NOTRE DAME UNIVERSITY – LOUAIZE

PREPARING A BANK MERGER:
Actual case study: Bank of Beirut & Transorient Bank

by
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Last but not least, I thank my parents, and especially my mother, for their love, continuous care and support. I would also like to send my regards to all those who contributed in the completion of this project.

DEDICATION

I dedicate this work to Notre Dame University, to all my family and especially to my late father George Ziadé.

AN ABSTRACT OF THE PROJECT OF

Pierre-Thomas Ziadé for Master of Business Administration

Title: Preparing a Bank Merger
Actual case study: Bank of Beirut and Transorient Bank

As Lebanon's larger banks tap the international markets to increase their capital and long – term resources, the gap between small group of internationally active institutions and the general run of small, mainly family – owned banks continue to grow.

Like their larger competitors, Lebanon's smaller banks need to raise capital resources to survive in an increasingly competitive market. In the last few years the Central Bank has encouraged mergers between smaller institutions and the acquisitions of small banks by larger ones. It has put pressure on smaller institutions by raising minimum capital requirements, and has extended facilities to larger banks acquiring smaller players. Initially, conservative attitudes among smaller bank's shareholders posed a major obstacle to self liquidation, mergers or absorption into bigger firms. The Banque du Liban, recognizing this structure and weakness, has done its utmost to encourage bank mergers. This has involved both a carrot (very attractive soft loans to those that choose to merge) as well as a stick (annual limit on new branch openings to two per bank).Among larger institutions, Central Bank regulations limiting new branch openings to two per year have created incentives to buy smaller players for their branch networks, or for larger banks to buy branches from each other. It also means that local banks seeking to expand their customer base now increasingly try to buy smaller players and their clients. The growing presence of foreign banks has increased

pressure to merge and restructure the banking industry in Lebanon. It is essential to know how to prepare a bank merger or acquisition in Lebanon which is discussed in this project with a main focus on the pre and post merger phases leading to the set – up of an actual guide through the analysis of the case study of " Bank of Beirut and Transorient Bank " merger .

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CHAPTER I

INTRODUCTION

Discussion on mergers in industry started in the 1920s as part of industrial economics and was concerned mainly with the danger of monopoly. From 1960s, the new literature of finance began to consider mergers mainly from the point of view of the shareholders to see whether they added to their wealth or reduced it. Mergers can be referred to as a source of growth, contrasting external expansion by mergers with internal expansion or organic expansion. Among other reasons given are the acquisition of " aggressive and competent management " and the tax needs of family companies. (Morren, p.10).Van Horne introduces the word " synergy ": In its origins it means, " working together "; in the literature on mergers, it is used to indicate complementarity between partners .

Brigham divides mergers into two classes: operating and financial .

- In operating mergers, the operations of two companies are integrated, and the main reason for the mergers is synergy.
- A pure financial merger is one in which no operating economies are expected.

He also emphasizes two important elements in the terms of a merger: post merger control and the price paid, both of which are present in bank mergers.

The question of control after merger concerns the position of the management when the merger has been consummated, and it is a matter affecting both the attitude during merger negotiations of the management of the firm to be acquired and the integration of the two companies after the merger. The price paid by one company to acquire another will obviously have an important effect on the future prosperity and return of the merged company.

Since the 1988 crisis that has affected the Lebanese banking sector, with Banque AL – Mashrek scandal and the difficulties encountered by 13 banks in the 1988 – 1990 period, it has become obvious that an important reduction of the number of banks operating in Lebanon was necessary. This phenomenal operation, which implies mergers and acquisitions, would purify the sector and help banks face the challenges of the next decade by reshaping the market so as to only include solid institutions with a size and quality that enable them to compete in the prevailing banking environment (Jabre, Leberton, pp1 – 2) .

The main purpose of this research is to study how to prepare a bank merger and acquisition in Lebanon by exposing the need, the reasons, the rules and regulations pertaining to it and to help frame an understanding of the mechanism and implication on the banking system in Lebanon in theory and practice. I have chosen to work on Bank of Beirut and Transorient Bank case study. My objective in this research is to prepare a practical guide for the bank mergers and acquisitions in Lebanon in order to better prepare an operation of this kind. I hope that the practical guide would help banks which want to merge to make the necessary steps in order to have a good result. I hope that the guide will limit the failure probabilities. It is general but it englobes a large information for any question. The mergers and acquisitions are very critical operations which should be manipulated with a lot of sincerity and efficiency. The methodology followed involves the foilowing: A review of literature and an outline of the theoretical aspects of mergers and acquisitions and their implications on both micro and macro levels. The recent global and local consolidation trend and the development of the banking industry in Lebanon through the years in addition to a practical case study which leads to the set – up of an actual guide for mergers and acquisitions.

CHAPTER II

REVIEW OF LITERATURE

A- History of Mergers:

Four periods of high merger activity, often called merger waves, have taken place in the history of the United States. These periods were characterized by cyclic activity: that is, high levels of mergers followed by periods of relatively fewer mergers. The four waves occurred between 1897 and 1904; 1916 and 1929; 1965 and 1969; 1981 to the present. These activities made major changes in the structure of the American business thus affecting the world economy as a whole.

1- The First Wave, 1897-1904

The first merger wave set in after the Depression of 1883, peaking between 1898 and 1902 and ending in 1904. According to a National Bureau of Economics Research study by Professor Ralph Nelson, eight industries experienced the greatest merger activity: primary metals, food products, petroleum products chemicals, transportation equipment, fabricated metals products, machinery and bituminous coal. The many mergers and consolidations of this era resulted in a near monopolistic markets structure. For this reason, this merger period is known for its role in creating large monopolies. Financial factors rather than legal restrictions forced the end of the first merger wave. The shipbuilding collapsed in the early 1900s brought the dangers of fraudulent financing. Second, and most important, the stock market cash of 1904, followed by the banking panic of 1907, closed many of the nation's banks and ultimately paved the way for the Federal Reserve System. As a result of a declining stock market and a weak banking system, the basic financial ingredients for fueling takeovers were absent. Without these, the first takeover period came to a halt.

2- The Second Wave, 1916-1929

During the second merger wave several industries were consolidated. Rather than monopolies, the result was often an oligopolistic industry structure. During this second period the economy continued to evolve and develop, owing primarily to the post World War I economic boom, which provided much investment capital. This availability of capital which was fuelled by favorable economic conditions, set the stage for the stock crash of 1929. Mergers were facilitated not only by the limited enforcement of antitrust laws, but also by the federal government's encouragement of the formations of business co-operatives as part of war effort.

The second merger wave ended with the stock market crash on October 24, 1929. Investment bankers played key roles in the first two merger periods, exercising considerable influence among business leaders. They often put a veto to a merger by withholding finances from the firm when they felt that the merger was against the investments bank's interests or policies.

3- The Third Wave, 1965-1969

The 1940s did not feature any major technological changes or dramatic development in the nation's infrastructure. Thus the number of mergers was relatively small. The third merger wave featured a historically high level of merger activity. This was brought about in part by a booming economy. During this wave, relatively smaller firms targeted larger firms for acquisition. Because most of the mergers involved the formation of conglomerates, rather than vertical or horizontal mergers, they did not increase industrial concentration. For this reason, the degree of competition in different industries did not change appreciably, despite the larger number of mergers, some 6000 mergers entailing the disappearance of 25000 firms took place; nonetheless, competition or market concentration in the U.S economy was not greatly reduced.

4- The Fourth Wave, 1981-

The downward trend that characterized mergers and acquisitions in the 1970s through 1980 reversed itself in 1981. The unique characteristic of the fourth wave is the predominant role of hostile mergers. In this period of time the hostile merger had become an acceptable form of corporate expansion and the corporate raid had gained status as a highly profitable activity.

The fourth merger period can be distinguished from the other three periods by the size and prominence of the merger and acquisition targets. Some of the nation's largest firms became the target of acquisitions during the 1980s. The fourth became the wave of the mega mergers. In addition to the rise in the dollar value of mergers, the average size of the typical transaction increased significantly.

B- Definitions:

The terms "Mergers" and "Acquisitions" are often used interchangeably, it is useful however to be aware of the differences between the two.

Mergers: A merger involves the coming together of two companies to share resources and common objectives. The shareholders and managers of the combining firms tend to remain with the merged company. On the other hand, in the absorption merger, one bank survive in incorporating the other. The absorbed bank disappear and all its assets and liabilities are transferred to the absorbent bank which will lead to a capital increase in order to issue new shares or stocks.

Acquisitions: An acquisition involves one firm purchasing another with the shareholders of the acquired firm ceasing to be the owners of that firm. The acquired firm then becomes a subsidiary of the bidder. The acquisition may be agreed by the management, in which case it is called a "friendly" merger, as opposed to the "unfriendly" or "hostile" acquisition, when the shares are obtained by the incoming management without the agreement of the existing management. The incumbent management may choose to fight the bid, the results of which may or may not be beneficial to their shareholders, depending on the costs and the outcome of the defense. Unfortunately, the process makes a lot of problems in Lebanon since banks are not aware of the difference between mergers and acquisitions.(Hodgkinson, p329).

C- Types of Mergers:

Economists classify mergers into four types:

- *Horizontal merger*: It is between companies performing similar functions in the production or sale of comparable goods or services. For example, a merger of two cellular companies is a horizontal merger. If a cellular company and a paging company merge, and both those services are in the same product market, then it is also a horizontal merger.

- *Vertical merger*: It is the acquisition of one company which buys the product sold by the acquiring company or which sells the product bought by the acquiring company. An example of a vertical merger is when a company that provides cellular service merges with a company that manufactures equipment used in providing cellular service. The McCaw-AT&T merger was such an example.

- *Conglomerate merger*: It is neither horizontal nor vertical. In other words it is the consolidation under a single ownership of two separately-owned businesses, in totally, completely separate industries. An example of a conglomerate merger would be an athletic shoe company merging with a soft drink company.

- *Cogeneric merger*: It involves related enterprises but not producers of the same product (horizontal) or firms in a producer supplier relationship.(Brigham, p805).

D- Reasons for mergers and acquisitions:

- *Synergistic gains:* Where the merger actually creates real net gains and the value of the combined firm is greater than the pre-merged value of the two companies. Operating synergy may arises through economies of scale or scope from vertical or horizontal integration.

- *Target undervaluation:* Where no new value is created through the combination of the two companies but the bidder is able to acquire assets at the relatively cheap price.

- *Managerial motives:* Where, through self-interest, managers take actions which are contrary to maximization of shareholders wealth. (Hodgkinson, p327).

- *Financial synergy:* We consider two forms of financial synergy:

i. A major motive stated for mergers was the ability to increase a firm's earnings per share by acquiring a company with a higher earnings per share. If the market value of the earnings of the combined firm at the same P/E ratio at that of the acquirer, then the value of the combined firm will be greater than the value of the two previous firms.

ii. Another form of financial synergy is the ability to reduce a firm's debt-equity ratio by acquiring a firm with a lower debt-equity ratio.

The rationale is that the combined firm will be less risky than the target and will thus increase its value.

The firm's shareholders make gains from the lower ratio but at the cost of having to guarantee more debt, the target company's debt. (Hodgkinson, p320).

- *Corporate strategy:* It involves developing and sustaining core activities which a firm can gain competitive advantage and hence make profits. Mergers and acquisitions thus play an important role in a firm's corporate strategy as an alternative to expanding internally.

A critical part of any acquisition decision should be how well it fits with firm's overall objectives. Many acquisitions prove, after the event, to have been an incorrect decision. Acquisition strategy thus involves setting the firm's objectives and identifying any gaps within the existing structure. The next step is to determine the financial and business criteria for the expansion or diversification. If internal expansion is not appropriate, then a list of potential targets should be drawn up. Each target should then be examined in minute detail, which if the bid is likely to be hostile, may be difficult due to lack of information. (Hodgkinson, p331).

- *Tax considerations:* They have stimulated a number of mergers. For example, a profitable firm in the highest tax bracket could acquire a firm with a large accumulated tax losses. These losses could then be turned into immediate tax savings rather than carried forward and used in the future. Also, mergers can serve as a way of minimizing taxes when disposing of excess cash. If a firm has a shortage of internal investment opportunities compared with its cash flow, it could:

i. Pay an extra dividend.
ii. Invest in marketable securities.
iii. Repurchase its own stock.
iv. Purchase another firm.

If it pays an extra dividend, its stockholders would have to pay immediate taxes on the distribution. Marketable securities often provide a good temporary parking place of money, but they generally earn a rate of return less than the required rate by stockholders. A stock repurchase might result in a capital gain for the remaining stockholders, and it might push up the firm's stock price to a level which could be disadvantageous to remaining stockholders.

Finally, a repurchase designed solely to avoid dividend payments might be challenged by the IRS (Internal Revenue System). However, using a surplus cash to acquire another firm might avoid all these problems, and this has motivated a number of mergers. (Brigham, p803).

E- Analysis of a potential merger:

In theory, merger analysis is quite simple. The acquiring firm simply performs an analysis to value the target company or bank and then determines whether the target can be bought at that value or, preferably, for less than the estimated value. The target company, on the other hand, should accept the offer if the price exceeds its value assuming it continued to operate independently.

Theory aside, however, some difficult issues are involved. In this section, we first discuss valuing the target firm, which is an initial step in a merger analysis, then we will discuss the how to set the bid price, the post merger control and structuring the take-over bid.

1- Valuation:

A number of models can be used to estimate the value of a target and include using:

- Discounted cash flow techniques: this method is used by the FASB (Financial Accounting Standard Board), it is a theoretical method because it considers the future cash flow estimated discounted at an appropriate market value.
- Market multiple analysis: The current price earnings ratio to estimate the target's current value and a prospective price earnings ratio to forecast the expected incremental value from merger, where share price = price earning ratio x earnings per share.

This is a subgroup of the actualization process. It includes:

i. Having a comparable firm with listed securities.

ii. Determining the price earning ratio of the listed firm.

iii. Multiplying the profits of the firm analyzed with the price earning ratio

The disadvantages of this method are that the profits does not increase and an over-assessment may occur in case unlisted security.

- Adjusted net book value: This method compensate the factors of the real net book value with the market value it is adjusted by. (Hodgkinson, p332)

This method offsets the factors of the accounted real net values with the market value. It is adjusted through:

i. A reduction in loans.

ii. An added value on the fixed assets.

