cardholders can benefit now from a new free of charge SMS service allowing timeless payment confirmation receipt as well as providing card-account settlement confirmation.
BBAC continues to provide a wide range of plastic cards that are designed to suit the needs of its ever-growing customer base: In addition to electron, classic, gold, platinum and internet cards, BBAC offers the **Diamond Card**, which is specialized for "ladies" only. Besides, the **Euro Card** facilitates payments and saves on exchange costs. All BBAC cards provide worldwide easy usage, safety and convenience for the customers' banking needs.

BBAC continues to develop its online banking to provide a wide range of electronic services based on stronger security measures to insure information safety and confidentiality; **BBAC telephone banking** continues to provide 24-hour free and safe telephone service that gives customers access

to their personal account information, at any time, from any place. The **BBAC internet center**, which is equipped with state-of-the-art technology and is supported by a qualified and well trained team of young staff, continues to offer free internet services for school and university students.

In the context of promoting easy banking access, **BBAC Customer Support Desk** provides technical assistance and answers queries from various public.

4- Insurance Products

Enriched by the synergy effect of banking and insurance, BBAC continue to sell through its branch network all lines of insurance: The Domestic Insurance as per the general conditions stated by the ministry of labor, Life and general insurance such as Personal Accidents, Fire and Burglary, Natural Hazards, Health, Travel, Motor and Marine, etc.

In year 2005 and in association with its sister company, BBAC innovated some of its Banc-assurance pre-signed products that cover:
- The natural and accidental death (Life and Personal Accident Polices)
- The motor third party liability corporal and Material damage
- The property building and contents damage due to fire lightning and earthquake (Home Insurance)

In association with SNA (Société Nationale d'Assurances s.a.l.), BBAC offers Banc-assurance products mainly consisting of retirement and educational plans that are expressly designed to give our customers protection and guaranteed benefits on investment accounts.

Assets Management Division

People, team spirit, professional services, and ethics are the necessary ingredients of successful businesses; By means of grouping four business units, the Assets Management Division target is to maximize resources application or assets use according to risk policies and strategies and emphasizing risk/reward tradeoff.

Cherishing its work and promoting clients' financial needs, the Credit Department attracts new profitable businesses and manages the Bank's retail and corporate credit portfolios emphasizing on credit risk. A special segment of modern banking, the Private Banking, develops business and manages the portfolio of high net worth individuals based on their individual risk profile; highly competent professionals serve and assist BBAC esteemed clients. BBAC aims at presenting clients with the most sage and pro-active thinking and peer exchange in the ever changing and complex landscape of clients' financing.

Emphasizing on all aspects of market risk, the Treasury Department manages the BBAC's money market placements, financial assets, and Foreign exchange operations. The department navigated through an unstable financial environment that invaded Lebanon for two consecutive years, and succeeded in its mission.

Correspondent banking unit manages the relationships with correspondent banks and Financial Institutions, secures credit lines and ensures the proper implementation of relevant agreements.

Human Resources

1-Staff Productivity

BBAC staff consists of qualified personnel and they include a high number of professionals, with around 45.14% belonging to the 25-40 years age bracket.

Beyond cost control, maximizing the Bank's value finds its dynamics in raising staff productivity. Although staff expenses increased by 5.84% to reach LL 25.419 billion in 2005, it constituted only

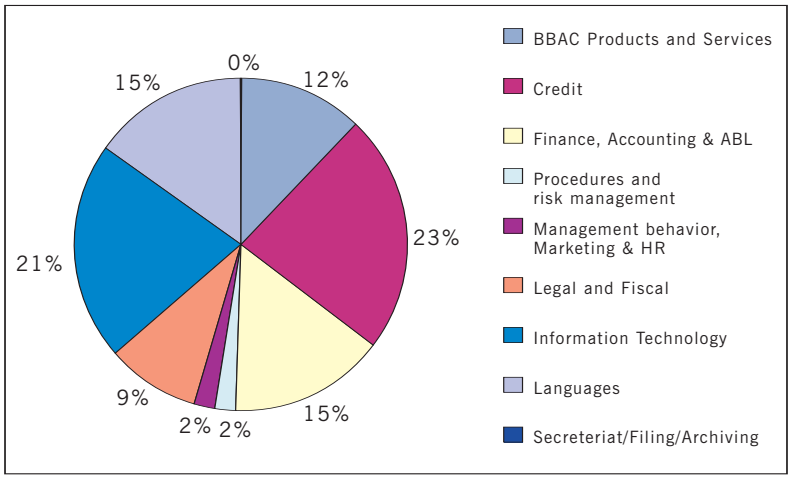
53.32% of total operating expenses compared to 57.94% in 2004. Moreover, the number of staff per branch decreased from 17.3 in 2004 to reach 16.4 in 2005. Employees' productivity continued to grow with average footings per staff increasing from LL 6.164 billion in 2004 to LL 6.674 billion in 2005.

2- Training

Through the year of 2005, BBAC conducted intensive internal and external training for about 68% of its employees; 389 out of 558 employees attended at least one training course.

Actually, 12345 training hours were given; 42% of which were provided by external trainers. These seminars tackled many traditional topics as well as crucial new ones: Basel II implementation, legal and fiscal issues, money laundering, latest IT developments, recent development in financial markets, product and service knowledge, credit, management behavior and marketing, languages, procedures and risk management.

Distribution of training hours by topic



BBAC further provided training to 349 undergraduates who do not belong to its staff, in line with its strategy to make knowledge available to the youth that would join the working force in the near future.

The bank also supported 35 employees to obtain technical certificates and academic degrees, ranging from the Centre d'Etude Bancaire diplomas, to university B.A.'s and M.B.A.'s.

Risk Management

Risk Control

BBAC has always managed and controlled risk in its various prospects in a prudent manner. The duty of the Risk Management Department covers the identification, measurement and control of all types of risk respecting BBAC risk strategies and appetite frame. Driven by BBAC restructured scheme, risk management is evolving towards full compliance with new approaches of Basel II accord and in accordance with BCC implementation plan of the new accord.

The Asset and Liability Committee (ALCO) meets regularly and manages proactively BBAC investments in respect of the general market risks: currency, interest rates as well as maturity risk. The duties of the ALCO committee include controlling the effects of the above-mentioned risks on the bank's balance sheet, currency structure, spreads, profitability, liquidity and solvency.

Asset – Liability Management

The year 2005 witnessed the assassination of the late Prime Minister, Rafic Hariri. This brutal action marked the Lebanese Economy as a whole; ALCO held open sessions to encounter this difficult time, and achieve its best performance.

Table 2: Interest Earning Assets

(LL millions)	Amount		Structure	
	2004	2005	2004	2005
Cash and Bank of Lebanon	852,744	958,290	24.65%	25.08%
Lebanese Treasury bills	1,108,000	1,168,988	32.02%	30.59%
Loans and advances to banks	764,526	930,729	22.10%	24.35%
Investment securities	24,191	13,229	0.70%	0.35%
Loans and advances to customers	564,647	588,143	16.32%	15.39%
Total Interest Earning Assets	**3,314,108**	**3,659,379**	**95.78%**	**95.75%**
Total Assets	**3,460,055**	**3,821,665**	**100.00%**	**100.00%**

Interest earning assets increased by around LL 345 billion in 2005; interest-earning assets to total assets remained almost stable at about 95.75%. Treasury bills remains dominant in interest earning assets despite the slight change to 30.0% in 2005 down from 30.5%. The opportunity offered by the issuance of Central bank CDs denominated in USD at 10% was behind the slight increase of Cash and Central Bank's share from 24.65% in 2004 to 25.08% in 2005.

Loans and advances to customers increased from LL 564.6 billion in 2004 to LL 588.1 billion. Yet, their share in interest earning assets decreased from 16.32% in 2004 to 15.39% in 2005; slow economic growth interrupted BBAC's aggressive plan of private sector financing.

The share of the non-interest earning assets out of total assets (Table 3) remained almost unchanged as shown in the table below:

Table 3: Non-Interest Earning Assets

(LL millions)	Amount		Structure	
	2004	2005	2004	2005
Debtors by acceptances	59,290	64,512	1.71%	1.69%
Trading securities	6,283	10,178	0.18%	0.27%
Investments in subsidiaries	3,524	3,524	0.10%	0.09%
Equity securities	562	562	0.02%	0.01%
Property acquired in settlement of debt	13,125	18,872	0.38%	0.49%
Investment property	10,271	10,129	0.30%	0.27%
Intangible assets	1,275	744	0.04%	0.02%
Property and equipment	32,193	31,115	0.93%	0.81%
Other assets	19,424	22,650	0.56%	0.59%
Total Non-Interest Earning Assets	**145,947**	**162,286**	**4.22%**	**4.25%**
Total Assets	**3,460,055**	**3,821,665**	**100.00%**	**100.00%**

Customers' deposits remain the main source of funds with a percentage of 87.92% to interest bearing liabilities. The share of interest bearing liabilities out of total liabilities slightly increased to reach 91.5%, while non-interest bearing liabilities share slightly decreased to reach about 8.5%.

Table 4: Interest Bearing Liabilities

(LL millions)	Amount		Structure	
	2004	2005	2004	2005
Central Bank	0	0	0.00%	0.00%
Due to banks and financial institutions	69,776	136,364	2.02%	3.57%
Deposits and customer accounts	3,086,871	3,360,040	89.21%	87.92%
Total Interest Bearing Liabilities	**3,156,647**	**3,496,404**	**91.23%**	**91.49%**
Total Liabilities	**3,460,055**	**3,821,665**	**100.00%**	**100.00%**

Table 5: Non-Interest Bearing Liabilities

(LL millions)	Amount		Structure	
	2004	2005	2004	2005
Engagements by acceptances	59,290	64,512	1.71%	1.69%
Other liabilities	45,146	43,697	1.30%	1.14%
Current income tax liabilities	74	1,079	0.00%	0.03%
Retirement benefit obligations	11,404	11,813	0.33%	0.31%
Shareholders' equity	166,433	183,099	4.81%	4.79%
Revaluation Variance of Tangible Fixed Assets	21,061	21,061	0.61%	0.55%
Total Non-Interest Bearing Liabilities	**303,408**	**325,261**	**8.77%**	**8.51%**
Total Liabilities	**3,460,055**	**3,821,665**	**100.00%**	**100.00%**

The uncertainty that emerged in the first half of year 2005 drove the change in currency structure of assets and liabilities (Table 6); Assets dollarisation increased from 64.46% in 2004 to 68.83% in 2005, and liabilities dollarisation increased from 63.03% in 2004 to 67.31% in 2005.

Table 6: Assets and Liabilities

(LL millions & %)	Amount		Percentage %		Change %	
	2004	2005	2004	2005	2004	2005
Assets	**3,460,055**	**3,821,665**				
LL	1,229,708	1,191,390	35.54%	31.17%	-6.15%	-4.37%
FC	2,230,347	2,630,275	64.46%	68.83%	6.15%	4.37%
Liabilities	**3,460,055**	**3,821,665**				
LL	1,279,248	1,249,471	36.97%	32.69%	-6.26%	-4.28%
FC	2,180,807	2,572,194	63.03%	67.31%	6.26%	4.28%

BBAC kept its close control over the short-term gap (up to 6 months); the gap then widens for longer maturities relying on core deposits stability, a situation that characterizes the Lebanese banking sector.

Table 7: Sources and Uses by Maturity

(LL millions)	0 – 3 months	3 – 6 months	6 – 12 months	1 – 5 years	over 5 years	Total
Sources						
Dec - 04	2,891,691	142,431	132,339	88,476	17,624	3,272,561
Dec - 05	3,054,578	177,515	162,183	203,579	19,650	3,617,505
Uses						
Dec - 04	1,555,852	231,359	203,818	1,162,934	306,092	3,460,055
Dec - 05	1,811,221	209,769	239,024	1,214,957	346,694	3,821,665

Table 8: Gap Analysis

(LL millions and cumulative %)	0 – 3 months	3 – 6 months	6 – 12 months	1 – 5 years	over 5 years	Total
Dec - 04	1,335,839	-88,928	-71,479	-1,074,458	-288,468	-187,494
%	53.80%	58.90%	62.88%	96.90%	105.73%	105.73%
Dec - 05	1,243,357	-32,254	-76,841	-1,011,378	-327,044	- 204,160
%	59.30%	62.53%	66.58%	96.58%	105.64%	105.64%

1- Asset Management

BBAC's assets main components are distributed according to the following table:

Table 9: Uses of Funds

(LL millions)	Amount			Percentage		
	2003	2004	2005	2003	2004	2005
Liquid assets	2,579,305	2,756,306	3,081,976	80.59%	79.66%	80.64%
Loans and advances	499,933	564,647	588,143	15.62%	16.32%	15.39%
Other financial accounts	62,202	78,714	87,162	1.94%	2.27%	2.28%
Permanent assets	59,112	60,388	64,384	1.85%	1.75%	1.68%
Total Uses of Funds	**3,200,552**	**3,460,055**	**3,821,665**	**100%**	**100%**	**100%**

a- Liquid Assets

Liquid assets consist of cash and deposits with the Central Bank of Lebanon, Lebanese Treasury Bills, Trading and Investment Securities, as well as Loans and Advances to Banks. They reached approximately LL 3,082 billion at the end of 2005 forming 80.64% of total assets, up from 79.66% in 2004.

Table 10: Liquid Assets

(LL millions)	2004			2005		
	LL	C/V	Total	LL	C/V	Total
Cash and Bank of Lebanon	**395,696**	**457,048**	**852,744**	**408,088**	**550,202**	**958,290**
% of total Liquid Assets	14.36%	16.58%	30.94%	13.24%	17.85%	31.09%
Lebanese Treasury bills	**614,541**	**493,459**	**1,108,000**	**562,525**	**606,463**	**1,168,988**
% of total Liquid Assets	22.30%	17.90%	40.20%	18.25%	19.68%	37.93%
Trading & Investment securities	**1,110**	**29,926**	**31,036**	**1,110**	**22,859**	**23,969**
% of total Liquid Assets	0.04%	1.09%	1.13%	0.04%	0.74%	0.78%
Loans and advances to banks	**12,248**	**752,278**	**764,526**	**10,576**	**920,153**	**930,729**
% of total Liquid Assets	0.44%	27.29%	27.74%	0.34%	29.86%	30.20%
Total Liquid Assets	**1,023,595**	**1,732,711**	**2,756,306**	**982,299**	**2,099,677**	**3,081,976**

1- Cash and Central Bank deposits increased by LL 105.5 billion to reach LL 958 billion including interest at the end of December 2005. The increase was mainly due to a rise in term deposits (about LL 71.8 billion), an increase in Central Bank CDs of about LL 48.7 billion and a decrease of about LL 3 billion in sight deposits. Total Cash and Central Bank foreign currency denomination slightly increased from 53.60% in 2004 to 57.41% in 2005.

