



## Annual Report

**2004**

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Capital 14 400 004 500L.L. fully paid. C.R.No. Baabda 2003890. List of Banks No. 103.

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Chairman General Manager

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Vice-President

**Maria Khalifeh Bazerji**  
Member

**Sana Zoghby Karam**  
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**Antoine Metni**  
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Lebanon insists on its regional financial role. Our environment, in spite of its political-economic complexities remains with certainty an instrumentally integral part of the regional market. Its appeal no doubt stems from its legal and regulatory climate, its historically regional entrepreneurial character and its abundance of local talent.

The Lebanese banking sector has grown significantly over the last decade, with total deposits for the sector easily reaching US\$ 50 billion by the end of 2004. The sector has also consolidated significantly in recent years, with the number of banks having dropped from more than 80 banks ten years ago to around 50 today. Lebanese banks operate in a constraining operational environment, which is significantly mitigated by an efficient regulatory environment. Banks are also characterized by a high level of liquidity a recurrent deposit base and a strong regulatory capitalization.

To our shareholders, our correspondent banks, our management and staff and to all our clientele who have continuously put their trust in our institution; I take great pride in presenting this year's annual report for a multitude of reasons, and feel obliged to thank all the management and staff that are responsible for this performance by highlighting these major qualitative accomplishment, which do not necessarily show up on our balance sheet.

The year 2004 will no doubt be remembered by all as a turning point for CreditBank s.a.l.:

A year where persistent organizational and operational shortcomings were tackled bringing forth our culture of corporate governance fit for the 21<sup>st</sup> century;

A year where business development challenges were undertaken and conquered, anchoring our brand name and image in the marketplace;

A year where we succeeded in expanding our network to cover all the remote regions-Tripoli in the north, Saida in the south and Chtaura in the Bekaa-as well as centralize our headquarters in a modern and state of the art facility.

Together, these feats, superimposed with the year's fine performance stand witness to our dynamic and dedicated team.

Over and above the qualitative improvements mentioned, it should be noted that our key performance indexes in 2004 outperformed the market's averages on the whole:

- Deposits : our deposits increased by 22.71% compared to a market growth of 13.14%
- Loans : our loans increased by 46% compared to a market growth of 8%
- Network: CreditBank's branches increased by 30% due to the expansion policy adopted by the Bank.

In the medium term our positioning is that of reaching out and bridging across the pan- Arab market and consolidating our presence in this market through strategic alliances with other financial partners. Our long term vision for the future is to seek to consolidate our efforts collectively to position the bank as an integral part of a premier pan Arab reference.

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### The Lebanese Economy

**2004 is a year that has been characterized by the highest growth in almost a decade and by a clear will to tackle the debt management issue. With 2005 beginning with an unexpected violent event, Lebanon is now at a turning point in its history.**

The Lebanese economy took a different course with the assassination of former Prime Minister Rafic Hariri. Indeed, prior to that fateful day of February the 14th, 2005, the Lebanese economy had been characterized by a relatively strong growth (GDP growth was estimated to have reached 5% in 2004), high levels of foreign currency reserves, robust financial sector liquidity, and a will by the monetary authorities to actively manage the significant public debt burden, mainly through debt swaps. However, the other side of the coin showed that the government had still not resumed the privatization of increasingly inefficient public institutions, and not carried out the economic reforms demanded by friendly nations and international creditors at the Paris II donors' conference in November 2002. The political squabbling of the period prior to the events of February the 14th, 2005, had created a political instability that inevitably led to a lack of reform implementation, and to a significant decrease in public confidence, which prevented further growth and hampered efforts to restructure the economy, create diversification and tackle the public debt burden.

The death of Mr. Hariri was nevertheless key to a full Syrian troops and military intelligence withdrawal from Lebanon and to the substantial support Lebanon had started to enjoy from foreign super-powers such as the US and the EU. The withdrawal of Syrian troops has already reduced the country's exposure to the wider geopolitical risks in the region, and is expected to boost investor confidence and promote financial stability in the near term. The completion of legislative elections within a democratic atmosphere and the victory of the opposition, which mobilized for the full withdrawal of Syrian troops and for complete political stability after the death of Mr. Hariri, should also attract a swelling number of international investors. The increase in foreign investments would boost economic growth, create employment and improve the operating environment significantly. The country's low credit rating (B- by Standard & Poor's and B2 by Moody's) could then improve, reducing as a result the government's borrowing cost and interest burden on its debt.

For the moment, the country has succeeded in weathering the storm that followed Mr. Hariri's assassination. Indeed, the Lebanese Pound was kept stable, despite the strong demand for foreign currency and the massive conversions of Lebanese Pound deposits into foreign currency deposits. The stability in the local currency was mainly due to the Central Bank's high level of foreign currency reserves, accumulated in the years following the Paris II donors' conference in late 2002, as well as to the high level of liquidity at domestic banks. The active debt management carried out by the monetary authorities, who used swaps to lengthen the maturity of government Eurobond issues, also allowed the government to meet the crisis with relative comfort. In other words, the monetary authorities' prudent and prevention policies have paid off and have provided the country with the necessary tools to face a damaging political crisis and reduction in public confidence.

The monetary authorities' high liquidity has been mainly due to constant and gradual capital flows from the Arab Gulf countries (which averaged 11% per year since 2001) and the increase in remittances from the Lebanese Diaspora living abroad. It is also worth mentioning the monetary authorities' "friendly" investor base, or the domestic banking sector, which has always reflected its faith in the country by actively subscribing to the majority of all government and Central Bank securities issues. Regarded as the strongest economic sector in Lebanon, the domestic banking sector has continuously followed a conservative policy of high liquidity and strong regulatory capital, which should at least guarantee the financing of the government's short-term needs in the short-term. Moreover, Lebanon continues to have a significant ability to attract external financing, which has constantly funded its fiscal deficit. Apart from the country's "friendly" investor base and significant level of remittances from Lebanese expatriates, the country enjoys substantial support from Gulf Arab investors, who have accelerated their investments in the Arab region after the 9/11 2001 terrorist attacks in the US. It is believed that a certain proportion of the hundreds of billions of US

Dollars of Gulf investments withdrawn from the US and Europe has already been re-injected into the Lebanese economy.

Although the government has succeeded so far in building up comfortable liquidity levels, which have been highly appropriate in times of political instability, the need for a sustained period of fiscal consolidation, which would surely include economic and administrative reforms, as well as privatization, is absolutely vital for the country's long-term economic prospects. Economic reforms, including privatization, are essential if the country is to solidify the recent improvements in the debt dynamics. A failure to capitalize on successful legislative elections and on the withdrawal of foreign military troops and intelligence, would undermine investment inflows, erode public confidence and, above all, threaten to increase risk levels and reduce further an already low credit rating.

On the other hand, a strong commitment to reform and restructure the country, focusing in particular on the high public sector debt burden, the limited fiscal flexibility, geopolitical risks, the improvement of external liquidity, the consolidation of economic development and the maintenance of growth rate for at least the next five years, would put the country on the right track of economic development. Economic growth must become any Lebanese government's priority, and should be achieved with:

- Economic diversification;
- The restoration of confidence and trust in the domestic economy and economic infrastructure;
- The re-building of the middle class and their savings base;
- The creation of tax incentives;
- The development of domestic capital markets;
- The development of transparency and an equitable judicial system; and
- The focus on developing and re-organizing particular key economic sectors.

The development of tourism, industry, banking and finance, agriculture, real estate, information technology, transport, health care and other general services sectors (e.g. education), together with privatization and a tight monetary policy, and political stability, remain the key to the establishment of a prosperous and strong Lebanon.

## Banking Sector

The Lebanese banking sector is mainly characterized by its high liquidity levels, its ability to attract a recurrent deposit base, a declining level of profitability, strong regulatory capitalization, and an increasing level of non-performing loans. Lebanese banks are heavily constrained by a difficult operating environment, which hampers asset quality and affects profits. The sector has few opportunities to place their deposit funding into good-quality loans to the corporate sector, while retail lending is still at a developmental stage. The limited placement opportunities have forced many banks to optimize their loan portfolio and to increase loan loss provisioning in light of higher non-performing loan levels in 2003 and 2004, while loan classification methods at both the Central Bank and the banks have become stricter. The recent political crisis following the assassination of the former Prime Minister, Mr. Hariri, has worsened the operating environment, which now appears to be stagnant.

The main strength of Lebanese banks remains their high level of liquidity and their ability to continue to attract deposits, despite the various political crises of recent months. Although the recent crisis following the assassination of the former Prime Minister has produced a certain pressure on the Lebanese Pound and a consequent massive conversion of Lebanese Pound deposits into US Dollar deposits, pushing the dollarisation rate of bank deposits to over 80%, there was little deposit withdrawals from the domestic banking system.

Lebanese banks remain profitable, although at a slightly decreasing rate, as profitable lending opportunities are rare and yields on government securities have decreased since the decrease in interest rates across the board after the Paris II donors' conference. Lebanese banks are trying to diversify their revenues and to reduce their reliance on net interest income by developing fee-based activities and diversifying geographically. Opening branches, or setting up subsidiaries or joint ventures in countries in the Arab region has become a solid trend for the past two to three years, and should pay off in the long-term, as banks start diversifying their assets and revenues, reduce their reliance on Lebanese Pound profits, and expand their franchise.

Capital adequacy remains strong, as the banks' minimum capital adequacy ratio for the sector revolves around the 19%-20% mark. The sector's equity to loans ratio easily exceeds 15%, which is a sign of strength for any emerging market. However, economic capital remains weak, with the sector being over-exposed to government securities, which at the current moment carry a risk-weighting close to 0%. Risk-weighted assets account for around 30% of the sector's total assets, but would rise significantly once the new Basel II regulations start being implemented in Lebanon in around five years' time. When the latter regulations are implemented, Lebanese banks are then expected to witness a sharp drop in their equity base and in their regulatory minimum.

Support from the national regulator or the BDL remains strong, as the latter is strategically keen to keep the banking system in good condition, within a fragile economic equilibrium. The BDL's track record in terms of supporting failing banks is strong and reflects a real willingness to maintain a solid banking sector. The BDL, on the other hand, is warmly encouraging further consolidation of Lebanese banks, and has recently approved the merger between Banque Audi and Banque Saradar, two of the largest banks in the country, to form the second largest banking group in Lebanon by total assets. The BDL has on many occasions provided soft loans as an incentive to encourage bank mergers and acquisitions.

BDL support and the potential for further consolidation in the medium-term, together with efforts by the banks to diversify their revenues, expand their franchises, strengthen their liquidity and optimize their loan portfolio should lead to gradual improvements on both the financial and qualitative side of Lebanese banks.

## The Lebanese Banking Sector

**Lebanese banks have witnessed a rising profitability during 2004, and have taken advantage of strong economic growth to improve their liquidity position. This strong liquidity has allowed Lebanese banks to tackle the pressure created by the violent events of February 2005.**

Lebanese banks were able to capitalize on the economy's strong growth and on the positive effects of the Paris II donors' conference, which took place in late 2002. 2004 was a year of rising profitability, as banks were able to reduce interest rates on deposits even further, while debit rates and rates on Treasury bills and government debt securities only moved fractionally, further enlarging margins. The bulk of profits for the overwhelming majority of banks came from interest income on government debt securities and loans. Banks in Lebanon are aware of the need to diversify revenues and are actively working towards developing a strong non-interest income stream. Geographical diversification has also been strong on the agenda of a large number of banks, which are aiming to develop their activities in countries and regions where the Lebanese Diaspora is significant. Opening branches, or setting up subsidiaries or joint ventures in countries in the Arab region has become a solid trend for the past two to three years, and is expected to pay off in the long-term, as assets and revenues are diversified, a recurring income stream is created, and reliance on Lebanese Pound profits is reduced.

The most significant challenge still facing the Lebanese banking sector is the heavy exposure to the Lebanese economy and the government, with the latter coming in the form of subscriptions to Treasury bills and foreign currency bonds issued directly by the State. Assets of banks, which are mainly composed of loans, liquid assets, and government debt securities, are still affected by the country's low sovereign credit rating (B- by Standard and Poor's and B2 by Moody's), which should take time to improve. Lebanese banks are heavily constrained by a difficult operating environment, which hampers asset quality and affects profits. The limited placement opportunities have forced many banks to optimize their loan portfolio and to increase loan loss provisioning in light of higher non-performing loan levels in 2003 and 2004, while loan classification methods at both the Central Bank and the banks have become stricter.

However, the main strength of Lebanese banks remains their high level of liquidity and their ability to continue to attract deposits, which constitute the domestic banks' main source of funding. This strong capacity to attract deposits has been tested in the first few months of 2005, when public confidence got affected by the assassination of former Prime Minister Hariri and depositors started to convert their Lebanese Pound deposits into foreign currency deposits and even withdraw a certain amount of deposits out of the Lebanese banking sector. The domestic banks, supported by their regulator were able to comfortably meet this sudden pressure on liquidity.

Regulatory capital was regarded to be one of the Lebanese banking sector's strongest aspects, as the industry average for the banks' minimum capital adequacy ratio revolved around the 19%-20% mark towards the end of 2004. The sector's equity to loans ratio easily exceeded the 15% mark, which is the minimum benchmark for all emerging market banking sectors across the world. The banks have been actively working towards improving their economic capital, by reducing exposure to government securities, which at the current moment carry a risk-weighting close to 0%. It is worth noting that risk-weighted assets, which currently account for around 30% of the sector's total assets, would significantly rise significantly once the new Basel II regulations start being implemented in Lebanon shortly after these regulations are adopted by banks in G10 countries. Lebanese banks are actively working towards improving their internal infrastructure and risk management capabilities, and have put in place strategies to build up a solid and diversified income stream, with a capital base that would be more commensurate with their risks.

The implementation of the Basel II Capital Accord on Lebanese banks is expected to be carried out smoothly, given the strong commitment of the national regulator (the Banque du Liban) to continuously support the banking sector. The Banque du Liban is keen to keep the banking system in good condition, within a fragile economic equilibrium, and has an excellent track record of support for the last fifteen years. The Banque du Liban is also a warm supporter of banking consolidation, as it aims to reduce the number of banks in the country, which is still regarded high at around 51 commercial banks, and to increase the efficiency of the domestic banking sector. The merger of Banque Audi with Banque Saradar, two of the largest banks in the country, to form the second largest banking group in Lebanon by total assets, was positively welcomed by the Central Bank, which has, on many occasions, provided soft loans as an incentive to encourage bank mergers and acquisitions.

Lebanese banks are expected to improve their financial fundamentals and qualitative aspects over the medium to long-term, given the strong support of the Banque du Liban, the potential for further consolidation in the medium-term, and the active efforts by the banks to diversify their revenues, expand their geographical franchises, strengthen their liquidity and optimize their loan portfolio.

