

BT 30714/DTT

## INDEPENDENT AUDITORS' REPORT

To the Shareholders  
BLC Bank S.A.L.  
Beirut, Lebanon

We have audited the accompanying consolidated financial statements of BLC BANK S.A.L. and the Subsidiaries (the "Group"), which comprise the consolidated balance sheet as at December 31, 2006, and the consolidated statement of income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The consolidated financial statements of the Bank for the year ended December 31, 2005 were audited by Deloitte & Touche only who expressed an unqualified opinion in their reissued auditor's report dated March 27, 2006 which included an emphasis paragraph highlighting going concern, quality of revenues and compliance with local regulatory frame work.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2006, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Beirut, Lebanon  
February 28, 2007

  
Deloitte & Touche

  
KPMG

BLC BANK S.A.L.  
CONSOLIDATED BALANCE SHEET

<u>ASSETS</u>	<u>Notes</u>	<u>December 31,</u>	
		<u>2006</u>	<u>2005</u>
		<u>LBP'000</u>	<u>LBP'000</u>
Cash compulsory reserve - Non interest earning	5(a)	16,728,114	17,552,740
Cash and due from banks	5(b)	140,774,711	130,402,517
Time deposits with banks and financial institutions	5(c)	635,259,728	524,418,482
Investment securities:	6		
Held-for-trading		12,028,314	30,918,287
Available-for-sale		1,056,356,906	540,919,508
Held-to-maturity		726,267,410	982,981,133
Loans and advances to customers	7	520,721,559	478,442,802
Customers' acceptance liabilities	8	41,408,722	55,602,344
Other assets	9	59,027,190	101,557,959
Properties acquired in satisfaction of debts	10	70,583,757	64,787,941
Property and equipment	11	24,963,980	27,373,430
Deferred charges	12	<u>5,392,695</u>	<u>12,059,361</u>
<b>Total Assets</b>		<u><b>3,309,513,086</b></u>	<u><b>2,967,016,504</b></u>
 <b>FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS:</b>			
	26		
Letters of guarantee and stand by letters of credit		392,593,349	262,289,389
Letters of credit		105,446,963	69,092,584
Forward exchange contracts		88,698,444	111,069,080

BLC BANK S.A.L.  
CONSOLIDATED BALANCE SHEET

<u>LIABILITIES</u>	<u>Notes</u>	<u>December 31,</u>	
		<u>2006</u> <u>LBP'000</u>	<u>2005</u> <u>LBP'000</u>
Banks and financial institutions:	13		
- Demand deposits		18,520,141	24,062,758
- Short-term borrowings		80,090,845	73,144,954
		<u>98,610,986</u>	<u>97,207,712</u>
Customers' deposits and credit balances:	14		
- Demand deposits		371,753,105	364,460,775
- Time deposits		773,326,402	613,332,721
- Saving sight accounts		41,848,010	49,714,757
- Saving term accounts		1,544,459,953	1,474,083,684
- Credit versus debit balances		1,081	61,703
- Public sector		4,745,747	5,190,133
		<u>2,736,134,298</u>	<u>2,506,843,773</u>
Subordinated loans	15	50,000,006	3,844,645
Soft loans - Central Bank of Lebanon	16	152,583,000	152,583,000
Accounts payable and miscellaneous creditors	17	72,889,113	68,299,293
Outstanding acceptances	8	41,408,722	55,602,344
Other liabilities	18	23,242,106	32,697,231
Provision for losses and risks	19	27,129,422	29,827,811
		<u>367,252,369</u>	<u>342,854,324</u>
Total liabilities		<u>3,201,997,653</u>	<u>2,946,905,809</u>
 <u>EQUITY</u> 			
Capital (101,235,000 shares authorized, issued and fully paid)	20	101,235,000	40,320,000
Reserves	21	2,290,758	12,364,750
Cumulative translation adjustment		( 592,955)	( 316,315)
Retained earnings/(accumulated losses)		2,293,285	( 52,765,988)
Change in fair value of available-for-sale securities		( 15,748,686)	9,614,395
Net income for the year		17,892,126	10,798,111
Total attributable to the equity holders of the parent		<u>107,369,528</u>	<u>20,014,953</u>
Minority interest		145,905	95,742
Total equity		<u>107,515,433</u>	<u>20,110,695</u>
Total Liabilities and Equity		<u>3,309,513,086</u>	<u>2,967,016,504</u>