Table 11: Cash and Central Bank Deposits

(LL millions)	2004	2005
Cash	**30,991**	**33,257**
Central Bank		
Sight deposits	105,032	102,015
Term deposits	330,799	402,599
Certificates of deposits	354,398	409,913
Add: Accrued interest receivable	33,102	17,928
Less: Net discount - Certificates of Deposits	-	(6,822)
Less: Tax on interest receivable	(1,578)	(600)
Total Central Bank	**821,753**	**925,033**
Total Cash and Central Bank Deposits	**852,744**	**958,290**
Denominated as follows		
LL in millions	395,696	408,088
Foreign currencies in thousands USD	303,183	364,976

2- The treasury bills portfolio's share in total liquid assets (Table 12) witnessed an increase of about LL 61 billion, however its total percentage from total liquid assets decreased from 40.2 % in 2004 to 37.93% in 2005. The change in Treasury bills was mainly characterized by an approximate LL 52 billion decrease in Lebanese pounds denominated treasury bills, while at the same time, the Eurobond portfolio increased by an equivalent amount of about LL 113 billion. As a result, the percentage of treasury bills denominated in foreign currencies increased to reach about 51.88% in 2005 up from 44.54% in 2004.

Table 12: Lebanese Treasury bills

(LL millions)	2004	2005
Treasury bills	**1,097,231**	**1,150,766**
Add: interest receivable	16,429	21,099
Unrealized gain on fair value	-	3,568
Less: interest received in advance/discounts	5,117	5,804
tax on interest receivable	542	641
Total	**1,108,000**	**1,168,988**
Denominated as follows		
LL in millions	614,541	562,525
Foreign currencies in thousands USD	327,336	402,297

3- The end of year 2005 was characterized by huge oil price increase that drove the expansion of wealth in the gulf area. The regional financial markets, of which BSE, benefited from this expansion. Corollary, variable securities value rose. On the other hand, the redeemed part of fixed income securities portfolio was greater than the rise in the value of variable income securities. As a result, securities portfolio decreased by LL 7 billion.

Table 13: Fixed and Variable Income Securities

(LL millions)	2004	2005
Fixed income securities	**23,668**	**13,115**
Add: Interest receivable (Net From Tax)	524	114
Less: Provisions for debt securities	-	-
Total	**24,191**	**13,229**
Variable income securities	**8,579**	**10,999**
Less: Provision for decline in value of shares	(1,734)	(258)
Total	**6,845**	**10,741**
Total Fixed and Variable Income Securities	**31,036**	**23,970**
Denominated as follows		
Fixed		
LL in millions	-	-
Foreign currencies in thousands USD	16,047	8,775
Variable		
LL in millions	1,110	1,110
Foreign currencies in thousands USD	3,804	6,388

4- Deposits with Banks and Financial Institutions reached LL 930.7 billions (Table 14), with a ratio of 30.20% out of total liquid assets, against LL 764.5 billions and 27.74% in 2004. This increase was mainly caused by higher placements in time deposits and CDs against a drop in the lower yielding demand deposits.

Table 14: Deposits with Banks and Financial Institutions

(LL millions)	2004	2005
Demand Deposits	**86,315**	**77,214**
Time Deposits & CDs	**676,518**	**851,103**
After-tax interest receivable	**1,693**	**2,412**
Total Deposits	**764,526**	**930,729**
Denominated as follows		
LL in millions	12,248	10,576
Foreign currencies in thousands USD	499,024	610,383

b- Loans and Advances to Customers

BBAC's loan portfolio grew by 4.16% in 2005 preserving almost the same currency structure that was prevailing in 2004.

Table 15: Breakdown of Loans and Advances to Customers by Currency

(LL millions)	Amount		Structure	
	2004	2005	2004	2005
Denominated as follows				
LL in millions	155,550	158,118	27.55%	26.88%
Foreign currencies CV in millions LL	409,097	430,025	72.45%	73.12%
Foreign currencies in thousands USD	271,374	285,257		
Total	**564,647**	**588,143**	**100%**	**100%**

The geographical distribution of the loan portfolio shows a major increase in the lending activities in the area of Mount Lebanon. Beirut and suburbs area lending activity represented more than 50% where a major part of the economic activity is concentrated.

Table 16: Geographical Distribution of Loans and Advances to customers

(LL millions)	Amount		Percentage	
	2004	2005	2004	2005
Beirut and Suburbs	387,344	386,519	53%	52%
Mount Lebanon	127,371	158,119	18%	21%
Bekaa	92,689	90,359	13%	12%
North Lebanon	74,667	70,822	10%	9%
South Lebanon	28,971	26,919	4%	4%
Cyprus	14,827	15,424	2%	2%
Total (Gross Loans) *	**725,869**	**748,162**	**100%**	**100%**

* Before Deducting: Provisions, Unrealized interest, Payable Against Receivables
* After Adding Debtors by Acceptances

The breakdown of loans by economic sector (Table 17) confirms BBAC's lending policy that encouraged consumer lending; loans to trade financing and industry decreased while that of consumer loans increased by 6%.

Table 17: Breakdown of Loans and Advances to Customers by Sector

(LL millions)	Amount		Percentage	
	2004	2005	2004	2005
Trade	236,859	221,724	33%	30%
Construction	157,162	161,143	22%	22%
Industry	92,246	85,143	13%	11%
Agriculture	30,582	23,342	4%	3%
Consumption	181,080	228,325	25%	31%
Others	27,940	28,485	4%	4%
Total	**725,869**	**748,162**	**100%**	**100%**

The year 2005 witnessed higher corporate financing, with the share of loans exceeding LL 1.5 billion and rising to 39.4 % of the total loan portfolio. Medium size loans share decreased to 27.0%.

Table 18: Breakdown of Loans and Advances to Customers by size

(LL millions)	Amount		Percentage	
	2004	2005	2004	2005
Small (less than 250 million)	246,157	251,491	33.91%	33.61%
Medium (250 – 1500 million)	223,094	202,038	30.73%	27.00%
Large (exceeding 1500 million)	256,618	294,633	35.35%	39.38%
Total	**725,869**	**748,162**	**100.00%**	**100.00%**

Both changes in loan size and lending by economic sector, drove the change in the breakdown of loans by guarantee (Table 19). The high increase in cash collateralized loans minimized the increased risk of corporate lending. High consumer lending was behind the increase of non-secured loans. At the same time, the slight decrease of real estate guarantees reflects an early witness of the new era of controlling risk by closely managing the intrinsic factors of clients' risk rather than mitigating the risk through real estate guarantees.

Table 19: Breakdown of Loans and Advances to Customers by Guarantees

(LL millions)	Amount		Percentage	
	2004	2005	2004	2005
Real estate	337,692	323,534	47%	43%
Personal guarantees	134,145	132,804	18%	18%
Non-secured	82,384	99,348	11%	13%
Securities	1,432	878	0%	0%
Cash collateral	169,867	191,598	23%	26%
Others	349	-	0%	0%
Total	**725,869**	**748,162**	**100%**	**100%**

The remedial process that was initiated in 2004, due to the introduction of the new BDL Intermediary circular No. 41, continues with the same pace. In 2005, substandard loans were reduced by around LL 1.3 billion (Table 20) while the doubtful loans were decreased by about 8.38 billions. As a consequence, the net substandard and doubtful loans to gross loans declined by 1.49% to reach 6.36% at the end of 2005.

Table 20: Breakdown of Loans and Advances to Customers by Central Bank Classification

(LL millions)	2003	2004	2005
Net Regular Loans	**433,274**	**513,719**	**545,590**
Net Substandard Loans	**21,639**	**12,838**	**11,619**
Add: Unrealized interest	5,711	7,251	7,174
Total Substandard	**27,350**	**20,089**	**18,793**
Net Doubtful Loans	**45,020**	**38,090**	**30,934**
Add: Unrealized interest	30,685	30,072	28,145
Add: Provisions	50,689	47,224	46,093
Total Doubtful Loans	**126,394**	**115,386**	**105,172**
Total Net Substandard and Doubtful Loans	**66,659**	**50,928**	**42,553**
Net Total Loans	**499,933**	**564,647**	**588,143**
Gross Loans	**587,018**	**649,194**	**669,555**
Net Substandard and Doubtful to Gross Loans	**11.36%**	**7.84%**	**6.36%**

c- Other Financial Accounts

Other financial accounts grew by around 11% in 2005 (Table 21) driven essentially by a rise in acceptances, thus reflecting a higher expansion in international trade financing; as well as another small rise in other assets that consist of higher credit facilities, prepaid expenses, and miscellaneous debtor accounts.

Table 21: Other Financial Accounts

(LL millions)	2004	2005
Debtors by acceptances	59,290	64,512
Other assets	19,424	22,650
Total	**78,714**	**87,163**

d- Loans to Deposits Ratio

Due to the political situation that occurred during the first half of 2005, the loans to deposits ratio witnessed a small decrease from 18.29% in 2004 to 17.50% in 2005. Consequently, operating surplus increased to LL 2,772 billion in 2005 offering more choices of investment in the future.

Consequently, 2005 witnessed an 8.85% increase in customers' deposits (Table 22); in which the foreign currency deposits increased by 15.28% while LL deposits decreased by 2.80%; thus increasing the deposit dollarisation from 64.41% to 68.22%.

On the other hand, 2005 total loans have grown by about 4.16%; in which the percentage of the foreign currency loans out of total loans remained almost stable at nearly 73%.

Table 22: Operating Surplus or Deficit

(LL millions)	Amount			Percentage change	
	2003	2004	2005	2004/2003	2005/2004
Deposits from customers LL	1,213,132	1,098,599	1,067,876	-9.44%	-2.80%
+ Deposits from customers FC	1,582,491	1,988,272	2,292,164	25.64%	15.28%
= Operating resources (OR)	**2,795,622**	**3,086,871**	**3,360,040**	**10.42%**	**8.85%**
Loans and advances to customers LL	137,721	155,550	158,118	12.95%	1.65%
+ Loans and advances to customers FC	362,212	409,097	430,025	12.94%	5.12%
= Operating uses (OU)	**499,933**	**564,647**	**588,143**	**12.94%**	**4.16%**
Operating surplus LL	1,075,411	943,049	909,758	-12.31%	-3.53%
Operating surplus FC	1,220,278	1,579,175	1,862,139	29.41%	17.92%
Operating surplus (OR-OU)	**2,295,689**	**2,522,224**	**2,771,897**	**9.87%**	**9.90%**
Loans to Deposits LL	11.35%	14.16%	14.81%	2.81%	0.65%
Loans to Deposits FC	22.89%	20.58%	18.76%	-2.31%	-1.81%
Loans to Deposits (Total)	**17.88%**	**18.29%**	**17.50%**	**0.41%**	**-0.79%**

2- Liability Management

The table below shows the main components of BBAC's sources of funds:

Table 23: Sources of Funds

(LL millions)	Sources of Funds			Percentage		
	2003	2004	2005	2003	2004	2005
Central Bank	0	0	0	0.00%	0.00%	0.00%
Banks and Financial Institutions	120,291	69,776	136,364	3.76%	2.02%	3.57%
Deposits from customers	2,795,622	3,086,871	3,360,040	87.35%	89.21%	87.92%
Other financial accounts	114,214	115,914	121,101	3.57%	3.35%	3.17%
Shareholders' equity	170,425	187,494	204,160	5.32%	5.42%	5.34%
Total Sources of Funds	**3,200,552**	**3,460,055**	**3,821,665**	**100%**	**100%**	**100%**

a- Banks and Financial Institutions

Banks and financial institutions regained its 2003 share in total sources of funds with an increase from around LL 70 billion in 2004 to LL 136 billion in 2005 (Table 24). This increase was mainly in term type of foreign currency accounts.

Table 24: Banks and Financial Institutions

(LL millions)	2004	2005
Sight Deposits	**13,439**	**1,527**
Term deposits	**53,744**	**124,549**
Short-term loan	**1,809**	**4,523**
Certificate of Deposits	**0**	**4,522**
Accrued interest payable	**784**	**1,244**
Total Banks and Financial Institutions	**69,776**	**136,364**
Denominated as follows		
LL in millions	3,214	3,679
Foreign currencies in thousands USD	44,154	88,017

b- Deposits from Customers

Deposits from customers grew by 8.85% to reach around LL 3,360 billion, an approximate equivalent of USD 2,229 millions.

During 2005, BBAC continued the development of new liquidity enhancing strategies through diversifying the sources of funds; customers subscribed in the majority of BBAC's USD 50 million CDs issued @ 7%. The dollarization ratio of customers' deposits increased in 2005 to reach 68.22%, up from 64.41% in 2004.

Table 25: Currency Breakdown of Customers' Deposits

(LL millions)	Amount		Percentage	
	2004	2005	2004	2005
Denominated as follows				
LL in million	1,098,599	1,067,876	35.59%	31.78%
Foreign currencies CV in million LL	1,988,272	2,292,164	64.41%	68.22%
Foreign currencies in thousands USD	1,318,920	1,520,507		
Total	**3,086,871**	**3,360,040**	**100%**	**100%**

In order to reduce the geographical concentration, a local market expansion project was launched; the highest growth in deposits was located in Mount Lebanon region (about 24.5%), and its percentage to total customers deposits gained 338 basis points. Yet, deposits are dominantly concentrated in the great Beirut area.

Table 26: Geographical Distribution of Deposits from Customers

(LL millions)	Amount		Percentage	
	2004	2005	2004	2005
Greater Beirut Area	1,147,006	1,230,094	37.16%	36.61%
Bekaa	838,761	849,333	27.17%	25.28%
Mount Lebanon	726,555	904,554	23.54%	26.92%
South Lebanon	177,532	163,251	5.75%	4.86%
North Lebanon	118,095	121,819	3.83%	3.63%
Cyprus	78,922	90,989	2.56%	2.71%
Total	**3,086,871**	**3,360,040**	**100%**	**100%**

The structure of Customers' deposits by size remained almost stable, with a slight shift from small to large size reflecting changes in saving capacity by the different classes of customers.

