BANKMED S.A.L. (FORMERLY BANQUE DE LA MEDITERRANEE S.A.L.) AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT
YEAR ENDED DECEMBER 31, 2005

BANKMED S.A.L. (FORMERLY BANQUE DE LA MEDITERRANEE S.A.L.) AND SUBSIDIARIES
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YEAR ENDED DECEMBER 31, 2005

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders
Bankmed S.A.L.
(Formerly Banque de la Méditerranée S.A.L.)
Beirut, Lebanon

We have audited the accompanying consolidated Balance Sheet of BANKMED S.A.L. (FORMERLY BANQUE DE LA MEDITERRANEE S.A.L.) AND SUBSIDIARIES as of December 31, 2005, and the related Statements of Income, Cash Flows and Changes in Shareholders' Equity for the year then ended. These financial statements are the responsibility of the Bank's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the financial position of Bankmed S.A.L. (Formerly Banque de la Méditerranée S.A.L.) and Subsidiaries as of December 31, 2005 and the results of their operations and their cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Beirut, Lebanon
April 7, 2006

Deloitte & Touche

BANKMED S.A.L. (FORMERLY BANQUE DE LA MEDITERRANEE S.A.L.) AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

ASSETS	Notes	December 31, 2005 LBP'000	December 31, 2004 (Restated) LBP'000
Non-interest earning compulsory reserves and obligatory placements	4.a	181,980,932	596,203,711
Cash and due from banks	4.b	116,208,982	88,004,352
Interest earning deposits with banks	5	1,496,760,428	1,245,859,122
Securities:	6		
- Trading		6,404,545	16,236,806
- Available-for-sale		2,350,467,696	1,779,510,244
- Held-to-maturity		1,853,542,294	1,712,143,088
Loans and advances to customers (net of provision for credit losses)	7	1,735,602,937	1,534,199,145
Loans and advances to related parties	8	237,084,056	292,514,839
Customers' acceptance liability	9	53,152,020	45,607,415
Accrued interest and other receivables	10	154,260,278	107,236,427
Other assets	11	28,029,233	20,199,284
Investment securities	12	83,668,445	84,105,738
Investment properties		5,024,625	1,356,750
Regulatory blocked funds		1,507,500	1,507,500
Assets acquired in satisfaction of debts	13	311,292,653	338,451,279
Goodwill (net of provision for impairment)	14	52,822,608	57,523,501
Property and equipment (net of accumulated depreciation)	15	181,974,249	193,929,033
Total Assets		8,849,783,481	8,114,588,234
FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS	24		
Guarantees and standby letters of credit		313,364,068	319,270,524
Documentary and commercial letters of credit		60,120,418	36,270,545
Forward exchange contracts		544,432,284	554,918,940
FIDUCIARY ACCOUNTS	25	1,554,268,220	1,005,150,215

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

LIABILITIES	Notes	December 31, 2005 LBP'000	December 31, 2004 (Restated) LBP'000
Liabilities:			
Due to banks and financial institutions:			
- Demand deposits		23,512,757	20,014,675
- Short-term borrowings		298,608,449	164,448,591
- Certificates of deposit		3,015,000	78,390,000
- Long-term borrowings		8,387,895	9,818,370
		333,524,101	272,671,636
Acceptances payable	9	53,152,020	45,607,415
Customers' deposits and credit balances	16	5,719,762,949	5,893,765,419
Deposits from related parties	8	424,715,439	267,399,674
Accrued interest payable	17	71,160,788	60,516,456
Certificates of deposit	18	1,083,473,581	660,037,911
Accounts payable, accrued expenses and other liabilities	19	136,805,533	119,719,907
Provisions for losses and contingencies	20	13,205,000	13,723,183
Total liabilities		7,835,799,411	7,333,441,601
Equity Attributable to Equity Holders of the Parent:			
Capital	21	530,000,000	530,000,000
Legal reserves		23,458,080	21,409,819
Properties revaluation reserve		3,213,000	3,213,000
General reserve for banking risk	21	40,271,533	39,353,203
Retained earnings		99,770,454	83,226,273
Change in fair value of available-for-sale securities	22	282,157,725	71,644,351
		978,870,792	748,846,646
Minority interest		35,113,278	32,299,987
Total equity		1,013,984,070	781,146,633
Total Liabilities and Equity		8,849,783,481	8,114,588,234

BANKMED S.A.L. (FORMERLY BANQUE DE LA MEDITERRANEE S.A.L.) AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT

	Notes	Year Ended December 31, 2005 LBP'000	2004 (Restated) LBP'000
Interest Income:			
Loans and advances		141,780,182	157,441,302
Deposits with banks		50,808,002	50,961,262
Securities		276,546,907	276,005,211
		469,135,091	484,407,775
Interest Expense:			
Customers' deposits and credit balances		(312,713,087)	(325,544,398)
Deposits from banks		(17,712,124)	(7,001,186)
Certificates of deposit		(49,688,010)	(58,269,886)
Derivatives and others		(522,132)	(448,420)
		(380,635,353)	(391,263,890)
Net interest income		88,499,738	93,143,885
Provision for credit losses less write-back		(24,823,651)	(21,264,271)
Loss from write off of loans		(3,274,904)	(222,598)
Net interest income after provision for credit losses		60,401,183	71,657,016
Net gain on securities and investments		19,894,145	21,192,772
Commissions, fees and other revenues (net)		25,444,068	21,736,871
Net exchange gains		4,097,140	3,732,819
Gain/(loss) on sale of assets acquired in satisfaction of debt		28,637,644	(143,910)
Net financial revenues		138,474,180	118,175,568
Other Income/(Expenses):			
Salaries and related charges		(48,610,052)	(50,841,867)
General operating expenses	23	(41,285,738)	(43,102,716)
Depreciation expense	15	(12,457,423)	(13,623,472)
Other (expense)/income	13, 15, 23	(7,120,496)	3,491,525
		(109,473,709)	(104,076,530)
Income before income taxes		29,000,471	14,099,038
Income tax provision		(7,234,457)	(6,288,802)
Net income		21,766,014	7,810,236
Attributable to:			
Equity holders of the parent		19,529,474	6,594,296
Minority interest		2,236,540	1,215,940
		21,766,014	7,810,236

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

BANKMED S.A.L. (FORMERLY BANQUE DE LA MEDITERRANEE S.A.L.) AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year Ended December 31, 2005 LBP'000	2004 (Restated) LBP'000
Cash flows from operating activities:			
Net income		21,766,014	7,810,236
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation, amortization and provision for impairment		19,886,026	13,623,472
Amortization of premium on forward deals		-	(3,702,823)
Provision for credit losses (net of write back)		28,098,555	21,486,869
Effect of foreign currencies exchange difference on a loan to an investee		(59,057)	118,341
Amortization of commission and discount on certificates of deposits		2,125,575	768,825
Gain on securities		(16,529,954)	(27,306,067)
Income from associates		(1,718,724)	(925,178)
Provisions for losses and contingencies		545,275	1,399,392
Accretion of securities discounts		(1,012,815)	(3,546,066)
Gain on sale of property and equipment		(308,108)	(2,133,375)
(Gain)/loss on sale of assets acquired in satisfaction of debt		(28,637,644)	143,910
Effect of foreign currencies exchange difference on goodwill		4,700,893	(3,086,840)
Accrued interest and other assets		(54,853,800)	(16,255,404)
Accrued interest and other liabilities	26	10,652,055	(27,914,404)
Minority interest		-	(2,250,000)
Net cash used in operating activities		(15,345,709)	(41,769,112)
Cash flows in investing activities:			
Interest earning deposits with banks		(250,901,306)	(104,074,581)
Loans and advances:			
- Customers	26	(272,895,692)	125,205,610
- Related parties		55,430,783	(65,195,455)
Securities	26	(438,205,101)	(367,376,830)
Investment securities	26	(13,704,336)	(1,317,464)
Investment properties		(3,667,875)	-
Assets acquired in satisfaction of debts	26	(500,357)	(155,399)
Property and equipment		(1,594,531)	(4,077,534)
Proceeds from sale of assets acquired in satisfaction of debt		110,005,838	5,280,792
Goodwill		-	(3,021,728)
Net cash used in investing activities		(816,032,577)	(414,732,589)
Cash flows from financing activities:			
Deposits:			
- Customers		(174,002,470)	611,395,012
- Related parties		157,315,765	31,109,443
Certificates of deposit		421,310,095	(122,828,704)
Margins and other liabilities		(20,115,718)	18,329,917
Due to banks and financial institutions		60,852,465	(17,398,723)
Dividends paid		-	(75,000,000)
Non-interest earning compulsory reserves and obligatory placements		414,222,779	4,263,853
Net cash provided by financing activities		859,582,916	449,870,798
Net decrease in cash and due from banks		28,204,630	(6,630,903)
Cash and due from banks - Beginning of year		88,004,352	94,635,255
Cash and due from banks - End of year		116,208,982	88,004,352

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

BANKMED S.A.L. (FORMERLY BANQUE DE LA MEDITERRANEE S.A.L.) AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Attributable to Equity Holders of the Parent									
	Capital LBP'000	Legal Reserves LBP'000	Asset Revaluation Surplus LBP'000	General Reserve for Banking Risk LBP'000	Retained Earnings LBP'000	Change in Fair Value of of Available-for-Sale Securities LBP'000	Net Income LBP'000	Total LBP'000	Minority Interest LBP'000	Total Equity LBP'000
Balance, January 1, 2004	530,000,000	20,844,334	3,213,000	34,614,710	156,935,955	13,880,040	-	759,488,039	34,302,950	793,790,989
Prior periods' adjustments	-	-	-	-	-	(1,628,726)	-	(1,628,726)	(209,192)	(1,837,918)
Balance, January 1, 2004 (Adjusted)	530,000,000	20,844,334	3,213,000	34,614,710	156,935,955	12,251,314	-	757,859,313	34,093,758	791,953,071
Comprehensive income for year 2004:										
Net income for year 2004	-	-	-	-	-	-	6,594,296	6,594,296	1,215,940	7,810,236
Change in fair value of available-for-sale securities (net)	-	-	-	-	-	53,493,917	-	53,493,917	(1,004,667)	52,489,250
Total comprehensive income	-	-	-	-	-	53,493,917	6,594,296	60,088,213	211,273	60,299,486
Allocation of 2004 net income	-	565,485	-	4,738,493	1,290,318	-	(6,594,296)	-	-	-
Dividends	-	-	-	-	(75,000,000)	-	-	(75,000,000)	(2,250,000)	(77,250,000)
Subtotal	530,000,000	21,409,819	3,213,000	39,353,203	83,226,273	65,745,231	-	742,947,526	32,055,031	775,002,557
Transitional restatement of opening balances (net)	-	-	-	-	-	5,899,120	-	5,899,120	244,956	6,144,076
Restated balance, December 31, 2004	530,000,000	21,409,819	3,213,000	39,353,203	83,226,273	71,644,351	-	748,846,646	32,299,987	781,146,633
Prior year adjustment	-	-	-	-	(18,702)	-	-	(18,702)	-	(18,702)
Comprehensive income for year 2005:										
Net income for year 2005	-	-	-	-	-	-	19,529,474	19,529,474	2,236,540	21,766,014
Change in fair value of available-for-sale securities (net)	-	-	-	-	-	210,513,374	-	210,513,374	576,751	211,090,125
Total Comprehensive Income	-	-	-	-	-	210,513,374	19,529,474	230,042,848	2,813,291	232,856,139
Allocation of 2005 net income	-	2,048,261	-	918,330	16,562,883	-	(19,529,474)	-	-	-
Balance, December 31, 2005	530,000,000	23,458,080	3,213,000	40,271,533	99,770,454	282,157,725	-	978,870,792	35,113,278	1,013,984,070

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND ACTIVITIES

Bankmed S.A.L. (Formerly Banque de la Méditerranée S.A.L.), is a Lebanese Joint Stock Company, registered under Number 5261 in the Lebanese Commercial Register on August 13, 1950 and under Number 22 in the list of banks published by the Central Bank of Lebanon, fully owned by Méditerranée Investors Group, Liban, S.A.L. (the holding company). The principal activities of the Bank and its subsidiaries consist of conventional commercial and private banking through a network of 51 branches in Lebanon in addition to a branch in Cyprus and a subsidiary in Switzerland.

The Bank headquarters are located in Beirut.

The consolidated financial statements are presented in Lebanese Pounds.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretation Committee (IFRIC) that are relevant to the Bank's operations and applicable for accounting periods beginning on January 1, 2005. The adoption of the new and revised standards and interpretations has resulted in changes to the Group's presentations and disclosures in the financial statements as required by the following Standards:

- Presentation of Financial Statements (IAS 1)
- Business Contributions (IFRS 3)
- Property, Plant and Equipment (IAS 16)
- Related Party Disclosures (IAS 24)
- Consolidated and Stand Alone Financial Statements (IAS 27)
- Investment in Associates (IAS 28)
- Financial Instruments: Disclosure and Presentation (IAS 32)
- Financial Instruments: Recognition and Measurement (IAS 39)

Furthermore, and as of the date of authorization to issue the accompanying financial statements, the following standards and interpretations, which relate to the Group's activities, were issued but not yet in effect:

IFRS 7 : Financial Instruments: Disclosures (Effective from January 1, 2007)

IFRS 7 supersedes IAS 30 (Disclosures in the Financial Statements of Banks and Similar Financial Institutions), and some of the disclosures required by IAS 32 (Financial Instruments: Disclosure and Presentation). This standard is effective from January 1, 2007.