## Strategy

In 2000, the Board of Directors of the Bank, driven by its actual president, Mr. Tarek Khalifeh, started a re-evaluation of its position within the Lebanese banking sector by setting up a five year business plan. The latter plan was intended to be used as a benchmark and springboard for future development and expansion. The Bank's first five year plan, which started in the beginning of 2000, aimed at the diversification of banking activities, mainly through the development of the corporate banking division, the improvement of retail banking activities to international standards, and the creation of a private banking unit within the Bank.

Financial goals were also set up, which aimed at increasing the level of capital, increasing the size of the balance sheet, as well as diversifying deposits, loans and other assets. Balance sheet growth and revenue diversification were also improved through external and organic means.

During the course of 2002, the Bank acquired the Lebanese operation of French bank Crédit Lyonnais, implementing as a result part of the initial strategy which was to improve operational and financial capabilities through the efficient acquisition of other banking institutions. By acquiring Crédit Lyonnais Liban, the Bank succeeded in its objectives, which included the improvement of its corporate and private banking activities. The acquisition also enlarged the Bank's branch network and improved its product distribution and deposit gathering capabilities.

The Bank's Board is now aware of the declining margins in the Lebanese banking market, as well as of the need to diversify revenues, create new business activities and increase productivity. The aim of the Bank is now firmly focused on building a healthy, diversified and recurrent income stream that would allow for the organic growth of capital. The latest capital regulations as outlined by the Basel II Capital Accord have triggered the decision within the Bank's Board to find ways to develop the procedures in terms of risk and capital management, and to increase and maintain a solid capital basis, which will be commensurate with the Bank's risk levels.

Moreover, the Bank is keen to take advantage of the rising liquidity that has been characterizing the Lebanese banking sector since the Paris II donors' conference in November 2002 and has set up a new five year plan which consists of the following:

- Reinforce current activities through product diversification and the hiring of senior staff;
- Focus on the profitability and efficiency of the various business divisions;
- Resume its external growth policy, in order to improve its critical mass and image, as well as productivity;
- Look for regional partnerships; and
- Look to increase equity to meet Basel II requirements, and hence be able to afford acquisitions. The Bank is planning to start increasing its equity level by issuing preferred shares.

Finally, it is worth noting that the Bank's first five-year-plan, which was kick-started in 2000, has been almost entirely implemented and executed and was not beyond the current management's means and capabilities.

## Bank's Activities & Sustainable Developments

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Retail Banking

Small & Middle Market

Corporate Banking &  
Trade Finance

Treasury & Capital Market

Risk Management

### Activities of the bank

#### Retail Banking and its Products

Our Retail department started its development in the last four years, as part of the initial five-year-plan, which started in 2000. The Retail decision has expanded significantly by introducing the following products in line with market trends:

- Personal loans
- Consumer loans
- Housing loans
- Car loans
- School loans
- Computer loans

#### Small & Middle Market

In 2003, the SMM division focused on improving its internal structure. A more conservative approach to landing loans adopted through a centralized decision-making process and reorganization. An increase of 56.93% in the SMM portfolio was due to the success of the reorganization.

#### Corporate banking and trade finance

2004 was a challenging year for the Corporate Banking division given the difficult economic environment. The corporate Team deployed efforts and continued its drive to strengthen ties with existing corporate clients and establish new relationships through the development innovative products, creative business propositions, and proactive customer service.

In 2004, the Corporate Banking Division contributed 57% of the total loan portfolio, reflecting a significant increase of 75% over the amount recorded in 2003.

By increasing the corporate portfolio which was mainly due to a significant increase in trade Finance activities, CreditBank was, at the end of 2004, amongst the 10 largest banks in Lebanon in terms of trade finance activities.

#### Treasury and capital markets operations

The treasury department optimizes the management of liquidity, interest rates and currency exposure. It is also in charge of monitoring market interest and financial fluctuations. In addition the treasury department is in charge of preserving the Bank's interest rate margins, hedging and managing of all balance sheet mismatches, monitoring the liquidity and the short term funding cost.

#### Risk Management

##### Function and Strategy

Comprehensive Risk Management is a principal function at CreditBank, involving the management of all major aspects of business through an integrated strategic risk planning and processes review. Our strategy is to proactively pursue the implementation of strict, exhaustive and prudent risk management practices in the years to come. Our approach to

risk is underpinned by the sound and professional restructuring plan of our Risk Management Department, which plays a risk function fully independent from the commercial lines of business.

### **The New Basel Accord**

In line with the Basel II Accord, the Bank's new framework has become more dynamic and risk sensitive, and rests on three pillars: minimum quantitative capital requirements; supervisory review process; and effective use of market discipline. The current Accord will be extended to capture credit, market and operational risks.

The national supervisory authorities are actively following up on this Accord to apply adequate regulations in consultation with major local banks and tailor the Accord more closely to the national banking industry. CreditBank is committed to meeting the Basel initiative requirements and the national supervisory approach. Although the Basel Committee proposals are not yet final, implementation requires significant efforts in the coming years.

### **Market, Interest Rate, Foreign Exchange & Liquidity Risk Management**

The Asset and Liability Committee (ALCO) manages the market, interest rate, liquidity and exchange risk of the

Bank. The Committee reviews portfolio hedging used for managing liquidity, market and credit portfolio risks, as well as interest rate risk inherent in our balance sheet and trading risks. It seeks to facilitate efficient risk/return decisions and to reduce volatility in operating performance by making the Bank's market risk profile transparent to Senior Management, the Board of Directors and regulators.

The core objectives of the ALCO are to manage:

- the sensitivity of net interest income to fluctuations in interest rates;
- currency risk resulting from the movements in exchange rates;
- liquidity risk arising from the general funding of the Bank's activities, and
- market risk resulting from movements in market prices of financial instruments.

### **Credit Risk Management**

Credit risk is the risk of loss due to an obligor or counterparty defaulting or failing to meet contractual obligations. This risk is managed at both the transaction and portfolio levels. Credit risk management practices have been designed to preserve the independence and integrity of the risk assessment process.

#### **A Segregation of Functions for a Better Credit Risk Management**

Due to its inherent nature in all banking activities, risk must be taken into account from the inception of a transaction until its completion by the business division. Therefore, credit risk management has been restructured in the following manner:

- Analyzing potential risks associated to each borrower's facilities or transactions initiated by respective business divisions
- Regularly checking that the utilization is compatible with the assigned limits and ensuring that the related risks are dynamically managed
- Assessing the risk-adjusted profitability of the facilities. The Risk Management unit is responsible for an independent management and control structure, participating in the approval process as an independent body.

### **Operational Risk Management**

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, human behavior, systems, or external events. This definition covers operational risks such as IT system problems, shortcomings in the organizational structure or internal controls, human resources risks and fraud deriving from external threats.

## Financial Statements

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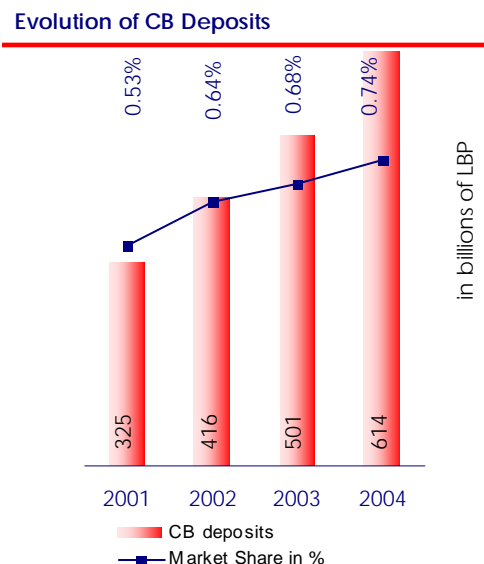
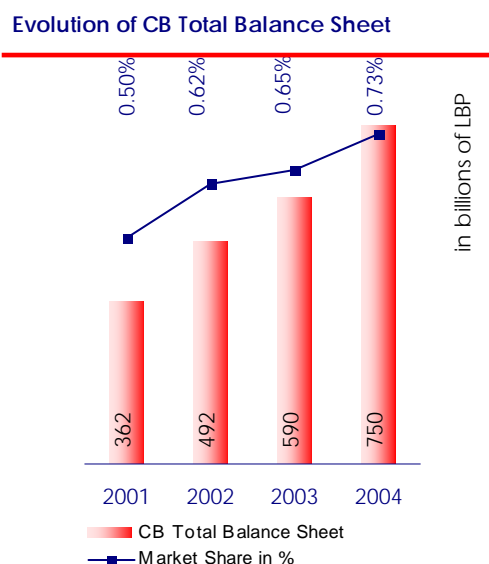
Management Report

Tables & Figures

External Auditors' Report

### Total Balance Sheet

The total balance sheet increased by 27% to reach LBP 749.961 billion at the end of 2004, compared to a growth of 13% in the Lebanese banking sector. CreditBank's market share reached 0.73% in 2004 against 0.50% in 2001.



### Customers' Deposits

Customers' deposits accounted for 82% of the Bank's total liabilities at year-end 2004 with a total of LBP 614.162 billion, increasing by 22.71% from 31<sup>st</sup> December 2003, compared to a growth of 13.14% in the banking sector. CreditBank's market share reached 0.74% in 2004 against 0.53% in 2001. Deposits held in foreign currencies represented 61.34% of total customer deposits at year-end 2004, compared to 60.81% at the end of 2003.

in million of LBP	2004	2003
Sight deposits	49 429	37 043
Time deposits	79 225	52 707
Saving accounts	412 495	361 188
Net Cr. acc /Db. Acc & cash collateral	26 261	15 766
Related parties accounts	46 752	33 805
<b>Total</b>	<b>614 162</b>	<b>500 510</b>
Lebanese Pound	38.66%	39.19%
Foreign Currencies	61.34%	60.81%

### Loans and Advances to Customers

The Bank's loans and advances, net of provisions for non-performing loans and unrealized interest, amounted to LBP 231.074 billion as at year-end 2004, with an increase of 46% over the previous year, compared to a growth of 8% in the banking sector. CreditBank's market share, more than doubled, reached 0.91% in 2004 against 0.43% in 2001.

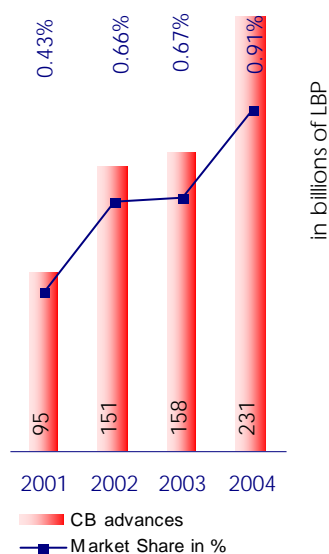
Loans in foreign currencies represented 81.18% of total customer loans at year-end 2004, compared to 80.50% at the end of 2003.

in million of LBP	2004	2003
Commercial Loans, Overdrafts and other loans to customers	212 786	139 597
<i>Less: Unrealized interest for sub-standard accounts</i>	<i>(5 704)</i>	<i>(2 710)</i>
	207 083	136 886
Loans & advances to related parties	17 622	13 353
Doubtful debts	59 269	52 728
<i>Less</i>		
<i>Provisions for doubtful debts</i>	<i>(5 938)</i>	<i>(6 335)</i>
<i>Unrealized interest for doubtful debts</i>	<i>(46 962)</i>	<i>(32 218)</i>
Doubtful debts (net)	6 370	7 842
<b>Total loans and advances to customers</b>	<b>289 677</b>	<b>205 678</b>
<b>Loans and advances to customers (net)</b>	<b>231 074</b>	<b>158 081</b>
Lebanese Pound	18.82%	19.50%
Foreign Currencies	81.18%	80.50%

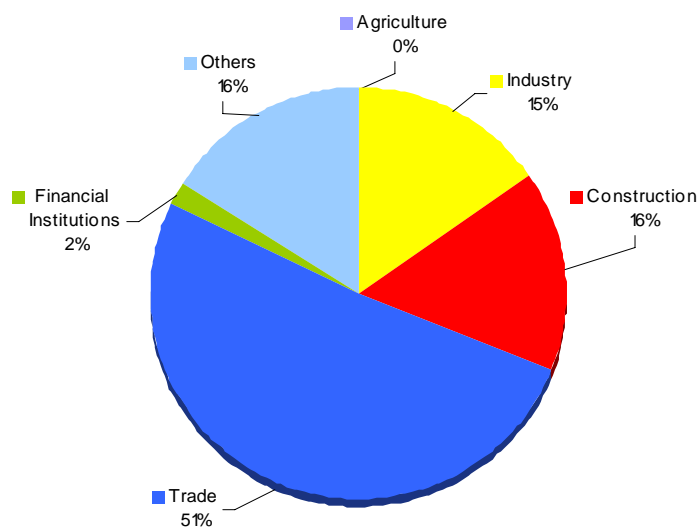
## Asset Quality Ratios

	2004	2003
Doubtful debts (net) to Total loans and advances to customers (net)	2.76%	4.96%
Sub-standard accounts (net) to Total loans and advances to customers (net)	2.59%	3.17%
Provisions for doubtful debts to Doubtful debts	89.25%	85.13%
Unrealized interest for sub-standard accounts to Sub-standard accounts	48.84%	35.11%

## Evolution of CB Advances



## CB Sectorial Credit Distribution in 2004



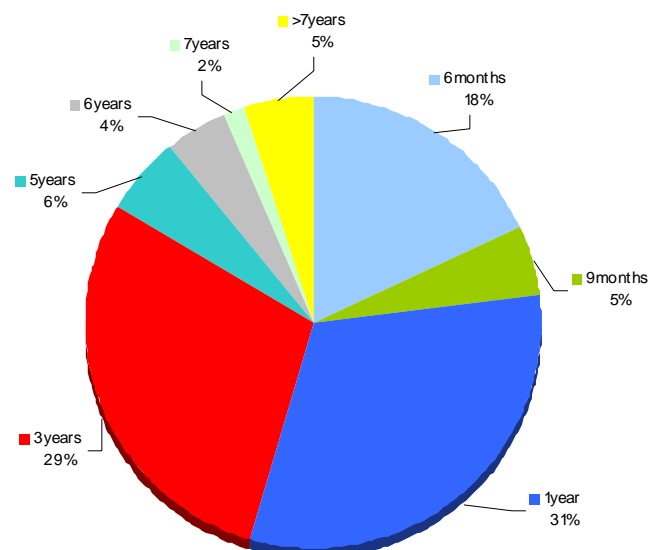
### Treasury Bills

The Bank's treasury bills' portfolio decreased by 2% as compared to the previous year, to LBP 135.754 billion in 2004, from LBP 137.936 billion in 2003.

Treasury bills with maturities of less than one year accounted for 54% of the total treasury bills portfolio. Those maturing during in three years stand for 29%.

The Lebanese treasury bills include bills amounting to LBP 24.533 billion pledged in favor of the Bank of Lebanon against the subsidized loan granted to the bank.