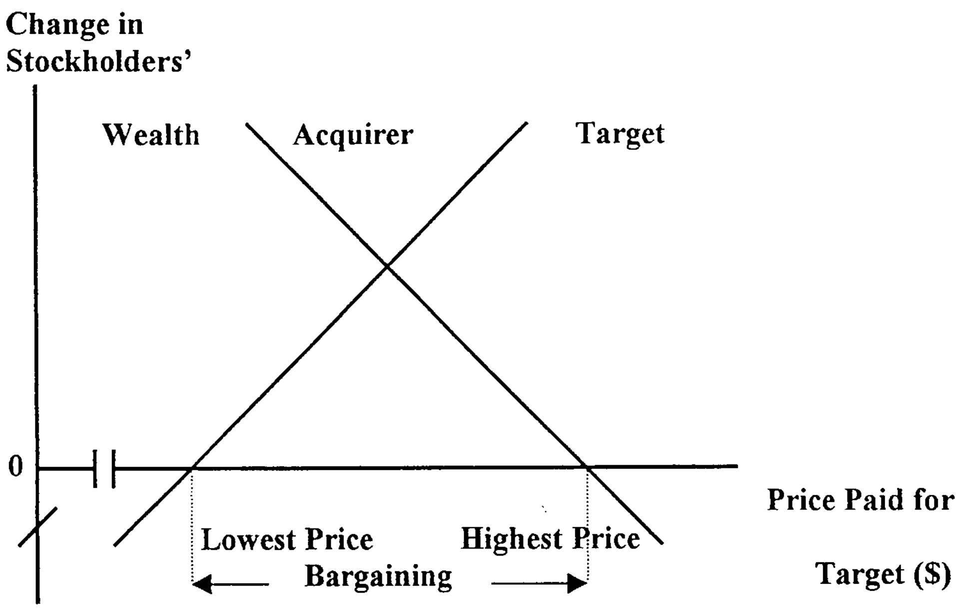
Several methodologies are used to value target firms but the first two are the most common.

However regardless of the valuation methodology, it is crucial to recognize two facts. First, the target company typically will not continue to operate as a separate entity, but will become part of the acquiring firm's portfolio assets. Therefore, changes in operations will affect the value of the business and must be considered in the analysis. Second, the goal of merger valuation is to value the target business's equity, or ownership position, because a business is acquired from its owners, not from its creditors. (Brigham, p812).

The four main questions to be asked in order to carry out a good assessment of operation are:

- Price: what is the price of the acquisition?
- Market value: what is the right market value?
- Return: what is the maximum price that a buyer is ready to pay?
- Risk: what is the probability of having the expected return?

Chart 2-1 Setting the Bid Price



Source : (Brigham, p816)

2- Setting the Bid Price (Chart 2-1):

Determining the bid price of a target involves a compromise between making the offer attractive to the targets shareholders, while retaining a portion of the expected value for its own shareholders. The bid price therefore tends to lie between the pro-bid market value and the pre-bid market value plus the expected incremental value. While it may be possible to determine the current market value if shareholders are expecting a bid, part of the incremental value may already be compounded in the share price.

To estimate the incremental value, the bidder will need to forecast the extent and timing of the benefits as a result of merger. As the benefits are difficult to forecast, there is an element of risk attached to the valuation, which will decrease as more information is made available, for example, if the bid is friendly rather than hostile.

Here are some points to mention:

- If there is no synergistic benefits, the maximum bid would be equal to the current value of the target company. The greater the synergistic gains, the greater the gap between the target's current price and the maximum the acquiring company could pay.
- The greater the synergistic gains, the more likely a merger is to be consummated.
- The issue of how to divide the synergistic benefits is critically important.
- Where will the actual price be set?

The answer depends on a number of factors, including whether acquirer offers to pay with cash or securities, the negotiating skills of two management teams, and, most importantly, the bargaining positions of the two parties as determined by fundamental economic conditions.

- Acquirer would, of course, want to keep its maximum bid secret, and it would be plan its bidding strategy carefully and consistently with the situation, if it thought that other bidders would emerge, or that target management might resist in order to preserve their jobs, it might make a high "pre-emptive" bid in hopes of scaring off competing bids and /or management resistance. On the other hand, it might make a low-ball bid in hopes of "stealing" the company.

(Brigham, pp. 815-817)

3- Establishing a fair value:

If a friendly merger is being worked out between two firms' management, it is important to document that the agreed – upon price is a fair one; otherwise, the stockholders either company may sue to block the merger. Therefore, in most large mergers, each side will hire an investment banking firm to evaluate the target company and to help establish the fair price. (Brigham, p. 821)

F- Postmerger Control:

The employment / control situation is often of vital interest in a merger analysis.

First, consider the situation in which a small, owner-managed firm sells out to a larger concern. These points would be stressed during the merger negotiations. When a publicly owned firm not controlled by its managers is merged into another company, the acquired firm's management will be worried about its postmerger position. If the acquirer firm agrees to retain the old management, then the management may be willing to support the merger and to recommend its acceptance to stockholders. If the old management is to be removed, then it will probably resist the merger. (Brigham, p. 817)

G- Financing Mergers:

Many mergers are financed with the acquiring company's excess cash. However, if the acquiring company have no excess cash, it will require a source of funds. To be successful in the mergers and acquisitions business, an investment banker must be able to offer a financing package to clients, whether they are acquirers who need capital to take over companies or target companies trying to finance stock repurchase plans or other defenses against take-overs. (Brigham, p. 822)

Another way of financing is the leveraged buyout (LBO):

In a leveraged buyout a small group of investors, usually including current management, acquires a firm in a transaction largely financed by debt. The debt is serviced with the funds generated by the acquired company's operation and often by the sale of some of its assets. Generally, the acquiring group plans to run the company for a number of years, boost its sales and profits, and then take it public again as a stronger company.

H- Methods Of Payments:

Acquisitions are usually paid for by cash or an exchange of shares in the parent company for the target company's shares. An exchange of shares may attract a lower premium due to tax effects. If cash is used, the target's shareholders will have to pay capital gains tax, whereas capital gains can be rolled over if they received equity. Cash may be useful in a hostile take-over, however, due to speed at which it can be deployed. The acquiring firm's offer to the target's shareholders can be in the form of cash, stock of the acquiring firm, debt of the acquiring firm, or some combination. The structure of the bid affects:

- The capital structure of the post-merger firm.
- Tax treatment.
- The ability of the target firm's stockholders to benefit from future merger-related gains.

Other Payment means

- Loans
- Loans convertible in preferred stocks
- Installed or differed payment

When the shareholder accepts a payment in cash in exchange of his stocks, he becomes directly responsible for the Capital Gain tax.

Dividends have a certain advantage over the shareholder and the tax exemption.

I- Arranging Mergers:

Investments banks are involved with mergers in a number of ways:

- They help arrange mergers.
- They help target companies develop and implement defensive tactics.
- They help value target companies.
- They help finance mergers
- They invest in stocks of potential merger candidates.

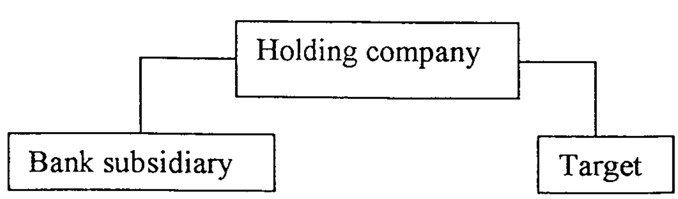
The major investment banking firms have merger and acquisition groups which operate within their corporate finance departments. Members of these groups identify firms with excess cash that might want to buy other firms, companies that might be willing to be bought, and firms that might for a number of reasons, be attractive to others. (Brigham, p. 820)

J- Structure of The Transaction:

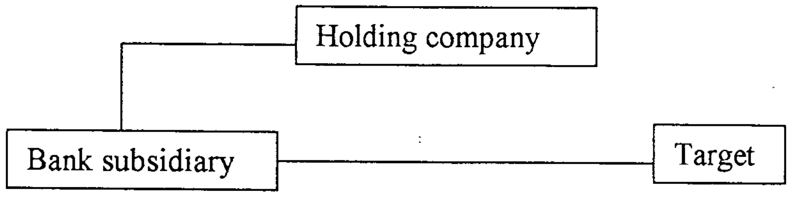
Alternative legal structure of mergers and acquisitions

(Chart 2-2, Structure of the transaction))

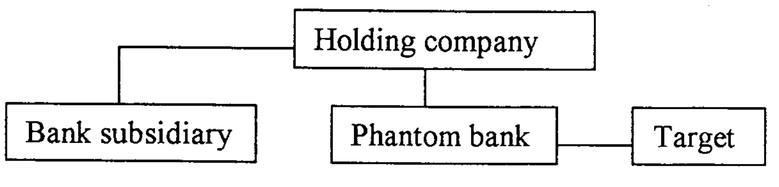
Panel A **Direct Acquisition**



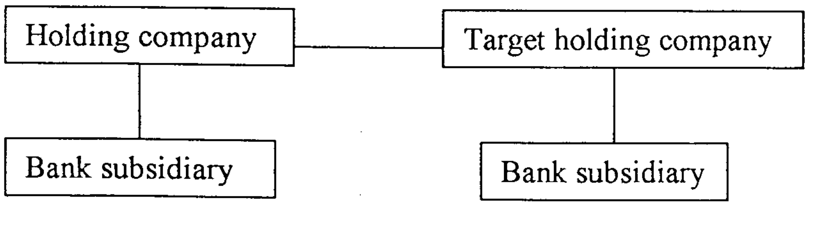
Panel B **Merger into a subsidiary bank**



Panel C **Phantom bank merger**



Panel D Merger or Acquisition of two holding companies



(Source: Heggesta, p 710)

Most bank mergers and acquisitions are made by bank holding companies or their subsidiaries. The holding company structure gives management considerable latitude in setting the legal form of transaction. Management will wish to structure the legal form of transaction so as to minimize the after-tax cost. This will involve a determination of the type of merger or acquisition, how it will be financed, and the form of payment to stockholders of the acquired firm. A major cost of a merger or acquisition is to arrive at an agreement and then encounter delay or even denial by a regulatory agency.

There are several types of transactions that may be used. Panel A illustrates a typical transaction, in which a bank holding company acquires a target bank. Payment to stockholders may be made with stock of the acquiring holding company or with cash or other securities. The target bank will become a subsidiary of the bank holding company (Heggesta, p 711).

In transaction, depicted in Panel B, which any adjustments to assets or liabilities of the acquired target bank will be reflected in the balance sheet of the merged bank. The major benefit of this form of transaction is that the regulatory authority that rule on the acquisition is the one that will have primary authority over the surviving bank after the merger is consummated, a triangular merger may be constructed. In a triangular merger, such as that depicted in Panel C, the holding company obtains a charter for a new phantom bank and merges the target bank into the phantom bank. The phantom bank is chartered for the sole purpose of facilitating the merger. The target bank then operates as a subsidiary of the holding company. There may be reasons to accomplish a reverse triangular merger, in which the phantom bank is merged into the target bank.

The final major type of transaction involves the merger or acquisition of another holding company as shown in Panel D. In this transaction which is becoming increasingly common, the target holding company will disappear and its subsidiaries will become subsidiaries of the acquiring company.

All in all, the structure of the transaction must be considered in each instance and close watch must be maintained for signals of changes in policies. (Heggesta, p 712).

CHAPTER III

DIFFERENT STAGES OF BANK MERGERS

A- Introduction:

The first two stages of a merger aim at giving form to the new firm. The feasibility study determines the context of the operation and fixes the goals to be achieved. This task falls within the competence of the board of directors, their presidents, the general directors, and the management committees of the firms to be merged. Then, comes the stage of conceiving the new institution and elaborating the organizational and information convergence plan.

1- Target location:

Selection criteria should be defined in the scope of a formal planning process. Information collection concerning a certain firm may be long and fastidious, therefore it is recommended to resort to a professional person. An active research consists of defining an investigation field relatively large, which includes all companies corresponding to the needed profile. Resorting to an expert is recommended from the beginning. The consultant works on the basis of an exclusive mandate for a fixed period of time.

2- Negotiations:

Once the target is spotted, the candidate for acquisition gets in touch with the assignor, and negotiations start.

Using an intermediary in the negotiations with the seller saves the buyer from over exposure and allows him to remain on friendly terms with the assignor, especially if the latter remains in control of the company after the acquisition.

There are no golden rules concerning a professional's intervention. Nevertheless, it is recommended that the buyer should discuss with the seller the headlines of negotiations before resorting to an intermediary. Investment banks are experts in increasing prices. It is useful to be familiar with their techniques before starting discussions.

Negotiations are conducted as follows:

- Negotiators would probably find a complex network of interactions between the parts of the company to be merged and the parts to be preserved.
- Assets brought by each partner could be more important than the assets found in a classical new enterprise. This element enlarges the negotiation field.
- One of the keys to commercial success is the efficiency of restructure in compensating for costs.
- Investment may have an effect on the profit and loss accounts.
- The volume and nature of assets offer adjustment possibilities on the fiscal level.

The operations of an activity, which is meant to be merged may not be clearly separate from the other activities of the parent company. It is therefore important to assess, in time, the influence of the commercial relations that count between the parent company and the common firm.

The sale process is divided into five stages:

- Organization:

- Forming a group project
- Educating the group on the appropriate management
- Fixing goals concerning the sale
- Preparing a purchase list
- Determining a sale strategy

- Preparing a descriptive memorandum
- The potential seller approach
- The due diligence
- The final decision and closure negotiation

The most important tangible assets require a separate assessment. Before carrying out this process, each partner should define clearly the approach that will serve best his interests.

The merged company will probably acquire better results through restructure and scale economies. This is resumed as follows:

Goal (strategy) › Research › Assessment (strategy) › Negotiation › Acceptation › Integration

3- The due diligence:

The due diligence, which aims at fixing the right acquisition price by collecting the maximum information concerning the target, requires a great deal of intervention from exterior consultants. The aim is to determine the intrinsic value of the company. During the due diligence phase, it is important to assess duly the associated to the contract.

These production means and the size of the managerial staff in the target Company, as well as a study of the financial, legal and fiscal situation. The results of the due diligence help in modifying the purchase position.

The following factors are to be taken into account at the time of choosing the best timing for the merger:

- The bank's mission
- The analysis of the bank's industry
- The strategic plan of the bank: goals and specific strategies.
- The SWOT analysis (Strength, Weakness, Opportunities, Threats).

In order to determine the mission of the bank, two questions should be asked: Who are we? And what are we doing here?

Main goals:

- Becoming one of the most efficient banks in the region;
- Becoming one of the most mutual fund of marketing in five years;

Due diligence procedures could easily take the form of an acquisition audit restricted to a study of the financial, legal and fiscal situation.

Most of the merging companies do not have any formal measures concerning a post-merger control. So, they use inappropriate measures to assess the budgets. Advantages are thus assessed by using gross measures which reveal charges associated to dismissals and tangible assets but not to substitution costs.