IFRIC 4 : Determining Whether an Arrangement Contains a Lease.

IFRIC 4 requires the determination of whether an arrangement is, or contains, in substance a lease that should be accounted for in accordance with IAS 17 Leases. This interpretation is effective from January 1, 2006.

IAS 39 : (Amendment) The Fair Value Option

This amendment changes the definition of financial instruments classified at fair value through profit and loss and restricts the ability to designate financial instruments as part of this category. This amendment is effective from January 1, 2006.

The Bank's management anticipates that the adoption of these standards and interpretations (where applicable) in the future periods will not have a material impact on the Group's financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements are prepared on the historical cost basis, except for properties which were revalued, and certain financial instruments which are measured at fair value in line with International Accounting Standard No.39 (IAS 39).

The significant accounting policies adopted are set out below:

A. Basis of Consolidation:

The consolidated financial statements of Bankmed S.A.L. include the financial statements of the Bank as at December 31, 2005 and companies in which the Bank has a controlling financial interest (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

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

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

The consolidated subsidiaries comprise:

Company	Percentage of Direct and Indirect Ownership %	Date of Acquisition	Business Activities
Banks:			
Saudi Lebanese Bank S.A.L.	75	January 01, 1995	Commercial Banking
Méditerranée Investment Bank S.A.L.	100	January 24, 1996	Medium and long-term banking
Banque de la Méditerranée Suisse - S.A.	100	August 31, 2001	Private Banking
Allied Bank S.A.L.	100	November 30, 2001	Retail Banking
Real Estate:			
Al Shua'a S.A.L.	100	December 1, 1995	Owns Bank's Premises
Al Hana S.A.L.	100	December 1, 1995	Owns Bank's Premises
Al Jinan S.A.L.	100	December 1, 1995	Owns Bank's Premises
Al Shams S.A.L.	100	December 1, 1995	Owns Bank's Premises
Centre Méditerranée S.A.L.	100	January 16, 1996	Owns Bank's Premises
Al Hosn Real Estate II S.A.L.	100	February 27, 2004	Owns Bank's Premises
Al Hosn Real Estate III S.A.L.	100	February 27, 2004	Owns Bank's Premises
333 Achrafieh Real Estate S.A.L.	100	Year 2003	Real estate company
Insurance:			
Med Bancassurance S.A.L.	100	May 20, 2003	Insurance brokerage

Méditerranée Investment Bank S.A.L. is a wholly owned subsidiary established on January 24, 1996. This bank is a medium and long-term investment bank subject to the regulations provided in Decree N°. 50 dated July 15,1983, and the Central Bank of Lebanon Decision N°. 6101, dated February 8, 1996.

During 2001, the Group acquired 90% of Allied Bank S.A.L. The Group acquired during 2003 the remaining 10% of Allied Bank S.A.L. in accordance with a decision of the Central Council of the Central Bank of Lebanon on September 3, 2003.

"Centre Méditerranée S.A.L." owns a commercial building used as the headquarters of the Group.

Al Hosn Real Estate II S.A.L. and Al Hosn Real Estate III S.A.L. own land that is used for the Group's headquarters activities.

B. Foreign Currencies:

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Currency Units, which is the functional currency of the Bank, and the presentation currency for the consolidated financial statements.

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the year. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statement for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognized directly in equity.

Cash flows in foreign currencies provided by or used in under the various activities, as included in the statement of cash flows, are translated into Lebanese Pounds at year-end exchange rates, except for cash and due from banks balances at the beginning of year which is translated at the prior year closing exchange rates and the effect of currency fluctuation is disclosed separately, if any.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts and options.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

The financial statements of subsidiaries in foreign currencies are translated at market exchange rates prevailing at the balance sheet date. The amount of the currency of the major foreign subsidiary which is the Swiss Franc was hedged against the U.S. Dollars by mean of a forward exchange contract and therefore did not result, from year to year, in cumulative translation adjustments.

C. Property and Equipment:

Properties held for use in the supply of services, or for administrative purposes, are stated in the balance sheet at cost except for properties acquired prior to 1993, which were revalued at amounts that approximate the fair value at date of revaluation, less subsequent accumulated depreciation and subsequent impairment losses, if any.

Depreciation on revalued properties is charged to the income statement. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

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

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method based on the following annual rates:

Real estate properties	2-2.5%
Office improvements and Installations	9-25%
Furniture and fixture	7.5-25%
Office equipment	10-13%
Computer equipment	20%
Vehicles	12-15%
Key Money	25%

D. Investment Properties:

Investment properties, which consist of properties held to earn rentals and/or for capital appreciation, are stated at amounts that approximate their fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment properties are included in the income statement in the period in which they arise.

E. Business Combinations:

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognized at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, which are recognized and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in the income statement.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

F. Investments in Associates:

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

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in the income statement.

Temporary investments in non-consolidated subsidiaries, which the management intends to dispose of within one year from the consolidated balance sheet date, are reflected in the consolidated balance sheet at fair value that is equivalent to its net realizable value as determined on the date of the consolidated financial statements.

G. Financial Instruments:

Financial assets and financial liabilities are recognized on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Investments are recognized and derecognized on a settlement date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured subsequent to initial recognition, at amortized cost, less any impairment loss recognized to reflect irrecoverable amounts. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to the restriction that the carrying amount of the investment, at the date the impairment is reversed, does not exceed what the amortized cost would have been had the impairment not been recognized.

Investments other than held-to-maturity debt securities are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in the income statement for the year. For available-for-sale investments, gains and losses arising from changes in fair value are recognized directly in equity net of related deferred tax, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the income statement for the year. Impairment losses recognized in the income statement for equity investments classified as available-for-sale are not subsequently reversed through income statement. Impairment losses recognized in the income statement for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Debt securities exchanged against securities with longer maturities, with similar risk, and issued by the same issuer, are not derecognized from financial assets because they do not meet the conditions for derecognition. Premiums and discounts derived from the exchange of said securities are deferred to be amortized as a yield enhancement on a time proportionate basis, over the period of the extended maturities.

Accretion of discounts and amortization of premium representing a yield adjustment are accounted for in the consolidated income statement as an adjustment to interest income using the straight-line method, which leads to results that approximate the results derived from using the effective interest method.

Cost of exercise of the put option related to the redemption right of debt securities is netted from the underlying cost of the related securities.

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

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Bank borrowings

Interest-bearing bank loans are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method.

Equity Instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates.

The Group uses derivative financial instruments (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions.

The use of financial derivatives is governed by the Group's policies, which provide written principles on the use of financial derivatives consistent with the Group's risk management strategy. The Group does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognized directly in equity and the ineffective portion is recognized immediately in the income statement.

The Group's policy with respect to hedging the foreign currency risk of a firm commitment is to designate it as a cash flow hedge. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognized, the associated gains or losses on the derivative that had previously been recognized in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognized in the income statement in the same period in which the hedged item affects profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognized in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to the income statement for the year.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealized gains or losses reported in profit or loss.

H. Employees' End-of-Service Indemnities:

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

The Group has also provided for end-of-service indemnities for employees not registered in the National Social Security Fund.

I. Loans and Advances:

Loans and advances are disclosed net of unearned interest and after provision for bad debts. Doubtful and litigious loans are carried on a cash basis because of doubt and the probability of non-collection of principal and/or interest.

The provisions for bad debts are set up against specific accounts to offset the losses that may result therefrom, determined on the basis of an assessment of credit risks which is updated regularly. This credit loss assessment is made based on objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is estimated based on the difference between the asset carrying value and the present value of future anticipated cash flows, taking into consideration the liquidating value of the guarantee in hand.

J. Non-Current Assets held for Sale:

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

K. Goodwill:

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described under “Investments in Associates” above.

Goodwill was being amortized following the straight-line method over a period of 10 years. Starting 2004, goodwill is no longer subject to amortization. Instead, it is tested for impairment at least once per year. Any impairment loss recognized is charged to expense in the consolidated income statement and is not reversed in a subsequent period.

L. Impairment of Assets:

At each balance sheet date, the carrying amounts of tangible and intangible assets are reviewed to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount is estimated in order to determine the extent of impairment provision required, if any.

Recoverable amount is defined as the higher of:

- Fair value that reflects market conditions at the balance sheet date, less cost to sell, if any. To determine fair value the Group adopts the market comparability approach using as indicators the current prices for similar assets in the same location and condition.

- Value in use: the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life, only applicable to assets with cash generation units.

In this connection, the recoverable amount of the Group's owned properties and of properties acquired in satisfaction of debts, held for sale and intended to be disposed of within a regulatory stipulated period, is the estimated market value, as determined by real estate appraisers on the basis of market compatibility by comparing with similar transactions in the same geographical area and on the basis of the expected value of a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale.

The impairment loss is charged to income.

M. Fiduciary Deposits:

All fiduciary deposits are held on a non-discretionary basis and related risks and rewards belong to the account holders. Accordingly, they are reflected as off-balance sheet accounts.

N. Properties Exchanged for Notes Payable:

Property acquired against notes payable, where no interest rate is stated, are accounted for at the present value of the notes determined by discounting all future payments using an imputed interest rate.

The difference between the face amount of the notes and their present value is accounted for as a discount and amortized over the life of the notes based on the effective interest method.

O. Fees Paid in Connection with Financial Instruments:

Fees paid in connection with financial instruments are considered an integral part of the effective yield on the resulting financial liability, and are accounted for on a basis that reflects the effective yield of the instrument. When the financial instrument has a medium and/or long-term maturity, the fee is deferred and amortized over the life of the instrument, and the amortization cost represents an adjustment to the stated interest rate on the financial instrument in arriving at the effective yield.

P. Provisions:

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Q. Offsetting:

Financial assets and liabilities are offset and reported net in the consolidated balance sheet when there is a legally enforceable right to set off the recognized amounts and when the Group intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

R. Trade and Settlement Date Accounting:

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

S. Revenue and Expense Recognition:

Interest income and expense are recognized in the consolidated income statement on the accrual basis and include amortized premiums and discounts, except for interest on classified debts for which interest is deferred as unearned income until actual realization of the interest. Fees and commissions from banking services are recognized when contractually earned except for commissions and fees earned on the loan book, which are considered as a yield enhancement reflected under interest income in the income statement. Dividend income is recognized when declared.

T. Realized Gain/Loss on Securities:

Realized gains or losses on securities are determined as the difference between the sale proceeds and the carrying value at the date of sale taking into consideration unamortized premium/discounts and other adjustments to the initial cost value.

U. Use of Estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amount of financial assets and liabilities at the date of the financial statements and the resultant provisions and changes in fair value for the year. In particular, considerable judgment by management is required in the estimation of projected cash flows related to classified debts and other provisions set up based on management estimates. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in such provisions.

V. Income Tax:

Taxation is provided for in accordance with the Lebanese and Swiss income tax law and regulations. The tax payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for income tax is calculated using tax rates that have been enacted by the consolidated balance sheet date. Provision for income tax is reflected in the consolidated balance sheet net of taxes previously settled in the form of withholding tax.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

In connection with the above, starting from the year 2005 and with retroactive adjustment for the year 2004, the Group reduced the change in fair value of the available-for-sale securities under equity, to account for the deferred tax reflected under liabilities.

4. CASH AND BANKS ACCOUNTS

4.a Non-Interest Earning Compulsory Reserves and Obligatory Placements

This caption is composed of the following:

	December 31,	
	2005	2004
	LBP'000	LBP'000
Cash compulsory reserves at the Central Bank of Lebanon	181,980,932	216,052,274
Non-interest earning certificates of deposit issued by the Central Bank of Lebanon	-	380,151,437
	181,980,932	596,203,711

Banking laws and regulations in Lebanon require banks to maintain cash compulsory reserves on customers' deposits in Lebanese Pounds with the Central Bank of Lebanon on the basis of 25% and 15% of the weekly average demand deposits and term deposits respectively. In this connection, cash compulsory reserves in the amount of approximately LBP181.98billion were maintained in the current accounts with the Central Bank at December 31, 2005 (LBP216.05billion as at December 31, 2004).

Non-interest earning certificates of deposit in the amount of LBP380.15billion as at December 31, 2004, and which matured in 2005, represent certificates of deposit subscribed by the Group during the year 2003 and which met total obligatory investment requirements of the Central Bank of Lebanon of LBP380billion, computed on the basis of 10% of total customers' deposits outstanding as at October 31, 2002.