Distribution of Treasury Bills by maturity



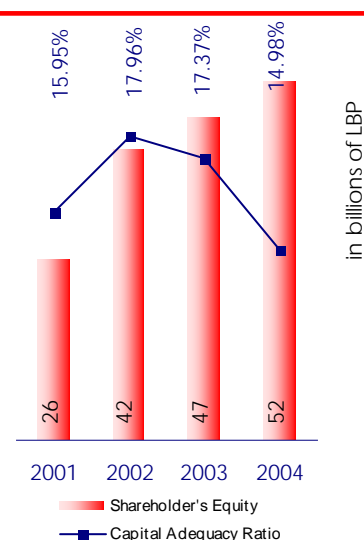
in million of LBP	2004
Held to maturity	51 880
Originated by the Bank	84 388
Plus: Accrued interest	1 558
Less: Interest received in advance	(2 072)
<b>Total TB Portfolio</b>	<b>135 754</b>
Lebanese Pound	79.77%
Foreign Currencies	20.23%

### Shareholders' Equity

CreditBank's shareholders' funds amounted to LBP 51.965 billion at the end of 2004, increasing by 11% over the previous year.

The capital adequacy ratio reached 14.98% at the end of 2004, compared to 15.95% at the end of 2001.

Evolution of Shareholders' equity



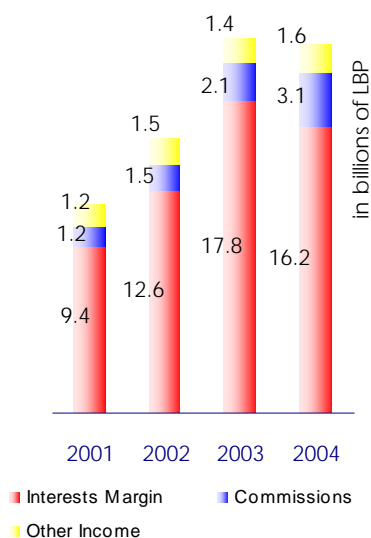
### Net Income

The Bank's net income increased by 6% in 2004 to LBP 4.945 billion from LBP 4.664 billion in 2003.

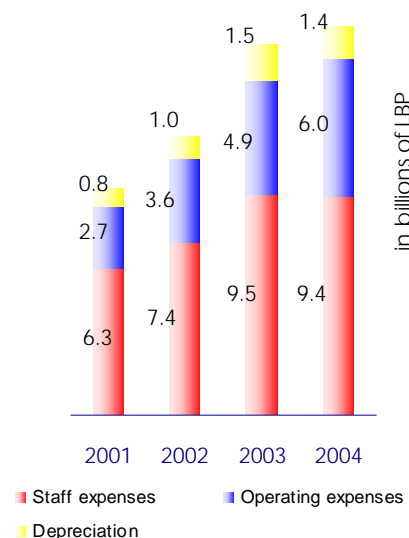
### Net Banking Income

Net banking income decreased by 1.66% to LBP 20.910 billion in 2004 from LBP 21.263 in 2003, while the Bank's interest margin decreased by 9% to LBP 16.227 billion in 2004, commissions improved by 48% to reach LL 3.118 billion, and other income increased by 11% to LBP 1.565 billion.

Composition of Net Banking Income



Evolution of the General Expenses



General Expenses

The Bank's general expenses, which comprise staff expenses, operating expenses and depreciation, reached LBP 16.751 billion in 2004, reflecting an increase of 5.39% compared to 2003. This was due to a rise in the operating expenses.

In million of USD	2004	2003	2002
Total Assets	497	391	326
Customer deposits	407	332	276
Net Loans	153	105	100
Liquid assets	299	266	210
Securities	4	5	-
Equity	30	26	23
Net Profit	3.28	3.09	2.6
Net Interest Income	11	12	8
Operating income	15	15	10
<b>Profitability &amp; Efficiency Ratios (%)</b>			
ROA	0.74%	0.86%	0.92%
ROE	12.53%	12.56%	14.63%
<b>Assets Quality ratios (%)</b>			
Loan Loss Reserves (LLR) / Non performing loans(NPL)	89.25%	85.13%	79.94%
NPL / Gross loans	20.90%	25.64%	23.59%
Net NPL/Equity	14.08%	19.87%	25.59%
<b>Liquidity &amp; Funding Ratios (%)</b>			
Avg. Net Loans /Av. Assets	29.05%	28.59%	28.77%
Liquid Assets/Deposits	73.46%	80.12%	76.09%
Securities / Assets	0.80%	1.28%	0.00%
<b>Capital Adequacy ratios (%)</b>			
Total Capital Adequacy ratio	14.98%	17.35%	17.08%
Equity / Assets	6.04%	6.69%	7.08%
Equity / Loans	19.61%	24.76%	23.00%
Internal Capital Growth	6.01%	18.90%	132.80%
<b>Growth indicators</b>			
% Growth in Assets	27.11%	19.94%	36.00%
% Growth in Deposits	22.59%	20.29%	28.10%
% Growth in Net Income	6.02%	18.91%	132.80%
% Growth in shareholders' Equity	15.38%	13.04%	84.90%
<b>Market share (% of sector total)</b>			
	<b>2004</b>	<b>2003</b>	<b>2002</b>
Assets	0.73%	0.65%	0.62%
Deposits	0.74%	0.68%	0.64%

### Profitability

Profitability indicators & Ratios	2004	2003	2002
Net income (US\$ mln)	3.28	3.09	2.60
Net interest income (US\$ mln)	10.76	12.00	8.00
Operating income (US\$ mln)	15.00	15.00	10.00
Breakeven Yields (%)	4.83%	5.59%	6.52%
Net interest Margin (%)	2.39%	3.69%	3.25%
ROA (%)	0.74%	0.86%	0.92%
ROE (%)	12.53%	12.56%	14.63%
Yield on avrg. Earning Assets (%)	7.22%	9.24%	9.77%

**Ratio definition:** (i) Breakeven Yield: interest expenses/Average earning assets; (ii) Net Interest Margin: net interest income/earning assets; (iii) ROA: net income/average assets; (iv) ROE: net income/average equity; (v) Yield on Average Earning Assets: interest income/Average earning assets.

### Operating Income

Breakdown of Operating Income in %	2004	2003	2002
Net Int. Income /Operating Income	71.76%	80.00%	80.00%
Trading income /Operating income	10.26%	3.25%	2.03%
Net Fees & Com./Operating income	13.42%	9.57%	9.32%
Other operating Income/Operating Income	6.74%	6.38%	7.63%
<b>As % of Interest Income</b>			
Loans & Advances	36.09%	33.55%	34.38%
Fixed Income Securities	0.52%	0.50%	0.00%
Treasury Bills	34.21%	44.69%	46.10%
Deposits with banks	29.18%	21.25%	19.52%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>As % of Interest Expenses</b>			
Customers Deposits & Credit Balances	93.37%	93.52%	98.04%
Deposits from Banks	6.63%	6.48%	1.96%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

### Cost Efficiency

Efficiency Indicators	2004	2003	2002
Cost/Income Ratio (%)	72.11%	74.16%	72.12%
Operating Expenses % Avg. Assets	2.50%	2.94%	2.81%
Operating Expenses % Net interest Income	103.23%	87.87%	99.36%
Total Assets / Employee (US\$ million)	2.30	1.76	1.53
Earning Assets / Employee (US\$ million)	2.09	1.67	1.46
Operating Expenses / Employee (US\$ million)	0.05	0.05	0.04
<b>As % of operating expenses</b>			
staff expenses	55.92%	59.73%	61.72%
General operating expenses	35.57%	30.84%	30.31%
Depreciation & amortization	8.51%	9.43%	7.98%
Net allocation to provisions and recoveries on financial assets	0.00%	0.00%	0.00%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Asset Quality

Asset Quality Indicators & Ratios	2004	2003	2002
(Net) Loans (US\$ million)	153	105	100
Increase/(decrease)	48	5	37
Av.Net Loans/av. customers deposits (%)	34.91%	33.72%	33.12%
Loan loss reserves (LLR) (US\$ million)	35	32	25
Net Non-performing Loans (NPL) (US\$ million)	4	5	6
NPL/Gross Loans (%)	20.90%	25.64%	23.59%
LLR/NPL (%)	89.25%	85.13%	79.94%
Net NPL/Equity	14.08%	19.87%	25.59%
Shareholders' Equity /Loans (%)	19.61%	24.76%	23.00%
<b>As % of total loans &amp; advances</b>			
LL loans & advances	18.95%	19.50%	17.80%
FC Loans & advances	81.05%	80.50%	82.20%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>%</b>			
	<b>2004</b>	<b>2003</b>	<b>2002</b>
Inter-bank placements	41.16%	43.32%	31.06%
Loans	30.81%	26.79%	30.70%
Securities	18.85%	24.76%	33.39%
Other	9.18%	5.14%	4.85%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Investments in Marketable Securities</b>			
	<b>In LBP</b>	<b>InFC (US\$)</b>	<b>Total portfolio US\$ million</b>
Bonds	72	18	90
Certificates of Deposits	33	16	49
Marketable Securities	0	0	0
<b>Total</b>	<b>105</b>	<b>35</b>	<b>140</b>

Liquidity & Funding

Liquidty & Funding Indicators & ratios	2004	2003	2002
Cash & central bank & inter-bank assets (US\$million)	205	170	101
Securities	4	5	0
Av. liquid Assets % Av. total Assets	63.63%	66.39%	66.56%
Av. Net loans % Av. Total assets	29.05%	28.59%	28.77%
Av. customers deposits % Av. funding	89.75%	92.34%	94.43%
Av. inter-bank funds % av. funding	5.24%	5.47%	3.81%
Av. liquid assets % av. customers deposits	76.45%	78.29%	76.62%
Av. securities % av. total assets	1.01%	0.70%	0.00%

Bills Maturing within/between/over	Total portfolio in millions of USD
6 m	16
7 & 12 m	5
13 & 18 m	28
19 & 24 m	26
3 & 5 y	5
over 5 y	10
<b>Total portfolio</b>	<b>91</b>

Asset/Liability Management	2004	2003	2002		2004	2003	2002
Cash & Banks	205	170	101	Current Liabilities	24	19	17
Treasury bills	90	91	109	Customer Deposits	407	332	276
Bonds & Marketable Securities	4	5		Miscellaneous	37	14	10
Loans & Advances	153	105	100	Shareholders' Equity*	30	26	23
Fixed Assets	18	15	13				
Miscellaneous	27	5	3				
<b>Total Assets</b>	<b>497</b>	<b>391</b>	<b>326</b>	<b>Total Liabilities</b>	<b>497</b>	<b>391</b>	<b>326</b>

\*Not including revaluation variance of other fixed assets USD 4,939 million

(in US\$ millions)	2004	% of total	2003	% of total	2002	% of total
Current/sight accounts (or Demand)	33	7.56%	25	7.31%	18	6.42%
Time deposits	53	12.12%	35	10.40%	28	9.98%
Saving accounts	274	63.09%	240	71.29%	206	74.28%
Other credit balances	75	17.23%	37	11.00%	26	9.33%
<b>Total</b>	<b>434</b>	<b>100.00%</b>	<b>336</b>	<b>100.00%</b>	<b>278</b>	<b>100.00%</b>

### Capital Adequacy

Capital Adequacy Indicators ratios	2004	2003	2002
Shareholders' Equity (US\$ millions)	30	26	23
Tier 1 Capital (US\$ million)	30	26	23
Total Capital Adequacy Ratio (%)	14.98%	17.35%	17.08%
Shareholders' Equity % Total	5.94%	6.69%	7.08%
Shareholders' Equity % Gross loans	19.27%	24.97%	23.06%
Internal Capital Growth (%)	10.93%	11.90%	11.31%
"Free" Capital % Equity	37.93%	41.64%	42.55%
Yoy % Growth in shareholders' Equity	12.80%	13.4%	32.50%

**Ratio Definition:** (i) "Free" capital: shareholders' equity minus equity participations minus fixed assets divided by shareholders' equity, (ii) Internal capital growth: Net Income minus Dividends divided by Shareholders' Equity.

To the Shareholders,  
Credit Bank S.A.L.,  
Dekwaneh,  
Lebanon.

We have audited the accompanying balance sheet of Credit Bank S.A.L. as of 31 December 2004 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Board of Directors of the Bank. Our responsibility is to express an opinion on these financial statements based on our audit.

With the exception of the following paragraphs, 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 that 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

A- As referred to in note 11 to the financial statements, financial fixed assets, investments and related loans include an investment of LBP.866,812,500 (US\$ 575,000) in a foreign non listed Company. We have requested, but we were not provided with the financial statements of the Company referred to above to enable us to assess the fair value of this investment. Consequently, a provision for the amount of the investment should be set up and the profits for the year ended 31 December 2004 and retained earnings as of 31 December 2004 should be reduced by the same amount.

B- As referred to in note 12 to the financial statements, a loss amounting to LBP.1,694,912,400 resulting from the difference between the acquisition price of the premises of the Head Office of the Bank and the amount of acquisition approved by the Bank of Lebanon, was not recorded in 2004 and consequently the profit for the year ended 31 December 2004 and retained earnings as of 31 December 2004 should be reduced by the same amount.

In our opinion, except for the effect of the changes referred to in the precedent paragraphs on the carrying value of the related assets and on the financial statements as a whole, the financial statements present fairly, in all material respects, the financial position of Credit Bank S.A.L. as of 31 December 2004 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Beirut, 30 April 2005

SEMAAN, GHOLAM & Co.

**BALANCE SHEET AS AT 31 DECEMBER 2004**

<b>ASSETS</b>	<b>Note</b>	<b><u>31/12/2004</u></b> <b>LBP.</b>	<b><u>31/12/2003</u></b> <b>LBP.</b>
Cash and Bank of Lebanon (1)	4	183,133,242,988	207,257,877,099
Lebanese treasury bills and other governmental bills (2)	5	135,754,313,839	137,935,814,625
Bonds and financial instruments with fixed income	6	4,966,482,779	7,802,669,250
Marketable securities and financial instruments with variable income	7	612,542,694	358,739,206
Banks and financial institutions:-	8	125,583,259,683	48,377,935,785
- Current accounts		42,799,701,477	25,565,635,114
- Time deposits		82,783,558,206	22,812,300,671
- Purchase of financial instruments with an option to resell		-	-
Head office and branches, parent company and foreign sister financial institutions and subsidiaries:-		-	-
- Current accounts		-	-
- Time deposits		-	-
Loans and advances to customers:-	9	231,073,803,155	158,081,231,658
- Commercial loans (3)		103,455,542,425	78,885,643,514
- Other loans to customers (3)		103,586,530,190	57,982,428,434
- Net debtor accounts against creditor and cash collateral accounts		40,552,882	18,114,131
- Loans and advances to related parties		17,621,562,129	13,353,443,915
- Doubtful debts		6,369,615,529	7,841,601,664
Bank acceptances	10	39,662,018,386	6,160,885,435
Financial fixed assets and investments and loans to related parties	11	890,108,990	776,819,387
Financial fixed assets, investments and related loans under equity method:-		-	-
- Non financial institutions		-	-
- Financial institutions		-	-
Tangible fixed assets (including revaluation variance accepted by the Bank of Lebanon )	12	26,577,181,123	22,229,380,241
Intangible fixed assets	13	164,701,801	28,641,634
Other assets	14	63,800,470	51,119,750
Regularization accounts and other debtor accounts	15	993,361,601	596,940,636
Revaluation variance of other fixed assets	16	486,207,250	486,207,250
Goodwill		-	-
<b>TOTAL ASSETS (4)</b>		<b>749,961,024,759</b>	<b>590,144,261,956</b>

The accompanying notes from 1 to 41 form an integral part of these financial statements.