BLC BANK S.A.L.  
CONSOLIDATED INCOME STATEMENT

	<u>Notes</u>	<u>Year Ended December 31.</u>	
		<u>2006</u>	<u>2005</u>
		LBP'000	LBP'000
Interest income:			
Loans and advances to customers		38,279,401	30,962,197
Lebanese treasury bills		60,235,335	36,158,208
Certificates of deposit		44,830,687	55,098,964
Deposits with banks and financial institutions		28,989,906	19,340,918
Fixed income securities		44,567,949	47,881,674
Other income		118,177	269,657
		<u>217,021,455</u>	<u>189,711,618</u>
Interest expense:			
Customers' deposits		( 137,963,337)	( 114,333,467)
Deposits from banks		( 4,532,974)	( 5,252,002)
Repurchase agreements		( 414,516)	( 1,788,086)
Soft loans from the Central Bank of Lebanon	16	( 5,733,101)	( 4,756,071)
Subordinated loans		( 1,397,413)	( 273,981)
		<u>( 150,041,341)</u>	<u>( 126,403,607)</u>
Net interest income		66,980,114	63,308,011
Provision for credit losses	7	( 17,215,155)	( 15,153,319)
Write-back of provision for credit losses	7	18,632,614	28,426,136
Write-off of loans		( 53,497)	( 85,399)
Write-back of provision for doubtful banks		6,008	55,778
Write-back of discount on loan portfolio purchased	7	527,598	1,057,053
Net interest income after provision for credit losses and write-off of loans, net of write-backs		68,877,682	77,608,260
Commissions, fees and other revenues (Net)	22	16,632,380	13,672,946
Realized and unrealized gain on securities		1,775,183	3,906,183
Provision for losses and risks (Net)	19	( 1,748,067)	( 2,066,199)
Write-back/(provision) for non-recurring bonuses	18	4,649,206	( 8,699,531)
Provisions no longer required		39,689	556,155
Gain on sale of property and equipment and properties acquired in satisfaction of debts		404,491	1,046,881
Exchange gain (Net)		4,481,753	4,278,288
Provision for properties acquired in satisfaction of debts	10	( 452,250)	( 3,835,262)
Provision for impairment of owned real estate	11	( 376,875)	( 17,000)
Net financial income		<u>94,283,192</u>	<u>86,450,721</u>
Other expenses:			
Salaries and related charges		( 33,457,949)	( 30,436,920)
General operating expenses		( 24,293,758)	( 24,808,459)
Depreciation of property and equipment	11	( 3,876,816)	( 3,641,313)
Amortization of computer software	9	( 1,498,855)	( 1,335,594)
Provision for impairment of deferred charges	12	-	( 3,000,000)
Provision for amortization of deferred charges	12	( 6,666,666)	( 6,666,666)
		<u>( 69,794,044)</u>	<u>( 69,888,952)</u>
Net income before income tax		24,489,148	16,561,769
Income tax		( 6,556,433)	( 5,732,553)
Net income after income tax		<u>17,932,715</u>	<u>10,829,216</u>
Attributable to:			
Equity holders of the parent		17,892,126	10,798,111
Minority interest		40,589	31,105
		<u>17,932,715</u>	<u>10,829,216</u>
Basic earnings per share for the year		<u>0.27</u>	<u>0.27</u>