Non-interest earning certificates of deposit as at December 31, 2004 were composed of and matured as follows:

Maturity Date	Face Value	Notional Discounted Value
	USD	USD
January 2005	50,434,678	50,285,313
February 2005	50,434,678	50,022,956
March 2005	50,434,678	49,913,242
June 2005	50,434,678	49,241,534
July 2005	50,434,711	48,990,925
	252,173,423	248,453,970
Counter value in LBP'000	380,151,437	374,544,359

4.b Cash and Due from Banks

This caption is composed of the following non-interest earning cash balances:

	December 31, 2005	December 31, 2004
	LBP'000	LBP'000
Cash on hand	32,600,122	31,969,497
Current accounts with Central Bank of Lebanon	8,664,921	5,308,756
Demand deposits with banks	38,675,760	28,073,645
Checks in process of clearing	36,268,179	22,652,454
	116,208,982	88,004,352

Cash and due from banks as at December 31, 2005 and 2004 are segregated as follows in terms of Lebanese Pounds and foreign currency (F/Cy) base accounts and resident and nonresident:

	December 31, 2005		
	LBP	F/Cy	Total
	LBP'000	C/V LBP'000	LBP'000
Resident	17,195,357	71,226,582	88,421,939
Non-resident	-	27,787,043	27,787,043
	17,195,357	99,013,625	116,208,982

	December 31, 2004		
	LBP	F/Cy	Total
	LBP'000	C/V LBP'000	LBP'000
Resident	14,019,941	48,801,249	62,821,190
Non-resident	-	25,183,162	25,183,162
	14,019,941	73,984,411	88,004,352

5. INTEREST-EARNING DEPOSITS WITH BANKS

This section is composed of the following:

	December 31, 2005	December 31, 2004
	LBP'000	LBP'000
Time deposits with the Central Bank of Lebanon	911,133,000	827,654,000
Call and term deposits with banks	585,627,428	418,205,122
	1,496,760,428	1,245,859,122

Interest earning deposits with banks are segregated as follows in terms of Lebanese Pounds and foreign currency (F/Cy) base accounts and resident and non-resident banks:

	December 31, 2005		
	LBP	F/Cy	Total
	LBP'000	C/V LBP'000	LBP'000
Resident	7,500,000	1,021,228,880	1,028,728,880
Non-resident	-	468,031,548	468,031,548
	7,500,000	1,489,260,428	1,496,760,428

	December 31, 2004		
	LBP	F/Cy	Total
	LBP'000	C/V LBP'000	LBP'000
Resident	36,900,000	801,498,420	838,398,420
Non-resident	-	407,460,702	407,460,702
	36,900,000	1,208,959,122	1,245,859,122

Interest earning deposits with banks outstanding as at December 31, 2005 mature in the subsequent period as follows with related weighted average interest rate:

Period	LBP	Weighted Average Interest	F/Cy	Weighted Average Interest	Total	Weighted Average Interest
	LBP'000	%	C/V LBP'000	%	LBP'000	%
1st quarter 2006	-	-	1,189,878,739	4.15	1,189,878,739	4.15
2nd half 2006	-	-	13,245,754	3.51	13,245,754	3.51
Year 2007	-	-	213,474,435	5.59	213,474,435	5.59
Year 2008	-	-	7,839,000	5.43	7,839,000	5.43
Year 2009	-	-	54,270,000	5.05	54,270,000	5.05
Year 2010	-	-	10,552,500	5.89	10,552,500	5.89
Year 2016	3,000,000	5.22	-	-	3,000,000	5.22
Year 2017	4,500,000	5.49	-	-	4,500,000	5.49
	7,500,000		1,489,260,428		1,496,760,428	

Interest earning deposits with banks outstanding as at December 31, 2004 mature in the subsequent period as follows with related weighted average interest rate:

Period	LBP	Weighted Average Interest	F/Cy	Weighted Average Interest	Total	Weighted Average Interest
	LBP'000	%	C/V LBP'000	%	LBP'000	%
1st quarter 2005	33,900,000	3.73	893,137,872	3.46	927,037,872	3.47
2nd quarter 2005	-	-	39,647,250	2.85	39,647,250	2.85
2nd half 2005	-	-	3,015,000	8.25	3,015,000	8.25
Year 2006	-	-	1,507,500	3.75	1,507,500	3.75
Year 2007	-	-	217,381,500	3.46	217,381,500	3.46
Year 2008	-	-	31,657,500	4.26	31,657,500	4.26
Year 2009	-	-	22,612,500	4.75	22,612,500	4.75
Year 2016	3,000,000	5.11	-	-	3,000,000	5.11
	36,900,000		1,208,959,122		1,245,859,122	

Accrued interest receivable on interest earning deposits with banks amounted to LBP5.42billion as at December 31, 2005 (LBP4.46billion as at December 31, 2004) and is reflected under "Accrued interest and other receivables" (Note 10).

Effective January 2002, banks are required to maintain at the Central Bank of Lebanon mandatory foreign currency interest earning deposits to the extent of 15% of their total foreign currency customers' deposit base, certificates of deposit and borrowings from non-resident banks and financial institutions. In this connection, term deposits aggregating approximately LBP911.13billion were maintained with the Central Bank of Lebanon as at December 31, 2005 (LBP793.61billion as at December 31, 2004), representing mainly the maturities of the years 2006, 2007 and 2009 (2005, 2007 and 2009 for year 2004).

6. SECURITIES

This caption consists of the following:

	December 31, 2005		
	Lebanese Treasury Bills	Government and Other Securities	Total
	LBP'000	LBP'000	LBP'000
Trading	-	6,404,545	6,404,545
Available-for-sale	519,480,168	1,830,987,528	2,350,467,696
Held-to-maturity	252,915,608	1,600,626,686	1,853,542,294
	772,395,776	3,438,018,759	4,210,414,535

	December 31, 2004 (Restated)		
	Lebanese Treasury Bills	Government and Other Securities	Total
	LBP'000	LBP'000	LBP'000
Trading	-	16,236,806	16,236,806
Available-for-sale	752,005,181	1,027,505,063	1,779,510,244
Held-to-maturity	45,000,028	1,667,143,060	1,712,143,088
	797,005,209	2,710,884,929	3,507,890,138

Ordinary treasury bills, purchased at a discount, are stated in the balance sheet at their par value less related unearned interest and discounts which amounted to LBP1.01billion and LBP4million, respectively, as at December 31, 2005 (LBP8.54billion and LBP75million, respectively as at December 31, 2004).

The coupon treasury bills carry two and three year maturity periods, and related interest is paid semi-annually. Accrued interest receivable on these bills as at December 31, 2005 amounted to LBP15.38billion (LBP12.03billion as at December 31, 2004), and is reflected under "Accrued interest and other receivables" (Note 10). Coupon treasury bills are stated net of deferred discounts in the amount of LBP899million as at December 31, 2005 (LBP497million as at December 31, 2004).

The above mentioned treasury bills in Lebanese Pounds outstanding at December 31, 2005 carry the following maturities:

(a) Expressed in terms of the original period to the repayment date:

	December 31, 2005		
	Fair Value	Nominal Value	Weighted Average Discount/Coupon Coupon Rate
	LBP'000	LBP'000	%
Six months	20,728,012	21,000,000	7.00
One year	18,563,268	19,196,010	6.72
Two years	138,444,918	130,505,050	8.10
Three years	590,930,042	597,817,210	9.08
Five years	5,006,554	5,000,000	11.30
	773,672,794	773,518,270	

(b) Expressed in terms of the remaining period to the repayment date:

	Carrying Value	Fair Value	Change in Fair Value	Weighted Average Discount/Coupon Rate	Market Interest Rates Applicable to the Respective Period
	LBP'000	LBP'000	LBP'000	%	%
Available-for-Sale:					
1st quarter 2006	38,549,344	38,699,165	149,821	7.13	3.73
2nd quarter 2006	12,761,026	12,825,281	64,255	7.13	5.77
2nd half 2006	70,058,717	70,292,478	233,761	8.40	7.69
Year 2007	265,058,649	265,600,020	541,371	8.50	8.04
Year 2008	127,168,095	127,056,670	(111,425)	9.19	8.93
Year 2010	5,096,814	5,006,554	(90,260)	11.30	10.46
	518,692,645	519,480,168	787,523		
Held-to-Maturity:					
1st quarter 2006	13,500,031	14,510,119	1,010,088	7.83	8.00
2nd quarter 2006	2,999,907	3,214,314	214,407	7.76	7.85
Year 2007	33,981,386	35,221,032	1,239,646	8.19	7.81
Year 2008	202,434,284	201,247,161	(1,187,123)	9.33	9.39
	252,915,608	254,192,626	1,277,018		
	771,608,253	773,672,794	2,064,541		

The available-for-sale coupon treasury bills are stated at fair value. The change in fair value in the amount of LBP787million as at December 31, 2005 (LBP145million as at December 31, 2004) is reflected under equity net of deferred liability in the amount of LBP118million as at December 31, 2005 (LBP22million in 2004).

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

The Government and other securities, which are mainly denominated in foreign currencies, are classified as follows:

	December 31, 2005 LBP'000	December 31, 2004 (Restated) LBP'000
Trading:		
Equity securities	3,626,488	1,287,378
Lebanese Government Eurobonds	1,264,904	13,430,622
Certificate of deposit issued by a Lebanese bank	1,513,153	1,518,806
	6,404,545	16,236,806
Available-for-Sale:		
Equity securities held at fair market value	433,263,721	193,085,854
Equity securities held at cost	23,198,154	21,572,600
Lebanese Government Eurobonds	1,224,839,539	772,624,928
Certificates of deposit issued by a Lebanese bank	-	7,700,837
Debt securities issued by Lebanese quoted companies	770,709	791,438
Cumulative preferred shares issued by a Lebanese bank	6,030,000	6,030,000
Convertible preferred shares issued by a Lebanese bank	4,543,228	4,543,228
Non-cumulative preferred shares issued by a Lebanese bank	13,693,678	6,156,178
Certificates of deposit issued by the Central Bank of Lebanon	12,310,444	15,000,000
Central Bank of Lebanon Euro certificates of deposit	112,338,055	-
	1,830,987,528	1,027,505,063
Held-to-Maturity:		
Debt securities issued by foreign banks	11,887,588	6,023,700
Certificates of deposit issued by the Central Bank	376,106,432	471,334,825
Lebanese Government Eurobonds	999,595,781	1,183,754,535
Central Bank of Lebanon Euro certificates of deposits	205,499,385	-
Certificates of deposit issued by Lebanese commercial banks	7,537,500	6,030,000
	1,600,626,686	1,667,143,060
	3,438,018,759	2,710,884,929

Equity securities classified as trading represent securities of quoted Lebanese banks and companies, held by the Group for trading purposes, stated at fair value prevailing at year-end, and are composed of the following:

	December 31, 2005			December 31, 2004
	Carrying Cost	Change in Fair Value	Fair Value	Fair Value
	USD	USD	USD	USD
Byblos Bank S.A.L. "C" Shares	515,906	(78,986)	436,920	283,258
Byblos Bank S.A.L. "B" Shares	373,241	66,429	439,670	285,041
Solidere "A" Shares	136,193	82,822	219,015	100,493
Ciment Libanais S.A.L. shares	242,963	170,520	413,483	153,908
Eternit shares	189,791	(189,791)	-	-
GB One shares	48,500	(6,263)	42,237	31,283
	1,506,594	44,731	1,551,325	853,983
Counter Value of USD in LBP'000	2,271,190	67,432	2,338,622	1,287,378
	LBP'000	LBP'000	LBP'000	LBP'000
Byblos Priority shares "B" and "C"	446,447	841,419	1,287,866	-
Total in LBP'000	2,717,637	908,851	3,626,488	1,287,378

The Group acquired during 2005 371,437 Byblos Priority shares of par value of LBP1,200 each. These shares earn an annual interest of 4% of par value on a non-cumulative basis from the net non-consolidated income after the distributions to preferred shares for a period of five years beginning the date of issue and starting net income of the year 2005.

Dividends received during year 2005 and 2004 on the above mentioned equity securities is reflected under "Net gain from securities and investments" in the consolidated income statement.

Lebanese Government Eurobonds as at December 31, 2005 classified as trading are stated at fair value and mature as follows:

Maturity	Par Value	Carrying Cost	Fair Value	Change in Fair Value	Coupon Rate
	Euro	Euro	Euro	Euro	%
May 2009	685,000	685,000	708,975	23,975	7.250
Total Counter value of Euro in LBP	1,222,129	1,222,129	1,264,904	42,775	

The change in fair value on Lebanese Government Eurobonds classified as trading in the amount of LBP43million is recorded under "Net gain on securities and investments" (LBP55million in 2004).

The certificate of deposit issued by a Lebanese bank in U.S. Dollars and classified as trading as at December 31, 2005 and 2004 matures in January 2007 and earns interest at the rate of 6.875% per annum. In this connection accrued interest receivable amounted to LBP43.2million as at December 31, 2005 (LBP44.9million as at December 31, 2004) and is reflected under "Accrued and other receivables" (Note 10).