Table 27: Breakdown by Size of Deposits from Customers

(LL millions)	Amount		Percentage	
	2004	2005	2004	2005
Small (less than 250 million)	1,127,446	1,190,389	36.52%	35.43%
Medium (250 – 750 million)	611,243	649,333	19.80%	19.33%
Large (exceed 750 million)	1,348,182	1,520,318	43.67%	45.25%
Total	**3,086,871**	**3,360,040**	**100%**	**100%**

c- Other Financial Accounts

These accounts include the counterpart of engagements by acceptances and other liabilities. The latter, which decreased to LL 43.697 billion, includes margins against documentary credits amounting to LL 23.6 billion, and margins against credit card and safe box facilities amounting to LL 5.9 billion. It also includes taxes and other charges that mainly consist of taxes withheld on interest paid on deposits, as well as other credit accounts that include capital increase differences.

Table 28: Other Financial Accounts

(LL millions)	2004	2005
Engagements by acceptances	59,290	64,512
Other liabilities	45,146	43,697
Current income tax liabilities	74	1,079
Retirement benefit obligations	11,404	11,813
Total	**115,914**	**121,101**

d- Shareholders' Equity

Shareholders' equity, prior to dividend distribution, increased by 8.89% to reach LL 204.16 billion at the end of 2005. Reserves for general banking risk were increased by LL 2 billion, and legal reserves by LL 2.636 billion.

Table 29: Shareholders' Equity

(LL millions)	2004	2005
Share capital and cash contribution to capital	93,697	114,120
Legal reserve	20,946	23,582
Other reserves	-	2,485
Reserve for unidentified banking risks	11,682	13,682
Retained earnings	40,108	29,230
Revaluation variance of tangible fixed assets	21,061	21,061
Total	187,494	204,160

3- LCs opened during the year

BBAC managed to encounter the regression of Lebanese imports during the year 2005; the decrease in BBAC's import LCs did not exceed 4.5% where it reached USD 160.5 million down from USD 168.2 million in 2004. This was almost compensated by the USD 5.5 million increase in export LCs opened that reached USD 20.7 million.

4- Asset Quality

The steady march towards almost a full purification of problematic loans continues; the table below reveals an improvement in most of 2005 asset quality ratios. Doubtful loans to total loans have decreased from 17.77% in 2004 to 15.71% in 2005. Moreover, the coverage ratio increased to around 70.59% in 2005, up from 66.99% in the previous year. Net doubtful to assets ratio broke the line of 1% to reach 0.8%.

Table 30: Asset Quality

(Percentage)	2004	2005
Doubtful Loans / Gross Loans	17.77%	15.71%
Provisions for Doubtful Loans / Doubtful Loans	66.99%	70.59%
Provisions for Loans / Gross Loans	13.02%	12.16%
Net Doubtful / Assets	1.10%	0.81%

5- Regulatory Guidelines

a- Article 152: Loans to Related Parties

Loans and advances to related parties decreased to LL 2,004 millions at the end of 2005, down from LL 2,499 millions in 2004. In fact, the ratio of these loans to total gross loans remained very small at about 0.30%.

b- Capital Adequacy Ratio

The capital adequacy ratio witnessed a further increase in 2005; Tier I Capital ratio reached 18.66% up from 18.27% in 2004. The 19.8% Total Capital ratio remained much higher than the 12% required by BDL.

Table 31: Capital Adequacy

(LL millions and percentage)	Amount	
	2004	2005
Risk Weighted Assets	831,273	882,433
Tier I Capital	151,899	164,688
Tier II Capital	10,000	10,000
Total Net Capital	**161,899**	**174,688**
Tier I Capital ratio	18.27%	18.66%
Tier II Capital ratio	1.20%	1.13%
Total Capital Ratio	**19.48%**	**19.80%**

Financial Performance

BBAC's 2005 after tax net income increased by 18.60% (table 32), to reach LL 26.364 billion compared to LL 22.229 billion in 2004. This increase was mainly reflected in the non-interest income as well as a small increase in the interest margin. However, some of this increase was reduced by the higher operating expenses.

Table 32: Income Statement

(LL millions)	Amount		Growth %
	2004	2005	2005-2004
Interest margin	44,538	47,704	7.11%
Net provision less releases on loans and advances	800	383	-52.13%
Non-interest income	21,951	31,100	41.68%
Staff expenses	(24,017)	(25,419)	5.84%
Other operating expenses	(17,437)	(22,256)	27.64%
Net Income - before tax	**25,835**	**31,512**	**21.97%**
Tax on Interest	(3,446)	(3,887)	12.80%
Net Income - before income tax	**22,389**	**27,625**	**23.38%**
Income Tax	(160)	(1,261)	688.13%
Net Income - after tax	**22,229**	**26,364**	**18.60%**

1- Liquidity

Net liquid assets increased by 9.64% over 2004 levels; however, their ratio out of total assets slightly decreased from 77.64% to 77.08%. On the other hand, 2005 foreign denominated liquid assets increased at the expense of those denominated in the Lebanese currency.

Table 33: Liquidity

(LL millions)	2004			2005		
	LL	C/V	Total	LL	C/V	Total
Liquid assets	1,023,595	1,732,711	2,756,306	982,299	2,099,677	3,081,976
Deposits from banks	3,214	66,562	69,776	3,679	132,685	136,364
Net Liquid Assets	**1,020,381**	**1,666,149**	**2,686,530**	**978,620**	**1,966,992**	**2,945,612**
Due to customers	1,098,599	1,988,272	3,086,871	1,067,876	2,292,164	3,360,040
Loans and advances to customers	155,550	409,097	564,647	158,118	430,025	588,143
Total Assets	1,229,708	2,230,347	3,460,055	1,191,390	2,630,275	3,821,665
(%)						
Loans / Assets	12.65%	18.34%	16.32%	13.27%	16.35%	15.39%
Loans / Deposits	14.16%	20.58%	18.29%	14.81%	18.76%	17.50%
Liquid Assets / Deposits	93.17%	87.15%	89.29%	91.99%	91.60%	91.72%
Liquid Assets / Assets	83.24%	77.69%	79.66%	82.45%	79.83%	80.64%
Net Liquid Assets / Deposits	92.88%	83.80%	87.03%	91.64%	85.81%	87.67%
Net Liquid Assets /Total Assets	82.98%	74.70%	77.64%	82.14%	74.78%	77.08%

2- Profitability

The 2005 return on average assets (ROAA) increased from 0.67% in 2004 to reach 0.72%. At the same time, the return on average equity (ROAE) also increased from 13.24% to 14.27% in 2005. This increase was mainly due to an 18.60% increase in 2005 profits, compared to a 9.33% and 10.05% respective annual increases in average assets and average equity.

As a result, after tax earning per share increased from 309 LL to reach 366 LL in 2005.

Table 34: Profitability

(LL millions and %)	2004	2005	% Change
			2005-2004
Average assets	3,330,304	3,640,860	9.33%
Average equity*	167,899	184,766	10.05%
Return on average assets ROAA after tax (%)	0.67%	0.72%	-1.39%
Return on average equity ROAE after tax (%)	13.24%	14.27%	1.03%
Net income for the year after tax	22,229	26,364	18.60%
Net profits**	18,006	21,728	20.67%
Number of shares outstanding (million)	72	72	0.00%
Earnings per share EPS in LL after tax	309	366	18.60%
Earnings per share EPS in LL after tax **	250	302	20.67%
Dividends per share DPS in LL***	65	89	36.92%
Dividends payout ratio	25.99%	29.49%	3.50%
Retention ratio	74.01%	70.51%	-3.50%
Net asset value per share in LL****	2,604	2,836	8.89%

* Including only LL 10 billion revaluation variance accepted by the Central Bank as Tier II
** After allocation of profits to reserves for general banking risks and legal reserves
*** An additional interest payment of about LL 1.194 billion was made on the cash contributions in 2004
**** Before payment of dividends

3- Management Efficiency

The political uncertainty and stagnation in activities characterized the first half of year 2005; consequently, the ratio of interest paid to interest received increased from 77.27% in 2004 to 78.12% in 2005, while net commissions to net financial income decreased to reach 17.37%. Yet, BBAC was able to overcome this unstable period revealing higher efficiency. In fact, cost to income declined from 61.6% in 2004 to 60.21% in 2005.

The cost per average branch has increased from LL 1,295 million in 2004 to LL 1,402 millions in 2005. This increase was mainly due to the opening of two new branches in 2005 and cutting provisions for various risks.

Table 35: Management Efficiency

(percentage)	2004	2005
Interest paid / Interest received	77.27%	78.12%
Net commissions / Net financial income	20.75%	17.37%
Cost per average branch (LL million)	1,295	1,445
Cost / Income (Efficiency Ratio)	61.61%	60.21%

4- Interest Margin

Pressure on the Lebanese pound reduced BBAC's gross interest margin from 0.87% in 2004 to 0.21% in 2005. However, this was almost compensated by an increase in foreign currencies gross interest margin from 1.66% in 2004 to 1.94% in 2005; the rise of prevailing interest rates in the international market and open market operations drove the increase of the return on average interest earning assets in foreign currencies by 80 basis points.

The decline of the positive net releases of provisions on loans and advances accentuated the decline of gross spread; yet, net spread only declined by 4 basis points.

Table 36: Interest Analysis

(LL millions)	2004					2005				
	LL	%	CV LL	%	Total	LL	%	CV LL	%	Total
Average interest earning assets	1,229,430	38.48%	1,965,198	61.52%	3,194,628	1,158,671	33.23%	2,328,073	66.77%	3,486,744
Interest paid	85,514	56.48%	65,896	43.52%	151,410	80,568	47.29%	89,788	52.71%	170,356
Interest received	97,453	49.73%	98,495	50.27%	195,948	82,996	38.06%	135,064	61.94%	218,060
Net interest received	11,939	26.81%	32,599	73.19%	44,538	2,428	5.09%	45,276	94.91%	47,704
Cost of earning assets (in %)		6.96%		3.35%	4.74%		6.95%		3.86%	4.89%
Return on earning assets (in %)		7.93%		5.01%	6.13%		7.16%		5.80%	6.25%
Gross Interest Margin (in %)		**0.97%**		**1.66%**	**1.39%**		**0.21%**		**1.94%**	**1.37%**
Net releases provisions on loans and advances	-3,912		4,712		800	-5,923		6,306		383
Net Interest Margin (in %)		**0.65%**		**1.90%**	**1.42%**		**-0.30%**		**2.22%**	**1.38%**
Average interest earning assets to average assets (in %)		95.90%		95.94%	95.93%		95.71%		95.79%	95.77%
Gross spread (in %)		0.93%		1.59%	1.34%		0.20%		1.86%	1.31%
Net spread (in %)		0.63%		1.82%	1.36%		-0.29%		2.12%	1.32%

5- Non-Interest Income

Net commissions received, dividend income, as well as other operating income remained nearly at the same level of 2004. However, trading income leveraged the non-interest income contributing with LL 14.6 billion out of LL 31.1 billion. This out-performance in trading was due to TBs maturities swaps, foreign exchange operations as well as the positive change in value of securities.

Table 37: Non-Interest Income

(LL millions)	Amount		Percentage	
	2004	2005	2004	2005
Net commissions received	13,963	13,758	63.61%	44.24%
Dividend income	162	227	0.74%	0.73%
Net trading income	5,074	14,693	23.12%	47.24%
Other operating income	2,752	2,422	12.54%	7.79%
Total Non-Interest Income	**21,951**	**31,100**	**100%**	**100%**

Table 38: Commissions Received

(LL millions)	Amount		Percentage	
	2004	2005	2004	2005
Credit related fees and commission	6,575	6,291	43.22%	41.46%
Engagement by endorsement fees	4,018	4,329	26.41%	28.53%
Other fees	4,621	4,553	30.37%	30.01%
Total Commissions Received	**15,214**	**15,173**	**100%**	**100%**

Trade finance operations related fees increase nearly compensated the decrease in various banking operation fees. The later mirrored the impact of the slowing 2005 economy on consumers' behavior. Despite its minimal decrease in 2005, credit related fees and commission remained the dominant with its 41.46% share in commission received.

Table 39: Commissions Paid

(LL millions)	Amount		Percentage	
	2004	2005	2004	2005
Brokerage fees	1,155	1,283	92.33%	90.67%
Other fees	96	132	7.67%	9.33%
Total Commissions Paid	**1,251**	**1,415**	**100%**	**100%**

6- General Operating Expenses

General operating expenses witnessed an increase of about 15% during 2005. While staff expenses increased by 5.8%, operating expenses witnessed a 36.82% increase over 2004 levels. A LL 3.3 billion non-recurrent allocation to provision and changes in impairment as well as taxes adjustments were behind the exceptional increase in operating expenses. The real increase in recurrent operating expenses was about 8%.

Table 40: General Operating Expenses

(LL millions)	Amount		% Change
	2004	2005	2005-2004
Staff expenses	24,017	25,419	5.84%
Other operating expenses	13,563	18,557	36.82%
Depreciation & amortization	3,874	3,699	-4.51%
Total	**41,454**	**47,675**	**15.01%**

7- Net Financial Income

Footings growth was slower than net financial growth; thus, net financial income to average footings increased by 16 basis points. Net interest margin grew (6.06%) moderately as compared to that of average footings (9.06%). This was more than compensated by the higher performance in non-interest income (41.7%). As previously mentioned, net trading income was the main reason behind this better performance which came as a result of the increase in financial assets as well as the higher number of operations conducted in the open market.

Table 41: Net Financial Income

(LL millions)	Amount		% Change
	2004	2005	2005-2004
Net interest margin	45,338	48,087	6.06%
Non interest income	21,951	31,100	41.68%
Net financial income	67,289	79,187	17.68%
Average footings	3,414,671	3,724,181	9.06%
Net Financial Income / Average Footings	**1.97%**	**2.13%**	**0.16%**

BBAC
BBAC
بنك بيروت والبلاد العربية
Head Office
الادارة العامة
BBAC

BBAC Auditor's Report

Contents

Independent auditor's report 45

Balance sheet 46

Income statement 47

Statement of changes in equity 48

Statement of cash flows 49

Notes to the financial statements 50

Balance sheet presented in accordance with Bank of Lebanon Circular No. 33 86
(Appendix A)

Income statement presented in accordance with Bank of Lebanon Circular No. 33 87
(Appendix B)

Auditor's Report

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
PO Box 11-3155
SNA Building, Tabaris
Beirut, Lebanon
Telephone +961 (1) 200577
Facsimile +961 (1) 200575

Independent Auditor's Report to the shareholders of BBAC S.A.L.