The budget allocated for restructure charges is very high. Staff restructuring and organization (dismissal, transfer and integration) as well as tangible assets are the heaviest charges.

B- Merger acquisition plan:

A merger agreement is particularly delicate and requires thorough planning. Merging is a matter of a firm strategy.

1- Obstacles and reversion of banking law [1]

a- Standard capital:

Banks should determine how much capital do they need, and impose penalties, should there be any over-expected losses.

b- Controllable buffers:

Asking from banks to have unwarranted obligations will reduce the risk of uncontrollable losses and create watchdogs that will have more attention on solvency and profits.

c- Private banks and insurance system:

Allowing banks to buy advance insurance from private guarantors. The replacement of managerial teams is based on the managerial theory and modern firm theories, especially the agency theory. Separating between power and property in the firm may

[1] Business Week, April 27, 1998.

cause a conflict situation between directors and shareholders whose goals are different. In case of bankruptcy, mergers and acquisitions constitute the ultimate resort guarantying the protection of shareholders from the directors or managers' reactions. Such analysis introduces the idea according to which the development of merger-acquisitions is due to the emergence of a market where managing teams are competing for the control of banks, a competition somehow arbitrated by the shareholders.

d- Free cash flow:

Free cash flow is the surplus cash flow put at the disposal of firms once all profitable investments (internal growth) are achieved.

Directors may choose between

- Distributing this cash flow between shareholders in the form of dividends
- Keeping it under the form of reserves

The aim is to maintain competition on the different markets, since competition is known to favor optimal distribution of resources between different activities, in other words, it allows to reach the maximum degree of productivity, with a given volume of resources.

Alike any strategic decision, acquisitions should meet the added value criterion. If the managers take a decision according to their own interest, the added value will represent the determiner of shareholders. If they take into account the shareholders' interest, the added value will reflect the won treasury.

2- Merger and Acquisition Cost:

"Whether raider or target, buyer or seller, the question is, what is the right price? No one knows. Since control of corporations is not bought and sold in an everyday market, like stocks, bonds, and commodities futures, there is no readily ascertainable market price. Pricing is therefore a matter of conjuncture, or speculation. At any given time, under any given conditions, the right price is the price a buyer is willing to pay" – (Fleischer, p 135).

Pricing is the most difficult decision in the negotiation of a merger-acquisition. The price depends on several factors:

- Future profits of the target firm
- Expected synergies
- Fiscal settlements
- Legal from

In takeovers, the buyer pays a control premium varying between 20 and 50 % of the current price, or even more. Why is there a difference between the paid price and the value of the firm? In fact, each firm has more than one value. On one hand, the stock value of the firm may be less or more than its intrinsic value. Such increases the value of premiums. On the other hand, the takeover has in itself a price: the strategy price. The amount of premiums is thus related to the more or less hard competition for the control of firms.

a- Different value approaches:

A firm has two values: one given by the seller, and another one given by the buyer. Compromise intervenes as soon as the buyer recognizes in the firm a higher value than the value resulting from the buyer's calculation. Each party has different perceptions of the quality of assets and the revenues, which they could generate. Consequently, a distinction should be made between intrinsic value and extrinsic value.

The intrinsic value is the value given to a certain enterprise regardless of the rescuer's characteristics. It is linked to the development potential as well as to its own risk factors. It is the value of the firm assessed by the buyer, irrespective of any synergy with the seller.

The extrinsic value varies according to the rescuers and the degree of synergies existing with the seller. Consequently, the seller should examine the different levels of possible synergy with the buyers and seek for the approval of the rescuer for whom the extrinsic is the highest.

The acquisition of a firm at a higher price than the corrected net assets reveals a surplus value corresponding to the goodwill.

This goodwill is an account goodwill (or reassessment gap), in other words a difference between the price paid for the firm and the value of its assets, as registered in the accounts of the buyer after an eventual reassessment. Goodwill allows to correct the estimation of the firm's patrimonial value in order to take into account all the elements participating in its profitability.

Consequently, goodwill is the difference between the firm's profitability value and the corrected net assets.

The earn out aim at reducing the risk inherent to the assessment of the target and its capacity to generate revenues. Earn out clauses are a means allowing buyers to finance partly their purchase with the target profits.

A merger-acquisition is not miraculous, but it is based on the principle of accounting, which represents different results for several mergers-acquisitions. Nowadays, acquisitions protect profits. The merger boom in 1990 helped in increasing the price earning ratio.

The first thing to be settled is the goodwill, which is a dark matter. The goodwill is the difference between the real value of assets of a company and the price of the buying company. It is the value of a non-measurable thing, such as the clients' loyalty. Buyers do not appreciate the goodwill anymore, because they have to redeem it over maximum forty years. It is not a cash charge and does not affect the cash flow. The FASB will force the companies to use the old methods of accounting, according to which the net value of each asset is calculated.

b- Consulting:

Consulting in mergers and acquisitions requires the payment of a retainer whatever may be the result of the process. The retainer reflects the motivation of the company. Its amount is between 10 000 and 50 000 dollars per month of research and/or negotiation. A success fee is added to this remuneration, its amount is proportional to the acquisition amount.

c- Attorneys:

Attorneys are paid per hour and do not discuss flat rates. Their remuneration varies either between 75 and 200 dollars per hour for a contributor or between 250 and 500 dollars for a senior partner. The total cost of attorney services depends more on the complexity of the operation than on its size. 150 000 dollars are the average amount paid to an attorney for the acquisition of a company of ten million dollars.

d- Accountants:

Accounting cabinets charge per hour, and accept to discuss flat rates. For an acquisition of ten million dollars, the purchase investigation would cost five to fifteen thousand dollars.

e- Other external consultants:

Tax experts, auditors, marketing consultants and headhunters are among the other consultants to whom a company may resort in merger operations. For a ten million-dollar transaction, their provision of services represents 3 to 5 % of the acquisition amount.

f- Assessment of the acquisition price:

Reaching a compromise between the buyer and the assignor is most of the times more difficult than planned because of the difference between the assessment techniques used by both parties.

g- Who should one consult?

Each business bank has an Merger and Acquisition department specialized in the search of companies to be bought. There are also numerous renowned investment banks, Merger and Acquisition cabinets and experts. How should one choose? A fundamental rule is to measure the choice of consultation according to the size of the operation. The main choice criterion is, apart from the honorary amount, the expert's experience.

3- Contract forms and contents:

There are two different forms of contracts:

- The draft treaty or letter of intent
- The acquisition and cession contract itself

Acquisitions affect the position of employees in the acquired firm, their salary, their pension, as well as their other rights.

Establishing a good communication with:

- Employees
- Shareholders
- Press
- The market professional analyst

C- Merger evolution and implementation:

The final phase of an acquisition is the implementation of the post-merger plan if integration of the merging bank into the merged bank. This phase is very important and known as the "make or break" phase. There is indeed a great deal of challenge in merging organizational structures, management styles and employment policies. Human resource management requires the most important expenses and is more difficult to manage than numbers and figures.

Each Merger and Acquisition process is a particular case in itself. Therefore it is not easy to predict the success or failure of a merger since it involves uncontrollable factors: human beings. Time is also extremely important. Everything should be settled very fast after the merger, otherwise clients might go elsewhere and employees resign. Culture and style are also to be taken into consideration. If both organizations merge according to a functional relation, they would be in a competition situation. Although merger is amicable, each bank will try to prove that its work methods are better. Such will lead to new regulations, policies and management staff that will affect employees morally and their efficiency in serving the client. Mergers include also the loss of the family image, the prestige of owning a bank and the position of a president.

D- Integration after merger:

The extent of an integration work after a merger depends on the similarity of the operations of both companies. The aim of a merger is to generate scale economies. Management is the key to success in period following a merger. During integration each element of the chain value of parent companies, human resources, and purchases should be consolidated on the level of distribution and after-sales service. It is very difficult to manage deadlines. A rapid change may lead to confusion and demotivate employees. Some might want to slow down things in order to obtain the managers' support. Rapidity of action is essential. Deadlines only provoke uncertainties for the staff.

There is a lot to be done during a very short period of time: carrying out the potential scale economies, reassuring clients, motivating the staff and reestablishing a strategic management. Therefore, it is important to have a strong management staff and to determine a clear billhook. It is impossible to be totally open before signing the final agreement.

1- Direction and staff:

Once the merger is announced, two persons might be available for holding management posts. Such situation generates great uncertainties: the strategic management of the enterprise is still ambiguous and productivity may suffer therefrom. Therefore, a new management staff should be appointed very quickly in order to pursue the integration program. The usual approach is to apply the chain selection process starting from the top of the hierarchy. Both partners appoint the president director general who will chose his team of general management. These directors will then choose their subordinates and so on.

Concerning staff management, mergers imply some changes for certain persons: function, nature of position, remuneration, bonus system, terms and conditions of the work contract. The help of external consultants is helpful in this case. Syndicate agreements should be reexamined. Combining retirement systems without causing any loss of advantages requires a long preparation.

2- Firm communication and identity:

Once the management structure is organized, people should be informed of the changes in progress. Clients rely on an efficient management team ready to solve the firm problems and improve products and services. The staff needs to know where the firm is heading and be reassured of the management competence. By changing its name, the company has a chance to carry out a major boost. The firm's new image is an important factor for motivating the staff, communicating the new values of the group and giving a deep meaning to the long-term marketing efforts made on the market by the company.

3- Marketing and distribution:

The phase following integration, is the harmonization of the commercial and distribution strategy. The more synergy is big, the more integration is easy to handle.

4- Production:

This rationalization is strongly linked to the rationalization of the range of products. Such interdependence reduces the possibility of maintaining a fast progression pace. The process may begin by adoption of common elements, but even this is not possible unless a detailed account of space parts is set and information systems work through a real management of securities.

5- Information systems:

The management of the new firm will need information to take decisions and follow up results. Therefore, the firm should require its own development plan for designing information system. The integration process may take two years. On the short term, a provisional system combining the information of both systems could be set by using simple programs of combinations.

E- Key factors in successful organizational change:

Lack of successful post-merger integration have frequently resulted in deterioration of shareholder value. Corporations must better prepare themselves for realities of managing the integration of two business enterprises in order to realize the desired synergies, to achieve its vision and to enhance its long-term performance.

Merging with and acquiring other companies is an important avenue for corporate growth and competitive development. Yet the art of managing the organizational transformation continues to slow down behind the art of making the deal.

Most mergers and acquisitions still fall short of achieving their promise and in almost every case, this failure is the result of companies not effectively assessing and managing the organizational and cultural factors involved in the post-merger integration process.

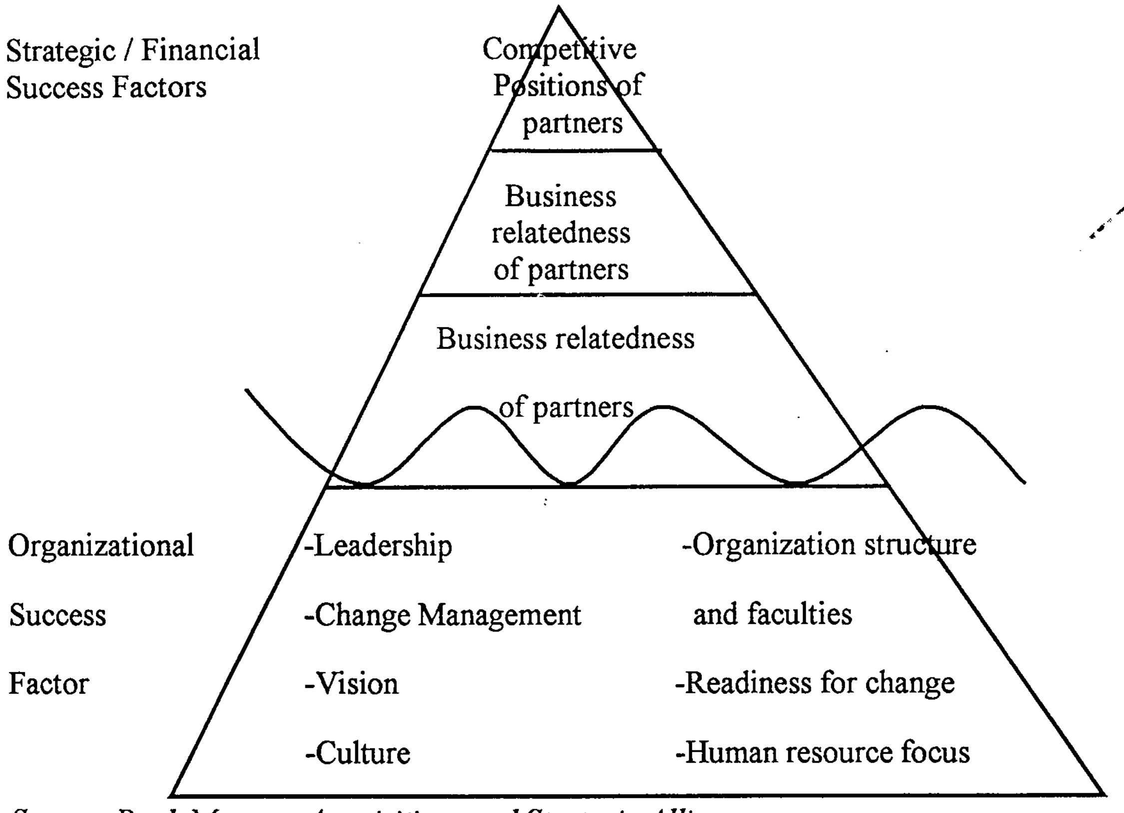
The main causes of merger failure are three:

- Management attitudes and cultural differences as a cause.
- A lack of post-acquisition integration planning.
- Lack of prior merger experience.

The due diligence-through which deals are evaluated-focuses on financial projections, capital access, legal regulatory issues in the pre-merger phase… etc.

This same process, however often pays insufficient attention to issues of organizational compatibility and integration in the post-merger phase. Little or no attempt is made thoroughly understand the management processes, business style, and culture of each organization and its constituent parts. The goal should always be to create an organization in which synergies are so powerful that one plus one equal three. An integrated approach that combines a careful consideration of financial and strategic issues with organizational and cultural factors should be used to determine whether the merger or acquisition should be attempted. Cultural and organizational issues should be regarded as because of the ambiguity, complexity and dynamic nature.

Chart 3-1 Why Mergers Don't Always Succeed



Source: Bank Mergers Acquisitions and Strategic Alliances.

The first year after the transaction is particularly important. The activities engaged in during this period determine the level of synergy that is ultimately accomplished as well as the amount of effort required. If this first year is not planned and managed well, the corporation may bounce from one crisis to the next, immobilized by conflict and concern over its future, making little headway in achieving promised levels of performance and attaining strategic goals.