Available-for-sale equity securities comprise are the following:

		December 31, 2005			December 31, 2004
	Number of Shares	Carrying Cost LBP'000	Fair Value LBP'000	Change in Fair Value LBP'000	Fair Value LBP'000
Equity Securities Held at Fair Value:					
Solidere S.A.L.	15,888,628	121,350,483	430,658,879	309,308,396	191,558,537
Société Financière du Liban	26,800	350,260	1,005,000	654,740	350,260
Kafalat	4,500	450,000	900,000	450,000	450,000
Berytech	700	105,000	105,000	-	105,000
Metropolitan Club	1	33,000	-	(33,000)	33,000
Arab Life Insurance Company	5,523,000	577,086	594,842	17,756	577,086
Tower Club	1	4,756	-	(4,756)	11,971
Institut National de Garantie des Depot (net of amortization)	102	-	-	-	-
		122,870,585	433,263,721	310,393,136	193,085,854

	December 31, 2005		December 31, 2004	
	Nº. of Shares	Amount LBP'000	Nº. of Shares	Amount LBP'000
Equity Securities Held at Cost:				
Banque de l'Habitat	624,800	5,027,984	624,800	5,027,984
Banque Nationale pour le Development Industriel et Touristique	5,500	507	5,500	507
Compagnie Générale du Levant	630	151	630	151
Union Nationale	725,814	103,681	725,814	103,681
Société Fonciére du Liban	1,719	517	1,719	517
Faraya Mzar	595,298	258,741	583,152	246,482
Cooperative de Presse	165	9,075	165	9,075
Bank of Beirut and the Arab Countries S.A.L.	-	-	3,199,665	7,235,242
Société Méditerranée des Grands Hotels S.A.L.	33,512,220	900,117	33,512,220	900,117
CIL	6,510	2,336,625	6,510	2,336,625
Ciment Libanais	5,194,402	14,095,011	5,194,402	5,246,475
BLOM Bank S.A.L. - GDR	5,867	212,268	5,867	212,268
Banque Audi S.A.L. - GDR	4,889	136,348	4,889	136,348
Byblos Bank S.A.L.	18,887	32,726	18,887	32,726
Fransabank S.A.L.	24,732	83,888	24,732	83,888
Others	-	515	-	514
		23,198,154		21,572,600

The "Bank of Beirut and the Arab Countries S.A.L." shares were acquired during the first half of 2002 and represent 3,199,665 shares acquired at the rate of USD1.5 per share, representing a minority equity stake of approximately 5% in the bank. During the first half of the year 2005, the Group disposed of its investment in Bank of Beirut and the Arab Countries S.A.L. that was classified as available-for-sale and realized a gain of LBP2.8billion recorded under "Net gain from securities and investments" in the consolidated income statement for the year ended December 31, 2005.

The shares in "Societe Méditerranée des Grands Hotel S.A.L." as at December 31, 2005 and 2004 consist of 33,500,354 shares acquired in 2003 at LBP25 per share and 11,866 shares acquired in 2004 through an exchange transaction with Lebanon Holding Fund.

The shares in Fransabank S.A.L. and Byblos Bank S.A.L. and the Global Depositary Receipts issued by Audi Bank S.A.L. and BLOM Bank S.A.L. were acquired in an exchange transaction with Lebanon Holding Fund in March 2004 whereby Lebanon Holding Fund repurchased its shares from the Group in exchange of the above mentioned securities.

The change in fair value in the amount of LBP310billion as at December 31, 2005 is recorded under equity net of deferred liability in the amount of LBP47billion.

The available-for-sale Lebanese Government Eurobonds as at December 31, 2005 are stated at fair value and are broken down by maturity as follows:

Maturity	Par Value	Carrying Cost	Fair Value	Change in Fair Value	Coupon Rate
	USD	USD	USD	USD	%
April 2006	125,175,000	126,823,160	126,630,785	(192,375)	9.875
May 2006	13,663,000	13,879,528	13,859,473	(20,055)	10.500
June 2006	3,000,000	3,059,063	3,082,500	23,437	10.500
August 2006	48,015,000	49,152,998	49,185,606	32,608	10.500
February 2007	34,000,000	34,134,644	34,000,000	(134,644)	6.500
October 2007	64,985,000	67,186,387	67,137,954	(48,433)	8.625
March 2008	17,500,000	17,544,297	17,552,500	8,203	6.375
June 2008	495,000	493,716	502,118	8,402	7.375
August 2008	153,066,000	164,250,121	165,216,378	966,257	10.125
October 2009	49,600,000	54,368,530	55,118,000	749,470	10.250
November 2009	12,000,000	12,001,996	12,495,000	493,004	7.830
December 2009	23,000,000	23,012,194	23,115,000	102,806	7.000
March 2010	63,790,000	64,442,374	64,188,688	(253,686)	7.125
November 2010	50,000,000	50,307,292	50,437,500	130,208	6.875
May 2011	53,610,000	54,510,314	55,419,338	909,024	7.875
September 2012	16,600,000	16,921,593	16,973,500	51,907	7.750
June 2013	12,460,000	12,718,773	13,262,173	543,400	8.625
January 2016	13,975,000	13,888,659	14,586,405	697,746	8.500
May 2016	3,277,000	3,749,011	4,088,058	339,047	11.625
	758,211,000	782,444,650	786,850,976	4,406,326	
	Euro	Euro	Euro	Euro	
October 2006	6,981,000	7,082,358	7,164,251	81,893	8.875
May-2009	14,015,000	14,121,527	14,505,523	383,996	5.281
	20,996,000	21,203,885	21,669,774	465,889	
	LBP'000	LBP'000	LBP'000	LBP'000	
Counter value in LBP	1,180,462,676	1,217,365,797	1,224,839,539	7,473,742	

The change in fair value of LBP7.47billion as at December 31, 2005 is recorded under equity net of deferred liability in the amount of LBP1.12billion (LBP1.97billion change in fair value net of deferred liability LBP0.3billion as at December 31, 2004).

Certificates of deposit issued by a Lebanese bank in U.S. Dollars and classified as available-for-sale matured in July 2005 and earned interest at the rate of 9% per annum.

Debt securities issued by Lebanese quoted companies in U.S. Dollars and classified as available-for-sale mature in year 2006 and earn interest at the rate of 10% per annum. The fair value of these debt securities amounted to USD511,250 as at December 31, 2005 (USD525,000 as at December 31, 2004) and the unrealized gain in the amount of USD11,250 as at December 31, 2005 (USD25,000 as at December 31, 2004) is reflected in a separate caption under equity net of deferred liability in the amount of USD1,688 as at December 31, 2005 (USD3,750 as at December 31, 2004).

Cumulative preferred shares in U.S. Dollars issued by a Lebanese bank and classified as available-for-sale represent the value of 51,200,000 class "A" shares acquired by the Group in 2004 for USD0.079 per share. These shares, which expire in year 2011, earn an annual cumulative fixed dividend of 7.5% per annum and are subject to an early redemption right starting in year 2009. If the issuing bank exercises its early redemption option, then the Group will be entitled to an early redemption premium equal to 50% of the annual dividend that would have been owed and due by the issuer to the Group until expiry of the preferred shares.

Convertible preferred shares issued by a Lebanese bank and classified as available-for-sale consist of the following:

Type	Number of Shares	Dividends %	Par Value USD	Maturity
Class "A" shares	182,500	8.00	2,007,500	Year 2007
Class "B" shares	87,500	7.00	1,006,250	Year 2010
			3,013,750	
Counter value of USD in LBP'000			4,543,228	

Class "A" shares represent non-callable cumulative convertible preferred shares that are denominated in U.S. Dollars and are subject to a one-to-one conversion option into the issuer bank's common stock in year 2007 at no additional cost than the issue price of USD11 for each preferred share.

Class "B" shares represent cumulative convertible preferred shares that are denominated in U.S. Dollars and that are subject to early redemption option on the 5th anniversary (year 2008) for a total consideration equal to the value of the shares at the issue price, in addition to the accumulated amount of all fixed dividend payments due and unpaid on the early redemption date plus an early redemption premium equivalent to 50% of the value of the fixed dividend payment that would have been owned and due until the end of the term of the shares. These shares carry a one-to-one conversion option into the issuer bank's common stock in year 2010 at no additional cost than the issue price of USD11.5 for each preferred share.

Non-cumulative preferred shares in U.S. Dollars issued by a Lebanese bank and classified as available-for-sale includes the value of 40,837 perpetual shares acquired by the Group in 2004 for USD100 per share. These shares earn a non-cumulative annual dividend of 8.5% and are subject to a call option starting in year 2009 and for each subsequent year thereafter at a price equal to the issue price per share plus any declared but unpaid dividends. During 2005, the Group acquired 50,000 additional shares for USD100 per share. These shares earn a non-cumulative annual dividend of maximum 9.5% and minimum 7.5% and are subject to a call option starting in year 2010.

Dividend income from preferred shares amounted to LBP1.06billion for the year ended December 31, 2005 recorded under "Net gain from securities and investments" in the income statement.

Certificates of deposit issued by the Central Bank of Lebanon and classified as available-for-sale are denominated in Lebanese Pounds and comprise the following:

Maturity	Par Value LBP	Carrying Cost LBP	Fair Value LBP	Change in Fair Value LBP	Coupon Rate %
Year 2008	4,000,000	4,262,300	4,239,296	(23,004)	17.17
Year 2010	8,000,000	8,341,723	8,071,148	(270,575)	11.30
	12,000,000	12,604,023	12,310,444	(293,579)	

The change in fair value in the amount of LBP294million as at December 31, 2005 certificates of deposit issued by the Central Bank of Lebanon in Lebanese Pounds is reflected under equity net of deferred liability in the amount of LBP44million.

Central Bank Euro certificates of deposit classified as available-for-sale and purchased by the Group in the year 2005 are denominated in U.S. Dollars and carry the following maturities:

Maturity	Par Value USD	Put Option USD	Premium USD	Carrying Cost USD	Fair Value USD	Change in Fair Value USD	Weighted Average Coupon Rate %
March 11, 2008	5,000,000	-	-	5,000,000	5,067,786	67,786	7.50
April 04, 2008	20,000,000	-	-	20,000,000	20,266,465	266,465	7.50
April 06, 2008	12,000,000	-	-	12,000,000	12,160,043	160,043	7.50
April 08, 2008	5,000,000	-	-	5,000,000	5,066,752	66,752	7.50
April 14, 2008	5,000,000	-	-	5,000,000	5,066,957	66,957	7.50
April 15, 2008	16,000,000	-	-	16,000,000	16,214,372	214,372	7.50
April 25, 2015 with put option for early redemption in year 2012	9,330,000	(254,430)	170,815	9,246,385	10,677,065	1,430,680	10.00
	72,330,000	(254,430)	170,815	72,246,385	74,519,440	2,273,055	
The counter value in LBP'000	109,037,475	(383,553)	257,504	108,911,425	112,338,055	3,426,630	

The certificates of deposit maturing on April 25, 2015 classified under available-for-sale and held-to-maturity (see below) are puttable at a price of 91.63 in year 2012. The Group is providing over time for the difference between the par value and the redemption value in year 2012 by recognizing the effective yield applicable for the period until 2012. This cost which is expected to increase year by year, is reflected as an adjustment to the carrying book value.

The change in fair value in the amount of LBP3.43billion as at December 31, 2005 is recorded under equity net of deferred liability in the amount of LBP0.51billion.

Debt securities issued by foreign banks and classified as held-to-maturity include structured notes acquired by the Group during the years 2004 and 2005. These notes comprise the following as at December 31, 2005:

Type	Issuer Rating	Maturity	Conditional Average Coupon %	Carrying Cost
USD:				
Callable range accrual note	AA	February 24, 2009	6.00	2,000,000
Callable range accrual note	AA	August 27, 2009	5.00	1,996,716
				3,996,716
Counter value of USD in LBP’000				6,025,049
Euro:				
Structured Notes – DOCU	AA	January 19, 2006	8.63	3,285,937
Counter value of Euro in LBP’000				5,862,539
Counter value of USD and Euro in LBP’000				11,887,588

The callable range accrual notes are subject to early redemption and pay coupon interest that is indexed to 6-months LIBOR that is fixed daily during the relevant calculation periods. The capital invested in these notes is guaranteed at maturity.