We have audited the accompanying balance sheet of BBAC S.A.L. as of 31 December 2005 and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements set out on pages 2 to 56 are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the paragraph below, 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As explained in note 19, we were unable to carry out audit procedures on coded deposit accounts amounting to LL 139 billion (31 December 2004 – LL 164 billion) due to the restrictions imposed by the Lebanese banking secrecy law.

In our opinion, except for the effects of such adjustments if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the matter referred to in the paragraph above, the accompanying financial statements present fairly in all material respects, the financial position of BBAC S.A.L. as of 31 December 2005, the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Beirut - Lebanon
26 May 2006

Balance Sheet as at December 31, 2005

ASSETS (LL Millions)	Note	2005	2004
Cash and Bank of Lebanon	5	958,290	852,744
Lebanese treasury bills	6	1,168,988	1,108,000
Loans and advances to banks	7	930,729	764,526
Trading securities	8	10,178	6,283
Loans and advances to customers	9	588,143	564,647
Debtors by acceptances	10	64,512	59,290
Investment securities:	11		
- available-for-sale		562	562
- held-to-maturity		13,229	24,191
Investments in subsidiaries	12	3,524	3,524
Property acquired in settlement of debt	13	18,872	13,125
Investment property	14	10,129	10,271
Intangible assets	15	744	1,275
Property and equipment	16	31,115	32,193
Other assets	17	22,650	19,424
Total assets		**3,821,665**	**3,460,055**
Liabilities			
Deposits from banks	18	136,364	69,776
Due to customers	19	3,360,040	3,086,871
Engagements by acceptances	10	64,512	59,290
Other liabilities	20	43,697	45,146
Current income tax liability	36	1,079	74
Retirement benefit obligations	22	11,813	11,404
Total liabilities		**3,617,505**	**3,272,561**
Shareholders' equity			
Share capital and cash contribution to capital	23	114,120	93,697
Legal reserve	24	23,582	20,946
Real estate revaluation reserve	26	21,061	21,061
Reserve for unidentified banking risks	25	13,682	11,682
Other reserves	27	2,485	-
Retained earnings		29,230	40,108
Total shareholders' equity		**204,160**	**187,494**
Total liabilities and equity		**3,821,665**	**3,460,055**

The financial statements on pages 46 to 88 were approved by the Board of Directors on 02/06/2006 and were signed by Mr. Ghassan Assaf, the Chairman and General Manager.

Auditor's Report

Income statement For the Year Ended December 31, 2005

(LL Millions)	Note	2005	2004
Interest and similar income	28	218,060	195,948
Interest expense and similar charges	28	(170,356)	(151,410)
Net interest income		**47,704**	**44,538**
Fee and commission income	29	15,173	15,214
Fee and commission expense	29	(1,415)	(1,251)
Net fee and commission income		**13,758**	**13,963**
Dividend income	30	227	162
Net trading income	31	14,693	5,074
Other operating income	32	2,422	2,752
Net releases on loans and advances	33	383	800
Operating expenses	34	(51,818)	(45,060)
Profit before taxes		**27,369**	**22,229**
Taxes	36	(1,005)	-
Net profit for the year		**26,364**	**22,229**

Statement of Changes in Equity
For the Year Ended December 31, 2005

(LL Millions)	Share Capital	Cash contribution to capital	Legal reserve	Real estate revaluation reserve	Reserve for unidentified banking risks	Other reserves	Retained earnings	Total
Balance at 1 January 2004	72,000	21,697	18,723	21,061	9,682	-	27,261	170,424
Net profit for the year	-	-	-	-	-	-	22,229	22,229
Dividends declared (note 43)	-	-	-	-	-	-	(3,960)	(3,960)
Interest paid on cash contribution to capital	-	-	-	-	-	-	(1,199)	(1,199)
Transfers (notes 24, 25)	-	-	2,223	-	2,000	-	(4,223)	-
Balance at 31 December 2004	72,000	21,697	20,946	21,061	11,682	-	40,108	187,494
Net profit for the year	-	-	-	-	-	-	26,364	26,364
Dividends declared (notes 23, 43)	-	-	-	-	-	-	(28,920)	(28,920)
Cash contribution to capital (notes 23)	-	20,423	-	-	-	-	-	20,423
Interest paid on cash contribution to capital (note 43)	-	-	-	-	-	-	(1,201)	(1,201)
Transfers (notes 24, 25)	-	-	2,636	-	2,000	2,485	(7,121)	-
Balance at 31 December 2005	**72,000**	**42,120**	**23,582**	**21,061**	**13,682**	**2,485**	**29,230**	**204,160**

Statement of Cash Flows
For the Year Ended December 31, 2005

(LL Millions)	Note	2005	2004
Cash flows from operating activities			
Net profit for the year		26,364	22,229
Adjustments:			
Tax	36	1,005	-
Tax on interest	34, 36	3,887	3,446
Gain on disposal of property and equipment	32	(12)	-
Loss on disposal of property and equipment	32	11	8
Gain on disposal of property acquired in settlement of debt	32	(137)	(157)
Depreciation of property and equipment	16	2,967	3,171
Fair value loss on investment property	14	142	142
Amortisation of intangible assets	15	590	561
Provision for property acquired in settlement of debt	34	590	156
Net releases on loans and advances	33	(383)	(800)
Unrealised gain on fair value through profit and loss treasury bills	6	(3,568)	-
Changes in fair value of trading securities	8	(2,761)	(291)
Net transfer from provisions – other receivables		(1,265)	-
Net transfer to (from) other provisions		3,197	(1,355)
Net transfer to retirement obligations		409	226
Proceeds from disposal of property acquired in settlement of debt		1,054	2,035
Net changes in operating assets and liabilities:			
Bank of Lebanon – mandatory reserve		4,290	36,576
Bank of Lebanon – loans and advances		(42,580)	(28,981)
Lebanese treasury bills		156,432	(285,374)
Loans and advances to banks		11,387	(42,129)
Trading securities		(1,134)	(2,463)
Loans and advances to customers		(30,367)	(69,999)
Other assets		(1,961)	(7,478)
Deposits from banks		66,588	(50,516)
Due to customers		273,169	291,250
Other liabilities		(7,276)	(3,183)
Cash provided from (used in) operations		**460,638**	**(132,926)**
Taxes paid	36	(4,748)	(3,324)
Net cash provided from (used in) operating activities		**455,890**	**(136,250)**
Cash flows from investing activities			
Lebanese treasury bills - held-to-maturity		(213,951)	120,627
Investment securities - held-to-maturity		10,962	3,068
Purchase of intangible assets	15	(59)	(257)
Purchase of property and equipment	16	(3,262)	(1,840)
Proceeds from disposal of property and equipment		1,374	-
Net cash (used in) provided from investing activities		**(204,936)**	**121,598**
Cash flows from financing activities			
Dividends paid		(5,867)	(3,960)
Interest paid on cash contribution to capital		(1,201)	(1,199)
Net cash used in financing activities		**(7,068)**	**(5,159)**
Net increase (decrease) in cash and cash equivalents		**243,886**	**(19,811)**
Cash and cash equivalents at beginning of year	**41**	**736,384**	**756,195**
Cash and cash equivalents at end of year	**41**	**980,270**	**736,384**
Principal non-cash transactions			

The principal non-cash transactions relate mainly to the following:
- Properties acquired in settlement of debt amounting to LL 7.3 billion (note 13).
- Transfer of dividends payable to cash contribution to capital amounting to LL 20.4 billion (note 23).

Notes to the financial statements
For the Year Ended December 31, 2005

1- General information

BBAC S.A.L. was incorporated in Lebanon in 1956 and registered at the Commercial Court in Beirut under No. 6196. It appears under number 28 in the list of Lebanese banks.

The Bank undertakes commercial banking operations through its head office in Beirut and its network of thirty two branches across Lebanon, in addition to a branch in Cyprus (off-shore) and a branch at the Damascus free zone in Syria.

2- Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. These financial statements are not consolidated. Consolidated financial statements are prepared at the end of each financial year.

2.1 Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in conformity with the banking laws and regulations and the directives of the Bank of Lebanon. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain property,available-for-sale investment securities, trading securities at fair value through profit or loss, properties acquired in settlement of debt and investment properties, which are carried at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumption and estimates are significant to the financial statements, are disclosed in note 4.

2.2 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Lebanese Pounds which is the Bank's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement whereas foreign currency translation on certain non-monetary items such as equity securities classified as available for sale are reported as part of equity.

2.3 Interest income and expense

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant

period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

2.4 Fee and commission income

Fees and commissions are recognised on an accrual basis when the service has been provided and mainly comprise commissions on client transactions.

2.5 Financial assets

Based on IAS 39 (revised), the Bank classifies its financial assets into the following categories: fair value through profit or loss, available-for-sale, held-to-maturity and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are carried at amortised cost using the effective yield method.

(c) Held to maturity

Held to maturity investment securities are non derivative financial assets with fixed maturity where management has both the intent and the ability to hold to maturity.
Held-to-maturity investments are carried at amortised cost using the effective yield method.

(d) Available for sale

Investment securities intended to be held for an indefinite period of time, which may be sold in response to need for liquidity or changes in interest rates, exchange rates or equity prices are classified as available for sale. Management determines the appropriate classification of its investment securities at the time of the purchase and re-evaluates such designation on a regular basis.

All purchases and sales of investment securities are recognised on the trade date, which is the date that the Bank commits to purchase or sell the asset. Investment securities are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through income.

Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value.

Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a

financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis.

2.6 Impairment of assets

(a) Financial assets carried at fair value

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

The impairment loss is reversed in the income statement, if in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

(b) Financial assets carried at amortised cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying value amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed in the income statement.

2.7 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.8 Provisions for loan impairment

A credit risk for loan impairment is established if there is objective evidence that the Bank will not be able to collect the amounts due. The amount is based on management's continued evaluation of the loan portfolio, taking into consideration current economic conditions, past experience and the Bank of Lebanon requirements. The aforementioned provision amount is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at inception.

2.9 Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives of five years.

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Bank, and that will probably

generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

2.10 Key money

Key money paid for repossessed properties from tenants is amortised over a period of four years.

2.11 Property and equipment

Land and buildings comprise mainly branches and offices. All property and equipment is stated at historical cost or revaluation less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against revaluation reserves directly in equity; all other decreases are charged to the income statement.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revaluation to their residual values over their estimated useful lives. The principal annual rates used for this purpose are:

	%
Buildings	2.5
Computer equipment	20
Furniture, fixtures and equipment	9 - 13
Vehicles	15
Leasehold improvements	25

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

2.12 Investment property

Investment property, principally comprising land and buildings, is held for long-term rental yields and is not occupied by the Bank. Investment property is carried at fair value, representing open-market value determined annually by external valuers. Changes in fair values are recorded in the income statement as part of other income.

2.13 Properties acquired in settlement of debt

The Bank exercises its ownership rights over the real estate collateral when it exhausts all reasonable means for collecting non-performing loans.

The Bank measures real estate acquired in settlement of debt at its fair value and recognises gains or losses by comparing the fair value of the acquired property to the net book amount of the non-performing loan.

The Bank reviews for impairment the carrying value of property acquired in settlement of debt at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount

by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

2.14 Investments in subsidiaries

Investments in subsidiaries are stated at cost. When the carrying amount of the investment is greater than its recoverable amount, it is written down to its recoverable amount.

2.15 Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising from general provisions on loans and advances to customers and differences between accounting and fiscal depreciation, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

2.16 Speculation accounts

Foreign currency placements and foreign currency borrowings relating to speculation accounts of Bank customers are netted off as required by the Bank of Lebanon directives.

2.17 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, non-restricted balances with Bank of Lebanon and loans and advances to banks with original maturities of three months or less at the date of acquisition.

2.18 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation. The discount rate used is the pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to passage of time is recognised as interest expense.

2.19 Retirement benefit obligations

The Bank has a defined benefit plan in accordance with the national social security fund regulations. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation.

The liability in respect of the defined benefit plan is the present value of the defined benefit obligation at the balance sheet date less contributions to the fund, together with adjustments for actuarial gains/losses and past service cost. The defined benefit obligation is calculated annually by the Bank using the projected unit credit method. The present value of the defined benefit obligation is determined by the estimated future cash outflows using interest rates of government securities that have terms to maturity approximating the terms of the related liability.

2.20 Share capital and cash contribution to capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.
Cash contributions to capital are classified as equity. A part of these cash contributions generates interest charges paid to the respective shareholders.

2.21 Dividends

Dividends are recognised in equity in the year in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the balance sheet date are dealt with in the dividends per share note.

2.22 Fiduciary activities

The Bank commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Bank.

2.23 Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3- Financial risk management

A- Financial instruments

By their nature, the Bank's activities are principally related to the use of financial instruments. The Bank accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Bank also seeks to raise its interest margins by obtaining above-average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances; the Bank also enters into guarantees and other commitments such as letters of credit and performance, and other bonds.

The Bank also trades in financial instruments where it takes positions in traded and over-the-counter instruments to take advantage of short-term market movements in equities and bonds and in currency, interest rate and commodity prices. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

B- Capital adequacy

To monitor the adequacy of its capital the Bank uses ratios established by the Bank for International Settlements (BIS). These ratios measure capital adequacy (minimum 8% as required by BIS and 12% as required by the Bank of Lebanon) by comparing the Bank's eligible capital with its balance sheet assets, off-balance-sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk.

The market risk approach covers the general market risk and the risk of open positions in currencies and debt and equity securities. Assets are weighted according to broad categories of notional risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Five categories of risk weights (0%, 20%, 30%, 50%, 100%) are applied; for example cash and placements with the Bank of Lebanon have a zero risk weighting which means that no capital is required to support the holding of these assets. Property and equipment carries a 100% risk weighting, meaning that it must be supported by capital equal to 12% of the carrying amount.

Off-balance-sheet credit related commitments and forwards and options based derivative instruments are taken into account by applying different categories of conversion factors, designed to convert these items into balance sheet equivalents. The resulting equivalent amounts are then weighted for risk using the same percentages as for on-balance-sheet assets.

Tier 1 capital consists of capital and reserves. Tier 2 capital includes the Bank's eligible real estate revaluation surplus.