On the other hand, an organization guided by a persuasive vision, a skill-full transition team, and a well-designed implementation process will be prepared to hit the ground running.

Within the first few months, the merging organizations should identify the combined entity's key communication messages, assess the competencies of key people, and decide upon an interim structure, identify its desired cultural characteristics, and assemble a fully empowered leadership team to communicate and drive the transformation.

To achieve the necessary synergies, management needs to consider seven key organizational change factors during the merger and acquisition:

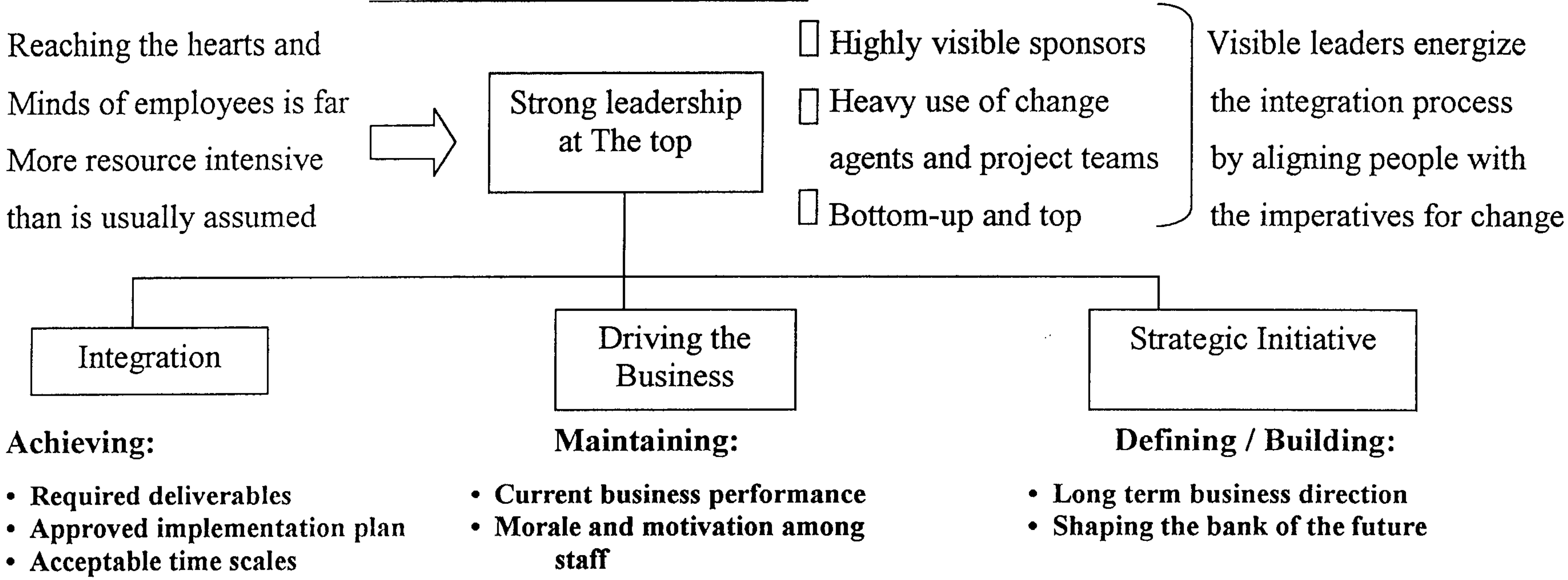
1- Leadership:

The first and arguably most critical factor is a CEO and senior leadership team who will be objective, comprehensive, and highly disciplined in assessing, planning for, and managing organizational change. Successful leadership calls for a willingness to grasp the complexity and ambiguity of organizationally realities. Effective leadership also demands a capacity for honest self-assessment, and the ability to serves as a champion of change. Change always engenders resistance because it threatens the status quo introduces uncertainty. Senior leadership must therefore be willing to say the course, advocated change and driving processes in ways that engage and ensure buy-in throughout the company.

Senior executive are generally talented, motivated individuals who have accomplished much on behalf of their companies. Why then are their abilities so severely tested during a merger and acquisition? One reason is that executives, like any other long-time participants in a particular corporate life, eventually lose touch with the complex, specific factors that continuously shape the quality and style of a particular workplace. So when compatibility is assessed for merger potential, organizational sources of both conflict and synergy often fail to appear on the radar screen.

CHART 3-2 Leadership Importance

STRONG LEADERSHIP AT THE TOP TO MANAGE THE AMBIGUITES BETWEEN SUSTAINING THE BUSINESS. ACHIEVING SUCCESSFUL INTEGRATION AND BUILDING FOR THE FUTURE.



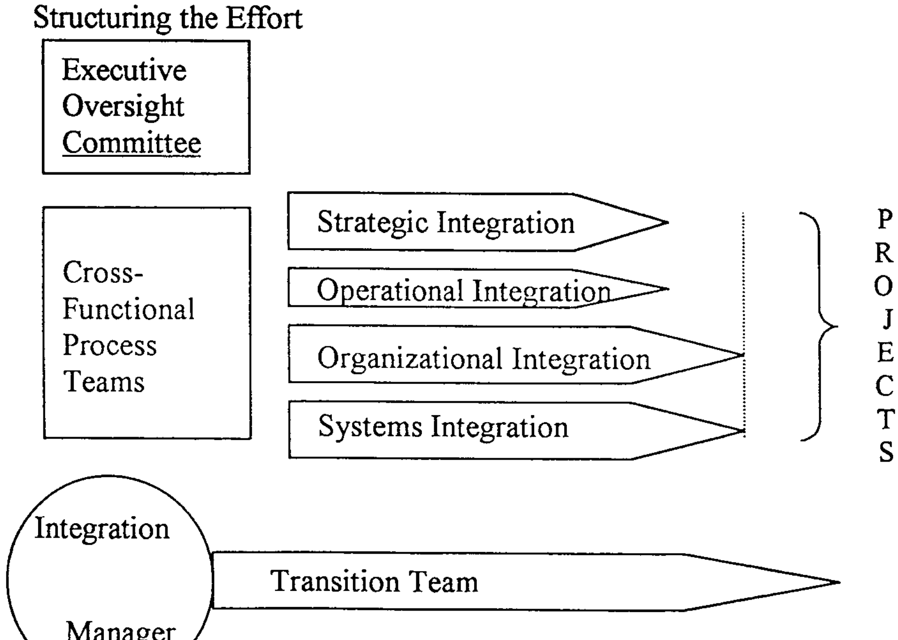
Source: Bank Mergers Acquisitions and Strategic Alliances.

The second leadership-related issue pertains to the quantity and quality of the data on which executives make their decisions. Merger planning teams are typically composed of high-level functional executive. They are the appropriate people to evaluate the specific synergies that might exist. For example, who better than someone from manufacturing to assess that the potential economies of scale may be or what valuable technology might be worth acquiring. However, in addition to a unique perspective, the specialist may also have a unique agenda. While an overall team approach may yield a balanced assessment, particular individuals or coalitions may be detrimental. Therefore, decision-making executives need to evaluate rigorously the data they receive. Processes and people should be built into the due diligence process to serve an integrating, boundary-spanning function.

2- Management change:

Chart 3-3 Organizational Transition Mechanisms

Structuring the Effort



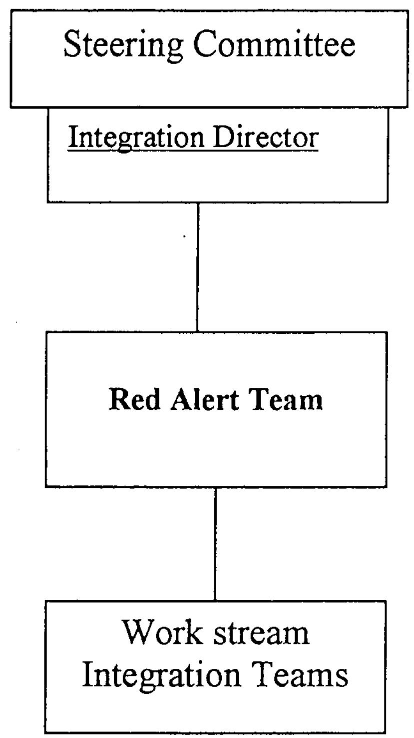
Source: Bank Mergers Acquisitions and Strategic Alliances

Successful organizational change does not just happen. Given the number of factors - quantitative and qualitative - that need to be understood and managed over time, the organization requires people and processes specifically dedicated to managing change in the context of the merger of acquisition. Successful change management is also not an event, it is a long-term process. Being effective is a function of creating a mindset, attitude, and skillfulness at managing change. In successful merger or acquisition scenarios, organizations institute transition mechanisms to address implementation issues on an ongoing basis. These mechanisms typically include an integration manager and cross-functional transition team, various cross-functional process teams, and a senior executive oversight committee.

The first step is usually to appoint a merger / integration manager charged with helping to form the transition team. Generally, a central transition team has overall accountability for managing the transition, while specific sub-teams address critical issue. A frequent set of sub-teams might include; a group top focus exclusively on the five to ten mission critical issues that could jeopardize the merger's ultimate success; a team to assess best practice within the organizations so that functional synergies can be realized; a group to address communication issues; a team to address HR issues; and a group to oversee the design and execution of the implementation process.

In addition to his or her leadership role, the merger / integration manager needs to serve as a troubleshooter and actively manage and understand the "soft issues". This infrastructure will provide the underpinnings for the ongoing integration of strategic, organization, process, and systems-related issues. (Chart 3-4, page 43)

CHART 3-4 DEDICATED RESOURCES FOR INTEGRATION SEPARATE FROM LINE MANAGEMENT (BUT SUPPORTED BY IT) ENSURE THAT THE CORE BUSINESS IS NOT DAMAGED THROUGH DISTRACTION



- Set the direction
- Can include external advisor
- Responsibilities

- Small team, highly empowered
- Full time
- Unencumbered by longer term tasks
- Team leader closely linked to Integration Director

- Strategic Integration: Products & services, Customers & Markets
- Organization Integration: Organization and facilities, skills & culture
- Operational / systems integration: processes.

Source: Bank Mergers Acquisitions and Strategic Alliances.

3- Vision:

The importance to an organization of a sense of direction and focus is never more apparent than when it's lost. Organizations require a sense of direction of vision for practical reasons such as guiding resource allocation decisions, and for the human reason that people cannot give their best unless they know what they are working toward. A merger or acquisition frequently has a range of impacts on organization's sense of purpose. For a company acquired in a hostile take-over, almost all sense of identity and direction may be lost. For a strong acquirer, the transaction may represent an affirmation of the company's vision and direction, but the uncertainties of the transaction require that the original vision be clarified or significantly reformulated to galvanize an organization. And a vision that clearly articulates the goals of the combined entity will provide a focus and a logic point.

For the vision to have value, it must be communicated to all employees and enable them to connect their own work to the organization's direction. Moreover, the vision must not be perceived merely as words, but be backed by persuasive senior management action.

4- Human Resource Focus:

Virtually every other organizational success factor leads to this vital need: how to help people adjust to the transition. Understanding and managing this requires a number of dimensions at a macro level, employees experience considerable anxiety as they are bombarded by information from inside and outside the company – information that is difficult to evaluate for accuracy and timeliness. Under such circumstances, people feel both uninformed and unimportant in the total scheme of things, this leads them to unproductive behavior and a tendency to disconnect from the companies' efforts. Consequently, senior management needs to make regular communication a high priority. Considerable credibility and goodwill are gained by demonstrating that employees are legitimately entitled to be informed and by the frequent communication of non-confidential information.

Therefore, in addition to communication effort, the merger management processes must involve as many employees as possible in identifying integration requirements and synergies. Employees on all levels will then have a stake in the future of the company.

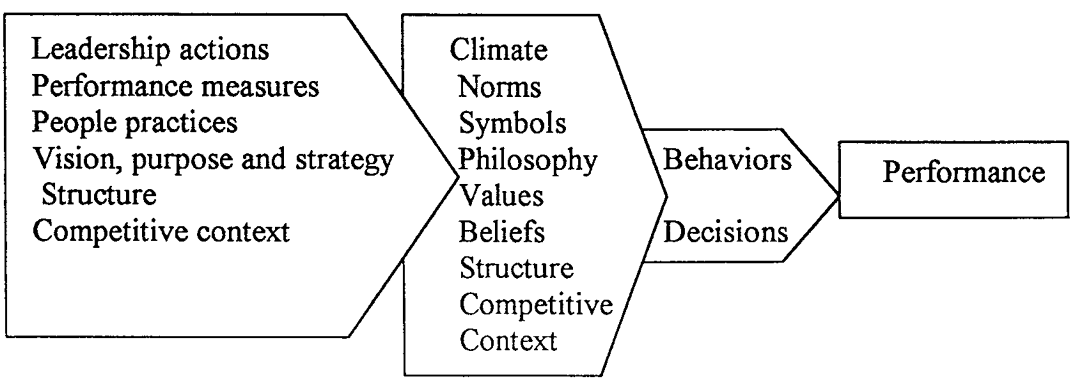
On a practical level, those employees viewed as especially important to the organizations' future success must be informed that they will play an important role in the future. Chaos an uncertainty can prompt a departure of highly valued employees, who could have been retained if someone had simply talked with them. Furthermore, even if it is not clear in the early stages who will be retained in the merged company, people respond much better when they are allowed to have input into the transition process rather than passively stand by.

5- Culture:

Culture can be understood as reflecting the values and beliefs of the enterprise and having a major influence in shaping the behavior of its employees. Culture influences decision patterns, guides actions, drives the individual behavior of all employees - in short, it can make or break a merger or acquisition. While every organization has many formal management processes, performance expectations, and stated strategic objectives, employee behavior at every level is significantly determined by this prevailing style and ethos.

Because culture is shaped over long periods of time, it is relatively difficult to change. Culture is an element of organizational lie to be understood and respected as well as a factor that can deliberately shape the future. When culture is consistent with strategy it can be a great enabler and source of competitive strength. Alternatively, culture which runs counter to emerging strategies or that prevents companies from adapting to changing market place requirements can have harmful consequences. Management must be aware that "culture" exist as a powerful driver of organizational behavior and focus on the actual forces that shape culture. At the least, a newly merged company should include the best characteristics of both antecedent entities, as well as defining new shapers that will influence the values and beliefs of the new entity.

Shapers **Drivers**



Culture "shapers' create culture which drivers behavior and decisions which, in turn, help determine performance.

To understand an organization's culture, below developed a conceptual model that identifies:

- The shapers that create and influence culture. Leadership actions, performance measures, people practices, vision purpose / strategy, structure, and competitive context provide tangible factors that management can influence and manipulate to change the culture.
- Drivers, or key defining characteristics of culture: climate (work atmosphere) norms (standards and rules), symbols (icons, traditions, rituals) philosophy (guiding policies), values (favored principles or qualities), and beliefs (hypotheses, assumptions).