The certificates of deposit issued by the Central Bank of Lebanon and classified as held-to-maturity are composed of the following as at December 31, 2005:

Maturity	Nominal Amount LBP’000	Amortized Cost LBP’000	Average Coupon Rate %
1st quarter 2006	14,000,000	14,010,186	9.50
2nd quarter 2006	183,000,000	183,000,000	11.03
2nd half 2006	179,000,000	179,096,246	10.72
	376,000,000	376,106,432	10.83

The held-to-maturity Lebanese Government Eurobonds as at December 31, 2005 are stated at amortized cost and are broken down by maturities as follows:

Maturity	Par Value USD	Amortized Cost USD	Fair Value USD	Change in Fair Value USD	Coupon Rate %
April 2006	151,400,000	152,789,783	153,160,764	370,981	9.875
May 2006	116,697,000	116,933,323	118,375,098	1,441,775	10.500
June 20006	18,350,000	18,680,583	18,854,625	174,042	10.500
August 2006	54,700,000	55,927,577	56,033,581	106,004	10.500
February 2007	3,000,000	2,984,075	3,000,000	15,925	6.500
October 2007	40,303,000	39,832,035	41,638,202	1,806,167	8.625
March 2008	12,500,000	12,531,641	12,537,500	5,859	6.375
August 2008	41,000,000	44,264,780	44,254,558	(10,222)	10.125
October 2009	41,378,000	43,473,148	45,981,303	2,508,155	7.750
March 2010	5,000,000	5,081,199	5,031,250	(49,949)	7.125
October 2010	20,000,000	20,172,083	20,175,000	2,917	6.875
May 2011	56,500,000	57,498,953	58,406,875	907,922	7.875
September 2012	3,000,000	3,019,560	3,067,500	47,940	7.750
May 2012	54,750,000	62,130,034	68,300,625	6,170,591	11.625
	618,578,000	635,318,774	648,816,881	13,498,107	
	Euro	**Euro**	**Euro**	**Euro**	
October 2006	18,250,000	18,357,671	18,729,063	371,392	8.875
May 2009	5,000,000	5,100,670	5,175,000	74,330	7.250
	23,250,000	23,458,341	23,904,063	445,722	
	LBP'000	**LBP'000**	**LBP'000**	**LBP'000**	
The counter value in LBP	973,987,358	999,595,781	1,020,739,403	21,143,622	

Central Bank of Lebanon Euro certificates of deposit classified as held-to-maturity and purchased by the Group during the year 2005 are denominated in U.S. Dollars and carry the following maturities:

Maturity	Nominal Value USD	Put Option USD	Carrying Cost USD	Fair Value USD	Change in Fair Value USD	Average Coupon Rate %
February 15, 2006	5,400,000	-	5,400,000	5,212,488	(187,512)	4.13
March 9, 2008	27,000,000	-	27,000,000	27,360,283	360,283	7.50
March 11, 2008	11,000,000	-	11,000,000	11,147,941	147,941	7.50
March 16, 2008	10,000,000	-	10,000,000	10,120,519	120,519	7.50
March 17, 2008	30,000,000	-	30,000,000	30,401,961	401,961	7.50
March 24, 2008	14,500,000	-	14,500,000	14,694,969	194,969	7.50
April 6, 2008	8,250,000	-	8,250,000	8,360,029	110,029	7.50
April 14, 2008	6,073,000	-	6,073,000	6,154,326	81,326	7.50
April 25, 2015 with put option for early redemption in year 2012	25,000,000	(905,000)	24,095,000	28,609,500	4,514,500	10.00
	137,223,000	(905,000)	136,318,000	142,062,016	5,744,016	
The counter value of USD in LBP'000	206,863,673	(1,364,288)	205,499,385	214,158,489	8,659,104	

The option on the held-to-maturity certificates of deposit maturing on April 25, 2015 to redeem in year 2012, is treated in the same manner as described under available-for-sale certificates of deposit above.

Certificates of deposit issued by Lebanese commercial banks in U.S. Dollars and classified as held-to-maturity as at December 31, 2004 mature in July 2006 and earn interest at the rate of 6.75% per annum. During 2005, the Group invested an additional USD1,000,000 in certificates of deposit issued by the same bank, maturing in September 2008 and earning interest of 6.875% per annum. In this connection, accrued interest receivable in the amount of LBP211.1million as at December 31, 2005 (LBP187.18million as at December 31, 2004) is reflected under "Accrued interest and other receivables" (Note 10).

Accrued interest receivable on Government Eurobonds and starched notes debt securities amounting to LBP57.94billion as at December 31, 2005 (LBP49.75billion as at December 31, 2004), is included under "Accrued interest and other receivables" (Note 10).

Accrued interest receivable on the certificates of deposit issued by the Central Bank of Lebanon in U.S. Dollars amounted to LBP6.16billion as at December 31, 2005 and is reflected under "Accrued interest and other receivables" (LBP Nil as at December 31, 2004) (Note 10).

Accrued interest receivable on the certificates of deposit issued by the Central bank in LBP as at December 31, 2005 amounted to LBP61.55billion (LBP39.19billion as at December 31, 2004) and is reflected under "Accrued interest and other receivables" (Note 10).

Effective January 1, 2005, originated securities as at December 31, 2004 were reclassified under other classification categories in line with the revisions to IAS 39.

7. LOANS AND ADVANCES TO CUSTOMERS

This caption consists of the following:

	December 31, 2005 LBP'000	December 31, 2004 LBP'000
Ordinary Loans:		
Loans and overdrafts	1,555,470,639	1,298,451,644
Creditors balances in debit	11,799,011	7,467,075
Bills discounted	4,353,898	6,511,054
	1,571,623,548	1,312,429,773
Restructured Debts:		
Special mention loans	48,122,267	27,886,311
Substandard loans (net of unearned interest)	17,125,190	30,475,045
Bad and doubtful debts (net of unearned interest)	35,102,659	54,462,069
	100,350,116	112,823,425
Classified Loans:		
Substandard loans (net of unearned interest)	33,734,115	61,381,162
Bad and doubtful loans (net of unearned interest)	217,721,536	233,081,067
Less: Provision for credit losses	(175,267,460)	(173,423,773)
	76,188,191	121,038,456
Unearned penalties	(12,558,918)	(12,092,509)
Loans and advances to customers	1,735,602,937	1,534,199,145

The loans and advances portfolio is allocated by classification of debts and between Lebanese Pounds and foreign currency base loans as follows:

	December 31, 2005 LBP'000	F/Cy c/v in LBP'000	Total LBP'000
Regular and unclassified loans and advances	33,434,517	1,538,189,031	1,571,623,548
Restructured debts	3,300	100,346,816	100,350,116
Substandard loans (net of unearned interest)	75,087	33,659,028	33,734,115
Bad and doubtful loans (net of unearned interest)	31,493,286	186,228,250	217,721,536
Provisions	(19,556,132)	(155,711,328)	(175,267,460)
Unearned penalties	(12,558,918)	-	(12,558,918)
	32,891,140	1,702,711,797	1,735,602,937

	December 31, 2004		
	LBP'000	F/Cy c/v in LBP'000	Total LBP'000
Regular and unclassified loans and advances	21,495,996	1,290,933,777	1,312,429,773
Restructured troubled debts	-	112,823,425	112,823,425
Substandard loans (net of unearned interest)	3,467,395	57,913,767	61,381,162
Doubtful loans (net of unearned interest)	28,311,250	204,769,817	233,081,067
Provisions	(18,726,893)	(154,696,880)	(173,423,773)
Unearned penalties	(12,092,509)	-	(12,092,509)
	22,455,239	1,511,743,906	1,534,199,145

Loans and overdrafts as at December 31, 2005 include exposures secured by cash collaterals, real estate mortgages and marketable securities to the extent of approximately LBP534.4billion, LBP482.71billion and LBP108.34billion, respectively (LBP443.46billion, LBP518.14billion and LBP121.83billion respectively in 2004).

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

Economic Sector	December 31, 2005	December 31, 2004
	%	%
Real estate	33	28
Commercial and services	40	41
Agriculture and industrial	9	8
Other	18	23
	100	100

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

Loans and advances as at December 31, 2005 relate to resident debtors to the extent of 85% of total loans and advances (92% as at December 31, 2004).

Loans and advances to customers as at December 31, 2005 and 2004 are stated net of third parties' participation to the extent of LBP12.16billion and LBP22.61billion, respectively.

The Group has deferred penalty interest on loans and advances in the amount of LBP12.56billion as at December 31, 2005 (LBP12.1billion as at December 31, 2004).

Accrued interest receivable on loans and advances as at December 31, 2005 amounted to LBP6.99billion (LBP0.74billion as at December 31, 2004) and is reflected under "Accrued Interest and Other Receivables" (Note 10).

Bad and doubtful accounts in the aggregate amount of LBP302billion and LBP30.2billion were settled in year 2004 through the acquisition of the Group of real estate properties and temporary acquisition of a non-consolidated subsidiary, respectively.

Bad and doubtful debts and substandard loans are stated net of unearned interest.

The movement of unearned interest on bad and doubtful debts and substandard loans is summarized as follows:

	Year 2005 Unearned Interest on Doubtful Debts	Substandard Loans	Total	Total Year 2004
	LBP'000	LBP'000	LBP'000	LBP'000
Balance, beginning of year	383,354,748	28,274,437	411,629,185	427,705,963
Additions for the year	63,058,296	7,176,180	70,234,476	87,080,247
Write backs	(8,500,052)	(9,587,971)	(18,088,023)	(24,782,065)
Write-offs	(40,078,188)	(1,155,636)	(41,233,824)	(64,495,622)
Transfers	6,263,682	(6,263,682)	-	-
Transfer to provision for non-consolidated subsidiary	(5,056,942)	-	(5,056,942)	(14,109,427)
Transfer to off-balance sheet	(25,752,846)	(3,159,313)	(28,912,159)	-
Effect of exchange rate changes	(507,427)	(16,737)	(524,164)	230,089
	372,781,271	15,267,278	388,048,549	411,629,185
Contractual write-off on restructured troubled debts	(35,498,345)	(2,663,951)	(38,162,296)	(71,840,444)
Net balance, end of year	337,282,926	12,603,327	349,886,253	339,788,741

The Group has set up specific provisions for bad and doubtful accounts in the amount of approximately LBP175.27billion as at December 31, 2005 (LBP173.4billion as at December 31, 2004).

The movement of the provision for credit losses is summarized as follows:

	2005	2004
	LBP'000	LBP'000
Balance, beginning of year	188,607,017	196,212,447
Additions for the year	35,667,274	24,128,698
Transfer from escrow	1,470,605	-
Write-backs	(10,843,623)	(2,419,231)
Write-offs	(10,952,416)	(9,049,614)
Transfer to provision for non-consolidated subsidiary	(5,574,223)	(20,329,601)
Transfer to off-balance sheet	(15,797,342)	-
Effect of exchange rate charges	(375,452)	64,318
	182,201,840	188,607,017
Contractual write-off on restructured debts	(19,976,772)	(30,235,675)
Net balance, end of year	162,225,068	158,371,342
Escrow funds	13,099,392	16,343,979
Contractual write-off on restructured debts	(57,000)	(1,291,548)
	13,042,392	15,052,431
	175,267,460	173,423,773

Escrow funds in the amount of USD8,689,480 as at December 31, 2005, are partially funded from by the Group to the extent of USD2million and the balance is funded by the previous shareholders of Allied Bank S.A.L., a wholly owned subsidiary, for the purpose of covering any shortfall in the provision for doubtful accounts. An amount of USD3,993,133 out of the escrow funds as at December 31, 2005, became the irrevocable right of the Group as of the year 2002. During 2005, an amount of USD975,526 was transferred from the escrow funds to provisions for credit losses for bad and doubtful loans.

According to Government Decree Nº. 83 of June 27, 1977, specific provisions set up by banks for bad and doubtful debts, before the bankruptcy of the related debtors is declared, are considered a deductible charge for tax purposes, provided the approval of the Banking Control Commission is obtained.

During 2005, special mention accounts in the gross notional amount of LBP52.49billion were reported under restructured loans net of waived loans in the amount of LBP4.37billion which was off-set against unearned interest of bad and doubtful debts. In addition, substandard accounts in the gross notional amount of LBP19.79billion were reported under restructured loans net of waived loans in the amount of LBP2.66billion which was offset against unearned interest on substandard loans. Moreover, bad and doubtful accounts in the gross notional amount of LBP86.23billion were reported under restructured debts net of waived loans in the amount of LBP51.1billion which was off-set against provision and unearned interest on bad and doubtful loans in the amounts of LBP20billion (including LBP57million covered by Escrow Fund) and LBP31.13billion, respectively.

8. LOANS AND ADVANCES TO RELATED PARTIES

This caption comprises the following:

	December 31,	
	2005	2004
	LBP'000	LBP'000
Overdrafts	210,994,172	252,907,547
Long-term loans	520,298	659,908
Creditors balances in debit	25,569,586	38,737,841
Commercial bills	-	209,543
	237,084,056	292,514,839

Loans and advances to related parties represent the utilized overdraft facilities extended to the beneficial owner of the Bank and to companies under common ownership. These loans are substantially covered by related party deposits that comprise the following:

	December 31,	
	2005	2004
	LBP'000	LBP'000
Demand deposits	152,918,498	55,670,355
Debtors' balances in credit	2,437,008	2,952,743
Time deposits	263,364,913	197,146,995
Time savings	5,995,020	11,629,581
	424,715,439	267,399,674

Loans and advances to related parties in the amount of LBP63.7billion were settled during 2004 against the acquisition by the Group of two real estate companies owning properties adjacent to the Group's headquarters.