**BALANCE SHEET AS AT 31 DECEMBER 2004**

<b>ASSETS</b>	<b>Note</b>	<b><u>31/12/2004</u></b> <b>LBP.</b>	<b><u>31/12/2003</u></b> <b>LBP.</b>
(1) of which certificates of deposits at 0% interest rate		26,792,449,792	26,792,449,792
(2) of which treasury bills at 0% interest rate		11,482,470,000	11,482,470,000
(3) of which sub-standard loans:		11,678,436,856	7,719,269,371
(4) after deduction of:-			
- provision for doubtful debts	9	5,937,851,105	6,334,509,259
- unrealized interest on:-			
- sub-standard loans	9	5,703,506,949	2,710,466,925
- doubtful debts	9	46,961,821,997	38,552,129,370
		<b><u>58,603,180,051</u></b>	<b><u>47,597,105,554</u></b>
 <b><u>OFF BALANCE SHEET ITEMS</u></b>			
Financing commitments received		-	-
Signature commitments received		-	-
Financial instruments sold with an option to repurchase		-	-
Other engagements received		-	-
Bad debts fully provided for		6,392,490,685	49,768,574,000

The accompanying notes from 1 to 41 form an integral part of these financial statements.

*BALANCE SHEET AS AT 31 DECEMBER 2004*

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>Note</b>	<b><u>31/12/2004</u> LBP.</b>	<b><u>31/12/2003</u> LBP.</b>
Bank of Lebanon	17	23,000,000,000	23,000,000,000
Banks and financial institutions:-	18	12,941,582,735	6,081,974,754
- Current accounts		415,503,372	729,428,670
- Time deposits		12,526,079,363	5,352,546,084
- Sale of financial instruments with an option to repurchase		-	-
Head office and branches, parent company and foreign sister financial institutions and subsidiaries:-		-	-
- Current accounts		-	-
- Time deposits		-	-
Deposits from customers:-	19	614,161,538,491	500,509,768,043
- Sight deposits		49,429,091,293	37,043,037,498
- Time deposits		79,225,054,384	52,707,448,479
- Saving accounts		412,494,201,238	361,187,820,905
- Net creditor and cash collateral accounts against debtor accounts		26,260,854,753	15,766,108,375
- Related parties accounts		46,752,336,823	33,805,352,786
Engagements by acceptances	10	39,662,018,386	6,160,885,435
Liabilities under financial instruments:-		-	-
- Certificates of deposits		-	-
- Debenture bonds		-	-
- Other liabilities under financial instruments		-	-
Other liabilities	20	5,323,942,651	4,981,181,222
Regularization accounts and other creditor accounts	21	1,407,773,156	819,782,490
Provisions for risks and charges	22	1,499,216,721	1,677,371,360
Subordinated notes		-	-
Revaluation variance recognized in the complementary capital		-	-
Share capital and cash contribution to capital	23	23,445,004,500	23,445,004,500
Reserves for general banking risks	24	1,978,837,455	1,380,513,639
Reserves and premiums and equity differences	25	14,042,324,858	9,978,681,373
Unrealized profit	26	109,154,888	-
Results carried forward - profit or (loss)		-	-
Net result for the year profit or (loss)	30	4,944,775,263	4,664,243,485
Revaluation variance of fixed assets	27	7,444,855,655	7,444,855,655
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b><u>749,961,024,759</u></b>	<b><u>590,144,261,956</u></b>

The accompanying notes from 1 to 41 form an integral part of these financial statements.

**BALANCE SHEET AS AT 31 DECEMBER 2004**

<b>OFF BALANCE SHEET ITEMS</b>	<b>Note</b>	<b><u>31/12/2004</u> LBP.</b>	<b><u>31/12/2003</u> LBP.</b>
Financing commitments given to:-			
- Financial intermediaries	29	46,465,776,061	7,952,769,846
- Customers		-	-
Bank guarantees given to:-			
- Financial intermediaries		-	-
- Customers	29	28,450,904,155	16,176,650,933
Financial instruments purchased with an option to resell		-	-
Other commitments		-	-
Commitments on term financial instruments		-	-
Fiduciary accounts and funds under management:-			
- Fiduciary accounts		-	-

The accompanying notes from 1 to 41 form an integral part of these financial statements.

**INCOME STATEMENT FOR THE YEAR 2004**

	Note		2004 LBP.	2003 LBP.
INTEREST AND SIMILAR INCOME	31	A	44,807,826,974	47,449,496,073
- Lebanese treasury bills			14,052,892,978	21,087,183,747
- Deposits and similar accounts in banks and financial institutions			13,640,992,428	10,129,027,406
- Deposits in head office and branches, parent company and foreign sister financial institutions and subsidiaries			-	-
- Notes and other financial instruments with fixed income			241,840,688	239,597,317
- Loans and advances to customers			15,781,802,217	14,751,509,219
- Advances to related parties			1,090,298,663	1,242,178,384
- Other interest and similar income			-	-
INTEREST AND SIMILAR CHARGES	31	B	29,988,078,207	28,711,493,821
- Deposits and similar accounts from banks and financial institutions			1,987,925,204	1,860,940,835
- Deposits from head office, parent company and foreign sister financial institutions and subsidiaries			-	-
- Deposits from customers and other creditor accounts			26,212,707,914	25,165,360,535
- Deposits from related parties			1,787,445,089	1,685,192,451
- Cash contribution to capital and subordinated loans			-	-
- Certificates of deposit			-	-
- Notes and financial instruments with fixed income			-	-
- Other interest and similar charges			-	-
NET PROVISIONS AND REVENUES ON DOUBTFUL DEBTS (+ or -)		C	1,407,532,438	(983,800,333 )
- Provisions for doubtful debts	32		(339,768,691 )	(1,185,539,979 )
- Provisions for doubtful debts no more required	33		1,747,301,129	201,739,646
NET INTEREST RECEIVED		D=A-B+C	16,227,281,205	17,754,201,919
REVENUES FROM FINANCIAL INSTRUMENTS WITH VARIABLE INCOME		E	-	-
NET COMMISSIONS (+ or -)		F	3,117,515,987	2,104,848,517
- Commissions received			3,419,566,579	2,222,382,272
- Commissions paid			(302,050,592 )	(117,533,755 )

The accompanying notes from 1 to 41 form an integral part of these financial statements.

INCOME STATEMENT FOR THE YEAR 2004

	Note	2004 LBP.	2003 LBP.
PROFIT ON FINANCIAL OPERATIONS	G	2,543,000,155	734,037,634
- Profit on marketable securities		1,582,875	-
- Profit on financial fixed assets		16,206,826	63,076,000
- Profit on foreign exchange transactions		588,829,691	453,369,802
- Profit on financial instruments		1,936,380,763	217,591,832
LOSS ON FINANCIAL OPERATIONS	H	223,295,528	-
- Loss on marketable securities		87,093,998	-
- Loss on financial fixed assets	34	136,201,530	-
- Loss on foreign exchange transactions		-	-
- Loss on financial instruments		-	-
NET INCOME (LOSS) FROM FINANCIAL OPERATIONS (+ or -)	I=G-H	2,319,704,627	734,037,634
OTHER OPERATING INCOME	35 J	1,564,717,110	1,404,124,597
OTHER OPERATING EXPENSES	K	-	-
STAFF AND OPERATING CHARGES	L	15,324,767,473	14,396,013,296
- Staff expenses	36	9,366,554,027	9,493,706,195
- General operating expenses	37	5,958,213,446	4,902,307,101
AMORTIZATION AND DEPRECIATION	38 M	1,426,001,947	1,498,398,704
NET PROVISIONS ON FINANCIAL FIXED ASSETS (+ or -)	N	-	-
NET PROVISIONS ON CONTINGENT LIABILITIES (+ or -)	O	-	-
NET RESULTS FOR THE YEAR BEFORE TAXES (+ or -)	P=D+E+F+I+J -K-L-M+N+O	6,478,449,509	6,102,800,667
NET EXTRAORDINARY RESULTS (+ or-)		(628,674,246 )	(563,557,182 )
- Extraordinary income		72,548,294	40,285,645
- Extraordinary expenses	39	(701,222,540 )	(603,842,827 )
INCOME TAX		(905,000,000 )	(875,000,000 )
OUR SHARE IN SUBSIDIARIES UNDER EQUITY METHOD (+ or -)		-	-
- Non financial institutions (+ or -)		-	-
- Financial institutions (+ or -)		-	-
NET RESULTS FOR THE YEAR AFTER TAXES (+ or -)		4,944,775,263	4,664,243,485
- Group share (+ or -)		4,944,775,263	4,664,243,485
- Minority share (+ or -)		-	-

The accompanying notes from 1 to 41 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	<u>Note</u>	<u>2004</u> LBP.	<u>2003</u> LBP.
<u>OPERATING ACTIVITIES</u>			
Profit for the year		4,944,775,263	4,664,243,485
Adjustments:-			
- depreciation, amortization and provisions		1,426,001,497	1,498,398,704
- provision for doubtful debts (net)		(7,237,973,155 )	389,006,159
- transfer of provision to off balance sheet accounts		(446,889,827 )	-
- transfer of provision from off balance sheet accounts		7,288,204,828	160,042,478
- unrealized interest (net)		(31,035,840,760 )	9,312,815,191
- transfer of interest to off balance sheet accounts		(740,634,978 )	-
- transfer of interest from off balance sheet accounts		43,179,208,389	503,133,890
- provision for staff termination indemnity (net)		(39,718,733 )	115,607,800
- provision for risks and charges		(106,039,775 )	381,851,336
- loss from sale of tangible fixed assets		-	134,831,001
Decrease (increase) in time deposits with Bank of Lebanon		40,377,295,799	(97,967,360,242 )
Decrease in lebanese treasury bills		2,181,500,786	26,244,193,573
(Increase) in time deposits with banks and financial institutions		(19,000,000,000 )	-
(Increase) in loans and advances to customers		(83,998,645,994 )	(17,507,787,891 )
(Increase) decrease in other assets		(12,680,720 )	4,335,296
(Increase) decrease in regularization accounts and other debtor accounts		(364,625,819 )	69,873,695
Increase in deposits from customers		113,651,770,448	84,159,422,837
Increase in other liabilities		342,761,429	2,078,814,299
Increase in regularization accounts and other creditor accounts		587,990,666	108,581,469
Staff termination indemnities and other indemnities paid		(64,191,277 )	(474,752,834 )
Cash from operating activities		<u>70,932,268,517</u>	<u>13,875,250,246</u>

The accompanying notes from 1 to 41 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	<u>Note</u>	<u>2004</u> LBP.	<u>2003</u> LBP.
<u>INVESTING ACTIVITIES</u>			
Decrease (increase) in bonds and financial instruments with fixed income		2,836,186,471	(7,802,669,250 )
(Increase) in marketable securities and financial instruments with variable income		(253,803,488 )	(358,739,206 )
(Increase) in securities		(113,289,603 )	(754,176,897 )
Acquisition of fixed assets		(5,909,862,996 )	(8,693,906,970 )
Proceeds from sale of tangible fixed assets		<u>-</u>	<u>4,844,800,000</u>
Cash (used in) investing activities		<u>(3,440,769,616 )</u>	<u>(12,764,692,323 )</u>
<u>FINANCING ACTIVITIES</u>			
Unrealized Profit		<u>109,154,888</u>	<u>-</u>
Cash from financing activities		<u>109,154,888</u>	<u>-</u>
Difference of exchange on reserves for general banking risks		(2,276,184 )	(1,805,145 )
<u>INCREASE IN CASH AND CASH EQUIVALENTS</u>		<u>67,598,377,605</u>	<u>1,108,752,778</u>
<u>CASH AND CASH EQUIVALENTS</u>	40		
- at beginning of year		73,196,477,888	72,087,725,110
- at end of year		<u>140,794,855,493</u>	<u>73,196,477,888</u>
<u>INCREASE IN CASH AND CASH EQUIVALENTS</u>		<u>67,598,377,605</u>	<u>1,108,752,778</u>

The accompanying notes from 1 to 41 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1- THE COMPANY

Credit Bank S.A.L. was incorporated in 1981 and registered under N°44094 at the Commercial Registry of Beirut. According to the resolutions of the Extraordinary General Assembly meeting held on 24 June 2003 which decided to move the head office of the Bank from Achrafieh to Dekwaneh, the Commercial Register was transferred to Baabda under No. 2003890 on 11 August 2004. The bank is also registered under N°103 on the list of banks published by the Bank of Lebanon. The head office of the Bank is located in Dekwaneh (Freeway Center).

The Bank provides a full range of banking activities through its headquarter located in Dekwaneh and its twelve branches in Lebanon and is regulated by the Commercial Law, the Money and Credit Act and the Bank of Lebanon regulations and the Banking Control Commission directives.

The Bank employed 228 employees at 31 December 2004 (2003:222).

2- SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the financial statements are set out below:-

Basis of preparation

The financial statements have been prepared in accordance with standards issued or adopted by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee and the Lebanese General accounting plan and the directives of the Bank of Lebanon and the Banking Control Commission.

Accounting convention

The financial statements are prepared under the historical cost convention with the exception of the revaluation of some fixed assets according to law 282 dated 30 December 1993 and the measurement at fair value of financial instruments.

The accounting policies are consistent with those used in the previous year.

Foreign currencies translation

Transactions in foreign currencies are translated into lebanese pounds at the rates of exchange ruling on the date of the transaction. Assets and liabilities denominated in foreign currencies are translated daily into lebanese pounds at the closing rates of exchange fixed by the Bank of Lebanon. The resulting difference on exchange is accounted for in the statement of income.

Comparative closing exchange rates of main currencies for the years 2004 and 2003 are as follows:-

	31.12.2004	31.12.2003
	LBP.	LBP.
US. Dollar	1,507.50	1,507.50
Sterling Pound	2,894.85	2,677.47
Euro	2,051.10	1,884.53
Swiss franc	1,326.91	1,208.03
Japanese Yen	14.52	14.10

Trading investments

These are initially recognized at cost and subsequently remeasured at fair value. All related realized and unrealized gains or losses are included in the statement of income. Interest earned and dividends received are included in interest and dividend income respectively.

Non-trading investments

These are classified as follows:-

- available for sale;
- held to maturity;
- originated by the bank.