The Group's capital adequacy level was as follows:

(LL Millions)	Consolidated Balance Sheet Notional amount		Risk Weighted Amount	
	2005	2004	2005	2004
Balance sheet assets (net of provisions)				
Cash and Bank of Lebanon	958,309	852,154	-	-
Lebanese treasury bills	1,168,988	1,108,000	218,159	206,093
Loans and advances to banks	931,505	764,399	189,449	153,579
Trading securities	10,178	6,283	10,178	6,283
Loans and advances to customers	595,319	576,968	312,387	321,166
Debtors by acceptances	64,512	59,290	41,780	46,987
Investment securities	14,106	26,261	7,428	13,312
Property acquired in settlement of debt	20,603	14,265	-	-
Intangible assets	2,410	2,222	-	-
Property and equipment	43,574	44,574	26,643	23,513
Other assets	24,162	15,662	22,027	12,864
Off-balance sheet positions				
Letters of credit	40,607	39,939	7,900	7,776
Letters of guarantee	72,106	62,073	45,328	38,550
Unassigned market risk components			1,154	1,150
Total risk-weighted assets			882,433	831,273

BIS Capital Ratios

(LL Millions)	Capital		BIS (%)	
	2005	2004	2005	2004
Tier I capital	164,688	151,899	18.66	18.27
Tier I + Tier II capital	174,688	161,899	19.79	19.48

C- Credit risk

The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are approved annually by the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Master netting arrangements

The Bank further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

The economic sector concentration within the customer loan portfolio (before offsetting provisions, debtors by acceptances and speculation accounts) were as follows:

(LL Millions)	2005	2005	2004	2004
		%		%
Trading	221,724	30	236,859	32
Construction	161,143	22	157,162	22
Industrial	85,143	11	92,246	13
Agriculture	23,342	3	30,582	4
Consumer loans	228,325	30	181,080	25
Other loans	28,478	4	27,933	4
	748,155	**100**	**725,862**	**100**

A concentration of credit risk in loans and advances to customers exists where the top 157 debtors' balances of LL 382 billion (or 1.3% of total debtors) represent approximately 51% of the total loans and advances to customers amounting to LL 748 billion (before offsetting provisions, debtors by acceptances and speculation accounts) at 31 December 2005. Management believes that this concentration in loan balances conforms with the Lebanese banking sector.

D- Market risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Bank applies a 'value at risk' methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis.

E- Currency risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2005 before netting off customers' speculation accounts. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency.

Concentration of assets and liabilities
As at 31 December 2005

(LL Millions)	LL	USD	EURO	GBP	Others	Total
ASSETS						
Cash and Bank of Lebanon	408,088	547,063	2,951	100	88	958,290
Lebanese treasury bills	562,525	579,862	26,601	-	-	1,168,988
Loans and advances to banks	10,576	752,558	102,338	10,387	54,870	930,729
Trading securities	548	9,630	-	-	-	10,178
Loans and advances to customers	158,118	374,176	17,288	40,434	12,222	602,238
Debtors by acceptances	-	51,995	10,781	515	1,221	64,512
Investment securities	562	13,229	-	-	-	13,791
Investments in subsidiaries	3,524	-	-	-	-	3,524
Property acquired in settlement of debt	696	18,176	-	-	-	18,872
Investment property	10,129	-	-	-	-	10,129
Property, equipment and intangible assets	31,520	339	-	-	-	31,859
Other assets	5,104	17,507	9	-	30	22,650
Total assets	**1,191,390**	**2,364,535**	**159,968**	**51,436**	**68,431**	**3,835,760**
Liabilities						
Deposits from banks	3,679	70,712	18,325	-	43,648	136,364
Due to customers	1,067,876	2,107,989	124,270	50,598	23,402	3,374,135
Engagements by acceptances	-	51,995	10,781	515	1,221	64,512
Other liabilities	8,733	30,504	4,161	11	288	43,697
Current income tax liability	1,079	-	-	-	-	1,079
Retirement benefit obligations	11,071	742	-	-	-	11,813
Total liabilities	**1,092,438**	**2,261,942**	**157,537**	**51,124**	**68,559**	**3,631,600**
Net on-balance sheet position	**98,952**	**102,593**	**2,431**	**312**	**(128)**	**204,160**

Concentration of assets and liabilities
As at 31 December 2004

(LL Millions)	LL	USD	EURO	GBP	Others	Total
ASSETS						
Cash and Bank of Lebanon	395,696	454,490	1,910	200	448	852,744
Lebanese treasury bills	614,541	463,133	30,326	-	-	1,108,000
Loans and advances to banks	12,248	624,165	96,150	10,715	21,248	764,526
Trading securities	548	5,735	-	-	-	6,283
Loans and advances to customers	155,550	391,425	26,195	237	8,623	582,030
Debtors by acceptances	9	47,798	6,917	58	4,508	59,290
Investment securities	562	24,191	-	-	-	24,753
Investments in subsidiaries	3,524	-	-	-	-	3,524
Property acquired in settlement of debt	449	12,676	-	-	-	13,125
Investment property	10,271	-	-	-	-	10,271
Property, equipment and intangible assets	33,144	324	-	-	-	33,468
Other assets	3,166	16,167	71	1	19	19,424
Total assets	**1,229,708**	**2,040,104**	**161,569**	**11,211**	**34,846**	**3,477,438**
Liabilities						
Deposits from banks	3,214	25,794	24,710	20	16,038	69,776
Due to customers	1,098,599	1,850,871	121,873	10,808	22,103	3,104,254
Engagements by acceptances	9	47,798	6,917	58	4,508	59,290
Other liabilities	4,409	35,258	5,050	39	390	45,146
Current income tax liability	74	-	-	-	-	74
Retirement benefit obligations	10,657	747	-	-	-	11,404
Total liabilities	**1,116,962**	**1,960,468**	**158,550**	**10,925**	**43,039**	**3,289,944**
Net on-balance sheet position	**112,746**	**79,636**	**3,019**	**286**	**(8,193)**	**187,494**

F- Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

The table below summarises the effective interest rate by major currencies for monetary financial instruments:

As at 31 December

(%)	2005		2004	
ASSETS	**LL**	**USD**	**LL**	**USD**
Cash and Bank of Lebanon	7.73	5.69	7.85	2.30
Lebanese treasury bills	8.59	8.29	6.25	8.30
Loans and advances to banks	3.78	4.33	4.37	2.49
Loans and advances to customers	11.58	9.41	9.36	8.59
Liabilities				
Deposits from banks	10.39	4.46	10.07	1.38
Due to customers	7.72	4.23	7.27	3.85

Average deposits and cost of funds over the last five years were as follows:

Year	Average balance of deposits	Allocation of deposits		Cost of funds	Average Interest rate
	LL Millions	LL	F/Cy	LL Millions	%
2005	3,038,893	28%	72%	162,876	5.36
2004	2,837,555	38%	62%	146,609	5.17
2003	2,511,669	40%	60%	153,600	6.12
2002	2,301,748	38%	62%	162,176	7.05
2001	2,055,977	41%	59%	163,092	7.93

A concentration in deposits and customer accounts exists where the top 563 depositors (or 0.76% of total depositors) amounting to LL 1,173 billion account for approximately 37% of total deposits and customer accounts of LL 3,133 billion (before offsetting speculation accounts and excluding cheques and orders to be paid, public sector deposits and deposits from related parties) at 31 December 2005. Management believes that this concentration in loan balances conforms with the Lebanese banking sector.

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. Expected repricing and maturity dates do not differ significantly from the contract dates.

Cash flow and fair value interest rate risk
As at 31 December 2005

(LL Millions)	Less than 3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Non interest bearing	Total
ASSETS							
Cash and Bank of Lebanon	350,842	28,000	7,000	384,961	90,344	97,143	958,290
Lebanese treasury bills	55,773	146,482	166,847	683,775	97,890	18,221	1,168,988
Loans and advances to banks	895,621	-	22,444	4,221	6,030	2,413	930,729
Trading securities	-	-	-	-	-	10,178	10,178
Loans and advances to customers	320,697	16,530	39,862	94,682	105,245	11,127	588,143
Debtors by acceptances	-	-	-	-	-	64,512	64,512
Investment securities	-	-	302	5,276	7,537	676	13,791
Investments in subsidiaries	-	-	-	-	-	3,524	3,524
Property acquired in settlement of debt	-	-	-	-	-	18,872	18,872
Investment property	-	-	-	-	-	10,129	10,129
Property, equipment and intangible assets	-	-	-	-	-	31,859	31,859
Other assets	-	-	-	-	-	22,650	22,650
Total assets	**1,622,933**	**191,012**	**236,455**	**1,172,915**	**307,046**	**291,304**	**3,821,665**
Liabilities							
Deposits from banks	105,915	2,630	17,882	8,693	-	1,244	136,364
Due to customers	2,826,718	158,755	142,847	191,134	10,266	30,320	3,360,040
Engagements by acceptances	-	-	-	-	-	64,512	64,512
Other liabilities	-	-	-	-	-	43,697	43,697
Current income tax liability	-	-	-	-	-	1,079	1,079
Retirement benefit obligations	-	-	-	-	-	11,813	11,813
Total liabilities	**2,932,633**	**161,385**	**160,729**	**199,827**	**10,266**	**152,665**	**3,617,505**
Balance sheet interest sensitivity gap	**(1,309,700)**	**29,627**	**75,726**	**973,088**	**296,780**		

Cash flow and fair value interest rate risk
As at 31 December 2004

(LL Millions)	Less than 3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Non interest bearing	Total
ASSETS							
Cash and Bank of Lebanon	116,213	17,000	5,000	430,088	-	284,443	852,744
Lebanese treasury bills	49,526	102,836	95,837	570,020	160,927	128,854	1,108,000
Loans and advances to banks	743,434	65	-	18,429	1,508	1,090	764,526
Trading securities	-	-	-	-	-	6,283	6,283
Loans and advances to customers	282,737	17,242	70,528	88,521	104,415	1,204	564,647
Debtors by acceptances	-	-	-	-	-	59,290	59,290
Investment securities	13,081	769	6,155	4,155	31	562	24,753
Investments in subsidiaries	-	-	-	-	-	3,524	3,524
Property acquired in settlement of debt	-	-	-	-	-	13,125	13,125
Investment property	-	-	-	-	-	10,271	10,271
Property, equipment and intangible assets	-	-	-	-	-	33,468	33,468
Other assets	-	-	-	-	-	19,424	19,424
Total assets	**1,204,991**	**137,912**	**177,520**	**1,111,213**	**266,881**	**561,538**	**3,460,055**
Liabilities							
Deposits from banks	40,151	-	1,148	27,665	-	812	69,776
Due to customers	2,743,685	123,328	129,254	57,835	8,333	24,436	3,086,871
Engagements by acceptances	-	-	-	-	-	59,290	59,290
Other liabilities	-	-	-	-	-	45,146	45,146
Current income tax liability	-	-	-	-	-	74	74
Retirement benefit obligations	-	-	-	-	-	11,404	11,404
Total liabilities	**2,783,836**	**123,328**	**130,402**	**85,500**	**8,333**	**141,162**	**3,272,561**
Balance sheet interest sensitivity gap	**(1,578,845)**	**14,584**	**47,118**	**1,025,713**	**258,548**		

G- Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivatives. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The matching and controlled mismatching of the maturities of assets and liabilities is fundamental to the management of the Bank. It is unusual for financial institutions ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The liquidity ratio of the Bank for all currencies as at 31 December 2005 was 84% (2004 - 83%), as per Bank of Lebanon's method of calculation.

The table below analyses assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

Maturities of assets and liabilities
As at 31 December 2005

(LL Millions)	Less than 3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
ASSETS						
Cash and Bank of Lebanon	441,809	30,070	7,258	387,933	91,220	958,290
Lebanese treasury bills	54,376	148,050	168,615	697,244	100,703	1,168,988
Loans and advances to banks	897,849	-	22,505	4,272	6,103	930,729
Trading securities	10,178	-	-	-	-	10,178
Loans and advances to customers	331,224	16,569	39,955	94,903	105,492	588,143
Debtors by acceptances	49,049	15,080	383	-	-	64,512
Investment securities	562	-	308	5,385	7,536	13,791
Investments in subsidiaries	3,524	-	-	-	-	3,524
Property acquired in settlement of debt	-	-	-	18,872	-	18,872
Investment property	-	-	-	-	10,129	10,129
Property, equipment and intangible assets	-	-	-	6,348	25,511	31,859
Other assets	22,650	-	-	-	-	22,650
Total assets	**1,811,221**	**209,769**	**239,024**	**1,214,957**	**346,694**	**3,821,665**
Liabilities						
Deposits from banks	106,930	2,665	18,040	8,729	-	136,364
Due to customers	2,853,823	159,770	143,760	192,356	10,331	3,360,040
Engagements by acceptances	49,049	15,080	383	-	-	64,512
Other liabilities	43,697	-	-	-	-	43,697
Current income tax liability	1,079	-	-	-	-	1,079
Retirement benefit obligations	-	-	-	2,494	9,319	11,813
Total liabilities	**3,054,578**	**177,515**	**162,183**	**203,579**	**19,650**	**3,617,505**
Net liquidity gap	**(1,243,357)**	**32,254**	**76,841**	**1,011,378**	**327,044**	

Maturities of assets and liabilities
As at 31 December 2004

(LL Millions)	Less than 3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
ASSETS						
Cash and Bank of Lebanon	347,727	45,483	9,588	449,946	-	852,744
Lebanese treasury bills	97,900	149,300	116,158	580,700	163,942	1,108,000
Loans and advances to banks	744,416	65	-	18,537	1,508	764,526
Trading securities	6,283	-	-	-	-	6,283
Loans and advances to customers	283,352	17,277	70,673	88,716	104,629	564,647
Debtors by acceptances	39,579	18,465	1,246	-	-	59,290
Investment securities	13,647	769	6,153	4,153	31	24,753
Investments in subsidiaries	3,524	-	-	-	-	3,524
Property acquired in settlement of debt	-	-	-	13,125	-	13,125
Investment property	-	-	-	-	10,271	10,271
Property, equipment and intangible assets	-	-	-	7,757	25,711	33,468
Other assets	19,424	-	-	-	-	19,424
Total assets	**1,555,852**	**231,359**	**203,818**	**1,162,934**	**306,092**	**3,460,055**
Liabilities						
Deposits from banks	40,420	-	1,170	28,186	-	69,776
Due to customers	2,766,472	123,966	129,923	58,134	8,376	3,086,871
Engagements by acceptances	39,579	18,465	1,246	-	-	59,290
Other liabilities	45,146	-	-	-	-	45,146
Current income tax liability	74	-	-	-	-	74
Retirement benefit obligations	-	-	-	2,156	9,248	11,404
Total liabilities	**2,891,691**	**142,431**	**132,339**	**88,476**	**17,624**	**3,272,561**
Net liquidity gap	**(1,335,839)**	**88,928**	**71,479**	**1,074,458**	**288,468**	

4- Critical accounting estimates and judgements

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Bank, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

4.2 Held-to-maturity investments

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale or as for trading. The investments would therefore be measured at fair value not amortised cost. If the entire class of held-to-maturity investments is tainted, the fair value would increase by LL 13.9 billion, with a corresponding entry in the fair value reserve in shareholders' equity if reclassified as available-for-sale.