**BLC BANK S.A.L.**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**YEAR ENDED DECEMBER 31, 2006**

	Attributable to Equity Holders of the Parent												
	Capital	Share Premium	Shareholders' Cash Contribution to Capital	Legal Reserve	Other Reserves	General Banking Reserve	Cumulative Translation Adjustments	Change in Fair Value of Available-for-Sale Securities	Retained Earnings/ (Accumulated Losses)	Net Income for the Year	Total	Minority Interest	Total Equity
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Balance - December 31, 2004	40,320,000	1,320,800	3,431,372	3,310,046	16,072,202	1,189,272	( 278,193)	5,053,158	(95,319,451)	23,917,066	( 583,728)	68,032	( 915,696)
Allocation of 2004 profit	-	-	-	-	-	-	-	-	23,917,066	(23,917,066)	-	-	-
Transfer to accumulated losses	-	(1,320,800)	(3,431,372)	-	( 8,206,770)	-	-	-	12,958,942	-	-	-	-
Restatement of exchange difference on BLC France equity	-	-	-	-	-	-	-	-	5,804,922	-	5,804,922	-	5,804,922
Exchange difference	-	-	-	-	-	-	( 38,122)	-	-	-	( 38,122)	-	( 38,122)
Other adjustments	-	-	-	-	-	-	-	-	3,395	-	3,395	( 3,395)	-
Change in fair value of available-for-sale securities	-	-	-	-	-	-	-	4,551,237	( 130,862)	-	4,430,375	-	4,430,375
Net profit for the year 2005	-	-	-	-	-	-	-	-	-	10,798,111	10,798,111	31,105	10,829,216
Comprehensive income for the year 2005	-	-	-	-	-	-	-	4,551,237	( 130,862)	10,798,111	15,228,486	31,105	15,259,591
Balance - December 31, 2005	40,320,800	-	-	3,310,046	7,865,432	1,189,272	( 316,313)	9,614,395	(52,765,988)	10,798,111	20,014,953	95,742	20,110,695
Allocation of 2005 net profit	-	-	-	1,053,863	159,843	-	-	-	9,584,405	(10,798,111)	-	-	-
Increase of capital	100,000,000	-	-	-	-	-	-	-	-	-	100,000,000	-	100,000,000
Transfer of legal reserves and other reserves to accumulated losses	-	-	-	(3,310,046)	( 7,865,432)	-	-	-	11,173,478	-	-	-	-
Decrease in capital- transferred to accumulated losses	( 39,085,000)	-	-	-	-	-	-	-	39,085,000	-	-	-	-
Restatement of exchange difference on BLC France equity	-	-	-	-	-	-	-	-	( 4,785,610)	-	( 4,785,610)	-	( 4,785,610)
Exchange difference	-	-	-	( 112,220)	-	-	( 276,640)	-	-	-	( 388,860)	-	( 388,860)
Changes in minority interest	-	-	-	-	-	-	-	-	-	-	-	9,574	9,574
Change in fair value of available-for-sale securities	-	-	-	-	-	-	-	(25,263,081)	-	-	( 25,263,081)	-	( 25,263,081)
Net profit for the year 2006	-	-	-	-	-	-	-	-	-	17,891,126	17,891,126	40,589	17,931,715
Comprehensive income for the year 2006	-	-	-	-	-	-	-	(25,263,081)	-	17,891,126	( 7,471,955)	40,589	( 7,430,360)
Balance - December 31, 2006	101,235,000	-	-	981,643	159,843	1,189,272	( 592,953)	(15,248,690)	2,293,255	17,891,126	102,769,528	146,905	102,916,433

BLC BANK S.A.L.  
CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year Ended December 31.	
		2006 LBP'000	2005 LBP'000
Cash flows from operating activities:			
Net income for the year		17,932,715	10,829,216
Adjustments to reconcile net income to cash provided by operating activities:			
Write-back of provision for credit losses (net)		( 1,363,962)	( 13,187,416)
Write-back of discount on loan portfolio purchased		( 527,598)	( 1,057,053)
Depreciation and amortization		12,042,337	11,643,573
Provision for impairment of deferred charges		-	3,000,000
Provision for losses and risks (net)		1,748,067	( 84,356)
Net provision for end-of-service indemnity		885,649	805,854
Provision for impairment of owned real estate		376,875	17,000
(Write-back)/provision for non-recurring bonuses		( 4,649,206)	8,699,531
Provision revaluation for fixed position		143,503	-
Gain on sale of properties acquired in satisfaction of debt		( 403,387)	( 1,347,248)
Provision for properties acquired in satisfaction of debts		452,250	3,835,262
Provisions no longer required		( 39,689)	( 556,155)
Unrealized loss on securities		326,839	1,591,265
Accretion of treasury bills		( 3,426,692)	( 2,954,329)
Net (decrease)/increase in provision for losses and risks	25	( 2,875,906)	2,628,392
Net decrease/(increase) in other assets	25	43,668,083	( 6,504,975)
Net increase in accounts payable and miscellaneous creditors		4,589,820	31,061,032
Net decrease in other liabilities	25	( 3,672,572)	( 2,190,886)
Exchange difference and others		( 5,164,896)	5,635,938
Net cash provided by operating activities		<u>60,042,230</u>	<u>51,864,645</u>
Cash flows from investing activities:			
Time deposits with banks and financial institutions		(110,841,246)	( 80,613,770)
Loans and advances to customers		( 56,789,952)	( 78,492,880)
Securities	25	(266,573,260)	( 48,843,963)
Proceeds from sale of properties acquired in satisfaction of debts		8,704,877	10,365,173
Property and equipment		( 1,844,241)	( 3,335,772)
Net cash used in investing activities		<u>(427,343,822)</u>	<u>(200,921,212)</u>
Cash flows from financing activities:			
Net increase in customers' deposits and credit balances		229,290,525	212,818,598
Net increase/(decrease) in due to banks		1,403,274	( 38,683,585)
Net decrease in cash compulsory reserve - Non-interest earning		824,626	24,977,497
Capital increase	25	100,000,000	-
Net increase in subordinated loans		<u>46,155,361</u>	<u>-</u>
Net cash provided by financing activities		<u>377,673,786</u>	<u>199,112,510</u>
Net increase in cash and cash equivalents		10,372,194	50,055,943
Cash and due from banks -- Beginning of year		<u>130,402,517</u>	<u>80,346,574</u>
Cash and due from banks -- End of year		<u>140,774,711</u>	<u>130,402,517</u>