All investments are initially recognized at cost, being the fair value of the consideration given including acquisition costs.

Premiums and discounts on non-trading investments are amortized using the effective interest rate method and taken to interest income.

Available for sale

After initial recognition, investments which are classified "available for sale " are remeasured at fair value. Unrealized gains and losses which are not part of an effective hedging relationship, are reported as a separate component of equity until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported in equity is included in the income statement for the period.

That portion of any unrealized gains or losses relating to an effective hedging relationship is recognized directly in the income statement.

Held to maturity

Investments which have fixed or determinable payments and which are intended to be held to maturity, are carried at amortized cost, less any provision for impairment in value.

Originated by the Bank

Investments in debts securities where the Bank provides funds directly to the issuer are stated at amortized cost, adjusted for effective fair value hedges, less provision for impairment.

Fair values

For financial instruments investments traded in organized financial markets, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities.

The fair value of interest-bearing financial instruments is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

For unquoted financial instruments fair value is determined by reference to the market value of a similar investment, or is based on the expected discounted cash flows.

The fair value of unquoted derivatives is determined either by discounted cash flows, (internal) pricing models or by reference to brokers' quotes.

Due from banks and financial institutions

These are stated at cost, less any amounts written-off and provision for impairment.

Loans and advances

Loans and advances are stated at cost less any amounts written-off and provisions for impairment. In addition to the provision set up, the Bank provides for a general provision against expected losses of total consumer loans, according to management's estimation and percentages related to the last payment dates.

Tangible fixed assets

Tangible fixed assets are stated at cost in lebanese pounds (with the exception of real estate owned by the Bank revalued in 1999 according to law 282 dated 30 December 1993). Revaluation difference is recorded under "Revaluation variance of other fixed assets".

Depreciation

Depreciation is calculated on all premises and equipment, other than freehold land, at rates set up to write-off the cost or revaluation value, less estimated recoverable value based on prices prevailing at the date of acquisition or revaluation of each asset, over its estimated useful life and based on the fixed installment. Expected future cash flows are not discounted to their present values in determining the recoverable amount of the assets.

Collateral pending sale

The Bank occasionally acquires real estate in settlement of certain doubtful debts. Such real estate are stated at the value specified by the Banking Control Commission.

A provision is set up against these real estate for a five years period if not disposed of within a period of time fixed by the Bank of Lebanon.

Profit and loss from disposals and loss arising from revaluation are recorded in the income statement for the period. Net profits are recorded under "reserves appropriated to increase of capital".

Intangible fixed assets

Intangible fixed assets are recorded at cost, and are amortised over a period of five years.

Deposits from customers

All money market and customer deposits are carried at cost, after deduction of amounts repaid.

Income tax

The provision for income tax is recorded on the basis of filing income tax returns, after adjustments relating to income tax return regulations. Profit is subject to a 15 percent tax.

Provisions for risks and charges

Provisions are recognized when the Bank has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

Provision for staff termination indemnity

Subscriptions due and paid to the National Social Security Fund (N.S.S.F.) in respect of termination indemnity are calculated on the basis of 8.5% of the staff salaries. The final termination indemnities due to employees after completing 20 years of service or at the retirement age or if the employee leaves permanently the employment, are calculated based on the last salary times the number of years of service; the Bank is liable to pay to the N.S.S.F. the difference between the subscriptions and the total indemnity due to employees (calculated on the basis of 8%). A provision is set up to cover the difference between indemnities due and subscriptions paid.

Reserve for general banking risks

In application of Bank of Lebanon regulations, banks are required to withhold from their annual net profits at least 0.2 percent and at most 0.3 percent of total risk weighted assets and contra-accounts for any eventual banking risks, to reach a cumulative percentage of 1.25 percent in year ten (2007) and 2 percent in year twenty (2017). This reserve is an integral part of shareholders' equity and is not available for distribution of dividends. This reserve is denominated in lebanese pounds and in foreign currencies, based on the denomination of the related weighted assets and contra-accounts.

Legal reserve

According to the Lebanese Commercial Law and to the Money and Credit Act, the Bank has to transfer 10% of its annual net profits to legal reserve. This reserve is not available for distribution of dividends.

Derivatives

Derivatives are stated at fair value.

For the purposes of hedge accounting, hedges are classified into two categories:-

- a) fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability, and;
- b) cash flow hedges which hedge exposure to variability in cash flows of a recognized asset or liability or a forecasted transaction.

In relation to effective fair value hedges any gain or loss from remeasuring the hedging instrument to fair value, as well as related changes in fair value of the item being hedged, are recognized immediately in the income statement.

In relation to effective cash flow hedges, the gain or loss on the hedging instrument is recognized initially in equity and, either transferred to the income statement of the period in which the hedged transaction impacts the income statement, or included as part of the cost of the related asset or liability.

For hedges that do not qualify for hedge accounting, any gain or loss arising from changes in the fair value of the hedging instrument is directly taken to the income statement of the period.

Hedge accounting is discontinued when the hedging instrument is expired or is sold, is terminated or exercised, or no longer qualified for hedge accounting. For fair value hedges of financial instruments with fixed maturities, any adjustment arising from hedge accounting is amortized over the remaining term to maturity. For cash flow hedges, any cumulative gain or loss on the hedging instrument recognized in equity remains in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to the income statement.

#### Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are shown off balance sheet.

#### Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and the Bank intends to either settle on a net basis, or realise the asset and settle the liability simultaneously.

#### Revenue recognition

Interest receivable and loan commitment fees are recognized on a time proportion basis taking into account the principal outstanding and the rate applicable. Interest on doubtful and classified loans is recorded as unrealized until it is received in cash. Other fees receivable or payable are recognized when earned.

#### Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks, and highly liquid investments with insignificant risk of changes in value and whose original maturities are three months or less at the date of acquisition.

#### Repurchase and resale agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the balance sheet and are measured in accordance with accounting policies for non-trading investments. The liability for amounts received under these agreements is included in due to banks and other financial institutions. The difference between sale and repurchase price is treated as interest expense using the effective yield method. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognized in the balance sheet. Amounts paid under these agreements are included in deposits with banks and other financial institutions. The difference between purchase and resale price is treated as interest income using the effective yield method.

#### Impairment and uncollectability of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the income statement.

Impairment is determined as follows:

- (a) for assets carried at amortized cost, impairment is based on estimated cash flows that are discounted at the original effective interest rate;
- (b) for assets carried at fair value, impairment is the difference between cost and fair value;
- (c) for assets carried at cost, impairment is the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- (d) for available for sale equity investments, reversal of impairment losses are recorded as increases in cumulative changes in fair value through equity.

#### Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognized on the trade date, i.e. the date that the entity commits to purchase 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.

3- MERGER OF CREDIT LYONNAIS - LIBAN S.A.L. WITH CREDIT BANK S.A.L.

In 2002, the Bank entered into a merger transaction with Credit Lyonnais- Liban S.A.L. under specific conditions approved by the Central Council of the Bank of Lebanon.

The merger was completed by joining all assets and liabilities and commitments of Credit Lyonnais- Liban S.A.L. to the assets, liabilities and commitments of the Bank. Following the merger, the Bank of Lebanon granted the Bank a subsidized loan of LBP. 23,000,000,000 for a time period of eight years bearing interest at a rate set out in the contract.

4- CASH AND BANK OF LEBANON

	<u>31/12/2004</u>	<u>31/12/2003</u>
	LBP.	LBP.
Cash	4,878,567,486	3,581,470,255
Certificates of deposit	69,273,128,283	95,841,231,069
Bank of Lebanon	104,082,111,059	105,709,046,602
Accrued interest	<u>4,899,436,160</u>	<u>2,126,129,173</u>
	<u>183,133,242,988</u>	<u>207,257,877,099</u>

Cash

	<u>2004</u>	<u>2003</u>
	LBP.	LBP.
Cash at 31 December :		
- in lebanese pounds	2,081,005,744	1,660,414,100
- in foreign currencies	<u>2,797,561,742</u>	<u>1,921,056,155</u>
	<u>4,878,567,486</u>	<u>3,581,470,255</u>

Bank of Lebanon

Deposits with Bank of Lebanon at 31 December:

	<u>2004</u>	<u>2003</u>
	LBP.	LBP.
- in lebanese pounds	37,866,596,362	23,505,731,678
- in foreign currencies	<u>66,215,514,697</u>	<u>82,203,314,924</u>
	<u>104,082,111,059</u>	<u>105,709,046,602</u>

Accounts with Bank of Lebanon include time deposits amounting to LBP 61,807,500,000 as at 31 December 2004 (LBP.78,390,000,000 at 31 December 2003).

Deposits with Bank of Lebanon include mandatory reserve calculated as follows:-

	<u>31/12/2004</u>	<u>31/12/2003</u>
	LBP.	LBP.
- in lebanese pounds in respect of customers' deposits in lebanese pounds (25% of sight deposits and 15% of time deposits)	44,210,999,000	20,521,457,000
- in US dollars US\$25,409,000 in 2004 (US\$.18,288,000 in 2003) at 9% in respect of 10% of customers' deposits in foreign currencies	<u>38,304,671,000</u>	<u>27,569,700,000</u>
	<u>82,515,670,000</u>	<u>48,091,157,000</u>
	<u>31/12/2004</u>	<u>31/12/2003</u>
	LBP.	LBP.

Certificates of deposit

Certificates of deposit subscribed to in lebanese pounds	50,135,658,234	76,703,761,020
Certificates of deposit is US Dollars at zero percent interest rate ( US\$ 12,694,839)	<u>19,137,470,049</u>	<u>19,137,470,049</u>
	<u>69,273,128,283</u>	<u>95,841,231,069</u>

On 16 December 2002, the Bank of Lebanon issued a decision (N°86) requiring from all banks operating in Lebanon to subscribe to Lebanese Treasury Bills in lebanese pounds or foreign currencies, to an amount equal to 10% of total deposits in all currencies available at the Bank at 31 October 2002. Such subscriptions will be for two years at a zero percent rate, starting from 18 February 2003. Consequently, the bank subscribed in 2003 to certificates of deposit at a zero percent rate for two years for an amount of US\$ 12,694,839 and LBP. 7,654,980,000.

Accrued interest

Accrued interest is divided as follows:-

	<u>31/12/2004</u> LBP.	<u>31/12/2003</u> LBP.
Interest on Bank of Lebanon accounts	286,745,751	385,206,983
Interest on certificates of deposit	<u>4,612,690,409</u>	<u>1,740,922,190</u>
	<u>4,899,436,160</u>	<u>2,126,129,173</u>

5- LEBANESE TREASURY BILLS AND OTHER GOVERNMENTAL BILLS

	<u>31/12/2004</u> LBP.	<u>31/12/2003</u> LBP.
Held to maturity	49,807,655,111	97,150,438,883
Originated by the Bank	<u>85,946,658,728</u>	<u>40,785,375,742</u>
	<u>135,754,313,839</u>	<u>137,935,814,625</u>

Treasury bills originated by the bank amounting to LBP.85,946,658,728 at 31 December 2004 were subscribed to according to the decision of the Bank of Lebanon referred to in note 4.

Interest on Treasury bills amounted to LBP.14,052,892,978 in 2004 (LBP.21,087,183,747 in 2003). The decrease is due to the reduction of interest rates on treasury bills denominated in US Dollars.

Treasury bills (at nominal value) mature as follows:-

	<u>31/12/2004</u> LBP.	<u>31/12/2003</u> LBP.
During first quarter of following year	7,827,490,000	9,465,000,000
During second quarter of the following year	16,973,340,000	24,174,020,000
During third quarter of the following year	6,827,490,000	13,608,050,000
During fourth quarter of the following year	31,979,260,000	54,418,380,000
During year after following year	10,783,060,000	11,482,470,000
During year 2006	-	9,871,110,000
During year 2007	39,707,500,000	-
During year 2008	-	15,075,000,000
During year 2009	7,537,500,000	-
During year 2010	6,030,000,000	-
During year 2011	2,051,100,000	-
During year 2012	6,030,000,000	-
During year 2016	<u>806,512,500</u>	-
	<u>136,553,252,500</u>	<u>138,094,030,000</u>

Treasury bills (at nominal value) are divided according to their original maturity as follows:-

	<u>31/12/2004</u> LBP.	<u>31/12/2003</u> LBP.
Three months	2,000,000,000	-
Six months	3,745,850,000	2,000,000,000
One year	46,379,260,000	3,068,000,000
Two years	19,479,670,000	97,527,420,000
Three years	39,707,500,000	4,824,000,000
Four years	2,785,860,000	5,047,110,000
Five years	7,537,500,000	10,552,500,000
Six years	6,030,000,000	-
Seven years	2,051,100,000	15,075,000,000
Eight years	6,030,000,000	-
Fifteen years	806,512,500	-
	<u>136,553,252,500</u>	<u>138,094,030,000</u>

Lebanese treasury bills include bills amounting to LBP.24,533,340,000 pledged in favor of the Bank of Lebanon against the subsidized loan granted to the Bank.

6- BONDS AND FINANCIAL INSTRUMENTS WITH FIXED INCOME

	<u>Maturity date</u>	<u>Interest rate</u> %	<u>31/12/2004</u> LBP.	<u>31/12/2003</u> LBP.
a- Solidère SAL bonds (US\$4,600,000)	2/7/2004	6,75	-	7,048,919,250
b- Certificates of deposit:				
- Bank of Beirut SAL (US\$ 500,000)	1/4/2005	5,00	754,169,794	753,750,000
- First National Bank S.A.L (US\$ 1,500,000)	26/1/2007	6,875	2,329,396,538	-
- Credit Libanais S.A.L (US\$ 1,200,000)	14/7/2006	6,75	<u>1,882,916,447</u>	-
			<u>4,966,482,779</u>	<u>7,802,669,250</u>

7- MARKETABLE SECURITIES AND FINANCIAL INSTRUMENTS WITH VARIABLE INCOME

	<u>31/12/2004</u> LBP.	<u>31/12/2003</u> LBP.
Available for sale investments:		
630 shares GPK-short term (Euro 235,584) (Euro 190,360 in 2003)	483,207,983	358,739,206
128,051 shares Holcim S.A.L. (US\$ 85,794)	<u>129,334,711</u>	-
	<u>612,542,694</u>	<u>358,739,206</u>

Marketable securities and financial instruments with variable income are stated at their market value at the closing date. Unrealized profit amounting to LBP.109,154,888 is stated under shareholders' equity.

8- BANKS AND FINANCIAL INSTITUTIONS

	<u>31/12/2004</u> LBP.	<u>31/12/2003</u> LBP.
Current accounts	37,946,173,499	25,238,247,179
Checks for collection	<u>4,853,527,978</u>	<u>327,387,935</u>
	<u>42,799,701,477</u>	<u>25,565,635,114</u>
Time deposits	82,783,558,206	22,812,300,671
Doubtful accounts	-	-
	<u>125,583,259,683</u>	<u>48,377,935,785</u>



Above advances are divided as follows:-

	000LBP.
Advances against cash collateral	15,368,879
Advances against real estate guarantees	301,500
Advances without real estate guarantees	<u>1,966,083</u>
	<u>17,636,462</u>

Circular No. 81 of the Bank of Lebanon stipulates that total advances granted to related parties (article 152 of the Money and Credit Act) should not exceed, at any time, 5% of the shareholders equity of the Bank.