9. CUSTOMERS' ACCEPTANCE LIABILITY

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

10. ACCRUED INTEREST AND OTHER RECEIVABLES

This caption consists of the following:

	December 31,	
	2005	2004
	LBP'000	LBP'000
Accrued interest receivable:		
Lebanese treasury bills	15,383,198	12,029,004
Government Eurobonds and structured notes	58,252,125	50,574,816
Certificates of deposit issued by the Central Bank of Lebanon and other financial institutions	67,961,071	39,422,939
Loans and advances	6,985,586	739,789
Deposits with banks	5,415,371	4,462,732
Accrued commissions and other receivables	262,927	7,147
	154,260,278	107,236,427

11. OTHER ASSETS

This caption consists of the following:

	December 31, 2005 LBP'000	December 31, 2004 LBP'000
Prepaid expenses and deferred charges	9,159,598	10,780,378
Change in the fair value of derivatives	6,536,042	-
Others	12,333,593	9,418,906
	28,029,233	20,199,284

Changes in the fair value of derivatives is composed of the following:

	2005 LBP'000
Net forward exchange contracts	6,720,731
Net currency options	(184,689)
	6,536,042

12. INVESTMENT SECURITIES

This caption consists of the following:

	Percentage of Ownership/ Nº. of Shares	December 31, 2005 LBP'000	December 31, 2004 LBP'000
Associated Companies:			
Creditcard Services Company	40%	7,394,423	5,520,639
Medfinance Holding Ltd.	100%	1,356,750	1,356,750
Ciment de Sibline S.A.L.	23%	40,289,689	26,478,153
		49,040,862	33,355,542
Temporary Investment in Non-Consolidated Subsidiary			
Share capital and loans to IDARAT Investment S.A.L. (Holding) and Subsidiaries	72.2%	13,823,190	30,167,658
		13,823,190	30,167,658
Other Investments:			
Sidem	20%	13,006,715	13,006,715
Light Metal Products S.A.L.	145,000	4,844,173	4,844,173
Long-term loan to Light Metal Products S.A.L.	-	2,790,707	2,731,650
Others		162,798	-
		20,804,393	20,582,538
		83,668,445	84,105,738

The investment in Creditcard Services Company S.A.L. is reflected as at December 31, 2005 and 2004 using the equity method whereby the Group accounts for its share in the net income of the associate net of deferred dividend tax. In this connection, the Group recorded its share in the net income of the associate in the amount of LBP1.91billion for the year 2005 (LBP1.03billion for the year 2004) by crediting "net gains from securities and investments" in the income statement for an amount of LBP1.72billion for the year ended December 31, 2005 (LBP925million in 2004) and "accounts payable, accrued expenses and other liabilities" for an amount of LBP191million as at December 31, 2005 (LBP103million as at December 31, 2004).

During 2005, the Group acquired 7,634,901 additional shares in Ciment de Sibline S.A.L. for a total consideration of LBP13.81billion thus increasing the Group's stake in the equity of the associate to 23% representing 17,797,818 shares. The Group did not account as at December 31, 2005 for its share in the net income of the associate for the year ended December 31, 2005, since the accounts of the associate were not prepared as at the issuance of the Group's financial statements. Management believes that the share in the associate's net income for the year ended December 31, 2005 is immaterial to the Group's financial statements as a whole.

The "Medfinance Holding Ltd." shares were acquired during 2003 and represent 187,500 shares acquired at a lump-sum amount of USD900,000 (LBP1.4billion). The Group did not account as at December 31, 2005 for its share in the net income of the associate for the year ended December 31, 2005, since the accounts of the associate were not prepared as at the issuance of the Group's financial statements. Management believes that the share in the associate's net income for the year ended December 31, 2005 is immaterial to the Group's financial statements as a whole.

IDARAT Investment S.A.L. (Holding) and Subsidiaries equity stake of 72.2% was acquired by the Group on a temporary basis in partial satisfaction of debt related to this group and other capitalizable loans granted to this company and a chain of hotels and restaurants related to it. This investment is reflected at fair value which approximates its net realizable value as estimated by the Group's management.

13. ASSETS ACQUIRED IN SATISFACTION OF DEBTS

Acquisition of assets in satisfaction of debts is approved by the Lebanese banking regulatory authorities. These assets should be liquidated within two years as from the date of approval given by the Central Bank of Lebanon to acquire these properties. In the event of default of liquidation, such properties should be fully provided for over a period of five years, commencing in the last year of the period during which the assets should have been liquidated. In this connection, the regulatory provision for impairment set up by the Group as at December 31, 2005 amounted to LBP10.05billion (LBP4.04billion as at December 31, 2004).

However, it should be noted that the Central Bank of Lebanon, through its intermediary circular #41 dated November 17, 2003 and its related circulars and amendments, allowed banks to provide for impairment of assets acquired in satisfaction of debts over an extended period of 20 years provided that the related debts meet certain criteria enumerated in the above mentioned circular.

The movement of assets acquired in satisfaction of debts was as follows:

	Assets Acquired LBP'000	Provision for Impairment LBP'000	Net Book Value LBP'000
Balance -- January 1, 2004	46,326,015	(2,510,670)	43,815,345
Additions	301,586,490	(1,561,431)	300,025,059
Disposals	(5,424,702)	35,577	(5,389,125)
Balance -- December 31, 2004	342,487,803	(4,036,524)	338,451,279
Additions	60,218,319	(6,028,603)	54,189,716
Disposals	(81,368,194)	19,852	(81,348,342)
Balance -- December 31, 2005	321,337,928	(10,045,275)	311,292,653

During 2005, the Group sold assets acquired in satisfaction of debt of aggregate cost of USD52.6million for USD70.66million to a related party and recognized a gain on sale in the amount of USD18.06million reflected under "Gain on sale of assets acquired in satisfaction of debts" in the consolidated income statement for the year ended December 31, 2005.

The additional provision for impairment in the amount of USD6.03billion is recorded under "Other Expense" in the consolidated income statements.

14. GOODWILL (NET OF PROVISION FOR IMPAIRMENT LOSS)

The transactions giving rise to goodwill were mainly the purchase of 100% equity stake in Banque de la Méditerranée (Suisse) S.A. with an effective date of August 31, 2001 and 90% of Allied Bank S.A.L. with an effective date of November 30, 2001. The related goodwill represents mainly the difference between the acquisition price of the investment in both acquired subsidiaries and the Bank's equity in the related net assets at the effective dates of the transactions. The Bank's acquisition during 2003 of the remaining 10% equity stake in Allied Bank S.A.L. resulted in an addition to goodwill of LBP2.8billion. In addition, and due to a court resolution dated March 4, 2004, the Group had to pay an amount of USD2,653,657 to the previous owners of Allied Bank S.A.L. This resulted in a further addition to goodwill in the amount of LBP3billion.

The goodwill outstanding as of the balance sheet date consists of the following:

Subsidiary's Name	Percentage of Acquired Ownership	Transaction Value	Net Assets Value	December 31, 2005	December 31, 2004
	%	LBP'000	LBP'000	LBP'000	LBP'000
Banque de la Méditerranée (Suisse) S.A.	100	86,653,140	56,240,341	30,412,799	30,412,799
Allied Bank S.A.L.	100	56,426,242	28,673,294	27,752,948	27,752,948
				58,165,747	58,165,747
Cumulative effect of exchange rates changes up to December 31, 2005				8,396,406	14,528,009
				66,562,153	72,693,756
Less: Accumulated amortization up to December 31, 2003				(13,739,545)	(15,170,255)
Goodwill (net)				52,822,608	57,523,501

The change in accumulated amortization is due to exchange rate fluctuation. Effective 2004, goodwill is subject to impairment testing.

15. PROPERTY AND EQUIPMENT

This caption comprises the following:

	December 31,	
	2005	2004
	LBP'000	LBP'000
Real estate properties	154,763,197	155,467,002
Furniture and equipment	37,032,889	35,746,332
Vehicles	1,062,180	1,079,852
Improvements and installations	75,212,656	72,919,120
Key money	201,799	202,199
Establishment costs	301,358	1,435,038
	268,574,079	266,849,543
Accumulated depreciation	(90,046,202)	(80,770,328)
Allowance for impairment loss on property and equipment	(1,400,000)	-
Advance payments on capital expenditures	4,846,372	7,849,818
Net book value	181,974,249	193,929,033

Real estate properties include the cost of a building of LBP15billion (USD10,000,000) purchased on January 4, 1999 in Beirut Central District, which is to be used as headquarters for one of the subsidiaries, the Saudi Lebanese Bank S.A.L. The Bank has paid USD2,500,000 on signature of the purchase contract, and the balance of USD7,500,000 represents the present value of notes payable within 8 years, discounted at the rate of 7.25% per annum (the interest rate of the contract). The notes outstanding as at December 31, 2005 and December 31, 2004 are included under notes payable (Note 19) and are presented net of related deferred interest which is amortized over the life of the notes.

Real estate properties include LBP63.7billion representing the cost of real estate properties owned by two real estate companies that were acquired by the Group in satisfaction of debts during the year 2004.

The allowance for impairment loss on property and equipment in the amount of LBP1.4billion set up during the year 2005 against real estate properties and leasehold improvements is recorded under "other expenses" in the consolidated income statement.

16. CUSTOMERS' DEPOSITS AND CREDIT BALANCES

This caption comprises the following:

	December 31, 2005	December 31, 2004
	LBP'000	LBP'000
Demand deposits	282,162,617	272,153,875
Time deposits	1,907,456,166	1,970,326,694
Saving accounts	3,530,144,166	3,651,284,850
	5,719,762,949	5,893,765,419

Customers' deposits include coded accounts stated at LBP47.8billion as at December 31, 2005 (LBP119.9billion as at December 31, 2004). These accounts are subject to the provisions of Article 3 of the Banking Secrecy Law dated September 3, 1956. Under the provisions of this Article, the Group's management, in the normal course of business, cannot reveal the identities of the depositors to third parties, including its independent auditors.

Customers' deposits include as at December 31, 2005 deposits of a fiduciary nature in the aggregate of LBP231.33billion (including the equivalent of USD109,528,797 and Euro21,700,193) out of which LBP118billion placed with the Bank by a related non-resident company and a subsidiary bank (LBP243.75billion as at December 31, 2004, out of which LBP118billion placed by a related non-resident company and a subsidiary bank).

The consolidated average balances of the Group's deposit base (inclusive of related party accounts) and the related cost of funds over the current year and the last two-years were as follows:

Period/Year	Average Balance of Deposits	Allocation of Deposits LBP	Allocation of Deposits F/Cy	Cost of Funds	Average Annual Cost of Funds all Currencies
	LBP'000	%	%	LBP'000	%
2005	6,054,716,733	21	79	312,713,087	5.16
2004	5,716,867,586	23	77	325,544,398	5.69
2003	5,067,844,000	25	75	325,565,062	6.42

Customers deposits and other credit balances are segregated between resident and non-resident to the extent of 74% and 26% respectively as at December 31, 2005 (80% and 20% respectively as at December 31, 2004).

Accrued interest payable on customers' deposits amounted to LBP49billion as at December 31, 2005 (LBP45billion as at December 31, 2004) and is reflected under "Accrued interest payable" (Note 17).

Deposits outstanding as at December 31, 2005 (inclusive of related party accounts) carry the following maturities:

	Deposits In LBP LBP'Million	Deposits in F/Cy C/V in LBP'Million	Total Deposits LBP'Million
Less than 3 months	1,091,581	3,754,513	4,846,094
From 3 to 6 months	85,360	352,101	437,461
From 6 to 12 months	17,602	239,657	257,259
More than 12 months	1,188	602,476	603,664
	1,195,731	4,948,747	6,144,478

The structure of the customers' deposits, which are mainly of short-term maturities, and similar to the general structure within the Lebanese banking system, reflects a concentration in the distribution of deposits among account holders.

17. ACCRUED INTEREST PAYABLE

This caption comprises the following:

	December 31,	
	2005	2004
	LBP'000	LBP'000
Interest on deposits from customers and related parties	49,252,181	44,997,747
Interest on certificates of deposit	18,561,831	14,580,609
Interest on deposits from banks and financial institutions	3,346,776	938,100
	71,160,788	60,516,456

18. CERTIFICATES OF DEPOSIT

Certificates of deposit are composed of the following as at December 31, 2005 and 2004:

	December 31,	
	2005	2004
	LBP'000	LBP'000
Global certificates of deposit	1,085,400,000	572,850,000
Discount on certificates of deposit issuance	(5,393,669)	(82,839)
Local certificates of deposit	3,467,250	87,270,750
	1,083,473,581	660,037,911

Accrued interest payable on certificates of deposit, amounting to LBP18.57billion as at December 31, 2005 (LBP14.58billion as at December 31, 2004) is included under "Accrued interest payable" (Note 17).

A. Global certificates of deposit:

During 1996, the Group set up a USD500,000,000 Euro Deposit Program to be issued in series through international financial institutions. Eleven series have been issued up to December 31, 2005, out of which series Nº. 1, 2, 3, 4, 5, 6, 7 and 8 were redeemed.