4.3 Income taxes

The Bank is subject to income taxes. Significant estimates are required in determining the provision for income taxes.

5- Cash and Bank of Lebanon

(LL Millions)	2005	2004
Cash on hand	33,257	30,991
Money market placements	39,550	20,171
Balances with Bank of Lebanon other than mandatory reserve deposits	48,635	4,002
Included in cash and cash equivalents (note 41)	**121,442**	**55,164**
Mandatory reserve deposits with Bank of Lebanon	**407,369**	**411,659**
Loans and advances:		
Term deposits	9,060	-
Certificates of deposit	409,913	233,500
Non-interest earning certificates of deposit held as part of Government support program	-	120,898
Interest receivable – Bank of Lebanon	2,201	1,628
Interest receivable – Certificates of deposit	15,727	31,473
Net discount – Certificates of deposit	(6,822)	-
Accrued tax on interest receivable – Certificates of deposit (note 36)	(600)	(1,578)
	429,479	**385,921**
	958,290	**852,744**

Local banking regulations require banks to maintain a mandatory reserve with the Bank of Lebanon. Mandatory reserve deposits with Bank of Lebanon at the end of 2005 comprise non-interest earning reserves in Lebanese currency amounting to LL 53 billion and foreign currency deposits that earn interest at 4.74% per annum with a counter value of LL 354 billion (US$ 235 million). At end of 2004, the Lebanese currency reserves amounted to LL 101 billion while the foreign currency deposits amounted to LL 311 billion.

Money market placements and certificates of deposit are fixed-rate assets.

6- Lebanese Treasury bills

(LL Millions)	2005	2004
Treasury bills in Lebanese Pound	560,558	515,464
Treasury bonds in foreign currency	590,207	468,799
Non-interest earning treasury bills held as part of the Government support program:		
- In Lebanese Pound	-	97,831
- In foreign currency	-	15,137
Net unamortised (discount) premium	(2,075)	812
Unearned interest	(3,728)	(5,930)
Amortised cost	**1,144,962**	**1,092,113**
Interest receivable	21,099	16,429
Accrued tax on interest receivable (note 36)	(641)	(542)
Unrealised gain on fair value through profit and loss – treasury bills	3,568	-
	24,026	**15,887**
	1,168,988	**1,108,000**

Non-interest earning treasury bills matured during 2005.

All interest-earning Lebanese treasury bills have fixed interest rates.

Treasury bonds in foreign currency include securities pledged amounting to LL 7.14 billion (EUR 4 million) in favour of a non-resident bank in respect of a foreign currency swap (note 7).

Lebanese treasury bills are classified at 31 December 2005 as follows:

(LL Millions)	Amortised cost	Fair value	Unrealised gain
In Lebanese currency			
Held-to-maturity	511,988	516,846	4,858
Fair value through profit and loss	43,378	43,875	497
	555,366	**560,721**	**5,355**
In foreign currency			
Held-to-maturity	461,264	470,363	9,099
Fair value through profit and loss	128,332	131,900	3,568
	589,596	**602,263**	**12,667**
	1,144,962	**1,162,984**	**18,022**

Lebanese Treasury bills are classified at 31 December 2004 as follows:

(LL Millions)	Amortised cost	Fair value	Unrealised gain (loss)
In Lebanese currency			
Originated Loans:			
- Interest earning	509,954	516,213	6,259
- Non-interest earning	97,831	96,108	(1,723)
	607,785	**612,321**	**4,536**
In foreign currency			
Held-to-maturity	26,410	28,387	1,977
Originated Loans:			
- Interest earning	442,781	456,305	13,524
- Non-interest earning	15,137	14,846	(291)
	484,328	**499,538**	**15,210**
	1,092,113	**1,111,859**	**19,746**

7- Loans and advances to banks

(LL Millions)	2005	2004
Placements with banks	781,614	594,905
Current accounts	75,031	83,135
Items in course of collection from banks	2,183	3,180
Included in cash and cash equivalents (note 41)	**858,828**	**681,220**
Loans and advances:		
Term deposits	59,238	77,844
Certificates of deposit	10,251	3,769
Interest receivable – banks	2,338	1,662
Interest receivable – certificates of deposit	128	67
Accrued tax on interest receivable – banks (note 36)	(49)	(33)
Accrued tax on interest receivable – Certificates of deposit (note 36)	(5)	(3)
	71,901	**83,306**
	930,729	**764,526**

Term deposits include an amount of LL 16.2 billion (US$ 10.73 million) representing the Bank's long position in a foreign currency swap entered into with a non-resident bank against a short position of LL 17.8 billion (EUR 10 million) (note 18). The swap transaction will mature in October 2006.

Loans and advances to banks comprise loans with variable rates and fixed rates of LL 133 billion and LL 794 billion respectively

The table below summarises the geographical concentration of loans and advances to banks at 31 December 2005:

(LL Millions)	2005
Lebanon	191,410
Switzerland	146,943
Luxemburg	45,445
North America	37,603
Arab countries	102,236
Other European countries	399,778
Other countries	2,719
Other items – unallocated	4,595
	930,729

8- Trading securities

(LL Millions)	2005	2004
Equity securities:		
- Listed	5,969	3,204
- Unlisted	4,209	3,079
	10,178	**6,283**

The movement in trading securities may be summarised as follows:

(LL Millions)	2005	2004
At 1 January	6,283	3,529
Acquisitions during the year	1,134	2,463
Change in fair value	2,761	291
At 31 December	**10,178**	**6,283**

9- Loans and advances to customers

(LL Millions)	2005	2004
Commercial advances	404,859	369,537
Current debtor accounts	146,982	153,201
Net doubtful accounts	30,934	38,090
Net debit against credit accounts – speculation accounts	2,012	116
Related parties loans and advances (note 37)	2,004	2,499
Interest receivable	1,352	1,204
	588,143	**564,647**

Auditor's Report

Commercial advances comprise the following:

(LL Millions)	2005	2004
Discounted bills	8,950	10,648
Bills to the order of the Bank	23,570	24,924
Unpaid bills	1,657	2,125
Short term loans	73,925	34,580
Medium and long term loans	296,757	297,260
	404,859	**369,537**

Loans and advances to customers comprise the following:

(LL Millions)	2005	2004
Advances against real estate mortgage	323,527	337,692
Advances against cash collateral	191,598	169,867
Advances against personal guarantees	132,804	134,138
Non-secured advances	99,348	82,384
Advances against securities	878	1,432
Other advances	-	349
	748,155	**725,862**
Provision and unrealised interest on doubtful loans	(74,238)	(77,297)
Unrealised interest on substandard loans	(7,174)	(7,251)
Debtors by acceptances (note 10)	(64,512)	(59,290)
Speculation accounts	(14,088)	(17,377)
	(160,012)	**(161,215)**
	588,143	**564,647**

Loans and advances to customers include loans classified as substandard as follows:

(LL Millions)	2005	2004
Substandard loans	18,793	20,089
Unrealised interest	(7,174)	(7,251)
	11,619	**12,838**

The movement affecting the unrealised interest is summarised as follows:

(LL Millions)	2005	2004
At 1 January	7,251	5,711
Additions	1,811	2,503
Releases	(1,187)	(650)
Transfer to unrealised interest on doubtful loans	(359)	(313)
Unrealised interest applied against loan write off	(342)	-
At 31 December	**7,174**	**7,251**
Net doubtful accounts comprise the following:		
Doubtful loans	105,172	115,387
Provision for doubtful loans including unrealised interest	(74,238)	(77,297)
	30,934	**38,090**

The movement affecting the provision for doubtful loans and unrealised interest is summarised as follows:

(LL Millions)	2005	2004
At 1 January	77,297	81,375
Provision on principal amounts	7,856	7,388
Unrealised interest and commissions	10,633	6,803
Provisions no longer required	(11,790)	(7,538)
Provisions applied against loan write offs	(7,065)	(3,838)
Transfer from unrealised interest on substandard loans	359	313
Transfer to off-balance sheet	(3,052)	(7,206)
At 31 December	**74,238**	**77,297**

Interest accrued on doubtful accounts is charged to the respective debtor accounts and credited to provision for doubtful debts. Interest on past due bills is recognised upon collection.

10- Debtors by acceptances

(LL Millions)	2005	2004
Balance	**64,512**	**59,290**

This caption represents the customer's liability to the Bank on outstanding drafts and bills of exchange that have been accepted by the Bank and/or by other banks for its account. These acceptances relate to negotiated deferred payment of import letters of credit. This caption corresponds to and offsets engagements by acceptance caption reflected under liabilities.

11- Investment securities

(LL Millions)	2005	2004
Available-for-sale		
Equity securities:		
- Unlisted	**562**	**562**
Held-to-maturity		
Debt securities:		
- Listed	5,276	21,858
- Unlisted	7,839	1,809
	13,115	23,667
Interest receivable	114	524
	13,229	**24,191**
	13,791	**24,753**

All debt securities have fixed coupons. Equity securities do not bear interest.

The available-for-sale securities represent 62,500 shares in Banque de l'Habitat S.A.L. at a cost of LL 562 million. These shares are classified as available-for-sale and are stated at historical cost since they are not listed, and their current market value cannot be readily estimated.

Unrealised loss on held-to-maturity securities amounted to LL 23 million (US$ 15,000) as at 31 December 2005.

The movement in investment securities may be summarised as follows:

(LL Millions)	Available-for-sale	Held-to-maturity	Total
At 1 January 2005	562	23,667	24,229
Additions	-	9,045	9,045
Redemptions	-	(19,597)	(19,597)
At 31 December 2005	**562**	**13,115**	**13,677**

12- Investments in subsidiaries

(LL Millions)	% ownership	2005	2004
Capital for Insurance and Reinsurance Company S.A.L.	80%	3,524	3,524
Informatics Co. S.A.R.L.	84%	-	-
Société Libanaise de Service S.A.R.L.	91%	-	-
		3,524	**3,524**

The principal activities of Informatics Co. S.A.R.L. comprise providing information technology services to the Bank. The principal activities of Société Libanaise de Service S.A.R.L. comprise managing the properties of the Bank and third parties, providing security guarding services and different maintenance services.

13- Property acquired in settlement of debt

(LL Millions)	2005	2004
Cost	20,603	14,265
Provision	(1,731)	(1,140)
	18,872	**13,125**

The movement of property acquired in settlement of debt in as follows:

(LL Millions)	2005	2004
At 1 January	13,125	7,791
Acquisitions during the year	7,253	6,085
Disposals during the year	(916)	(2,445)
Net change in the provision	(590)	1,694
At 31 December	**18,872**	**13,125**

Total impairment provisions in respect of properties acquired in settlement of debt amounted to LL 1.73 billion as of 31 December 2005 (2004 – LL 1.14 billion). These impairment provisions are in line with the requirements of the Bank of Lebanon Circular No. 78 and its amendments. These properties are available for sale and are not included within the Bank's property used in the normal course of business.

14- Investment property

(LL Millions)	Land	Buildings	Total
Year ended 31 December 2004			
At 1 January	5,747	4,666	10,413
Fair value loss	-	(142)	(142)
At 31 December	**5,747**	**4,524**	**10,271**
Year ended 31 December 2005			
At 1 January	5,747	4,524	10,271
Fair value loss	-	(142)	(142)
At 31 December	**5,747**	**4,382**	**10,129**

The investment property of the Bank was revalued in 1997 by an independent appraiser under the provisions of fiscal law 282/93 based on market values at 31 December 1993. The revaluation resulted in an increase in the value of investment property over its carrying value by LL 3.3 billion.

Had the Bank's investment property been stated on the historical cost basis, the amounts would have been as follows:

(LL Millions)	2005	2004
Cost	8,064	8,064
Accumulated depreciation	(490)	(430)
Net book amount	**7,574**	**7,634**

15- Intangible assets

(LL Millions)	Computer software	Key money	Total
At 1 January 2004			
Cost	2,735	1,555	4,290
Accumulated amortisation	(1,741)	(970)	(2,711)
Net book amount	**994**	**585**	**1,579**
Year ended 31 December 2004			
Opening net book amount	994	585	1,579
Additions	82	175	257
Amortisation charge	(366)	(195)	(561)
Net book amount	**710**	**565**	**1,275**
At 31 December 2004			
Cost	2,817	1,730	4,547
Accumulated amortisation	(2,107)	(1,165)	(3,272)
Net book amount	**710**	**565**	**1,275**
Year ended 31 December 2005			
Opening net book amount	710	565	1,275
Additions	59	-	59
Amortisation charge	(349)	(241)	(590)
Net book amount	**420**	**324**	**744**
At 31 December 2005			
Cost	2,876	1,730	4,606
Accumulated amortisation	(2,456)	(1,406)	(3,862)
Net book amount	**420**	**324**	**744**

16- Property and equipment

(LL Millions)	Land & Buildings	Computer Equipment	Furniture Fixtures & Equipment	Vehicles	Leasehold improvements	Total
At 1 January 2004						
Cost or valuation	30,376	7,266	5,958	198	10,509	54,307
Accumulated depreciation	(4,493)	(4,605)	(3,901)	(67)	(8,271)	(21,337)
Net book amount	**25,883**	**2,661**	**2,057**	**131**	**2,238**	**32,970**
Year ended 31 December 2004						
Opening net book amount	25,883	2,661	2,057	131	2,238	32,970
Additions	562	833	358	22	627	2,402
Disposals	-	-	-	-	(8)	(8)
Depreciation charge	(733)	(1,037)	(294)	(31)	(1,076)	(3,171)
Closing net book amount	**25,712**	**2,457**	**2,121**	**122**	**1,781**	**32,193**
At 31 December 2004						
Cost or valuation	30,938	8,041	6,198	214	11,010	56,401
Accumulated depreciation	(5,226)	(5,584)	(4,077)	(92)	(9,229)	(24,208)
Net book amount	**25,712**	**2,457**	**2,121**	**122**	**1,781**	**32,193**
Year ended 31 December 2005						
Opening net book amount	25,712	2,457	2,121	122	1,781	32,193
Additions	546	1,073	375	119	1,149	3,262
Disposals	-	(705)	(12)	(5)	(651)	(1,373)
Depreciation charge	(747)	(976)	(442)	(33)	(769)	(2,967)
Closing net book amount	**25,511**	**1,849**	**2,042**	**203**	**1,510**	**31,115**
At 31 December 2005						
Cost or valuation	31,484	7,646	6,345	296	11,502	57,273
Accumulated depreciation	(5,973)	(5,797)	(4,303)	(93)	(9,992)	(26,158)
Net book amount	**25,511**	**1,849**	**2,042**	**203**	**1,510**	**31,115**

The property and equipment of the Bank were revalued in 1997 by an independent appraiser under the provisions of fiscal law 282/93 based on market values at 31 December 1993. The revaluation resulted in an increase in the value of property and equipment of LL 17.8 billion.