  These are the intangibles that management can only influence via the shapers.
- Behaviors and decisions that are driven by the culture. All decisions made, behaviors exhibited, and actions taken are influenced by employee perceptions of culture.
- Ultimately, behaviors and decisions determine performance.

6- Organization structure and Facilities:

Another dimension of relevant change is the physical organization and structure of its resources. While the decisions that are made regarding specific functional synergies are important determinants of how a company should physically organize its resources, collocating people from the different organizations is one of the simplest but strongest techniques for developing common purpose and process. Just as organizational structure should support the new culture and vision, so should the physical plant. Creating a "new beginning" requires going beyond the organizational boxes to the more mundane questions of where individual departments will be physically located and who will work side by side with whom. Decisions should be made as quickly as possible. Where people are located delivers powerful messages about the scope of their job and how much the company values actual-integration between the two parties to the transaction.

7- Readiness for Change:

The readiness of each constituency for change helps determine how a transformation proceeds as well as the specific interventions required for a successful outcome. Organizations participating in a merger or acquisition rarely have similar appetites for change. In fact, the readiness for change even varies by department within any one organization.

CHAPTER IV

MERGERS & ACQUISITIONS IN EUROPE, U.S.A & LEBANON

A- Global Trend:

Mergers and acquisitions have been relatively common in banking. This recent surge of merger activity may be attributed to several factors first; the uncertainty brought about by deregulation and by innovations in financial markets has accelerated the perceived benefits to small firms from affiliation with larger companies. It is commonly believed that larger companies with greater management depth and diversification, and greater capital resources, have a competitive advantage in an uncertain environment. Second, liberalization of branching laws within many countries has opened markets to larger entities. They have generally expanded through acquisition rather than de novo (Heggesta, pp 703-723). Third, the banking industry is experiencing an unprecedented level of consolidation on a belief that gains can accrue though expense reduction, increased market power and reduced earning volatility and scale and scope economies (Pilloff, Santomeo, abstract).

1- Mergers and Acquisitions in Europe:

In 1998, there was a huge leap in Mergers and Acquisitions within the European financial sector. The total value of deals was $296.8 billion, compared with $107.4 billion in 1997 and $48.6 billion in 1996. Roughly one-third of all European mergers and acquisitions deals were in the financial sector. They encompassed financially-driven mergers within domestic markets designed to cut costs; more strategic cross-border deals, as banks with large shares in their own domestic markets sought to expand across Europe; and a growing number of deals between banks and insurance companies.

The forces driving consolidation in European banking are numerous and well known: over capacity – there are 3.500 banks in Germany alone, deregulation, loss of national protection and increased competition. These factors will be exacerbated by the single currency, disintermediation in wholesale banking, weak earnings growth in many banking business sectors, the need for scale to spread growing information-technology and processing costs and the rising demands of shareholders for decent returns (Euromoney Magazine, pp36-49).

The simple objective of attaining a high market capitalization is a key driver behind many mergers and is often a more important consideration to senior executives than whether a merger creates a better business mix for the new group. A high market capitalization can dramatically add to a bank's strategic flexibility.

With a large enough market capitalization, banks can afford to make hefty investments in technology, they can afford to add on other desirable acquisitions of banks that have expertise in particular products or countries, they can even make mistakes in the process and get away with it.

Any bank that is within the top two or three in its own country today will likely have ambitions to be within the top 20 or 30 in Europe as the single market unfolds over the next five years. Bank chairmen and chief executives are wondering what, in five years time, will be the average market capitalization of the leading banks in Europe and they are weighing strategies to get their own market capitalization up to those projected level.

There are two motives behind the merger and acquisition trend in Europe:

Today banks need scale, especially home-market scale, in order to have any hope of being significant internationally in the years to come.

Banks have been busily merging and acquiring each other in Europe for several years already. A considerable domestic restructuring has been underway throughout the 1990s. Among Europe's smaller banks, the trend towards consolidation has been evident for some time.

For larger banks too, the benefits of mergers acquisitions have been proved by the growing importance in their chosen markets and improved financial performance of banks. There is a trend towards market leadership. That could be in a market defined by product, a regional or national market or in a global business like investment banking.

The single most attractive thing for any bank to do is merge with or acquire a large domestic competitor. Very few major bank mergers have been disallowed in recent years and they are advising that a combined bank can go to 25 % market share in retail financial services with their worrying. Banks themselves are now taking the single currency as a given and beginnings to think in terms of European market share, not national market share.

Table 4.1 Mega-mergers announced in 1999		
Month announced	Participants	Deal Value ($bn)
January	Austria/Creditanstalt	1.5
May	Bank Ambroveneto/Cariplo	3.9
July	Vereinsbank/Hypobank	11.9
August	Credit Suisse/Winterthur	9.5
October	Merita/Nordbanken	4.1
October	ING/BBL	5.2
November	Paribas/Companie Bancaire	4.4
December	UBS/SBC	24.4

Source of data: Euromoney magazine, February 2000

2- Recent Trends in Consolidations in USA

Mergers have been the primary way US banks have become large. While bank size has also been influenced by growth in existing markets and/or the opening of new bank offices in new markets, this contribution has been small. For the largest 20 US banks, over 70 percent of their growth has been accounted for by mergers. The top 200 banks, out of a total of over 12.000, account for almost three-fourths of all US banking assets. (The New Palgrave Dictionary of Money and Finance, pp 158-159).

The vast majority of US bank mergers have been "across market" or between banks in markets with little overlap. Recently, however, a number of "within-market" mergers among large banks have occurred where the branch and customer overlap is substantial. The reasons for this new trend, which offers a greater opportunity for cost savings, have been (1) the virtual secular decline in bank profits (measured by return on assets) starting in the late 1970s and accentuated by the interest rate deregulation and increased competition from non banks of the early 1980s, and (2) the recent regulatory push to raise capital levels in order better to insulate the deposit insurance fund.

The several huge merger deals raise questions on their feasibility and benefits. These questions could not be answered in the short run specially that analyst, in states, expect several mergers and acquisitions which will cover investment banks and brokerage firms.

Yet, mergers continue trends which have already swept through Europe and US are ultimately bound to leave their mark on Lebanon's banking sector.

B- Lebanese Banking Sector:

1- Overview:

Since the end of the war, the Lebanese banking sector has been undergoing a comprehensive process of restructuring and modernization. Although the effects of the conflict were substantial, general economic developments have worked in favor of the banks, which are still practically the only vehicles for channeling investment into the country (Finance Lebanon, p34).

Developments have been dominated by a surge in customer deposits capital increases and debt issues, several mergers and the opening of new investment banks. Some government – sponsored, specialized banks have been rehabilitated and the completion of a number of major transactions has demonstrated that the Lebanese banks are still quick learns and, in spite of their prolonged absence, still adept at dealing in the international markets. The return of foreign banks has emphasized a renewed outside interest in Lebanon's financial sector. Recruitment of qualified professionals is on the rise, and where other emerging markets had to train new personnel, Lebanese banks have been able to draw on experienced expatriate bankers. Based on concepts used in the international markets, new products and services had been introduced. Throughout this period of modernization, the Central Bank's prudent regulatory regime has given crucial support to the sector and has increased its credibility aboard. While the Central Bank has never compromised its strict regulations, it has steered clear of the misdirected interventions common elsewhere in the region. Instead, it has persuaded banks to upgrade their capital resources and modernize their operations. Lebanon's free market environment coupled with an essentially sound legal framework, has provided the backdrop for the sector's resurgence.

Though banks have clearly come a long way, much still remains to be done. Today, few bankers in Beirut hold on to the high expectations voiced shortly after the end of the Lebanese war. Then, talk focused on rebuilding Lebanon's position as the Middle East's pre-eminent banking center. Now, the fact that business has moved elsewhere over the past two decades has been more-or-less grudgingly accepted. In terms of straightforward commercial banking, Beirut is unlikely to catch up with Bahrain and other Middle Eastern centers. Instead, attention is increasingly focused on developing Beirut as a regional capital markets center. On the commercial banking side, the attractively under-banked economies of Syria and Iraq do, of course, constitute an alluring market, which Beirut's bankers are keen to exploit in the future when conditions are right. It is worth mentioning that a potential peace process is taken its way with Israel and this would make us to be ready with the Israeli banking system in the future.

However, before such ambitions can be realized, a number of challenges remain. Although all but three of the banks had fulfilled the Central Bank's capital requirement by December 1999, most local banks remain small and are run as typical family firms. Management in inflexible and centralized decision-making prevails. Often, tradition and prestige are awarded higher priorities than strictly commercial considerations. May lending decisions continue to be based on the "reputation" of a customer, rather than a financial analysis of business prospects (a practice which does, however, work remarkably well in Lebanon). As the complexity of the banking environment grows and competitions increases, the already marked gap between small institutions and top tier banks will continue to expand. Technological developments are unlikely to make things easier for smaller players as they will not be able to shoulder the associated costs as readily as their larger competitors. Banks which continue to act as simple saving institutions are beginning to face a struggle for survival. While local banks have been highly profitable in recent years, their previously heavy reliance on lucrative government paper and high interest rate margins is no longer sustainable.

Although interest rates are unlikely to fall much further over the next one or two years due to the continuing size of the budget deficit, the government's stated policy of borrowing more in foreign currency than in Lebanese pounds will mean that banks will have to find alternative sources of revenue. Lending to the private sector has begun to increase, as has fee and commission-based income. Compounding this process, the Central Bank has introduced new regulations allowing banks to reduce their statutory reserves by the equivalent of their medium term lending both to the productive sector and to homebuyers (Finance Lebanon, November1999).

Considerable personal resources among major shareholders of smaller banks will allow them to remain independent in the immediate future. In fact only three smaller banks were not in a position to comply with new capital adequacy ratios one month before new regulations were to come into force on January 1, 1998. Only this degree of consolidation will raise the average size of local banks to a level where they can compete regionally, or even internationally. At the beginning of 1998, it appears as though the banking sector's post war recovery stage is coming to an end. The most pressing problems resulting from the Lebanese war, including pitiful capitalization levels (result of the collapse of the Lebanese pound in the late 1998, it appears as though the banking sector's post-war recovery stage is coming to an end). The most pressing problems resulting from the Lebanese war, including pitiful capitalization levels (the result of the collapse of the Lebanese pound in the late 1980s) have been addressed and banks have once again put their affairs in working order.

Now signs are that banks will focus on income and product diversification, technological improvements staff training and better customer services. While Lebanon's government had, until recently been quite happy to let banks survive on an easy diet of highly profitable T-bills, it now wants banks or play a more active role in supporting investments by Lebanon's private sector. After all the original Horizon 2000 plan envisages total private investments of some $42 bn between 1995 and 2007. Although these figures now look over optimistic in light of the regional situation, Lebanon's banks are going to have to be less conservative in their lending in future. Despite the expansion in banking products, it remains extremely difficult to obtain commercial loans from local banks, and of course rates remain extremely high. Some local analysts believe that the Central Bank was pleased to see one large bank sold to a foreign investor which might be more aggressive in its commercial lending in the local market. Whatever the case, with T-bills rates lower than at any time during the last four years, incentives for the banks to seek new channels for investment are extremely strong.

It appears that Lebanese banks have passed the crucial test of surviving the immediate post-war period. Banks which used the last three years (when easy profits were made from government paper) to restructure their management, train their employees and improve their capital stock, will be able to exploit future developments in the market. However for those institutions that have failed to look beyond short term profits objectives survival in a competitive market will be anything but easy (Finance Lebanon, p34).

2- Equity issue.

Capitalization developments have been driven by Central Bank the Banque du Liban (BDL) regulations forcing banks to meet certain minimum capitalization ratios. In 1993, the BDL passed regulations requiring compliance with the Basle Accord by March 31 1995 (Finance Lebanon, p35). The Accord stipulates a minimum capital / risk weighted asset ratio of eight per cent (The Basle concordat, p10). In 1996, the BDL set an additional deadline for the end of 1997 for banks to establish a minimum capital of $ 6 to 7 Million for their head offices, plus $150.000 for each branch. Previously, these limits had been set at $544.000 and $ 54.000 respectively.

Many capital increases have been financed through retained earnings or contributions from existing shareholders. However, banks have also benefited from BDL regulations allowing them to re-value their assets and to capitalize 50% of the revaluation.

Examples of internally financed capital increases include Banque SARADAR, where sustained profits helped raise capital from only $544.000 in 1992 to over $10 Million in 1996, and Universal Bank which announced an internal capital increase from $3.26 Million to $7.83 Million in December 1999. Banque de la Mediterranée has also repeatedly raised its capital through injections by the existing majority shareholder, a Luxembourg-based company controlled by an Ex-Prime Minister.

Cautious dividend distribution policies and funds from existing owners have proven adequate for many local institutions. Increasingly, however, banks have also turned to the international capital markets and by late 1997, local banks had raised some $300 Million through international equity issues. In addition to reinforcing their capital adequacy, equity issues have allowed local banks to expand their corporate, personal and mortgage lending portfolios finance acquisition driven growth and add international institutional investors to their shareholder base.

Share offerings by local financial institutions have been greatly facilitated by a June 1996 law, which allows banks to list up to 30% of their shares on the Beirut Stock Exchange (BSE). Previously transactions in bank equity issues have included the following:

- In November 1995 Byblos Bank completed a $11.6 Million private placement of shares in the Gulf. The deal was lead managed by the Lebanon Invest and was oversubscribed by a factor of 1.5. Other institutions involved in the transaction included the London based Capital Trust, Nomura securities and Paribas Capital Markets.
- In the same month Banque Audi completed the Middle East's first issue of Global Depository Receipts (GDRs). The $34 Million issue was lead managed by the

UK's Flemings and raised funds from the UK (34%), Europe (25%) the US (15%) the Far East (10%) and the Middle East (5%).