The Group also issued during 2005, 2004 and 2003, certificates of deposit with a nominal value of USD170,000,000, USD150,000,000 and USD100,000,000 under series Nº. 11, 10 and 9, respectively, as a supplement to the above mentioned program. During 2005 and 2004, series No. 11 and 10 in the amount of USD170million and USD150million, respectively, were issued. During 2005, series 6 and 8 in the amount of USD50million and USD80million were redeemed at their maturity on March 11, and September 9, 2005, respectively. Redemptions during the year 2004 in the amount of USD150million represented series 7.

During 2005, the Group augmented the above mentioned program by USD500,000,000 to become USD1billion to be issued in series through international financial institutions. In this respect, the Group issued series No.12 in the amount of USD300million representing the first series of the above mentioned program after its increase.

The outstanding series are summarized as follows:

	Series 9	Series 10	Series 11	Series 12
Nominal amount of certificates	USD 100,000,000	USD 150,000,000	USD 170,000,000	USD 300,000,000
Issue price	USD 100,000,000	USD 150,000,000	USD 168,218400	USD 298,005,000,
Issue date	October 6, 2003	August 6, 2004	July 19, 2005	December 15, 2005
Maturity	October 6, 2006	August 6, 2007	July 19, 2010	December 14, 2012
Fixed rate of interest	6.375%	6.25%	7.695%	7.625%
Interest payment date	April & October 6	August & February 6	July 19 & January 19	December 15 & June 15

B. Local Certificates of deposit

During 2003 and 2002, the Group issued local certificates of deposit in Lebanese Pounds amounting to LBP31.8billion with 18 months maturity period and paying average interest rate of 12% on a monthly basis.

The Group redeemed the final amount of LBP2.7billion, carrying an average interest rate of 9% in the year 2005 (an amount of LBP29.1billion, carrying an average interest rate of 13.29%, from the above issue upon its maturity dates in January, February, April and December 2004).

In addition, during 2003 and 2002, the Group issued local certificates of deposit in Euro amounting to EUR5,550,000 with 18 months maturity period and paying average interest rate of 6.5% on a monthly basis. The whole program was settled by the Group in 2004 upon its maturity.

Moreover, during 2002 and 2003, the Group issued local certificates of deposit in U.S. Dollars amounting to USD111,050,000 paying interest at the average rate of 6.25% per annum accrued a monthly basis. In addition, the Group issued during year 2004, new certificates of deposit in the amount of LBP31.66billion (USD21,000,000) paying interest at a rate of 4.95% per annum accrued on a monthly basis.

The Group redeemed an amount of USD53.8million carrying interest of 5.4% per annum after its maturity during 2005 (USD47,150,000 carrying interest rate of 6.44% per annum, from the above issues upon their maturity during year 2004).

The remaining local certificates of deposit in the amount of LBP3.47billion as at December 31, 2005 (USD2.3million) mature in year 2006 and bear interest of 4.5% per annum.

The local certificates of deposit as at December 31, 2004 mature as follows:

	Lebanese Pounds	Interest Rate	U.S. Dollars	Interest Rate	Nominal Value	Average Interest Rate
	LBP'000	%	C/V LBP'000	%	LBP'000	%
1st quarter 2005	2,700,000	9.00	15,527,250	5.50	18,227,250	6.02
2nd quarter 2005	-	-	37,386,000	5.50	37,386,000	5.50
2nd half 2005	-	-	28,190,250	5.00	28,190,250	5.00
Year 2006	-	-	3,467,250	4.50	3,467,250	4.50
	2,700,000		84,570,750		87,270,750	

19. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

This caption is composed of the following:

	December 31, 2005	December 31, 2004 (Restated)
	LBP'000	LBP'000
Margins on letters of credit	6,372,879	7,840,639
Margins on letters of guarantee	11,943,135	26,361,605
Blocked accounts for capital subscription	8,395,771	10,192,738
Notes payable - Note 15	2,367,851	4,800,373
Accrued income tax and other	5,117,534	7,700,993
Withheld and other taxes	1,203,170	775,368
Withheld tax on interest	3,038,259	2,446,154
Checks and payment orders	3,920,813	8,487,825
Sundry credit balances	34,853,028	12,656,693
Accrued expenses	5,576,927	8,428,278
Unearned revenue	1,801,726	736,730
Change in fair value of derivatives	-	12,262,189
Deferred liability on available-for-sale securities	48,189,723	12,643,121
Deferred liabilities on income from associates	293,767	102,798
Other liabilities	3,730,950	4,284,403
	136,805,533	119,719,907

The tax returns for the years 2002 to 2005 remain subject to examination and final tax assessment by the tax authorities. Management does not expect any material additional tax liability as a result of the expected tax review.

Sundry credit balances include transitory accounts against checks sent for clearing in the amount of LBP9.96billion as at December 31, 2005, (LBP5.14billion, as at December 31, 2004), cleared and recorded to the related accounts in the period subsequent to the balance sheet date.

20. PROVISIONS FOR LOSSES AND CONTINGENCIES

This caption comprises the following:

	December 31,	
	2005	**2004**
	LBP'000	**LBP'000**
Provision for employees' end-of-service indemnities	9,636,461	10,220,974
Provision for contingent liabilities	3,446,414	3,190,010
Provision for loss on foreign currency position	122,125	312,199
	13,205,000	13,723,183

The movement of the provision for employees' end-of-service indemnities is as follows:

	2005	**2004**
	LBP'000	**LBP'000**
Balance -- Beginning of year	10,220,974	8,697,973
Additions	545,275	2,090,027
Settlements	(1,075,687)	(567,026)
Write-backs	(54,101)	-
Balance -- End of year	9,636,461	10,220,974

21. CAPITAL

The capital of the Bank as at December 31, 2005 and December 31, 2004 consists of 53,000,000 shares of LBP10,000 par value each, issued and fully paid.

The Bank has set up a special foreign currency position to the extent of USD71.15million as of December 31, 2005 as a hedge of capital within the limits authorized by local banking regulations.

During 2004, the Group distributed dividends in the amount of LBP75billion after being declared by the General Assembly in its meeting on November 10, 2004. The Group paid the related withheld income tax of LBP7.5bilion on November 30, 2004.

The Bank's consolidated risk based capital ratio as at December 31, 2005 and 2004 amounted to 26.7% and 25.7% respectively, and is determined as follows:

	December 31,	
	2005	2004
	LBP millions	LBP millions
Consolidated assets and off-balance sheet weighted risk	3,062,946	2,672,275
Tier I and Tier II capital (including income for the year)	818,693	686,583
Risk based capital ratio	26.7%	25.7%

22. CHANGE IN FAIR VALUE OF AVAILABLE-FOR-SALE SECURITIES

This caption comprises the following:

	December 31, 2004	Changes in Fair Value for the Year	Deferred Liability	December 31, 2005
	LBP'000	LBP'000	LBP'000	LBP'000
Change in fair value of available-for-sale debt securities held by the Bank	1,964,750	1,429,916	(214,487)	3,180,179
Change in fair value of available-for-sale equity securities held by the Bank	64,037,199	233,811,883	(35,071,782)	262,777,300
Change in fair value of available-for-sale securities held by the Bank's Subsidiaries	4,564,271	1,735,553	(260,333)	6,039,491
Change in fair value of available-for-sale securities held by other subsidiaries	1,078,131	8,848,534	-	9,926,665
Change in fair value of available-for-sale securities held by associates	-	234,090	-	234,090
	71,644,351	246,059,976	(35,546,602)	282,157,725

The change in the 2004 balance consists of the value of deferred liability on the change in value of available for sale securities in addition to the transition of 2005 beginning balance which was made due to the amendment made to IAS 39. The changes are comprised of the following:

	December 31, 2004	Deferred Liability	(Restated) December 31, 2004
	LBP'000	LBP'000	LBP'000
Change in fair value of available-for-sale debt securities held by the bank	(1,552,736)	232,910	(1,319,826)
Change in fair value of available-for-sale equity securities held by the bank	75,337,881	(11,300,682)	64,037,199
Change in fair value of available-for-sale securities held by Bank Subsidiaries	2,293,797	(344,070)	1,949,727
Change in fair value of available-for-sale securities held by other subsidiaries	1,268,388	(190,257)	1,078,131
	77,347,330	(11,602,099)	65,745,231
Transitional Restatement – BANK	3,864,208	(579,632)	3,284,576
Transitional Restatement – Subsidiaries	3,075,934	(461,390)	2,614,544
	84,287,472	(12,643,121)	71,644,351

23. TRANSACTIONS WITH RELATED PARTIES

Interest income includes approximately LBP17.67billion for the year ended December 31, 2005 (LBP21.38billion for the year ended December 31, 2004) representing interest charged to related parties' loan accounts.

Interest expense includes approximately LBP18.04billion for the year ended December 31, 2005 (LBP10.68billion for the year ended December 31, 2004) representing interest paid on related parties' deposits.

General operating expenses include approximately LBP14.17billion for the year ended December 31, 2005 (LBP13.44billion for the year ended December 31, 2004) representing charges transacted with affiliated companies for services rendered to the Group.

Guarantees and standby letters of credit includes guarantees issued on behalf of related parties in favor of third parties in the amount of LBP19.4billion as at December 31, 2005 (LBP27.08billion as at December 31, 2004).

Guarantees and standby letters of credit includes guarantees issued to the benefit of related parties on behalf of third parties in the amount of LBP75.23billion as at December 31, 2005 (LBP88.98billion as at December 31, 2004).

The Group had contracted to sell the whole 2,400 shares of parts B28, B31, B33, B34 and B36 in Plot 5205 located in Achrafieh district for a total consideration of USD1,628,000 to Allied Real Estate Co. S.A.L., which is a company owned by the previous Chairman and General Manager of the Group.

On December 24, 2004, the Group signed a contract with Allemby 171 Real Estate Co. S.A.L., a company owned by the previous Chairman and General Manager of the Group, whereby it renounced its right to own 2,400 shares in part 6 of plot # 171 in Marfaa district for a total consideration of USD3,400,000 paid upon the registration of the plot in the name of the Company. In addition, it was agreed that the Group renounces its leasing rights in the building erected on the plot mentioned above and evacuate the leased property and deliver it to the Company against receiving USD800,000 representing cost of decorations incurred by the Group and USD800,000 representing key money. Moreover, it was agreed that the Company pays the total consideration due to the Group that resulted from the above mentioned agreement in the amount of USD5,000,000 plus interest at the rate of 5% per annum in annual installments due on December 31 of each year starting December 31, 2005 and ending December 31, 2009, provided that the Company provides the Group with a first degree real estate mortgage on the above mentioned plot.

In addition, the Group sold fixed assets in 2004 to related parties and generated gain in the amount of LBP2.13billion reflected under “Other income” in the consolidated income statement.

24. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS

The guarantees and stand-by letters of credit and the documentary and commercial letters of credit represent financial instruments with contractual amounts representing credit risks. The guarantees and standby letters of credit represent irrevocable assurances that the Group will make payments in the event that customers cannot meet their obligations to third parties, and, therefore, are similar to loans receivable on the balance sheet. However, documentary and commercial letters of credit which represent written undertakings by the Group on behalf of customers authorizing third parties to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments to which they relate and therefore, have significantly less risks.

Forward exchange contracts outstanding as of December 31, 2005 represent positions held for customers' accounts and at their risk. The Group entered into such instruments to serve the needs of customers, and these contracts are fully hedged by the Group. The forward exchange contracts outstanding as at December 31, 2005 include a forward transaction for the purchase of USD80.08million versus CHF96.5million (USD77.4million versus CHF96.5million as at December 31, 2004). This transaction was effected to hedge an investment referred to in Note 14 above.

25. FIDUCIARY ACCOUNTS

Fiduciary accounts consist of the following:

	December 31, 2005		
	Customers’ Base Accounts		
	Resident	Non-Resident	Total
	LBP’000	LBP’000	LBP’000
Fiduciary deposits invested in deposits with non-resident banks	-	564,474,064	564,474,064
Fiduciary deposits invested in portfolio securities (non-resident)	-	501,555,320	501,555,320
Fiduciary deposits invested in back-to-back lending	452,870,626	35,368,210	488,238,836
	452,870,626	1,101,397,594	1,554,268,220

	December 31, 2004		
	Customers' Base Accounts		
	Resident	Non-Resident	Total
	LBP'000	LBP'000	LBP'000
Fiduciary deposits invested in deposits with non-resident banks	-	474,611,167	474,611,167
Fiduciary deposits invested in portfolio securities (non-resident)	-	342,306,954	342,306,954
Fiduciary deposits invested in back-to-back lending	143,093,678	45,138,416	188,232,094
	143,093,678	862,056,537	1,005,150,215

The above balances are segregated as follows:

	December 31, 2005		December 31, 2004	
	Resident	Non-Resident	Resident	Non-Resident
	LBP'000	LBP'000	LBP'000	LBP'000
Discretionary	-	5,603,397	-	5,785,867
Non-discretionary	452,870,626	1,095,794,197	143,093,678	856,270,669
	452,870,626	1,101,397,594	143,093,678	862,056,536

26. CASH FLOW STATEMENT

The following investing and financing activities, which represent non-cash items were excluded from the consolidated statement of cash flows as follows:

(a) Increase in change fair value of available-for-sale securities and deferred liability in the amounts of LBP210.28billion and LBP35.55billion, respectively, against securities for the year ended December 31, 2005 (LBP59.39billion and LBP11.01billion, respectively, against securities for the year ended December 31, 2004).