All banks should reduce any excess on the above limit as follows:

Within a period ending 31 December 2004	10%
Within a period ending 31 December 2005	5%
10% of shareholders equity amounted to LBP. 3,946,617,000 at 31 December 2004.	

Provisions for doubtful debts

	<u>2004</u> LBP.	<u>2003</u> LBP.
Balance at 1 January	6,334,509,259	5,785,460,622
<u>Add/-</u>		
- allowance for the year	339,768,691	842,136,511
- transfer from off balance sheet accounts	7,288,204,828	160,042,478
- difference of exchange on provisions denominated in foreign currencies at the rate of exchange ruling at 31 December	<u>5,087,616</u>	-
	13,967,570,394	6,787,639,611
<u>Less/-</u>		
- write back of provisions for loans recovered	1,689,754,597	180,972,009
- write off of provisions on loans partially reimbursed and irrecoverable loans	5,893,074,865	272,158,343
- transfer to off balance sheet accounts	<u>446,889,827</u>	-
Balance at 31 December	<u>5,937,851,105</u>	<u>6,334,509,259</u>

Unrealized interest

In accordance with the provisions of circular 149 of the Banking Control Commission, interest on doubtful debts and substandard loans is recorded under unrealized interest.

	<u>2004</u> LBP.	<u>2003</u> LBP.
Balance at 1 January	41,262,596,295	31,446,647,214
<u>Add/-</u>		
- unrealized interest during the year	13,102,789,135	10,352,010,580
- transfer from off balance sheet accounts	<u>43,179,208,389</u>	<u>503,133,890</u>
	97,544,593,819	42,301,791,684
<u>Less/-</u>		
- write back of interest on loans recovered	15,197,138	6,514,889
- refund of interest to clients	44,097,536,897	1,032,415,979
- transfer to interest received	25,895,860	264,521
- transfer to off balance sheet accounts	<u>740,634,978</u>	-
Balance at 31 December	<u>52,665,328,946</u>	<u>41,262,596,295</u>

Unrealized interest is divided as follows:-

	<u>31/12/2004</u> LBP.	<u>31/12/2003</u> LBP.
Interest related to substandard loans	5,703,506,949	2,710,466,925
Interest related to doubtful debts	<u>46,961,821,997</u>	<u>38,552,129,370</u>
	<u>52,665,328,946</u>	<u>41,262,596,295</u>

10- BANK ACCEPTANCES

	<u>31/12/2004</u>	<u>31/12/2003</u>
	LBP.	LBP.
Bank acceptances	<u>39,662,018,386</u>	<u>6,160,885,435</u>

These acceptances resulted from documentary credits for customers' accounts with delayed payments and are guaranteed by the Bank.

11- FINANCIAL FIXED ASSETS, INVESTMENTS AND RELATED LOANS

	<u>31/12/2004</u>	<u>31/12/2003</u>
	LBP.	LBP.
One share Swift (Euro.1,363)	2,796,490	2,569,387
200 shares Société de Garantie des Prêts aux Petites et Moyennes Entreprises S.A.L.	20,000,000	20,000,000
10,000 shares Banque de l'Habitat S.A.L.	250,000	250,000
5,000 shares Société Financière du Liban S.A.L.	250,000	250,000
687,500 shares (62,500 shares in 2003)		
Teleglobal International \$ 575,000 (\$500,000 in 2003)	<u>866,812,500</u>	<u>753,750,000</u>
	<u>890,108,990</u>	<u>776,819,387</u>

Teleglobal International shares have been acquired as follows:

	US\$
In 2003 : 62,500 shares with a nominal value of US\$ 0.0005 each issued at a price of US\$ 8 each	500,000
In 2004: 625,000 shares with a nominal value of US\$ 0.0005 each issued at a price of US\$ 0.12 each	<u>75,000</u>
Balance at 31 December 2004	<u>575,000</u>

12- TANGIBLE FIXED ASSETS

	<u>31/12/2004</u>			<u>31/12/2003</u>
	<u>Cost</u> LBP.	<u>Depreciation</u> LBP.	<u>Net book value</u> LBP.	<u>Net book value</u> LBP.
Buildings	11,864,336,032	1,805,858,850	10,058,477,182	9,883,185,727
Furniture and equipment	13,783,446,371	6,946,313,795	6,837,132,576	4,456,621,274
Fixed assets taken in recovery of debts	2,137,751,078	-	2,137,751,078	309,037,500
Advances on purchase of fixed assets	<u>7,543,820,287</u>	-	<u>7,543,820,287</u>	<u>7,580,535,740</u>
	<u>35,329,353,768</u>	<u>8,752,172,645</u>	<u>26,577,181,123</u>	<u>22,229,380,241</u>

The movement of tangible fixed assets and related depreciation, for the year 2004, are summarized as follows:-

	<u>Balance at</u> <u>1 January 2004</u> LBP.	<u>Additions</u> LBP.	<u>Deductions</u> LBP.	<u>Balance at</u> <u>31/12/2004</u> LBP.
<u>COST</u>				
Buildings	11,309,341,032	554,995,000	-	11,864,336,032
Furniture and equipment	10,323,814,500	3,459,631,871	-	13,783,446,371
Fixed assets taken in recovery of debts	309,037,500	1,895,043,578	66,330,000	2,137,751,078
Advances on purchase of fixed assets	7,580,535,740	1,011,099,075	-	7,543,820,287
	<u>29,522,728,772</u>	<u>5,872,954,996</u>	<u>66,330,000</u>	<u>35,329,353,768</u>
<u>DEPRECIATION</u>				
Buildings	1,426,155,305	379,703,545	-	1,805,858,850
Furniture and equipment	<u>5,867,193,226</u>	<u>1,079,120,569</u>	-	<u>6,946,313,795</u>
	<u>7,293,348,531</u>	<u>1,458,824,114</u>	-	<u>8,752,172,645</u>
		Net book value at 31/12/2004		<u>26,577,181,123</u>
		Net book value at 31/12/2003		<u>22,229,380,241</u>

a- Additions to fixed assets during 2004 amounting to LBP.5,872,954,996 include the following:-

	LBP.
Cost of general installations for Dekwaneh branch	893,940,126
Cost of acquisition of parts 44,45 and 46 of plot 229 Dekwaneh for Dekwaneh branch	554,995,000
Cost of general installations for Chtaura branch	269,344,840
Cost of general installations for Saida branch	503,101,801
Cost of general installations for the Head Office in Freeway Center	1,502,059,323
Fixed assets taken in recovery of bad debts	<u>1,895,043,578</u>
	<u>5,618,484,668</u>

The Bank acquired in 2003 several parts of plot 229 Dekwaneh (Freeway Center) detailed as follows:-

	US\$.
Head office	3,424,320
Dekwaneh branch	<u>480,000</u>
	<u>3,904,320</u>

The bank of Lebanon approved in its letter dated 16 January 2003 the acquisition of several parts of plot 229 Dekwaneh for Dekwaneh branch for an amount of USD. 367,500. The loss amounting to US\$ 112,500 (LBP. 170,325,000) resulting from the difference between the acquisition price and the approved amount has been recorded under "Exceptional losses " in the income statement for the year 2004.

In its letter dated 23 January 2004, the Bank of Lebanon approved the acquisition of several parts of plot 229 Dekwaneh dedicated to the Head Office for an amount of US\$ 2,300,000 against an acquisition price of US\$ 3,424,320, thus a difference of US\$ 1,124,320.

In its report dated 10 July 2004, the Banking Control Commission required from the Bank to cancel the difference between the amount approved by the Bank of Lebanon and the amount recorded in its accounts.

The Bank presented an opposition on the amount fixed by the Bank of Lebanon and the difference has not been recorded in the books of the Bank.

**b- Revaluation of real estate owned by the Bank**

According to the provisions of law N°282 dated 30 December 1993 and decree N°5451 dated 26 July 1994 and the Bank of Lebanon and Banking Control Commission regulations, the Bank proceeded in 1999 to the revaluation of its buildings with the exception of fixed assets taken in recovery of bad debts. The Central Council of the Bank of Lebanon approved, on 26 January 2000, the revaluation and fixed the value of the revalued buildings at US\$.5,391,055 (LBP.9,224,095,104).

Tax authorities fixed the value of the revalued buildings at LBP.7,923,998,894 .

Revaluation variance of fixed assets amounted to LBP. 7,444,855,655 as follows:-

	LBP.
Cost of buildings revalued	487,882,554
<u>Less/-</u> Accumulated depreciation as at 31/12/1993	<u>8,739,315</u>
Net book value	479,143,239
Revalued value	<u>7,923,998,894</u>
Revaluation variance	<u>7,444,855,655</u>

Revaluation variance has been accounted for in 2000 as follows:-

- on the debit side of the balance sheet:-

	LBP.
Addition to the cost of buildings under tangible fixed assets accounts	6,958,648,405
Revaluation variance of other fixed assets	<u>486,207,250</u>
	<u>7,444,855,655</u>

- on the credit side of the balance sheet:-

Revaluation variance of other fixed assets LBP.  
7,444,855,655

c- Fixed assets taken in recovery of bad debts LBP.2,137,751,078

The movement of this account is summarised as follows:-

Balance at 1/1/2004	LBP. 309,037,500
<u>Less/- sale of part 8 of plot 2109 Achrafieh</u>	<u>66,330,000</u>
	242,707,500
<u>Add/- acquisition of several plots in recovery of debts</u>	<u>1,895,043,578</u>
Balance at 31/12/2004	<u>2,137,751,078</u>

Fixed assets taken in recovery of bad debts are divided as follows:-

-Plot 2109 Achrafieh	LBP.
after deduction of several	
parts sold in previous years	242,707,500
- 520/026 parts in several plots acquired in	
settlement of a participation loan	1,567,968,840
- Parts 34,35,36 and 37 of plot 5235 Mazraa	327,074,738
	<u>2,137,751,078</u>

The Banking Control Commission has approved in its letters dated 22 June 2004 and 29 December 2004 the acquisition of the above-mentioned plots.

A provision amounting to LBP.242,707,500 was set up and is stated under provisions on the liabilities side of the balance sheet.

d- Depreciation and amortization of fixed assets amounted to LBP.1,458,824,114 for the year 2004 (LBP.1,422,406,999 for the year 2003).

### 13- INTANGIBLE FIXED ASSETS

	<u>Cost</u>	<u>Amortization</u>	<u>Net book value</u> <u>at 31/12/2004</u>	<u>Net book value</u> <u>at 31/12/2003</u>
	LBP.	LBP.	LBP.	LBP.
Establishment expenses	755,509,781	755,509,781	-	-
Key money	<u>277,036,240</u>	<u>112,334,439</u>	<u>164,701,801</u>	<u>28,641,634</u>
	<u>1,032,546,021</u>	<u>867,844,220</u>	<u>164,701,801</u>	<u>28,641,634</u>

The movement of intangible fixed assets and related amortization in 2004 is summarized as follows:-

<u>COST</u>	<u>Balance at</u> <u>1/1/2004</u>	<u>Additions</u>	<u>Balance at</u> <u>31/12/2004</u>
	LBP.	LBP.	LBP.
Establishment expenses	755,509,781	-	755,509,781
Key money	<u>107,468,240</u>	<u>169,568,000</u>	<u>277,036,240</u>
	<u>862,978,021</u>	<u>169,568,000</u>	<u>1,032,546,021</u>

### AMORTIZATION

Establishment expenses	755,509,781	-	755,509,781
Key money	<u>78,826,606</u>	<u>33,507,833</u>	<u>112,334,439</u>
	<u>834,336,387</u>	<u>33,507,833</u>	<u>867,844,220</u>
		<u>Net Book value at 31/12/2004</u>	<u>164,701,801</u>
		<u>Net Book value at 31/12/2003</u>	<u>28,641,634</u>

The addition to key money account in 2004 amounting to LBP.169,568,000 (USD112,000) represents key money paid for the rent of the premises of Saida branch.

14- OTHER ASSETS

	<u>31/12/2004</u>	<u>31/12/2003</u>
	LBP.	LBP.
Fiscal stamps	56,300,470	43,619,750
Deposit with the Lebanese Treasury	<u>7,500,000</u>	<u>7,500,000</u>
	<u>63,800,470</u>	<u>51,119,750</u>

*Deposit with the Lebanese Treasury*      LBP. 7,500,000

This account represents a guarantee deposited at the Lebanese Treasury according to paragraph (b) of article 132 of the Money and Credit Act, paid at the incorporation of the Bank. This deposit can be recovered only at the liquidation of the bank.

15- REGULARIZATION ACCOUNTS AND OTHER DEBTOR ACCOUNTS

	<u>31/12/2004</u>	<u>31/12/2003</u>
	LBP.	LBP.
Prepaid expenses	217,317,723	96,218,029
Miscellaneous debtor accounts	608,054,181	436,468,542
Loss on structural exchange position	22,425,000	22,425,000
Expenses to be recovered	<u>145,564,697</u>	<u>41,829,065</u>
	<u>993,361,601</u>	<u>596,940,636</u>

*Prepaid expenses*

	<u>31/12/2004</u>	<u>31/12/2003</u>
	LBP.	LBP.
Insurance premium	43,624,784	13,255,357
Rent	132,927,204	45,502,704
Other prepaid expenses	<u>40,765,735</u>	<u>37,459,968</u>
	<u>217,317,723</u>	<u>96,218,029</u>

*Miscellaneous debtor accounts*

	<u>31/12/2004</u>	<u>31/12/2003</u>
	LBP.	LBP.
Advances to employees	17,513,415	11,425,575
Deposits paid	224,596,952	55,912,952
Miscellaneous debtor accounts	1,096,992,906	1,131,974,253
<u>Less/- Provision for debtor accounts</u>	<u>(731,049,092)</u>	<u>(762,844,238)</u>
Net miscellaneous debtor accounts	<u>365,943,814</u>	<u>369,130,015</u>
	<u>608,054,181</u>	<u>436,468,542</u>

"Miscellaneous debtor accounts" include an amount of LBP.383,571,802 at 31 December 2004 (LBP.353,981,424 at 31 December 2003) representing the value of fraudulent checks.