- In December 1996, Banque Libanaise pour le Commerce (BLC) doubled its share capital in a %60 Million capital increase, which was the first simultaneous local and international share offering by a Lebanese issuer. Two-thirds of the issue came from an issue of GDRs to investors worldwide and one third from a domestic offering of shares to local and regional investors. The GDR part of the issue was lead managed by Nomura International and the local placement by the Beirut based Middle East capital Group (MECG). More than 40 % of the GDRs, which are listed Luxembourg, were placed in the Us, 30% with UK investors and the remainder in Europe and Asia.
- In March 1997, the Bank of Beirut completed a $10.4 Million capital increase. The issue, which involved the sale of 20% of the bank's total equity, was lead-managed by MECG and Paribas capital Markets. The issue was eleven times oversubscribed.
- In August 1997, the majority shareholders in Fransabank sold a block of 300.000 "B" shares representing five per cent of the bank's capital. 132 new investors were chosen from 249 who had signed subscription pledges. The sale was lead managed by Lebanon Invest and netted $21.6 Million from European and Arab investors. Fransabank has no plans to list on the BSE in the near future.
- In September 1999, Banque Audi followed up its 1995 GDR issue with a second GDR offering of some $81Million, which was again lead managed by Femings with 40 % of GDRs going to UK investors, 35 % of the Lebanese market, 20 % to the US and 5 % to continental Europe. The issue was times oversubscribed.(Bank of Beirut Special Report, October 1999, p.10)

Following the successes of the above placements, several other local institutions are said to be looking at local or international equity issues at the moment. Banque of Beirut research department estimates that the growth in credits to the private sector alone will force banks' equity to continue to rise in coming years as banks raise capital in order to meet regulatory demands. For the years 1992-2002 the department forecasts an average annual growth in equity of 12.8% based on annual growth in deposits of 10.6% and credit growth of 13%. However the main problem of the Lebanese banking sector is the issue of over-banking. Around ten strong and big banks control more than fifty of the market, twenty banks control about eighty three and the remaining sixty four banks are trying to complete for the rest of the market So the Central Bank has put pressure to reduce the number of banks to restructure and modernize the banking sector through encouraging the merger and acquisition banking trend with legal environment which will be discussed in this chapter.

C- Mergers and Acquisitions in Lebanon:

1- Introduction:

Four and a half million Lebanese had a choice of 120 banks. The authorities are keen to promote consolidation of the banking sector.

Lebanon's overbanking is a hangover from the days before the civil war, when Beirut was the Middle East's financial capital and its banking secrecy law offered confidentiality on a par with Switzerland's. Before 1964, when the Banque Du Liban was established, entry into the banking system was free. Many were set up the whim of wealthy individuals seeking prestige in the financial community. Even today, most banks are still family-owned but many are small players, often with no branch offices. In reality no more than twenty banks control more than eighty percent of the market.

2- B.D.L History:

The bank of Lebanon, central bank of Republic, was created by virtue of Law No. 15313 dated July 1st, 1963. The Bank is a separate legal entity, not a governmental department, and is vested with financial autonomy. It is considered a commercial institution in its relations with third parties. It is located in Beirut and has branches in Tripoli, Jounieh, Saida, Zaleh, Bikfaya, Aley, Tyre, Nabatiyeh and Baalbeck.
Management of the Bank is undertaken by a governor assisted by four Vice-Governors, all together constituting the Governorship of the Bank, as well as by a Central Board chaired by the Governor and composed of the vice-Governors, the Director-general of the Ministry of Finance and the Director-General of the Ministry of the Economy and Trade.
The governor is appointed for a six-calendar-year tenure by decree from the council of Ministers acting on the proposal of the Minister of Finance. The vice-Governors are appointed for five calendar years by decree from the Council of Ministers on the proposal of the Minister of Finance, after consultation with the Governor.
The Bank of Lebanon's primary role is to safeguard the currency and promote monetary stability, thereby creating a sound environment for economic and social progress.
The Bank of Lebanon also advises the government of Lebanon on various economic and financial matters. In conducting its monetary management function, the bank of Lebanon also uses a wide range of instruments, including reserve requirements on

Lebanese Pound deposits with commercial banks, liquidity requirements on US dollar and Treasury bill repurchase and swap agreements with commercial banks, as well as Lebanese Pound denominated certificates of deposit issued by the Bank of Lebanon. Although its initial job is to conduct the monetary policy stability, its intervention touch equally the banking sector as well. In fact, the BDL governs by the use of the Commercial law, the money and credit law and banking control Commission.

It has put pressure to restructure the banking sector in order to prepare it for the evolution of a competitive environment.

3- Central Bank's policy regarding merger and Acquisition:

1991 was a year in which the banking sector experienced strong revival due to bank reforms and legislation issued at that time. Among the laws issued were the law of bank reforms, the law of bank mergers 192/93, and the improvement of the solvency position to meet the required rate set by the Basle committee agreement. However, the main problem of the Lebanese banking sector is the issue of over-banking. Around ten strong and big banks control more than 50% of the market, twenty banks control about 80% and the remaining banks are trying to compete for the rest of the market.

4- Law Of Bank Mergers in Lebanon:

The decree #192/93 issued on 4 January 1993 (SeeAppendix 1) concerning Bank mergers represents the first step in banking sector restructuring. This restructure is essential and implies a Central Bank of Lebanon's strategy. It is the second law after the law # 8284 of 28/9/1968 which organizes the procedure of bank mergers in Lebanon.

The central bank's strategy is to define how would be the distribution of the Lebanese Banking Sector among: Commercial banks, Investment Banks, Financial Institutions, Specialized Financial Institutions, Leasing companies and others.
The main target of the Central Bank is to develop the banking Sector to play an important role in financing the reconstruction process. It is looking for injecting the economy with middle and long term loans through commercial banks capital markets. Due to its high degree of fragmentation, it is likely to stimulate superior profit growth in future. The Central Bank is providing soft loans for those banks over smaller competitors (the program was recently extended for a further five year period), which-together with the synergy benefits derived from combining branch networks-is expected to enhance the system's overall profitability in the coming years.

a- Incentives:

The merging law provides incentives for banks to merge but unlike the US, which primarily offers fiscal incentives, the Lebanese program is based mainly on long-term soft loans.
The said Law offers to the merging bank the possibility to obtain, when necessary, from the Bank of Lebanon, the required loans at simplified conditions that are agreed upon by virtue of an agreement between the bank of Lebanon and the merging bank. Since the Law does not any clear limits concerning the simplified loan, which may be granted to the merging bank, the Bank of Lebanon laid down a rule therefore. This rule is based on granting a loan at an interest, which amounts to 60 % of the Treasury bond interest over a year, provided the remaining 40 % return to the merging bank.

When the loan is paid off, the bank is supposed to have recovered the price of the license, assessed by the Bank of Lebanon at 3 million dollars, the redundancy payments in case of total or partial dismissals as well as the difference between its assets and liabilities.

The law allows also the Central Council of the Bank of Lebanon to exempt the merging bank, one year after having approved the merger, from the income tax with an amount equivalent to the fiscal burden applied on a part of its profits, provided that such part does not exceed the cost of the merging operation and within a maximum of two billion Lebanese pounds. This measure is applied after acquiring the approval of the Bank of Lebanon as well as the Banks Control Committee, and, after the departments concerned at the Ministry of Finance make sure that the amount of the exemptions mentioned in this article are increased, as soon as they are made, to the capital of the bank deriving from the merger. If the process of increasing the capital is not achieved within six months starting from the date on which the Central Council of the Bank of Lebanon approves such increase, the right to exemption becomes legally extinct.

The merging bank(s) is/are also exempted from the tax provided for in article 45 of the Income Tax Law, should it approve to reappraise the fixed assets of any of them. The exemptions will encourage banks to invest in technology and computers and to create new segments and products.

All procedures and formalities required for the merger operation including the process of issuing new shares are also exempted from all stamp, transfer, notary and registration fees.

The Law also stipulates that the merged bank is to be removed from the list of banks.

It comes out clearly from the texts of the law, which was promulgated in January 1993 and remained effective for three years, that it aims at stabilizing the banking sector. The BDL policy consists of insisting on the viability of any merger project. From a strict economic point of view, any merger should have a positive net present value. (Le Commerce Du Levant, Dec 97, p26).

b- Consequences: Several Mergers and Acquisitions:

The consolidation process began in 1993. The biggest banks clearing out the small and medium-size banking sector and the consolidation trend will continue. The banks are small, with total average assets of US $ 400 million or US $ 500 million. Foreigners know the sector is overbanked so there is little incentive to go in and start pushing for market share.

After a number of early mergers, which included Fransabank's 1993 acquisition of Banque Thomé and Credit Libanais 1994 purchase of first Phoenician Bank, Merger and Acquisition activity has accelerated in recent years:

- In 1995, Credit Libanais acquired Capital Trust Bank and the Bank Beyrouth pour le Commerce (BLC) bought the Security Bank Of Lebanon.
- Banque de la Mediterranée bought a 75 % stake in Saudi Lebanese Bank.
- In June 1997, The central Bank sold credit Libanais to the Saudi Chairman of the National commercial bank, Khaled Salem Bin Mahfouz for US $ 163 Million in the first outright purchase of a Lebanese commercial bank by a foreign investor. The Central Bank, which had taken over Credit Libanais in the aftermath of "Al-Masherk" Bank collapse in 1987, had also been approached by Banque Audi. At

the time of the Acquisition, Credit Libanais had the largest number of branches of any Lebanese commercial bank.

The selling of Credit Libanais by Banque Du Liban (BDL) which appeared to be the starting act, has a very peculiar nature and does not fit with the consolidation trend. The original acquisition of Credit Libanais by BDL was imposed by the necessity of solving the Banque "Al – Mashrek" problem. Later on, it became obvious, due specifically to the remarkable development of Credit Libanais, that its ownership would return to the private sector, since it is difficult to admit, in a liberal economic system, the ownership of private bank by the monetary authority. Indeed, the risks of special advantages and "unlawful competition" existed and the Lebanese bank association had repeated at several occasions its wishes towards the sale of Credit Libanais to the private sector.

This operation ended up providing an outstanding profit to the Central Bank. Attention must be focused on the fact that the acquiring part, a Saudi group, represents a very powerful regional finance group, and that a great dynamic development of the acquired bank's activities is to be expected.

- In July 1997, Societe Generale Libano-Europeenne de Banque bought Banque J. Geagea for $ 4.5 Million.
- Also in July, Banque Audi bought Credit Commercial du Moyen Orient for $ 52 Million, including $ 35 Million for the goodwill. The deal brought Banque Audi eight more branches and an additional 0.85 per cent market share.
- In November 1997, Byblos Bank merged with the Bank of Beirut Pour Le Commerce. According to local observers, the merger valued Byblos at $ 589

Million and BBC at $ 120 Million. The combined bank creates a network of 49 branches across the entire country.

BBC shareholders will own 16.7 % of the new bank which will continue to be called BYBLOS. Byblos is increasing its capital by increasing its number of shares from 34 Million to 204 Million. The merged bank will have total assets of $ 2.52 Billion and total market share in deposits of 8%.

- Unibank, a small local bank, announces plans to merger with a larger bank before the capital increase deadline set by the central bank. Two offers have been received, one from a Saudi-Lebanese consortium and one from a group of seven Lebanese businessmen.
- In October 1998, The Bank of Beirut made a take-over of Transorient Bank which will be discussed in the next chapter.
- In January 1999, It was announced that a deal was signed between Banque Libanaise Pour Le Commerce and Byblos bank but the merger did not take place.
- It is expected that the consolidation trend will continue in the year 2001 but we should be aware that what is good for one bank is bad for the other. In this sense, it would be very dangerous to see some banks participating in the merger and acquisition process for a simple reason which is imitation.

Table 4.2.	List Of Bank Mergers		
Participants	M/A Bank	Type	Deal Date
Societe Generale	Global Bank	Acq	3/2/1993
Credit Libanais SAL	Capital Trust Bank SAL	Acq	9/7/1994
Credit Libanais SAL	First Phoenician SAL	Acq	25/8/1994
B.B.C	Security Bank of Leb	Acq	20/6/1995
Societe General	Banque Geagea	Acq	17/9/1997
BLF	Credit Lyonais	Acq	26/11/1997
Banque Audi	C.C.M.O	Acq	27/11/1997
Fransabank	Thomeh	Acq	10/12/1997
Byblos Bank S.A.L	B.B.C	Acq	30/12/1997
AUDI	ADCOM	Acq	07/01/1998
Ark Group	Unibank	Acq	21/01/1998
Ark	Nat. TrustBank	Acq	29/03/1998
Ark	Moughtareb	Acq	2/06/1998
B.O.B	T.O.B	Acq	25/10/1998
Fink Group	Credit Populaire	Acq	31/3/1999
AUDI	OCB	Acq	16/4/1999
Fransabank	Universal Bank	Acq	26/9/1999
Societe d'Assurance	Oriel 92% du Credit Populaire	Acq	-

Source of Data: Central Bank of Lebanon

Table 4.3 The biggest mergers throughout the 90's		
The Merged Banks	Billion$	Year
ABN & AMRO	218	1990
Chemical Bank & Chase Manhattan	297	1996
Mitsubishi Bank & Bank of Tokyo	752	1996
Union Bank of Switzerland & Swiss Bank	595	1997
Royal Bank & Bank of Montreal	330	1998
Toronto Domonion & CIBC	320	1998
Nations Bank & Bank America	570	1999
Bank One & First Chicago NBD	240	1999

Source of data: Internet, Megamergers

CHAPTER V

ACTUAL CASE STUDY: BANK OF BEIRUT AND TRANSORIENT BANK

A- General Overview

1- History of Bank of Beirut:

Bank of Beirut s.a.l. was founded in 1963 by the internationally known Gefinor Group. In 1978, Mr. William Kazan acquired most of the shares of the bank and remained the major shareholder until 1993.

Despite the devastating Lebanese Civil War that severely disrupted the banking sector, Bank of Beirut s.a.l. continued to operate smoothly. Following the renewed confidence in the country's economic and political prospects, in 1993, the bank was acquired by a group of businessmen and seasoned bankers, who in record time placed the bank among the top 10 financial institutions in the country.

Other than its normal, commercial, trade finance and consumer lending activities accommodated by its 30-branch network, Bank of Beirut s.a.l. has gained recognition in the region and the international market.

Since 1993, Bank of Beirut s.a.l. recorded the highest growth in the banking industry, with a total equity presently aggregating over USD 116 million.

2- Track records:

By December 31st 1993, following a takeover by the new management earlier in the year, the bank witnessed a remarkable growth of 120%, the highest in the banking industry.

1994

Continued rapid growth... and by December 31st 1994, the total customer deposits increased by 88% from USD 82 million in 1993 to USD 154 million in 1994. The loan portfolio more than doubled, thus, increasing from USD 24 million to USD 52 million, reflecting a 34% ratio of loans to deposits.

1995

Another year of strong growth. Assets increased from USD 182 million in 1994 to USD 283 million in 1995, or 55.5% year over year. The loan portfolio increased from USD 53 million in 1994 to USD 89 million, or 67.9% by the end of 1995. Return on Average Assets (ROAA) of 1.43% and Return on Equity (ROE) of 37.5% further demonstrated the Sterling performance of 1995 bringing the bank to the plateau of the top 20 banks in Lebanon.