Had the Bank's property and equipment been stated on the historical cost basis, the amounts would have been as follows:

(LL Millions)	2005	2004
Cost	39,509	38,636
Accumulated depreciation	(22,028)	(20,610)
Net book amount	**17,481**	**18,026**

17- Other assets

(LL Millions)	2005	2004
Credit card facilities	12,583	10,089
Advances on fixed asset purchases	6,485	6,031
Prepaid expenses	833	1,132
Stamps	67	56
Deposits receivable	35	34
Precious metals	18	18
Foreign exchange difference (note 40)	5	-
Other receivables	6,761	7,475
	26,787	24,835
Less: provisions – other receivables	(4,137)	(5,411)
	22,650	**19,424**

Advances on fixed asset purchases include an amount of LL 5.4 billion paid to a contractor for a branch being built in Beirut Central District.

The above provisions include a provision of LL 1.8 billion set up against one of the Bank's money dealers. Although the total amount due from this money dealer is LL 2.6 billion, management believes that the provision of LL 1.8 billion is adequate to cover the expected loss.

The above provisions also include a provision of LL 1.7 billion (2004 – LL 3 billion) set up during 2003 to cover losses incurred in connection with contentious depositors' claims in one of the Bank's branches. On 26 April 2004, the Bank recovered an amount of LL 1.55 billion from the insurance company relating to the above claims.

The movement in the provisions – other receivables is as follows:

(LL Millions)	2005	2004
At 1 January	5,411	5,415
Release of provision	(1,265)	-
Difference of exchange	(9)	(4)
At 31 December	**4,137**	**5,411**

18- Deposits from banks

(LL Millions)	2005	2004
Sight deposits	1,527	13,439
Term deposits	124,548	53,744
Short-term loan	4,523	1,809
Certificates of deposit	4,522	-
Interest payable – banks	1,158	784
Interest payable – certificates of deposits	86	-
	136,364	**69,776**

Term deposits include an amount LL 17.8 billion (EUR 10 million) representing the Bank's short position in a foreign currency swap (note 7).

The short-term loan represents a loan granted to the Bank by the Arab Trade Financing Program in September 2004. The loan balance will be repaid in seven instalments in 2006 with an annual interest rate of Libor + 0.5%.

Deposits from banks comprise deposits with variable rates and fixed rates of LL 126 billion and LL 9 billion respectively.

The table below summarises the geographical concentration of deposits from banks at 31 December 2005:

(LL Millions)	2005
Lebanon	70,104
European countries	48,221
North America	4,271
Other countries	12,610
Other items – unallocated	1,158
	136,364

19- Due to customers

(LL Millions)	2005	2004
Sight deposits	274,523	245,495
Term deposits	410,728	356,744
Saving accounts	2,276,028	2,186,232
Certificates of deposits	70,852	-
Related parties accounts (note 37)	43,994	56,750
Net credit against debit accounts and cash margins	261,728	225,765
Interest payable – customers	20,643	15,885
Interest payable – certificates of deposits	1,544	-
	3,360,040	**3,086,871**

During 2005, the Bank issued Certificates of deposits amounting to LL 75.38 billion (US$ 50 million) with a maturity of two and a half years bearing an interest rate of 7% that is paid semi-annually. Certificates of deposits amounting to LL 70.8 billion were purchased by the Bank's customers while LL 4.5 billion were purchased by other banks (note 18).

Sight deposits comprise the following:

(LL Millions)	2005	2004
Checking and current accounts	246,766	222,120
Debtors accidentally creditors	18,839	13,386
Cheques and orders to be paid	8,133	8,551
Public sector deposits	785	1,438
	274,523	**245,495**

Saving accounts comprise the following:

(LL Millions)	2005	2004
Saving accounts – demand	181,424	161,295
Saving accounts – term	2,094,604	2,024,937
	2,276,028	**2,186,232**

Net credit against debit accounts and cash margins comprise the following:

(LL Millions)	2005	2004
Pledged deposits against credit facilities	208,008	160,956
Margins on speculation accounts	12,106	11,427
Margins on letters of guarantee	41,614	53,382
	261,728	**225,765**

Deposits include coded accounts amounting to LL 139 billion as of 31 December 2005 (2004 - LL 164 billion). These accounts were opened under the provisions of Article 3 of the Banking Secrecy Law dated 3 September 1956 governing banks in Lebanon. As per the terms of this article, the Bank, under normal conditions, is not permitted to disclose the identities of coded account depositors to third parties including its auditors.

20- Other liabilities

(LL Millions)	2005	2004
Margins against documentary credits	23,578	30,411
Margins against credit card and safe box facilities	5,948	4,562
Foreign exchange gains on position constituted against the Bank's equity	2,545	2,545
Withholding taxes and other charges	1,323	1,273
Revaluation variance of allocations to foreign branches	573	573
Dividends payable and interest payable on cash contribution to capital	1,388	564
Accrued expenses	758	553
Due to national social security fund	275	263
Foreign exchange difference (note 40)	-	96
Other provisions (note 21)	5,890	2,693
Other	1,419	1,613
	43,697	**45,146**

Withholding taxes and other charges consist mainly of withheld taxes from interest on deposits, employee salaries, non-resident income, built property and municipality tax.

The gain resulting from the translation of the Bank's fixed foreign exchange position is deferred in the balance sheet until realised. A provision equivalent to 5% of the net open exchange position is set up for adverse foreign currency exchange fluctuations. Foreign exchange gains on the position held against the Bank's equity represent exchange gains on the translation of the US Dollar fixed exchange position amounting to LL 40.4 billion (US$ 26.8 million) as at 31 December 2005.

Revaluation variance on allocations to foreign branches represents exchange gains of LL 15.08 billion (US$ 10 million) allocated to the Bank's branch in the Damascus free zone in Syria.

21- Other provisions

(LL Millions)	2005	2004
Provision for risks	5,550	2,175
Provision for levies and other charges	278	456
Provision for foreign exchange fluctuations	62	62
	5,890	**2,693**

(LL Millions)	1 January 2005	Additions	Payments	31 December 2005
Provision for risks	2,175	4,462	(1,087)	5,550
Provision for levies and other charges	456	316	(494)	278
Provision for foreign exchange fluctuations	62	-	-	62
	2,693	**4,778**	**(1,581)**	**5,890**

22- Retirement benefit obligations

The provision for retirement benefit obligations comprises the following:

(LL Millions)	2005	2004
Provision for retirement benefit obligations	12,103	11,598
Advances against retirement benefit obligations	(290)	(194)
	11,813	**11,404**

(LL Millions)	1 January 2005	Additions	Payments	31 December 2005
Retirement benefit obligations	11,404	900	(491)	11,813

The retirement benefit obligations at 31 December 2005 is determined in accordance with the accounting policy set out on page 14 and is broadly in line with the computation in accordance with the national social security fund regulations.

The amounts recognised in the income statement are as follows:

(LL Millions)	2005	2004
Current service cost	61	54
Interest costs	839	846
Total, included in staff costs (note 35)	**900**	**900**

The principal actuarial assumptions used are as follows:

	2005	2004
Discount rate	7.5%	7.5%
Future salary increases	3%	3%
Future years of service	3 – 10 years	3 – 10 years

23- Share capital and cash contribution to capital

(LL Millions)	2005	2004
Share capital	72,000	72,000
Cash contribution to capital – interest bearing	21,697	21,697
Cash contribution to capital – non-interest bearing	20,423	-
	114,120	**93,697**

On 31 July 2002, the Central Council of the Bank of Lebanon agreed to the US Dollar denominated cash contribution to capital contracts of LL 21.7 billion (US$ 14.4 million) between the Bank and certain shareholders. These contracts earn interest at a rate of 5.5% per annum subject to ratification by the Annual General Assembly and approval by the Banking Control Commission.

At the Annual General Assembly held on 23 June 2005, dividends amounting to LL 28.9 billion were declared, out of which LL 20.42 billion (US$ 13.54 million) were transferred to cash contribution to capital (after tax deduction). The transferred cash contribution to capital of LL 20.42 billion was approved by the Central Bank on 2 February 2006. These cash contribution contracts do not earn interest.

The Bank's share capital currently consists of 72 million issued and paid up nominative shares of LL 1,000 each (2004 – 72 million shares of LL 1,000 each).

24- Legal reserves

As per Article 132 of the Code of Money and Credit, 10% of the annual net profits are to be transferred to a legal reserve. This reserve is not available for distribution.

25- Reserve for unidentified banking risks

According to the Bank of Lebanon directives, banks are required to appropriate from annual profits an amount equal to 2 per mil of the solvency denominator to a reserve for unidentified banking risks. The above reserve is considered as part of Tier I capital. This reserve is not available for distribution.

26- Real estate revaluation reserve

As explained in notes 14 and 16, the revaluation reserve arises from the fiscal revaluation of investment property, and property and equipment under Law No. 282/93. No further taxes are due upon the eventual distribution of this reserve.

27- Other reserves

The Ordinary General Assembly held on 23 June 2005 resolved to transfer LL 2.5 billion from retained earnings to other reserves. This reserve is available for distribution.

28- Net interest income

(LL Millions)	2005	2004
Interest and similar income		
Lebanese treasury bills	87,532	91,260
Deposits and similar funds at banks and financial institutions	82,192	61,399
Loans and advances to customers	46,617	40,695
Investment securities	1,478	2,252
Related parties loans and advances (note 37)	241	342
	218,060	**195,948**
Interest expense and similar charges		
Deposits and similar funds from banks and financial institutions	5,541	3,096
Due to customers	162,876	146,609
Deposits from related parties (note 37)	1,939	1,705
	170,356	**151,410**

29- Net fee and commission income

(LL Millions)	2005	2004
Fee and commission income		
Credit related fees and commissions	6,291	6,575
Letters of credit and guarantees related fees and commissions	4,329	4,018
Other fees	4,553	4,621
	15,173	**15,214**

(LL Millions)	2005	2004
Fee and commission expense		
Brokerage fees paid	1,283	1,155
Other fees paid	132	96
	1,415	**1,251**

30- Dividend income

(LL Millions)	2005	2004
Trading securities	204	135
Available-for-sale securities	23	27
	227	**162**

31- Net trading income

(LL Millions)	2005	2004
Foreign exchange:		
- Transaction gains less losses	2,805	1,855
- Translation gains less losses	(444)	270
Unrealised gain on debt securities classified as fair value through profit and loss	3,720	-
Unrealised gain on equity securities classified as fair value through profit and loss	2,761	291
Realised gain – treasury bills and certificates of deposit	5,851	2,658
	14,693	**5,074**

32- Other operating income

(LL Millions)	2005	2004
Release of impairment provision of property acquired in settlement of debt	-	1,850
Release of provision for liabilities and charges (note 17)	1,265	-
Services rendered to third parties	732	515
Gain on disposal of property acquired in settlement of debt	137	157
Gain on disposal of property and equipment	12	-
Loss on disposal of property and equipment	(11)	(8)
Rent income	127	159
Other	160	79
	2,422	**2,752**

33- Net releases on loans and advances

(LL Millions)	2005	2004
Provisions for customer loans and advances	(7,856)	(7,388)
Release of provisions and unrealised interest on doubtful and substandard loans	8,239	8,188
	383	**800**

34- Operating expenses

(LL Millions)	2005	2004
Staff costs (note 35)	25,418	24,018
Tax on interest income (note 36)	3,887	3,446
Provisions for liabilities and charges	3,288	451
Depreciation on property and equipment (note 16)	2,967	3,171
Water, electricity and communication expense	2,348	2,345
Deposits guarantee premiums	1,530	1,385
Professional fees	1,031	1,325
Repairs and maintenance	1,085	1,067
Advertising expense	1,019	721
Municipality and other taxes	935	548
Office supplies	845	787
Subscriptions	737	623
Travel expense	615	454
Amortisation (note 15)	590	561
Provision for properties acquired in settlement of debt	590	156
IT outsourcing service cost	510	490
Insurance expense	461	469
Software costs	412	329
Operating lease rentals	388	359
Directors' attendance fees (note 37)	290	272
Cleaning expense	264	246
Fair value loss on investment property (note 14)	142	142
Provision for other receivables	120	120
Investment property expense	110	106
Other	2,236	1,469
	51,818	**45,060**

35- Staff costs

(LL Millions)	2005	2004
Wages and salaries	15,164	14,509
Social security costs	2,478	2,339
Bonuses	2,117	1,826
Scholarship	1,598	1,560
Transportation	1,023	996
Pension costs – defined benefit plan (note 22)	900	900
Directors' remuneration (note 37)	771	642
Medical expenses	724	601
Other employee benefits	499	525
Training expenses	144	120
	25,418	**24,018**

The average number of persons employed by the Bank during the year was 558 (2004 - 554).

36- Taxes

In accordance with article 51 of law number 497/2003, the Bank is subject to tax on interest as well as corporate income tax. In case the tax on interest exceeds the corporate income tax, the excess constitutes an additional tax charge and is not refundable to the Bank. The Bank's tax charge is determined as the higher of the corporate tax and the tax on interest during the year as follows:

(LL Millions)	2005	2004
Corporate income tax	3,704	3,005
5% tax on interest	(2,699)	(3,446)
Tax charge for the year	**1,005**	**-**

Corporate income tax

Corporate income tax expense for the year is determined as follows:

(LL Millions)	2005	2004
Profit before taxes	27,369	22,229
Profit before tax of the Cyprus Branch	(5,007)	(3,512)
Profit subject to tax in Lebanon	**22,362**	**18,717**
Income tax at statutory rate of 15%	3,354	2,808
Effect of expenses not deductible for tax purposes or non-taxable income:		
Differences between accounting and fiscal depreciation	31	29
Provision for diminution in the value of fixed and variable income securities	21	32
Donations	121	43
Tax on interest income	583	517
Provision for properties acquired in settlement of debt	88	23
Bad debt expense	18	-
Other provisions	295	86
Release of provisions which were previously subject to tax	(626)	(353)
Interest paid on cash contribution to capital	(181)	(180)
Corporate income tax	**3,704**	**3,005**

During 2004, the 5% tax on interest received and interest accrued were deducted from the corporate income tax, resulting in a nil tax charge for the year. However, in 2005 only the 5% tax on interest received was deducted from the corporate income tax.