*Provision for debtor accounts*

Provision for fraudulent checks		LBP. 383,569,805
Provision for other debtor accounts		<u>347,479,287</u>
		<u>731,049,092</u>

The movement of provision for debtor accounts is summarized as follows:-

	<u>2004</u>	<u>2003</u>
	LBP.	LBP.
Balance at 1 January	762,844,238	391,744,529
<u>Add/-</u>		
- Provision set up during the year	-	343,403,468
- Difference of exchange on the provision denominated in foreign currencies at 31 December	<u>29,590,228</u>	<u>42,659,059</u>

	792,434,466	777,807,056
<u>Less/-</u>		
- Write back of provisions for accounts settled in 2004	37,073,394	14,962,818
- Amortization of miscellaneous debtor accounts	<u>24,311,980</u>	<u>-</u>
Balance at 31 December	<u>731,049,092</u>	<u>762,844,238</u>

Expenses to be recovered LBP. 145,564,697

This account represents expenses and commissions to be collected from issue of electronic cards.

16- REVALUATION VARIANCE OF OTHER FIXED ASSETS LBP.486,207,250

Revaluation variance resulting from the revaluation of real estate properties carried out by the Bank in 1999.

17- BANK OF LEBANON

	<u>31/12/2004</u>	<u>31/12/2003</u>
	LBP.	LBP.
Subsidized loan from the Bank of Lebanon	<u>23,000,000,000</u>	<u>23,000,000,000</u>

Subsidized loan granted by the Bank of Lebanon against the acquisition of Crédit Lyonnais - Liban S.A.L. amounting to LBP.23,000,000,000 for eight years under specific conditions.

18- BANKS AND FINANCIAL INSTITUTIONS

	<u>31/12/2004</u>	<u>31/12/2003</u>
	LBP.	LBP.
Deposits from banks and financial institutions:-		
- current accounts	415,503,372	729,428,670
- time deposits	<u>12,526,079,363</u>	<u>5,352,546,084</u>
	<u>12,941,582,735</u>	<u>6,081,974,754</u>

19- DEPOSITS FROM CUSTOMERS

	<u>31/12/2004</u>	<u>31/12/2003</u>
	LBP.	LBP.
Current accounts	18,451,749,187	15,287,824,343
Checking accounts	18,608,859,139	14,359,564,160
Other credit accounts	12,198,862,739	7,143,129,693
Payment orders	84,071,677	98,510,380
Deposits from the mixed sector	1,731,073	1,731,073
Deposits from the public sector	<u>83,817,478</u>	<u>152,277,849</u>
Total sight deposits	<u>49,429,091,293</u>	<u>37,043,037,498</u>
Time deposits	50,217,971,487	37,949,724,795
Time deposits from the public sector	<u>29,007,082,897</u>	<u>14,757,723,684</u>
Total time deposits	<u>79,225,054,384</u>	<u>52,707,448,479</u>
Saving accounts	412,494,201,238	361,187,820,905
Net creditor and cash collateral accounts against debtor accounts	26,260,854,753	15,766,108,375
Related parties accounts	<u>46,752,336,823</u>	<u>33,805,352,786</u>
Total deposits	<u>614,161,538,491</u>	<u>500,509,768,043</u>

Deposits from customers at 31 December 2004 include coded accounts amounting to LBP.654,653,223 (LBP.738,409,510 at 31 December 2003).

Related parties accounts LBP.46,752,336,823 (LBP.33,805,352,786 in 2003)

Related parties accounts include an amount of LBP.15,605,380,749 (LBP. 16,230,966,432 in 2003) representing balances of shareholders accounts blocked against advances granted to them and to related companies or granted against their personal guarantees.

20- OTHER LIABILITIES

	<u>31/12/2004</u>	<u>31/12/2003</u>
	LBP.	LBP.
Social dues	412,633,052	164,901,575
Taxes due	1,319,200,229	1,185,496,789
Miscellaneous creditor accounts	2,006,451,062	2,016,380,644
Blocked accounts	<u>1,585,658,308</u>	<u>1,614,402,214</u>
	<u>5,323,942,651</u>	<u>4,981,181,222</u>

Social dues

This account represents the following:-

	<u>31/12/2004</u>	<u>31/12/2003</u>
	LBP.	LBP.
Subscriptions due to the National Social Security Fund	154,280,648	164,901,575
Penalties on additional subscriptions following the NSSF review	<u>258,352,404</u>	-
	<u>412,633,052</u>	<u>164,901,575</u>

The NSSF authorities reviewed in 2003 the returns presented by the Bank from year 1981 to May 2003. Additional subscriptions resulting from this review amounted to LBP. 260,572,242 and were paid in 2003.

Penalties resulting from this review and amounting to LBP.258,352,404 have been recorded under " Exceptional losses" in the income statement for the year 2004.

Declarations for the period from June 2003 till December 2004 are still subject to review.

Taxes due

This account represents the balance of taxes on:-

	<u>31/12/2004</u>	<u>31/12/2003</u>
	LBP.	LBP.
- Salaries and remunerations	134,358,505	100,127,000
- Board of directors attendance fees	31,500,000	31,500,000
- Amounts paid to others	10,189,495	5,258,000
- Head office and branches	70,850,000	46,000,000
- Profit for the year	938,720,585	892,127,585
- Interest on customers deposits	124,536,644	110,484,204
- Other taxes	<u>9,045,000</u>	-
	<u>1,319,200,229</u>	<u>1,185,496,789</u>

The bank paid in 2004 the following taxes:

	LBP.
- On salaries and remunerations for the fourth quarter of 2003 and the three first quarters of 2004	311,881,495
- On Board of Directors attendance fees for the year 2003	31,500,000
- On profit for the year 2003	858,407,000
- On miscellaneous	<u>26,146,505</u>
	<u>1,227,935,000</u>

Tax authorities reviewed in year 2002 the tax returns of the bank for the year 2001. Additional taxes resulting from this review and amounting to LBP.62,554,000 were paid in March 2003. Returns for the years 2002 till 2004 are still subject to review.

Calculation of income tax on profit

Income tax on profit for the years 2004 and 2003 has been calculated as follows:-

	<u>2004</u>	<u>2003</u>
	LBP.	LBP.
Net income for the period	4,944,775,263	4,664,243,485
<u>Add/-</u>		
- income tax on profit	905,000,000	875,000,000
- 5% taxes on interest received	247,888,000	-
- amortization of key money	33,507,833	-
- provision for fixed assets taken in recovery of bad debts	-	49,547,000
- non deductible provisions	4,800,000	4,200,000
- additional taxes	258,552,404	62,554,000
- other charges	<u>389,941,539</u>	<u>47,529,989</u>
	6,784,465,039	5,703,074,474
<u>Less/-</u>		
- profit on disposal of tangible fixed assets subject to tax at the rate of 10%	-	96,179,884
- write back of provisions for fixed assets taken in recovery of bad debts	<u>66,330,000</u>	-
Taxable income	<u>6,718,135,039</u>	<u>5,606,894,590</u>
Tax at the rate of 15% and 10%	1,007,720,256	850,652,177
<u>Less/-</u>		
- 5% tax on interest received	<u>247,888,000</u>	-
Tax due	<u>759,832,256</u>	<u>850,652,177</u>
Provision for income tax	<u>905,000,000</u>	<u>875,000,000</u>

Miscellaneous creditor accounts

The above account is divided as follows:

	<u>31/12/2004</u>	<u>31/12/2003</u>
	LBP.	LBP.
Balance of cost of purchase of parts in Freeway Center (Dekwaneh)	1,242,662,400	1,242,662,400
Commission on sale of Rmeil branch	-	120,600,000
Blocked accounts transferred from Credit Lyonnais- Liban S.A.L.	256,454,173	251,860,640
Miscellaneous creditor accounts	<u>507,334,489</u>	<u>401,257,604</u>
	<u>2,006,451,062</u>	<u>2,016,380,644</u>

Blocked accounts

	<u>31/12/2004</u>	<u>31/12/2003</u>
	LBP.	LBP.
Blocked accounts from clients against:		
- documentary credits opened for their account	1,063,366,150	1,237,605,893
- rent of safe boxes	<u>32,562,000</u>	<u>30,300,750</u>
	1,095,928,150	1,267,906,643
Payments on account of unpaid bills and acceptances	<u>489,730,158</u>	<u>346,495,571</u>
	<u>1,585,658,308</u>	<u>1,614,402,214</u>

21- REGULARIZATION ACCOUNTS AND OTHER CREDITOR ACCOUNTS

	<u>31/12/2004</u>	<u>31/12/2003</u>
	LBP.	LBP.
Accrued expenses	1,108,674,105	718,789,431
Commissions received in advance	110,204,849	63,426,673
Regularization accounts for foreign currencies	67,476,308	23,196,773
Amounts in suspense between head office and branches	<u>121,417,894</u>	<u>14,369,613</u>
	<u>1,407,773,156</u>	<u>819,782,490</u>

Accrued expenses

	<u>31/12/2004</u>	<u>31/12/2003</u>
	LBP.	LBP.
Auditors fees	53,516,250	53,516,250
Legal fees	217,399,319	164,636,819
Utilities	106,607,272	162,824,133
Subscription to " Centrale des Risques "	33,000,000	28,545,602
Computer software expenses	72,747,555	15,431,555
5 % tax on interest of Certificates of Deposit	233,132,454	87,050,000
5 % tax on interest of Treasury Bills	94,650,750	4,271,443
Centrale of unpaid checks	15,394,381	12,909,209
Miscellaneous	<u>282,226,124</u>	<u>189,604,420</u>
	<u>1,108,674,105</u>	<u>718,789,431</u>

Commissions received in advance

	<u>31/12/2004</u>	<u>31/12/2003</u>
	LBP.	LBP.
Commissions in advance on:		
- Guarantees given	99,524,341	55,109,208
- Housing loans	3,238,056	2,434,612
- Miscellaneous	<u>7,442,452</u>	<u>5,882,853</u>
	<u>110,204,849</u>	<u>63,426,673</u>

22- PROVISIONS FOR RISKS AND CHARGES

	<u>31/12/2004</u>	<u>31/12/2003</u>
	LBP.	LBP.
Provision for staff termination indemnities	1,190,986,266	1,294,896,276
Provision for miscellaneous risks	43,097,955	39,612,584
Provision for fixed assets taken in recovery of bad debts	242,707,500	309,037,500
Provision for loss on structural exchange position	22,425,000	22,425,000
Provision for employment of disabled	-	<u>11,400,000</u>
	<u>1,499,216,721</u>	<u>1,677,371,360</u>

Provision for staff termination indemnities

This account represents the difference between staff termination indemnities at the end of the year and contributions paid to the National Social Security Fund at that date.

	<u>2004</u>	<u>2003</u>
	LBP.	LBP.
Balance at 1 January	1,294,896,276	1,572,041,310
<u>Less/-</u>		
- indemnities paid	64,191,277	392,752,834
- regularization of interest on contributions to NSSF	-	40,256,690
- regularization of calculation of end of service indemnity	61,724,299	-
- write back of provisions	-	<u>1,834,736</u>
	<u>1,168,980,700</u>	<u>1,137,197,050</u>

<u>Add/-</u>		
- provision set up	<u>22,005,566</u>	<u>157,699,226</u>
Balance at 31 December	<u>1,190,986,266</u>	<u>1,294,896,276</u>

Provision for miscellaneous risks

	<u>31/12/2004</u>	<u>31/12/2003</u>
	LBP.	LBP.
Provisions in Lebanese pounds	180,000	180,000
Provisions in foreign currencies	<u>42,917,955</u>	<u>39,432,584</u>
	<u>43,097,955</u>	<u>39,612,584</u>

Provisions for miscellaneous risks (in LBP) LBP.180,000.

This provision was set up in previous years to cover losses that may result from a claim against the Bank for damage from installations in Jounieh branch.

Provisions for miscellaneous risk (in US\$) LBP.42,917,955

	<u>31/12/2004</u>	<u>31/12/2003</u>
	LBP.	LBP.
Provision for a fraud case	24,156,666	22,194,901
Provision against an old guarantee (transferred from Credit Lyonnais- Liban S.A.L. (Euro.9,146)	<u>18,761,289</u>	<u>17,237,683</u>
	<u>42,917,955</u>	<u>39,432,584</u>

The movement of this account is summarized as follows:-

	<u>2004</u>	<u>2003</u>
	LBP.	LBP.
Balance at 1 January	39,432,584	32,880,957
<u>Add/-</u>		
Difference of exchange resulting from the revaluation of provisions denominated in foreign currencies at the rates ruling at year end	<u>3,485,371</u>	<u>6,551,627</u>
Balance at 31 December	<u>42,917,955</u>	<u>39,432,584</u>

The provision for fraud case was set up to cover the difference between the amounts paid by the Bank in respect of fraudulent checks and claimed by the correspondents, and the nominal amounts of these checks.

Provision for fixed assets taken in recovery of bad debts

	<u>2004</u>	<u>2003</u>
	LBP.	LBP.
Balance at 1 January	309,037,500	259,490,500
<u>Less/-</u>		
- Write back of provisions	<u>66,330,000</u>	<u>-</u>
	<u>242,707,500</u>	<u>259,490,500</u>
<u>Add/-</u> Provision set up	<u>-</u>	<u>49,547,000</u>
Balance at 31 December	<u>242,707,500</u>	<u>309,037,500</u>

23- SHARE CAPITAL AND CASH CONTRIBUTION TO CAPITAL

	<u>31/12/2004</u>	<u>31/12/2003</u>
	LBP.	LBP.
Capital	14,400,004,500	14,400,004,500
Cash contribution to capital	<u>9,045,000,000</u>	<u>9,045,000,000</u>
	<u>23,445,004,500</u>	<u>23,445,004,500</u>

Capital

The capital of the Bank amounting to LBP.14,400,004,500 is divided into 1,066,667 shares of LBP.13,500 each, fully paid.

Cash contribution to capital the LBP. 9,045,000,000 (USD 6,000,000)

These contributions abide by the following terms:-

- the loan is to be deposited and blocked with the Bank during the lifetime of the Bank;
- if any losses occur, and the Bank has to reconstitute its capital, these cash contributions may cover the losses according to the provisions of article 4-1-B of circular 43 of the Bank of Lebanon and article 134 of the Money and Credit Act;
- these cash contributions can be used to increase the capital of the Bank;
- interest rate equal to libor three months is applied on these contributions provided the approval of the Banking Control Commission.

No interest has been calculated on the cash contributions due to the fact that the Bank is in the process of arranging a new agreement with its shareholders where no interest will be paid to the shareholders.

24- RESERVES FOR GENERAL BANKING RISKS

	<u>2004</u>	<u>2003</u>
	LBP.	LBP.
Balance at 31 December	<u>1,978,837,455</u>	<u>1,380,513,639</u>

This amount was appropriated in accordance with the regulations of circular 50 of the Bank of Lebanon, calculated at the rate of 0.2 percent of total risks (weighted assets and contra-accounts) for any eventual banking risk.