1996

The bank continued to pursue a strategy that emphasized growth with performance based on value. This strategy resulted in the bank attaining increases in total assets of 63% year over year, and our loan portfolio by 54%. Return on Average Assets (ROAA) of 1.76%, coupled with return on Equity (ROE) of 45.47% were recorded. Shareholders' Equity reached USD 16.4 million on December 31st 1996 or net earnings were USD 5.1 million, representing an increase of over 85% year over year.

1997

A quantum leap in terms of profit, capital, diversification of funding sources, and shareholders' base.

Return on Average Assets (ROAA) of 1.58%, up from 1.37% in 1996.

Net income of USD 9.73 million, up from USD 5.14 million in 1996.

Increase in total assets by 66.70%, in loans by 49.67%, in the customer deposit base by 53.27% up from the previous year.

1998

Another year of solid performance. The bank recorded a net income of USD 14.2 million, or a 44% increase over the previous year. Growth in non-consolidated assets totaled USD 283 million, or a 36.3% increase, with a Return on Average Assets (ROAA) of 1.54%. The non-consolidated customer deposits grew by 29.3%, with total Shareholders' Equity of USD 97.4 million, up 162% on 1997 figures.

1999

Earnings jumped 27.6%, from USD 14.1 million to USD 18.1 million. Deposits grew 16% over 1998, reaching USD 1.3 billion. Return on Average Equity (ROAE) exceeded 17% and RAOE, excluding non-recurring merger related charges stood, at 21%. Asset growth was rapid at 21.7%, with total assets reaching USD 1.8 billion as compared to USD 1.46 billion in 1998.

3- Major events:

In March 1997, International Century Corporation, the controlling shareholder of the bank, placed 30% of the bank's total capital with new investors, raising by the same token approximately USD 10.4 million and re-injecting the net proceeds into the

bank as cash contribution to capital. The issue price of the share was $2.17 and received overwhelming market reception, both locally and regionally, which resulted in an over subscription of eleven times the initial public offering. Middle East Capital Group s.a.l. (MECG), a Beirut-based financial power house, acted as both arranger and placement agent. Today, Bank of Beirut's "C" share continues to be actively traded on the Beirut Stock Exchange, recording a price of USD 7 9/16.
On June 5th 1997, the bank launched a three-year USD 50 million Euro Certificates of Deposit issue priced at U.S. Treasury + 250 basis points, maturing June 2000. MECG and Paribas were joint-lead managers of the issue. Bank of Beirut tapped for the first time the international and regional debt markets. The issue was primarily targeted at institutional investors from Europe and the Middle East. The Euro C.D.'s are currently traded on the Luxembourg Stock Exchange.

On August 18th 1997, the bank signed a loan agreement with the International Finance Corporation (IFC) for a 10-year credit facility, amounting to USD 12,500,000 structured at competitive rates and conditions and earmarked by IFC for the financing of small to medium size enterprises and to middle income consumers for housing.
In December 1997, the bank effected a capital increase reserved for new shareholders in the aggregate amount of USD 21.6 million. Subscribers to the additional capital stock comprised local and regional institutions, including Emirates Merchant Bank Limited, a wholly owned subsidiary of Emirates Bank International pjsc which is a Dubai-based financial institution that presently holds a 10% equity stake in Bank of Beirut s.a.l.

On November 25th 1998, Bank of Beirut acquired 100% of the share equity of Transorient Bank s.a.l. (See appendix 2) This placed the bank in the top ten ranking of financial institutions operating in Lebanon.

On August 12th 1998, the Bank purchased 5 branch licenses from MEBCO, a Lebanese Bank under liquidation, thus providing it with a positive and solid geographic platform of representation within the country.

On December 14th 1998, the Bank entered the International debt market again by initiating a new USD 150 million Euro Certificates of Deposit Program, of which a USD 30 million trench was successfully launched at competitive rates with a 3 year-term.

4- Board of Directors:

* ***Salim G. Sfeir***, Chairman - General Manager

  Holder of a BSC, MSC from the University of Montreal and an MBA from the University of Detroit. His banking career spans over 30 years.

  1971: commenced his banking career with Bank of Nova Scotia.

  1980 to 1983: Banque de la Mediterranée - Deputy General Manager.

  1987 to 1991: was appointed General Manager - Chief Executive Officer, Wedge Bank (Switzerland) S.A.

  Throughout his tenure with Wedge Bank, he was a member of the Board of Directors and was appointed Vice Chairman in January 1992. In parallel to his banking career he was a lecturer in economics, finance and marketing at the Lebanese University, Lebanese American University (LAU), Haigazian University, and Université Saint Joseph (Centre Des Etudes Bancaires)

* *Adib S. Millet*, Vice Chairman

A highly reputed industrialist, who has been established in Ghana for many, many years. A former director of Millet Textiles and Sprintex (Industrial Textile Field, Ghana) and Chairman of the Board of Directors of the Transorient Bank s.a.l. until November 1998. He is currently the Chairman of Gimble Ltd. & Frobisher Ltd, real estate companies, in London, England. He is also a major shareholder in Mtayleb Country Club (MCC) as well as in Les Piques Blancs, Faraya. In addition, he is the Mayor of Beit El-Chaar, Al Hadira Municipality.

* *Mr. Fawaz H. Naboulsi*, Member - Deputy General Manager

A graduate in Business Administration from the University of London. He started his career with the Fidelity Bank reaching the position of Vice-President, Head of the Middle East Division. He later joined Bank of Oman, London, as Chief Executive Officer of their British operations.

* ***Mr. Antoine A. Abdel-Massih***, Member

An industrialist. He is the Chairman-Chief Executive of Puriplast s.a.l. commanding four Formica manufacturing plants in Lebanon, Jordan and Egypt. Established in Lebanon in 1972, Puriplast s.a.l., the industry leader in the Middle East, Mr. Abdel Massih is its founder and major shareholder. In addition, he is a major shareholder in LOMA, SPA, Italy, a manufacturing concern established in 1978 and mainly involved in the manufacturing of furniture accessories. He is also a real estate investor in the Lebanon and Europe.

* ***Emirates Bank International pjsc***, Member

It is a Dubai-based financial power house that is 80% owned by the Government of Dubai,with a total equity of approximately US $700 billion. EBI is renowned for its advancement in Information Technology and is among the top 10 banks operating in the Middle East. In February 1998, it acquired a 10% equity stake in Bank of Beirut s.a.l.

* *Joseph G. Ghorra*, Member

An industrialist known to be the founder of the ceramic industry in Lebanon. Formerly the founder and Managing Director of LECICO (Lebanon), he is currently Chairman of UNICERAMIC s.a.l. He succeeded in his career by creating the leading ceramic plants in the Middle East, i.e. LECICO (Egypt) and Uniceramic s.a.l. in Lebanon. In addition, Mr. Ghorra is a major shareholder in SEVEL (Egypt), manufacturers of (Valisère) lingerie. He was Vice-Chairman of the Industrialists Association in Lebanon.

* *Mr. Nar A. Khatchadourian*, Member

He is a member of the team Aram A. Khatchadourian Group which was founded by his late father in the early 50's. The Group commands a network of sales in East Europe, the former USSR region, the Near, Middle, and Far East, North Africa, South America, and more recently China. The Group is mainly involved in the wholesale and manufacturing of carpets, rugs, industrial, and light textiles. The Khatchadourians' command substantial means through investments in real estate in Lebanon, Europe and the USA as well as in various industrial firms they represent and whose products they market.

5- Management:

Salim G. Sfeir
Chairman General Manager

Fawaz H. Naboulsi
Deputy General Manager

James W. Ross
Assistant General Manager

Joseph H. Abu Anni
Deputy Manager – Letters of Credit

Balsam H. Al Khalil
Manger - Business Development
(UAE and Gulf Region)

Joseph N. Bakhos
Manager –Operations

Abdo Y. Baroud
Manager –Accounts

Hikmat H. Bikai
Manager –Credit

Fouad Y. Chaker
Manager –Business Development

Antoine G. Chamcham
Assistant Manager - Operations/Organizational Planning & Development / IT

Gabriel G. Chehade
Manager - Credit - Retail Banking

Michel E. Chikhani
Manager -Assets Management

Nagib G. Ghanem
Manager - Information Technology

Rached B. Ghanem
Central Manager

Adel T. Hechme
Manager - Human Resources

Amal H. Houry
Assistant to the Chairman

Roger P. Kanakri
Marketing Department

Habib F. Lahoud
Retail Banking

Joseph F. Lahoud
Electronic Data Processing / IT

Sami N. Saliba
Financial Controller / IT Manager

Richard J. Sawan
Manager - Credit Cards

Nagib M. Semaan
Manager –Treasury / Foreign Exchange and International Division

Youssef S. Maroun
Islamic Banking Services

Michel E. Zakhia
Project Finance

Fadi J. Zouein
Audit Department

B- Transorient Bank:

Transorient bank was founded in 1963 by a Lebanese investor group (Kara, Ghandour...) and some American ones also.

In 1987, after a fraud problem at Achrafieh branch, the American investors group was replaced by the family "Salamoune - Millet" after purchasing 49% of the total bank shares. From 1987 to 1998 the Millet family looked forward the expansion of the bank by doubling the number of branches (7 new ones) and by buying all the shares from the other investors. This strategy led them in February 1998 to acquire around 98% of the shares and 14 branches.

The management did not manipulate an effective lending strategy, so as a matter of fact the allowance for bad debt increased year after. Therefore, according to the Central

Bank rules, the bank was forced to put in provision the amount of doubtful debt by deducting them from the revenues, which is clearly noticed in the 1998 Financial statement).

Therefore this situation was the major reason to sell it to Bank of Beirut. The merger took place in November 25, 1998.

C- Preparing the merger:

After the written agreement, a whole procedure should take place which is explained in the law of merger No 192/93 (see appendix). In June 23, 1999 after the final agreement of the Central Bank, the merger shall be considered done from a legally point of view.

The financial and accounting part will be to achieve a consolidated balance sheet on June30, 1999. Therefore all the departments must be unified and most importantly the computer department of the two banks. Bank of Beirut operates under a computer system called ICBS created by The "Isticharat Computer Bank System". The Transorient bank operates under another system called "Kindel" which is completely different. But, on the other hand, the two banks had the same auditors "Deloitte & Touche" which facilitated the accounting procedures.

It is important to note that the immediate actions taken by the new management was:

- *Limiting the unnecessary expenses of the Transorient bank*: For example, most of the guards and drivers had cellular phones paid by the management, there were more than 20 electric generators for 14 branches ...
- *Revising the loaning portfolio:* This is the most critical subject: The Transorient Bank used a non conservative policy regarding loans.

Consequently, 14% of total loans became doubtful. Thus, the bank was forced to put provisions for such doubtful debts which adsorbed its net income in 1998. (Bank of Beirut had only 1.3% of doubtful debts).

This portfolio became very important also because it was the basis for the initial valuation study discussed in the next section.

D- The Valuation of Transorient Bank:

The method used in the valuation procedure is the Price / Earning ratio because it is the most commonly used one in Lebanon.

If $\frac{P}{E}$ = Ratio then, P = Ratio x E

The average weighted price / earning ratio in the Lebanese banking industry stands at 9.7x according to a study made in 1999 during the merger of bank Audi and Banque Libanaise pour le Commerce. It is important to note that other elements can affect this ratio such as the experience of the workers, the relationship with trade union and many factors that does not figure in the balance sheet.

The following table represents the Allowance for Bad Debts, the After Tax Net Profits and the relative ratio of Transorient Bank for the years from 1995 to 1998. (All figures are in $ Million). See appendix 3

Table 5-1, Bad Debt Evolution

Year	1995	1996	1997	1998
Bad Debts	96 631	3 684 389	6 553 307	17 518 233
Net Income	6 795 255	7 127 986	7 643 430	(-512 742)
Bad Debt/Net Income	1.42%	51.69%	85.74%	Should be adjusted

Source, Bilan Banques, 1995-1998

But according to the Bank of Beirut management, the 1998 income statement should be reorganized in a way to reflect the profits under normal condition which is a constant increase in the allowance for bad debt since 1995.

The 1998 bad debt reported a net increase of 167.31% which was considered as tremendous, consequently the loss which occurred in 1998 (512 742 million $.) was mainly due to such an increase in the bad debt.

Table 5-2, Regression of theAllowance for Bad Debt

Year	1995	1996	1997	1998	
AFBD	96 631	3 684 389	6 553 307	9 901 452	*Regression referring to 3 years*
		3 684 389	6 553 307	9 422 225	*Regression referring to 2 years*
Total				19 323 677	
Average				**9 661 838**	

Source: BilanBanques, 1995-1998

Therefore, the estimated bad debt for 1998 is 9 661 838 million $.

The next step will be to calculate the average AFBD and NI for the last 4 years. And for the calculation to be more accurate, the weighted average should be calculated.

Table 5-3, Weighted Average Net Income

Year	1995	1996	1997	1998	Average	Total
AFBD	96 631	3 684 389	6 553 307	9 661 838	4 999 041	
NI	6 795 255	7 127 986	7 643 430	7 717 123	7 320 948	29 283 794
% of total	23.2%	24.34%	26.10%	26.35%	-	100%
Weighted Avg. NI	1 576 827	1 735 027	1 995 029	2 033 684	**7 340 568**	

Source: Bilan Banques, 1995-1998

So, 7 340 568 million $. represents the weighted average NI for the Transorient Bank under normal condition of bad debt.

The valuation of Transorient Bank is then calculated as follow:

Value = Ratio x Profit

9.7 x 7 340 568 = 71 203 509 million $.

This value was rounded up to 70 000 000 $. after a long and strictly confidential fine tuning by the Bank of Beirut management and the consultants.

CHAPTER VI

ACTUAL GUIDE FOR BANK MERGERS

A- The stages of a successful merger-acquisition operations:

1- The first stage:

Preparing oneself to becoming an active acquisition company means adopting a voluntarist attitude. It is important to remember in such a case that secrecy must be held during the whole process. After assessing its own strengths and weaknesses, a company is ready for a brainstorming session that will help in spotting the possibilities to create a more interesting value:

i. Strengthening or taking advantage intensely of the basic activity
ii. Taking advantage of the functional scale economies
iii. Taking advantage of the technology and competence transfer

Many companies overestimate functional scale economies and underestimate the operating cost of the required organization chart.

Sellers have different client profiles. We shall take the example of super imposable banking networks. In order to identify the best method of value creation, it is better to take advantage of the competition advantage a company owns already, then to look for opportunities strongly linked thereto.

2- The Second stage:

It is not enough to wait passively for propositions to buy a company. It is preferable to draw up a list of elimination criteria. The list will include companies, divisions of companies, non-rated companies, and foreign and national companies. Legal and fiscal advice is necessary at all stages.