The 5% tax on interest income charged during the year is classified under operating expenses as follows:

(LL Millions)	2005	2004
Tax on interest received	2,699	1,290
Tax accrued on interest receivable	1,188	2,156
Total charge for the year (note 34)	**3,887**	**3,446**

The movement in the current income tax liability is as follows:

(LL Millions)	2005	2004
At 1 January	2,230	2,108
Provision set up during the year	4,892	3,446
Payments during the year	(4,748)	(3,324)
At 31 December	**2,374**	**2,230**

The above is classified in the Bank's balance sheet under the following captions:

(LL Millions)	2005	2004
Accrued tax on interest receivable – Certificates of deposit (note 5)	600	1,578
Accrued tax on interest receivable – Lebanese treasury bills (note 6)	641	542
Accrued tax on interest receivable – Loans and advances to banks (note 7)	54	36
Current income tax liability	1,079	74
	2,374	**2,230**

The fiscal years 2003 to 2005 remain subject to examination by the income tax authorities.

37- Related party transactions

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

Transactions with related parties

(LL Millions)	2005	2004
Interest paid on deposits	1,939	1,705
Interest received from loans and advances	241	342
Fee and commission income	279	276
IT outsourcing service cost	510	490
Insurance expense	461	469
Cost of other services received	169	143
Other operating income	-	86
Commissions paid on rent collection	10	11
Directors' remuneration	771	642
Directors' attendance fees	290	272
Key management compensation	1,294	1,051

Outstanding balances with related parties

(LL Millions)	2005	2004
Related parties loans and advances	2,004	2,499
Related parties accounts	43,994	56,750

No provisions have been recognised in respect of loans given to related parties (2004: nil)

38- Contingent liabilities and commitments

a) Legal proceedings

There were a number of legal proceedings outstanding against the Bank at 31 December 2005. No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise.

b) Capital commitments

At 31 December 2005 the Bank had no capital commitments.

The contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers are as follows:

(LL Millions)	2005	2004
Letters of credit	40,607	39,939
Letters of guarantee	72,106	62,073
	112,713	**102,012**

c) Assets pledged

Mandatory reserve deposits are held with Bank of Lebanon in accordance with statutory requirements. These deposits are not available to finance the Bank's day-to-day operations.

(LL Millions)	2005	2004
Mandatory reserve deposits with Bank of Lebanon (note 5)	407,369	411,659
Treasury bonds pledged (note 6)	7,137	7,137
	414,506	**418,796**

d) Operating lease commitments

Where the Bank is the lessee, the future minimum lease payments under non-cancellable building operating leases are as follows:

(LL Millions)	2005	2004
Not later than 1 year	218	252
Later than 1 year and no later than 5 years	134	191
Later than 5 years	137	223
	489	**666**

39- Fiduciary investments

(LL Millions)	2005	2004
Fiduciary investments	4,070	4,070

40- Forward foreign exchange contracts

(LL Millions)	2005	2004
Foreign currency to be received	13,922	14,440
Foreign currency to be delivered	(13,917)	(14,536)
Translation difference on forward foreign exchange contracts (notes 17, 20)	**5**	**(96)**

41- Cash and cash equivalents

(LL Millions)	2005	2004
Cash and Bank of Lebanon (note 5)	121,442	55,164
Loans and advances to banks (note 7)	858,828	681,220
	980,270	**736,384**

42- Earnings per ordinary share

Earnings per ordinary share are calculated as the ratio of net profit for the year divided by the weighted average number of ordinary shares outstanding during the year or 72 million shares (2004 – 72 million ordinary shares).

	2005	2004
Net profit attributable to shareholders (LL Millions)	26,364	22,229
Weighted average number of ordinary shares issued	72,000,000	72,000,000
Earnings per ordinary share (LL)	366	309

43- Proposed dividends and interest on cash contributions to capital

At the Annual General Assembly planned for June 2006, a dividend in respect of 2005 and interest paid on cash contribution to capital of LL 1.2 billion are to be proposed. These financial statements do not reflect these dividend and interest payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2006. The dividends declared in respect of 2004 and 2003 were LL 28.9 billion (LL 401.66 per share) and LL 3.96 billion (LL 55 per share) respectively and these have been accounted for as appropriations from retained earnings in the years 2005 and 2004 respectively (note 23). The interest paid on cash contribution to capital in respect of 2004 is reflected in the year 2005 and amounts to LL 1.2 billion.

Balance sheet presented in accordance with Bank of Lebanon Circular No. 33

At 31 December 2005

(LL Millions)	2005	2004
ASSETS		
Cash and Bank of Lebanon	958,290	852,744
Lebanese treasury bills	1,168,988	1,108,000
Debt and other fixed income securities	13,229	24,191
Equity and other variable income securities	10,740	6,845
Due from banks and financial institutions	930,729	764,526
Loans and advances to customers	588,143	564,647
Debtors by acceptances	64,512	59,290
Investments in subsidiaries	3,524	3,524
Property and equipment	61,847	56,729
Intangible assets	744	1,275
Other assets	84	74
Order and other debit accounts	22,566	19,350
Total assets	**3,823,396**	**3,461,195**
Liabilities		
Due to banks and financial institutions	136,364	69,776
Deposits and customer accounts	3,360,040	3,086,871
Engagements by acceptances	64,512	59,290
Other liabilities	33,578	38,116
Order and other credit accounts	5,307	4,411
Provision for liabilities and charges	19,435	15,237
Total liabilities	**3,619,236**	**3,273,701**
Shareholders' equity		
Share capital and cash contribution to capital	114,120	93,697
Legal reserve	23,582	20,946
Real estate revaluation reserve	21,061	21,061
Reserve for unidentified banking risks	13,682	11,682
Other reserves	2,485	-
Retained earnings	29,230	40,108
Total shareholders' equity	**204,160**	**187,494**
Total liabilities and equity	**3,823,396**	**3,461,195**

Income statement presented in accordance with Bank of Lebanon Circular No. 33
for the year ended 31 December 2005

(LL Millions)	2005	2004
Interest and similar income		
Lebanese treasury bills	87,532	91,260
Deposits and similar funds at banks and financial institutions	82,192	61,399
Debt and other fixed income securities	1,478	2,252
Loans and advances to customers	46,617	40,695
Related parties loans and advances	241	342
	218,060	**195,948**
Interest expense and similar charges		
Deposits and similar funds from banks and financial institutions	5,541	3,096
Customer deposits and other credit balances	162,876	146,609
Deposits from related parties	1,939	1,705
	170,356	**151,410**
Net provisions less releases on loans and advances		
Provision for customer loans and advances	7,856	7,388
Release of provision and unrealised interest on doubtful and substandard loans	8,239	8,188
	383	**800**
Net interest income (carried forward to next page)	**48,087**	**45,338**

Income statement presented in accordance with Bank of Lebanon Circular No. 33 (continued) for the year ended 31 December 2005

(LL Millions)	2005	2004
Net interest income (brought forward from previous page)	**48,087**	**45,338**
Income from variable income securities	**227**	**162**
Net commission income		
Commission income	15,173	15,214
Commission expense	1,415	1,251
	13,758	**13,963**
Profit from financial operations		
Profit from foreign exchange	2,907	3,595
Realised gain – treasury bills and certificates of deposits	5,851	2,658
Unrealised gain on fair value through profit and loss treasury bills	3,720	-
	12,478	**6,253**
Loss from financial operations		
Loss from foreign exchange	**546**	**1,471**
Other operating income	**5,326**	**3,261**
Other operating charges	**1,784**	**1,708**
General and administrative expenses		
Staff costs	25,418	24,018
General operating expenses	20,470	15,521
	45,888	**39,539**
Depreciation and amortisation	**3,699**	**3,874**
Provision for property acquired in settlement of debts	**590**	**156**
Net income before taxes	**27,369**	**22,229**
Taxes	**1,005**	**-**
Net income for the year	**26,364**	**22,229**

BBAC Network

Branch Network and Addresses

Head Office: Beirut
250 Clemenceau Street
P.O.Box: 11 - 1536 Beirut, Lebanon
Tel: (01) 360460/1 - 366630/1
(03) 265501/2 Fax: (01) 365200
SWIFT: BBAC LBBX
www.bbacbank.com

Central Branch
250 Clemenceau Street
P.O.Box: 11 - 1536 Beirut, Lebanon
Tel: (01) 360460/1 - 366630/1
Fax: (01) 365200

Unesco
Corniche El Mazraa
Tel: (01) 867144/5/6 - 810390
(03) 233733 Fax: (01) 790394

Hamra
Abd El Aziz Street
Tel: (01) 341280/2 - 351261
(03) 414514 Fax: (01) 353745

Mazraa
Corniche El Mazraa
Telefax: (01) 818429/31 - 302540
(03) 265266

Furn El Chebbak
Damascus Road
Tel: (01) 291528/9 - (03) 388611
Fax: (01) 280906

Aley
El Saha
Tel: (05) 555433/4 - 557433
(03) 548549 Fax: (05) 557434

Tripoli Tall
Tall Square
Telefax: (06) 430460/1 - (03) 388622

Bir El Abed
Haret Hreik
Tel: (01) 548900 - 545435 - (03) 539540
Fax: (01) 548901

Zalka
Zalka Highway
Tel: (01) 893910 - 886764 - (03) 534111
Fax: (01) 893486

Achrafieh
Saint Nicolas
Tel: (01) 201780/1 - 331599
(03) 541542 Fax: (01) 331690

Chtaura
Damascus Road
Tel: (08) 542451/3 - (03) 840844
Fax: (08) 542452

Baakline
Main Road
Tel: (05) 300776 - 304060 - (03) 265503
Fax: (05) 300348

Choueifat
Old Saida Road
Tel: (05) 433302 - 433600/1 - (03) 271194
Fax: (05) 433303

Saida
Nijmeh Square
Telefax: (07) 723857 - 724369 - 734116
(03) 535536

Metn
Hammana - Cross road Bkeshtay
Tel: (05) 530050 - 530822
(03) 265504 Fax: (05) 530482

Aley Baqaa
Bkeshtay Road
Tel: (05) 554701 - 557701/2
(03) 563564 Fax: (05) 554432

Bekaata
Main Road
Telefax: (05) 500587 - 501587
507587 - 501706 - (03) 265506

Manassef
Main Road
Telefax: (05) 720598/9 - (03) 220729

Dekwaneh
Blvd. Camille Chamoun
Tel: (01) 682391/2 - (03) 542543
Fax: (01) 682389

Chahhar
Qabr Chmoun
Telefax: (05) 410281/2 - (03) 265509

Bar Elias
Damascus Road
Tel: (08) 510014 - (03) 840842
Fax: (08) 511085

Rachaya El Wadi
Main Road
Telefax: (08) 591243 - 590240
561244 - (03) 840845

Jib Jannine
Main Road
Tel: (08) 660370 - 660240
(03) 840843 - Fax: (08) 662740

Ferzol
Main Road
Tel: (08) 950850/1/2 - (03) 840841
Fax: (08) 950853

Tyr
Buss - Jal El Baher - Main Road
Tel: (07) 343651/2
(03) 265505 Fax: (07) 343650

Tripoli Mina
Al Mina Street - Dannaoui Bldg.
Tel: (06) 200103/4/5/6
(03) 566635 Fax: (06) 611555

Baalbek
Main Road
Tel: (08) 374014/5 - (03) 614899
Fax: (08) 374016

Kaslik
Tripoli - Beirut Highway
Telefax: (09) 221437/8/9 - (03) 494495

Bint Jbeil
Al Shami Bldg. - Main Road
Telefax: (07) 450121/2 - (03) 499300

Hasbaya
Chehabi's Sarail Road
Telefax: (07) 550272/3 - (03) 311788

Elyssar
Bikfaya - Main Road
Telefax: (04) 913211/221 - (03) 714150

Jbeil
Main Road
Telefax: (09) 546700 - 546407
546567 - (03)180250

Limassol Branch
Emelle Bldg.
135, Makarios Avenue
P.O.Box: 56201 Limassol
Tel: +357 - 25 - 381290 - 381369
Telefax: +357 - 25 - 381584

Damascus
Free Zone Area
Tel: 02 - 11 - 2134596/7
Fax: 02 - 11 - 2134598

Main Correspondents

Amman
Jordan National Bank

Amsterdam
ABN AMRO Bank

Brussels
Fortis Bank

Copenhagen
Danske Bank

Dubai
MashreqBank

Frankfurt
Deutsche Bank
CommerzBank

Kuwait
National Bank of Kuwait

London
Barclays Bank PLC

Madrid
Banco Bilbao Vizcaya Argentaria

Melbourne
ANZ Bank

Milano
Banca Intesa SpA

Montreal
National Bank of Canada

New York
Citibank
The Bank of New York
JP Morgan Chase Bank

Oslo
Den Norske Bank

Paris
Banque Saradar France

Riyadh
Albank AlSaudi Alfaransi

Stockholm
Skandinaviska Ensklida Bank

Tokyo
U.B.A.F.

Vienna
Bank Austria A.G.

Zurich
Credit Suisse First Boston

Subsidiaries

1- Informatics' Co. s.a.r.l.

A software company, that offers commercial and technical services. It was established in 1980 by the bank shareholders: Mr. Toufic Assaf and Mr. Nashaat Sheikhlard. It is chaired by Mr. Ghassan Assaf; 84 % of the shares are owned by BBAC s.a.l.

2- Societe Libanaise de Service s.a.r.l.

SLS started its operations in 1980, with 91 % of its shares owned by BBAC s.a.l. The company is chaired by Mr. Ghassan Assaf.

3- Capital Insurance & Reinsurance Co. s.a.l.

The company provides the full-range of insurance and re-insurance services. It is chaired by Mr. Assad G. Merza. BBAC s.a.l. owns 80 % of its shares.