The movement of this account is summarized as follows:-

	LBP.	LBP.
Balance at 31 December 2002		840,818,784
Appropriation from 2002 profits	541,500,000	
Difference of exchange due to the translation of an amount of LBP.420,459,000 to US\$.277,714 at the rate of 31 December 2003	<u>(1,805,145 )</u>	<u>539,694,855</u>
Balance at 31 December 2003		1,380,513,639
Appropriation of 2003 profits	600,600,000	
Difference of exchange due to the translation of an amount of LBP.475,566,000 to US\$.313,957 at the rate of 31 December 2004	<u>(2,276,184 )</u>	<u>598,323,816</u>
Balance at 31 December 2004		<u>1,978,837,455</u>

25- RESERVES AND PREMIUMS AND EQUITY DIFFERENCES

	<u>31/12/2004</u>	<u>31/12/2003</u>
	LBP.	LBP.
Legal reserve	2,741,019,029	2,274,594,680
General reserve	6,599,441,928	3,002,222,792
Reserve appropriated to capital increase	1,304,249,511	1,304,249,511
Premium from merger	<u>3,397,614,390</u>	<u>3,397,614,390</u>
	<u>14,042,324,858</u>	<u>9,978,681,373</u>



29- OFF-BALANCE SHEET ITEMS

	<u>31/12/2004</u> LBP.	<u>31/12/2003</u> LBP.
Financing commitments given to financial intermediaries	46,465,776,061	7,952,769,846
Bank guarantees given to customers	28,450,904,155	16,176,650,933

30- COMPARISON OF THE INCOME STATEMENTS FOR THE YEARS 2003 AND 2004

	<u>2004</u> LBP.	<u>2003</u> LBP.
Interest and similar income	44,807,826,974	47,449,496,073
Interest and similar charges	(29,988,078,207 )	(28,711,493,821 )
Net provisions and revenues on doubtful debts	<u>1,407,532,438</u>	<u>(983,800,333 )</u>
Net interest received	<u>16,227,281,205</u>	<u>17,754,201,919</u>
Net commissions	3,117,515,987	2,104,848,517
Net income from financial operations	2,319,704,627	734,037,634
Other operating income	1,564,717,110	1,404,124,597
Staff and operating charges	(15,324,767,473 )	(14,396,013,296 )
Amortization, depreciation and provisions of tangible and intangible fixed assets	<u>(1,426,001,947 )</u>	<u>(1,498,398,704 )</u>
Net result for the year	<u>6,478,449,509</u>	<u>6,102,800,667</u>
Net extraordinary results	(628,674,246 )	(563,557,182 )
Income tax	(905,000,000 )	(875,000,000 )
Profit for the year	<u>4,944,775,263</u>	<u>4,664,243,485</u>

31- COMPARISON OF INTEREST RECEIVED AND INTEREST PAID FOR THE YEARS 2003 AND 2004

	<u>2004</u> LBP.	<u>2003</u> LBP.
Interest received:-		
- on loans and advances to customers	15,781,802,217	14,751,509,219
- on advances to related parties	1,090,298,663	1,242,178,384
- on deposits with banks and Bank of Lebanon	13,640,992,428	10,138,629,970
- bonds and financial instruments with fixed income	241,840,688	229,994,753
- on Lebanese treasury bills	<u>14,052,892,978</u>	<u>21,087,183,747</u>
Total interest received	<u>44,807,826,974</u>	<u>47,449,496,073</u>
Interest paid:-		
- on current accounts and checking accounts	302,476,562	263,135,960
- on current saving accounts	45,424,700	55,462,079
- on time saving accounts	21,144,670,683	20,831,231,162
- on time deposits and blocked accounts	<u>4,720,135,969</u>	<u>4,015,531,334</u>
Total interest paid on customers accounts	26,212,707,914	25,165,360,535
- on deposits from related parties	1,787,445,089	1,685,192,451
- on banks' deposits	<u>1,987,925,204</u>	<u>1,860,940,835</u>
Total interest paid	<u>29,988,078,207</u>	<u>28,711,493,821</u>
Excess interest received over interest paid	<u>14,819,748,767</u>	<u>18,738,002,252</u>
Percentage of interest paid on interest received	<u>66.93 %</u>	<u>60.51%</u>

According to the regulations of the Banking Control Commission, interest on doubtful debts and substandard loans amounting to LBP. 13,102,789,135 (LBP.10,352,010,580) were recorded under " unrealized interest " in 2004.

32- PROVISIONS FOR DOUBTFUL DEBTS

	<u>2004</u> LBP.	<u>2003</u> LBP.
Provision for doubtful debts	339,768,691	842,136,511
Other provisions (legal expenses)	<u>-</u>	<u>343,403,468</u>

339,768,691                      1,185,539,979

**33- PROVISIONS FOR DOUBTFUL DEBTS NO MORE REQUIRED**

	<u>2004</u>	<u>2003</u>
	LBP.	LBP.
Provisions for debts recovered during the year	1,689,754,597	180,972,009
Unrealized interest recovered	15,197,138	6,514,889
Income from amortized loans	5,276,000	-
Write back of provisions for staff termination indemnity	-	1,834,736
Write back of other provisions	<u>37,073,394</u>	<u>12,418,012</u>
	<u>1,747,301,129</u>	<u>201,739,646</u>

**34- LOSS ON FINANCIAL FIXED ASSETS                      LBP. 136,201,530**

This account represents the loss resulting from the disposal of an investment in previous years.

**35- OTHER OPERATING INCOME**

	<u>2004</u>	<u>2003</u>
	LBP.	LBP.
Fax, swift and stamp expenses recovered from customers	1,243,702,957	1,357,433,143
Safe boxes rental	17,619,588	16,759,688
Miscellaneous	<u>303,394,565</u>	<u>29,931,766</u>
	<u>1,564,717,110</u>	<u>1,404,124,597</u>

**36- STAFF EXPENSES**

	<u>2004</u>	<u>2003</u>
	LBP.	LBP.
Salaries and remunerations of the Chairman, and vice-chairman and a member of the Board of Directors	277,500,000	277,500,000
Staff salaries	7,994,068,974	8,111,184,603
Social charges	1,072,979,487	947,322,366
Provision for staff termination indemnity	<u>22,005,566</u>	<u>157,699,226</u>
	<u>9,366,554,027</u>	<u>9,493,706,195</u>

**37- GENERAL OPERATING EXPENSES**

	<u>2004</u>	<u>2003</u>
	LBP.	LBP.
Taxes	599,048,937	273,180,402
Premium for guarantee of deposits	252,021,000	209,066,000
Rent, maintenance and repair of buildings and general installations	870,950,443	686,416,140
Lawyers fees	200,157,500	104,974,925
Auditors fees	58,327,500	71,414,000
Experts and consultants fees	487,587,030	499,493,170
P.T.T.	399,532,009	350,392,926
Electricity, water and fuel	355,890,478	275,023,772
Transportation	285,192,092	249,722,950
Receptions and gifts	156,402,928	147,267,817
Advertising and publicity	156,892,172	290,234,218
Telerate and miscellaneous subscriptions	424,759,213	369,325,885
Insurance premiums	60,454,420	91,254,606
Printings	861,740,710	540,137,505
Subscription in " Centrale des Risques "	33,251,248	20,000,000
Confirmations expenses	96,115,791	81,334,925
Board of Directors' attendance fees	315,000,000	315,000,000
Legal fees	232,924,914	217,209,273
Other operating expenses	<u>111,965,061</u>	<u>110,858,587</u>
	<u>5,958,213,446</u>	<u>4,902,307,101</u>

Taxes

	<u>2004</u> LBP.	<u>2003</u> LBP.
Taxes on certificates of deposit interest	285,791,130	134,240,286
Taxes on treasury bills interest	168,275,442	1,473,116
Registration fees	25,218,365	30,697,000
Municipality taxes	66,041,000	56,033,000
Other taxes	<u>53,723,000</u>	<u>50,737,000</u>
	<u>599,048,937</u>	<u>273,180,402</u>

38- DEPRECIATION, AMORTIZATION AND PROVISIONS

	<u>2004</u> LBP.	<u>2003</u> LBP.
Depreciation of tangible fixed assets	1,458,824,114	1,422,406,999
Amortization of intangible fixed assets	33,507,833	26,444,705
Provision for fixed assets taken in recovery of bad debts	-	<u>49,547,000</u>
	<u>1,492,331,947</u>	<u>1,498,398,704</u>
<u>Less/-</u>		
- Write back of provisions for disposal of fixed assets taken in recovery of bad debts	<u>66,330,000</u>	-
	<u>1,426,001,947</u>	<u>1,498,398,704</u>

39- EXTRAORDINARY EXPENSES

	<u>2004</u> LBP.	<u>2003</u> LBP.
Donations	36,851,750	13,287,375
Provisions for employment of disabled	4,800,000	4,200,000
Additional taxes related to previous years	-	62,554,000
Loss on disposal of fixed assets	-	134,831,001
Additional contributions to the NSSF	258,552,404	260,572,242
Commissions on sale of Rmeil branch	-	120,600,000
Loss resulting from the difference in price of Dekwaneh branch as per the Banking Control Commission letter	170,325,000	-
Expenses related to assets taken in recovery of bad debts	176,860,375	-
Building expenses	47,928,597	-
Miscellaneous expenses	<u>5,904,414</u>	<u>7,798,209</u>
	<u>701,222,540</u>	<u>603,842,827</u>

40- CASH AND CASH EQUIVALENTS

	<u>2004</u> LBP.	<u>2003</u> LBP.
Cash and Central Bank	47,153,178,545	30,900,516,857
Banks and financial institutions	<u>106,583,259,683</u>	<u>48,377,935,785</u>
	153,736,438,228	79,278,452,642
<u>Less/-</u> Debts due to banks	<u>12,941,582,735</u>	<u>6,081,974,754</u>
Cash and cash equivalents at the end of the year	<u>140,794,855,493</u>	<u>73,196,477,888</u>

41- COMPLIANCE WITH LAWS AND REGULATIONS

- The Bank complied in 2004 with the accounting principles and regulations in recording all transactions without any changes with the previous year with the exception of the loss on some investments and the loss on the acquisition of the Head Office of the Bank, both not provided for in 2004;
- The Bank complied with the provisions of the Commercial Law and the Money and Credit Act with the exception of:-

- some of the customers did not submit recent financial statements according to article 160 of the Money and Credit Act;
  - mismatching of the Bank's sources and use of funds according to article 156 of the Money and Credit Act;
  - some debtor files did not comply with the regulations of circular 238 of the Banking Control Commission;
- 3- The Bank complied with the directives of the Bank of Lebanon and the Banking Control Commission relating to:-
- sufficiency of equity for head office and branches;
  - exchange position;
  - liquidity ratio;
  - solvency ratio;
  - mandatory reserve.

To the Shareholders,  
Credit Bank S.A.L.  
Dekwaneh,  
Lebanon.

Special report  
pursuant to the provisions of article 152 of the Money and Credit Act

Your Bank has granted advances to some members of the Board of Directors and to related companies and to some customers with the guarantee of some members of the Board of Directors.

The General Meeting of Shareholders authorized the Board of Directors to grant advances to related customers and companies without its previous agreement provided that these loans are guaranteed by cash collateral or bank guarantees.

Advances to members of the Board of Directors and related companies amounted to LBP.17,636,462,000 at 31 December 2004:-

	000LBP.
Advances against cash collateral	15,368,879
Advances against real estate guarantees	301,500
Advances without real estate guarantees	<u>1,966,083</u>
	<u>17,636,462</u>

Your Board of Directors seeks:-

- 1- your approval on the above transactions;
- 2- your authorization to grant advances as stated in its special report.

Beirut, 30 April 2005

SEMAAN, GHOLAM & Co.

**General Management**

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**Ghazir**

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Sarkis Center  
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**Ajaltoun**

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**Jal El Dib**

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**Chiyah**

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Chyah Blvd, Wazneh Bldg.  
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**Jdeideh**

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Space 2 Center  
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Fax (+ 961 1) 890856

**Chtoura (opening in July 2005)**

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Main Road, Abdel Karim Kherfan  
Bldg.  
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**Jounieh**

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Main Square, Boueiz Bldg.  
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**Dekweneh**

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**Saida**

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**Elyssar**

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Galleria Center.  
Tel (+ 961 4) 921760/1  
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**Sarba**

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Sarba Highway  
Tel (+ 961 9) 637511/12/13  
Fax (+ 961 9) 637511-Ext.201

**Hamra**

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73,Baalbeck St, Commodore  
Tel (+ 961 1) 742877/8  
Fax (+ 961 1) 352849-Ext.15

**Tripoli**

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Riad El Soleh Str., Karim Center  
Tel (+ 961 6) 428001/2/3  
Fax (+ 961 6) 428004

COUNTRY	BANK
AUSTRALIA	AUSTRALIA AND NEW ZEALAND BANKING GROUP LTD (ANZ Bank) - MELBOURNE
AUSTRIA	BANK AUSTRIA CREDITANSTALT AG-VIENNA
BELGIUM	FORTIS BANK NV/SA-BRUSSELS
CANADA	NATIONAL BANK OF CANADA-MONTREAL ROYAL BANK OF CANADA – MONTREAL
DENMARK	DANSKE BANK A/S-COPENHAGEN
FRANCE	BANQUE BANORABE-PARIS BANQUE AUDI SARADAR FRANCE SA-PARIS <i>(Formerly BANQUE SARADAR FRANCE SA)</i> NATEXIS BANQUES POPULAIRES-PARIS CREDIT LYONNAIS SA – PARIS CREDIT LYONNAIS SA – PARIS
GERMANY	DEUTSCHE BANK AG-FRANKFURT DRESDNER BANK AG - FRANKFURT DRESDNER BANK AG - FRANKFURT
ITALY	BANCA INTESA SPA UNICREDITO ITALIANO SPA UNICREDITO ITALIANO SPA
JAPAN	BANCA INTESA SPA -TOKYO UNION BANK OF CALIFORNIA – TOKYO
KUWAIT	THE COMMERCIAL BANK OF KUWAIT-SAFAT
NETHERLANDS	ABN AMRO BANK NV-AMSTERDAM
NORWAY	DNB NOR BANK ASA
SPAIN	BANCO BILBAO VIZCAYA ARGENTARIA- MADRID
SRI LANKA	NATIONAL DEVELOPMENT BANK OF SRI LANKA LTD (NDB BANK LTD)
SWEDEN	NORDEA BANK -STOCKHOLM SKANDINAVISKA ENSKILDA BANKEN - STOCKHOLM
SWITZERLAND	BANQUE BANORIENT (SUISSE) S.A. - GENEVA CREDIT AGRICOLE (SUISSE ) S.A. - GENEVA

<b>COUNTRY</b>	<b>BANK</b>
<b>U.A.E.</b>	ALAHLI BANK OF KUWAIT KSC-DUBAI
<b>U.K.</b>	WACHOVIA BANK NATIONAL ASSOCIATION-LONDON BANK OF BEIRUT (UK) LTD -LONDON BANK OF BEIRUT (UK) LTD -LONDON BANK OF BEIRUT (UK) LTD -LONDON
<b>U.S.A.</b>	BANCA INTESA SPA - NEW YORK UNION BANK OF CALIFORNIA INT'L - NEW YORK JP MORGAN CHASE BANK NA – NEW YORK HSBC BANK USA N.A - NEW YORK