(b) Assets acquired in satisfaction of debts in the amount of LBP59.72billion against loans and advances to customers and investments in related companies in the amount of LBP47billion and LBP12.72billion, respectively, for the year ended December 31, 2005 (LBP242.61billion against loans and advances to customers for the year ended December 31, 2004).

(c) Minority interest share in unrealized gain on available-for-sale securities in the net amount of LBP2.8billion for the year ended December 31, 2005 (LBP456million in 2004).

(d) Increase in deferred liability on income from associates and increase in change in fair value on available-for-sale securities in the amount of LBP191million and LBP234million, respectively, against securities for the year ended December 31, 2005.

(e) Accrued interest on long-term loan to Light Metal Products in the amount of LBP726million that became part of the principal amount of the loan against investment securities in year 2004.

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a. *Fair Value of Financial Instruments*

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Consequently differences can arise between carrying values and fair value estimates.

The on-balance sheet financial instruments are reflected according to their classifications, in accordance with IAS 39. The held-for-trading and available-for-sale securities are reflected at their fair value. The investments held-to-maturity and loans and receivables are carried at amortized cost and adjusted for non-temporary decline in value and/or impairment loss. The fair value of these instruments is disclosed in the respective notes to the financial statements.

b. *Credit Risk*

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

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

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

The risk of the debt instruments included in the investment portfolio relates mainly to sovereign risk. For details of the composition of the loans and advances refer to Note 7.

c. *Market Risk*

Market risk includes, among other things, currency risk and interest rate risk:

Currency Risk:

The Group carries an exchange risk associated with the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Group takes preventive measures against this risk by setting up limits on the level of exposure by currency and in total for both overnight and intra-day positions in line with the limits authorized by the Lebanese regulatory authorities. Furthermore, the Group hedges its capital against currency fluctuation by maintaining a fixed position in foreign currency and hedging of investments, in line with the regulatory authorized limits.

The following table is a distribution of assets and liabilities between Lebanese Pounds and other major currencies as at December 31, 2005:

	LBP	USD C/V in LBP	Other Currencies C/V in LBP	Total
	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS				
Non-interest earning compulsory reserves and obligatory placements	181,980,932	-	-	181,980,932
Cash and due from banks	17,195,357	75,770,092	23,243,533	116,208,982
Interest earning deposits with banks	7,500,000	1,346,130,634	143,129,794	1,496,760,428
Securities	1,170,405,603	2,767,611,244	272,397,688	4,210,414,535
Loans and advances to customers	32,891,140	1,454,989,796	247,722,001	1,735,602,937
Loans and advances to related parties	91,264,493	72,715,570	73,103,993	237,084,056
Customers' acceptance liability	-	34,298,471	18,853,549	53,152,020
Accrued interest and other receivables and other assets	84,251,209	85,739,723	5,762,537	175,753,469
Investment securities	8,232,086	75,436,359	-	83,668,445
Investment properties	-	5,024,625	-	5,024,625
Regulatory blocked fund	1,507,500	-	-	1,507,500
Assets acquired in satisfaction of debts	(526,238)	310,326,384	1,492,507	311,292,653
Goodwill	23,068,897	-	29,753,711	52,822,608
Premises and equipment	176,680,389	4,779,969	513,891	181,974,249
Total Assets	1,794,451,368	6,232,822,867	815,973,204	8,843,247,439
LIABILITIES				
Due to banks and financial institutions	(81,462,169)	(160,505,038)	(91,556,894)	(333,524,101)
Acceptances payable	-	(34,298,473)	(18,853,547)	(53,152,020)
Customers' deposits and credit balances	(1,184,538,358)	(4,308,534,181)	(226,690,410)	(5,719,762,949)
Deposits from related parties	(11,192,947)	(412,011,358)	(1,511,134)	(424,715,439)
Accounts payable, accrued expenses and other liabilities	(35,915,371)	(161,795,302)	(10,255,648)	(207,966,321)
Certificates of deposit	-	(1,083,473,581)	-	(1,083,473,581)
Provisions for losses and contingencies	(9,766,017)	(2,921,725)	(517,258)	(13,205,000)
Total Liabilities	(1,322,874,862)	(6,163,539,658)	(349,384,891)	(7,835,799,411)
Forward contracts bought	6,462,900	398,824,438	139,144,946	544,432,284
Forward contracts sold	(2,179,375)	(121,764,828)	(410,699,769)	(534,643,972)
Net Premium	-	(2,988,151)	(79,430)	(3,067,581)
Net Currency options	-	-	(184,689)	(184,689)
Derivatives net	4,283,525	274,071,459	(271,818,942)	6,536,042
Net exchange position	475,860,031	343,354,668	194,769,371	1,013,984,070

Interest Rate Risk:

The Group is exposed to several risks associated with the effect of fluctuations of interest rates on its financial position and cash flows. The Group is exposed to interest rate risk as a result of mismatches in the amounts of assets and liabilities that mature or re-price in a given period. The Group manages these risks by monitoring the effect of interest rates fluctuations on interest bearing assets and liabilities accounts according to their maturities and interest structure.

The structure of financial statements denominated in Lebanese Pounds and foreign currencies through out the banking industry shows a mismatch between short term maturities bearing floating interest rates against medium and long term investments bearing fixed interest rates.

The off-balance sheet accounts are not exposed to interest rate risk.

The following table is a distribution of assets and liabilities in Lebanese Pounds and foreign currencies as at December 31, 2005 by maturity and interest structure.

INTEREST SENSITIVITY ANALYSIS FOR ACCOUNTS IN LEBANESE POUNDS AS AT DECEMBER 31, 2005:

	Non-Interest Earning	Floating Interest Rate					Fixed Interest Rate					Grand Total
		Up to One Year	1-3 Years	3-5 Years	Over 5 Years	Total	Up to One Year	1-3 Years	3-5 Years	Over 5 Years	Total	
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Assets												
Non-interest earning compulsory reserves and obligatory placements	181,980,932	-	-	-	-	-	-	-	-	-	-	181,980,932
Cash and due from banks	17,195,357	-	-	-	-	-	-	-	-	-	-	17,195,357
Interest earning deposits with banks	-	-	-	-	-	-	-	-	-	7,500,000	7,500,000	7,500,000
Securities	9,592,950	-	-	-	-	-	514,423,294	633,311,657	13,077,702	-	1,160,812,653	1,170,405,603
Loans and advances to customers and related parties	10,267,226	110,565,107	3,320,000	-	-	113,885,107	3,300	-	-	-	3,300	124,155,633
Customers' acceptance liability	-	-	-	-	-	-	-	-	-	-	-	-
Accrued interest and other assets	88,534,734	-	-	-	-	-	-	-	-	-	-	88,534,734
Investment securities	8,232,086	-	-	-	-	-	-	-	-	-	-	8,232,086
Investment properties	-	-	-	-	-	-	-	-	-	-	-	-
Regulatory blocked funds	1,507,500	-	-	-	-	-	-	-	-	-	-	1,507,500
Assets acquired in satisfaction of debts	(526,238)	-	-	-	-	-	-	-	-	-	-	(526,238)
Premises and equipment	176,680,389	-	-	-	-	-	-	-	-	-	-	176,680,389
Goodwill	23,068,897	-	-	-	-	-	-	-	-	-	-	23,068,897
Total Assets	516,533,833	110,565,107	3,320,000	-	-	113,885,107	514,426,594	633,311,657	13,077,702	7,500,000	1,168,315,953	1,798,734,893
Liabilities												
Due to banks and financial institutions	(37,869)	(81,424,300)	-	-	-	(81,424,300)	-	-	-	-	-	(81,462,169)
Acceptances payable	-	-	-	-	-	-	-	-	-	-	-	-
Customers' and related parties' deposits and credit balances	(12,938,567)	(1,180,266,330)	-	-	-	(1,180,266,330)	-	(2,526,408)	-	-	(2,526,408)	(1,195,731,305)
Accounts payable, accrued expenses and other liabilities	(35,915,371)	-	-	-	-	-	-	-	-	-	-	(35,915,371)
Certificates of deposit	-	-	-	-	-	-	-	-	-	-	-	-
Provisions for losses and contingencies	(9,766,017)	-	-	-	-	-	-	-	-	-	-	(9,766,017)
Total Liabilities	(58,657,824)	(1,261,690,630)	-	-	-	(1,261,690,630)	-	(2,526,408)	-	-	(2,526,408)	(1,322,874,862)
Net Balances in LBP vulnerable to interest rates fluctuations	457,876,009	(1,151,125,523)	3,320,000	-	-	(1,147,805,523)	514,426,594	630,785,249	13,077,702	7,500,000	1,165,789,545	475,860,031

INTEREST SENSITIVITY ANALYSIS FOR ACCOUNTS IN FOREIGN CURRENCIES AS AT DECEMBER 31, 2005:

		Floating Interest Rate					Fixed Interest Rate					
	Non-Interest Earning LBP'000	Up to One Year LBP'000	1-3 Years LBP'000	3-5 Years LBP'000	Over 5 Years LBP'000	Total LBP'000	Up to One Year LBP'000	1-3 Years LBP'000	3-5 Years LBP'000	Over 5 Years LBP'000	Total LBP'000	Grand Total LBP'000
Assets												
Non-interest earning compulsory reserves and obligatory placements	-	-	-	-	-	-	-	-	-	-	-	-
Cash and due from banks	81,683,857	17,329,768	-	-	-	17,329,768	-	-	-	-	-	99,013,625
Interest earning deposits with banks	-	1,189,878,739	79,746,750	27,888,750	-	1,297,514,239	13,245,754	141,566,685	36,933,750	-	191,746,189	1,489,260,428
Securities	474,762,318	5,862,539	-	6,025,049	-	11,887,588	870,138,253	839,211,088	485,744,645	358,265,040	2,553,359,026	3,040,008,932
Loans and advances to customers and related parties	58,660,709	1,390,229,243	29,185,000	-	-	1,419,414,243	9,253,434	347,866,756	4,357,196	8,979,022	370,456,408	1,848,531,360
Customers' acceptance liability	53,152,020	-	-	-	-	-	-	-	-	-	-	53,152,020
Accrued interest and other assets	93,754,777	-	-	-	-	-	-	-	-	-	-	93,754,777
Investment securities	75,436,359	-	-	-	-	-	-	-	-	-	-	75,436,359
Investment Properties	5,024,625	-	-	-	-	-	-	-	-	-	-	5,024,625
Regulatory blocked funds	-	-	-	-	-	-	-	-	-	-	-	-
Assets acquired in satisfaction of debts	311,818,891	-	-	-	-	-	-	-	-	-	-	311,818,891
Premises and equipment	5,293,860	-	-	-	-	-	-	-	-	-	-	5,293,860
Goodwill	29,753,711	-	-	-	-	-	-	-	-	-	-	29,753,711
Total Assets	1,189,341,127	2,603,300,289	108,931,750	33,913,799	-	2,746,145,838	892,637,441	1,328,644,529	527,035,591	367,244,062	3,115,561,623	7,051,048,588
Liabilities												
Due to banks and financial institutions	(100,786)	(251,961,146)	-	-	-	(251,961,146)	-	-	-	-	-	(252,061,932)
Acceptances payable	(53,152,020)	-	-	-	-	-	-	-	-	-	-	(53,152,020)
Customers' and related parties' deposits and credit balances	(43,317,045)	(4,302,953,717)	-	-	-	(4,302,953,717)	-	(602,476,321)	-	-	(602,476,321)	(4,948,747,083)
Accounts payable, accrued expenses and other liabilities	(172,050,950)	-	-	-	-	-	-	-	-	-	-	(172,050,950)
Certificates of deposit	5,393,669	-	-	-	-	-	(150,750,000)	(229,592,250)	(256,275,000)	(452,250,000)	(1,088,867,250)	(1,083,473,581)
Provisions for losses and contingencies	(3,438,983)	-	-	-	-	-	-	-	-	-	-	(3,438,983)
Total Liabilities	(266,666,115)	(4,554,914,863)	-	-	-	(4,554,914,863)	(150,750,000)	(832,068,571)	(256,275,000)	(452,250,000)	(1,691,343,571)	(6,512,924,549)
Net Balances in F/Cy vulnerable to interest rates fluctuations	922,675,012	(1,951,614,574)	108,931,750	33,913,799	-	(1,808,769,025)	741,887,441	496,575,958	270,760,591	(85,005,938)	1,424,218,052	538,124,039

d. Liquidity Risk

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

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

28. COMPARATIVE FINANCIAL STATEMENTS

Certain 2004 comparative figures were reclassified to conform with the current year's presentation.

29. APPROVAL OF THE FINANCIAL STATEMENTS

The Board of Directors has approved the consolidated financial statements of the Bank and its Subsidiaries for the year ended December 31, 2005 in its meeting held on April 5, 2006.