3- The Third stage:

One should be aware of the difference between the value assessed by the company, which intends to carry out the acquisition and the price to be paid. The aim is to avoid paying more than the competing bid, without exceeding the value the buyer attributes to the firm.

There are categories of synergies:

i. Universal: Accessible in general to any rational buyer who owns a competent staff and sufficient resources. Numerous scale economies are applied.
ii. Endemic: Possible for a small number of buyers only, working in the same field of the seller. Economies relating to the development of the action field and most of strategic opportunities.
iii. Exclusions: opportunities that can only be exploited by a buyer/specific seller.

For the buyer as well as for the seller, the value depends on the type of synergies and the person who masters them. If the synergy is exclusive and lies between the hands of the seller, the buyer has little chance to capture the value during the bid process. If the buyer masters the exclusive synergy, he is able to pay a higher price by keeping to himself the essential part of the value, since there would be no other competitor, Universal synergies should be paid by the buyer.

Different methods of restructure and financial engineering lead to a real increase of the value of the acquiring company. Assets that have more values for other owners may be redeployed with profit through liquidations, disinvestments, creation of subsidiaries or buyouts with leverage. The value of hidden assets may be drawn from the exploitation of over financed withdrawal plans, such as lease-cession plans.

Before making a bid to a candidate for acquisition, it is important to detect and assess in detail all possibilities of restructure and financial arrangement. One should also know before starting the negotiations, what does the company worth, what does he intend to do with it and according to what calendar. It is also important to master the accounting and fiscal system of the potential acquisitions. There are two ways to deal with the merger: purchase and pooling. Pooling consists of consolidating the financial states of the merged companies.

Posting under the form of purchase requires that the difference between the paid price and the accounting value of the acquired assets is posted as a surplus value (intangible asset) and considered as a non-deductible redeemable expense over a maximum period of forty years.

Since the posting of acquisition leads to the redemption of the surplus value (goodwill) and to a decrease of results, most of managers prefer pooling whenever it is possible.

The posting mode does not affect the created value.

The fiscal treatment of acquisitions is an extremely complex and unsettled subject.

4- The Fourth stage:

An efficient negotiation strategy consists on the buyer's side of:

i. Calculating the value of the acquisition, on his side.

ii. Calculating the value of the candidate for acquisition for his actual owners and for other potential buyers.

iii. Examining the financial situation of the actual owners and other potential buyers.

iv. Examining the strategy and motivations of the actual owners and other potential buyers.

v. Determining whether the other parties resorted or intend to resort to an intermediary for their negotiations, and studying the methods they used so far.

vi. Stopping a bid strategy.

vii. Understanding the effect of measures against tender offers.

The aim is to reduce the cost of the acquisition, since purchases at a lower price before the announcement compensates partly for the cost of the premium paid later on.

Negotiation is an art. It is thus important to be aware of the financial situation of the other party, know the shareholding structure of the target company and define in advance a bid strategy.

5- The Fifth Stage

Most of buyers destroy the value instead of creating one after the acquisition. Performance is measured according to a commercial margin instead of the output of the invested capital in order to avoid problems relating to the increase of assets. Therefore integration after a merger should be carefully planned and executed in order to avoid value destruction.

The management policy aiming at making profits out of the operation is a matter of philosophy of value creation.

Rapidity is crucial: it increases the value and limits the dilution of the annual profits necessary for compensating for the acquisition premium which increases very quickly as times goes by.

A communication plan should be set by both organizations in order to integrate their systems and structures in a manner preventing operation disruptions and the dismissal of quality employees. Finally, the strategy of the new entity should be clarified. Integration is a difficult task. This explains why a merger has more chance to succeed when it a big company buys a smaller one working in the same sector.

B- Success key factors:

This stage of discovery and exchange has a strong impact on the rest of the project. Delicate subjects are tackled: the future appointments of the first level of managers, the target numbers in a context of a scale economy research. The third stage, execution, will really give form to new firm. The first success key factor of a merger is the clarity of communication with the personnel. In order to reassure its employees, strong messages should be transmitted. Certainties must be confirmed and uncertainties should be managed. All employees should be aware of the project. In order to manage successfully the transfer of the techniques from the old firms to the new bank, a "psychological transfer".

Dividing the projects into subgroups between teams is a challenge factor for the staff.

key success factors are the following:

- Paying the right price.
- Investing the money of others with a good management.
- Knowing the risks.
- Being aware and knowing the acquisition process.
- Focus on the cash flow and the market value.
- Buying in whole.
- Having strategies full of good sense.
- Knowing the seller's motive.
- The importance of the due motive
- The time factor
- Other advice sources: for example, having a merger-acquisition department.

A good sense test may be useful. The company could analyze in advance, in case the acquisition is a total catastrophe, what are the factors that laid to the failure. This is one of the best ways to measure the success of a merger acquisition.

C- Main encountered problems

Coordinating the transfer of personnel at the head office as well as in subsidiary companies constitutes a problem. Considering the spacing out of the transfer dates and the logistic constraints, this problem was overcome by radical measures. The "Big Bang" concept applied in computer migration is used for the relocation of services.

Other difficulties require also the use of some types, of users, especially the ones mastering "expertise professions".

Quality of service should be maintained while participating in the preparation of the change is also a problem. One solution is to reorganize the service activity by dividing responsibilities and tasks and giving more work to every one.

1- Financial problems:

- The concerned banks ought to prepare a merger agreement specifying:
- The date agreed upon for closing the accounts of both banks
- The assessment of assets and liabilities. Such assessment should reflect the real value of assets on the market. A voluntary merger will not occur unless the price is convenient for both parties.
- That the merging bank is held responsible for all the debts of the merged bank.

2- Legal problems:

- Mergers and the Banking Secrecy Law: it is forbidden to reveal information concerning the clients of a bank to a third party. When a merger is carried out, the relation between the merged banks and their clients is legally terminated. It is contrary to the law to transfer the clients' accounts without their consent. (Abla, p 252)
- Mergers may cause problems concerning the renewal of leasing agreements for branches and buildings to the merged banks.

- After the merger, the head office of the merged bank is transferred to the head office of the purchasing bank.

An extraordinary general meeting of shareholders should take place in each bank. 75% of the votes are required for approving the merger.

3- Integration problems:

There are three sources of integration problems:

- Non determination of managers
- Destroyed value
- Empty leadership

Additional comments:

- Compatible cultures will help the operation
- Setting a viable integration plan

D- Lessons to be learned:

The lessons to be learned for a merger-acquisition are:

- Persons, who considered that the merger-acquisition operation was not successful, declared that they tried to make better plans in the post-merger stage, carry out a thorough preliminary control, and act more quickly.
- The persons who thought their operation was successful, said they would resort more to external consultants.

E- Better planning

The organizational structure, human and information resources are the main questions brought up in the course of a merger-acquisition process. All of them, especially information, should be planned in a better way.

The organizational structure is usually examined at the beginning of the process. That is because the general management staffs of both firms organize meetings as soon as the operation starts. The human resource strategy is usually examined during the elaboration of a post-merger plan. The information strategy is kept until the stage of elaboration of a post-merger plan, which is relatively late. Persons, who were involved in successful mergers and acquisitions, were interrogated in a poll. Half of them declared that the organizational structure should be taken into account starting from the first stage of the operation by developing a strategy and identifying a goal. 39 % considered that marketing and communication issues should be taken into account at that moment by notifying shareholders at the beginning of the operation. Concerning personnel and information issues, they should be taken into account upon the elaboration of a post-merger plan (based on a study done par the merger-acquisition magazine).

The interrogated persons were asked to give details on their strategy of integration of information systems: 37 % declared having integrated both information systems, 25 % said they stopped using the system of the acquired company, 15 % installed an entirely new system, and 6 % adopted the system of the acquired company on the level of the surviving company.

The main obstacle encountered concerning information systems is incompatibility, Since the techniques used by the two companies are entirely different. The new training, which ought to be given to the personnel is the second obstacle encountered during the integration process.

Chartered accountants, bankers and jurists are the main persons to have been consulted in the merger process. However, the less the interrogated persons find their operation successful, the more they resort the sooner to consultants in management.

F- Summary:

Investment bankers, lawyers, and other professionals state that mergers tend to be most successful if there is a clear and well-arranged plan spelling out the pre and post merger phase. This issue is straightforward if one firm is clearly dominant and is acquiring the other. However, in case where there is "a merger of equals", senior personnel issues often become sticky. Social issues often play too large a role, derailing mergers that should take place. In other cases where a merger occurs, concerns about social issues preclude managers from undertaking the necessary changes-like laying off redundant staff-for the deal to benefit shareholders.

In addition, merger talks often collapse because of "social issue". These social issues include both the "chemistry" of the companies and their personnel.

Finally it is recommended for a better post merger planning the following:

- A clear vision to direct the new organization.
- Committed and confident leadership gives courage to action
- Early and comprehensive integration planning. A pragmatic plan to ensure proper focus and resources.
- Timely, well resource execution. Good project and performance management allows early successes.

- Focus on people maximizes acceptance.
- Shareholder value as key measure.

CHAPTER VII

CONCLUSION

The World's largest financial institutions are joining forces, merging in face of globalization and increased competition.

As Lebanon's larger banks tap the international markets to increase their capital and long term resources, the merger and acquisition wave hit the Lebanese financial sector. Moreover, the Central Bank of Lebanon has encouraged mergers between smaller institutions and the acquisitions of small banks by large ones; it has put pressure on smaller institutions by raising minimum capital requirements, and has extended facilities to larger banks for acquiring smaller players.
The motives behind these mergers and acquisitions are many and include managerial motives, synergistic and financial purpose, market power, diversification, attracting additional clientele and so on. Other motives are the awareness of the benefits resulting from mergers, the lower rates on treasury bills, the changing consumer market, technology, and law No. 192/93 facilitating bank mergers.

On the other hand, merger and acquisitions activities may annoy some clients and therefore will stop dealing with the merging bank and go to the other ones, in addition to the fact that a similar abandon by many investors resulted in a sharp decline in the value of the stocks of some banks having merger contracts. In addition to the fact that many employees are left without a job as a result of many bank mergers, the whole process of integration of the lucky remaining employees with those of the merging banks is always difficult due to the difference in company cultures and the way the work is done.

Hoping that the mergers that are taking place in the Lebanese banking industry will not increase the degree of concentration in this sector, which will lead to less competition because of greater market power that the existing firms could benefit from.

Finally, I hope that I have exposed the needs, the reasons, the rules and the regulations pertaining to bank mergers as well as a good and clear mechanism and implication on the banking merger in theory and practice.

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BANK MERGER LAW No. 192/93

On January 4, 1993, " Bank Merger Law " No. 192/93 was issued to facilate bank mergers. It was the second merger law after decree No. 8284 issued on September 28, 1968 aimed to organize the procedure of bank mergers in Lebanon. The clauses of the bank merger law are presented next:

Article 1

For the sake of this law, the merged bank is the bank that cause to exist according to the stipulated procedure of this law, in which case all its assets, liabilities, obligations and rights are added to the assets, liabilities, obligations and rights of another bank called the merging bank.

Article 2

The approval of the Central Council of the Central Bank is a prerequisite for each merger of two or more banks. In order to secure this approval, the following procedure is requested:

1- The board of directors of each bank concerned with the merger ends to the Central Council, in the latter's president name, its merger approval request:
   - The preliminary merger agreement aming concerned banks.
   - The latest end of year balance sheet of each bank.
   - The control commissioners' revalution report of the concerned banks.

- The balance sheet of each concerned bank signed by its Chairman and on his full responsibility as at the latest month prior to the merger request.

2- After consulting the Banking Control Commission, and during a delay not exceedind 60 days from the date of presentation of the merger approval request with its enclosures, the central Council gives its initial approval / disapproval response to the merger. In the case of approval, the Central Council determines the conditions, time limits and guarantees requested for the final approval.

3- The Central Council makes its final decision concerning the merger in a period not exceeding 30 days after having received the evidence documents pertaining to the requested conditions and guarantees including the minutes of the general assemblies of the concerned banks. The final decision, if affirmative, should include deletion of the merged bank's name from the list of banks. This decision is considered final and irrevocable by any ordinary or extraordinary, legal or administrative means, including the recourse to the abuse of power.

4- If the Central Council does not take any decision after the expiry of the 60 and 30 days stated in, respectively, paragrphs 2 and 3 of this article, this delay is concidered as an implicit refusal of the merger with the specified conditions in the approval request. This refusal decision is irrevocable by any ordinary or extraordinary, legal or administrative means, including the recourse to the abuse of power.

Article 3

The chairmen of the banks requesting merger, or their delegates, are allowed, subject to the prior permission of the governer of the Central Bank, to exchange only among themselves, information related to their banks' clients and their accounts. These information should be restricted to such authorized personnel who are at all times subject to the bank secrecy law wether the merger eventually takes place or not.

Article 4

1- The merging bank automatically and legally replaces the merged bank (s) in all its rights, assets, and obligations toward the public once the final approval of the central Council has been declared. This replacement does not need the approval or notification of the holders of these rights and obligations especially concerning lease contracts, pending lawsuits, deposits, loans and corresponding personal guarantees collaterals, and job contracts.
2- The merging bank should publish in the official gazette and in a minimum of two local newspaper, during a period of one month after the final approval, a resume of the decisions of the general assemblies that have requested the merger and the final approval of the Central Council.
3- It is allowed to terminate job contracts of some of the employees of the merged bank during a period of six months after the final approval of the Central Council under the following conditions:

i- The termination of jobs is to take place only once for all the cases with a clear declaration that the decision is taken as a result of the mrerger.

ii- The employees whose jobs have been terminated are entitled to benefit from all the rights and benefits stated in the exercised rules and regulations and their rights and benefits stated in the collective agreement between the Lebanese Banking Association and the Lebanese Syndicate of the Bank Employees.

iii- In addition to these rights and benefits, the concerned employees are exceptionally entitled to an additional indemnity equal to the end – of – work indementy. Such indemnity should not be less than the equivalent of six months salary and not ezceeding the total salaries received during the last three years.

These indemnities are exempt from income taxation and the fired employees may not claim additional compensation.

Article 5

1- If, as a result of the merger, the merging bank violates articles 152, 153 and 154 of the Code of money and Credit or the circulars of the Central Bank. The central Council may grant the bank a period to rectify its position (this period may not be less than three years for the sake of article 154).

2- The merging bank and its shareholders are exempted from complying with legislative decree No. 87 of september 16, 1983 and its subsequent amendments if found, due to the merger, in a violating position. Such decree, however, applies to any sale of shares occuring after the merger.

Article 6

The Central Council may, if deemed necessary, grant the merging bank the needed facilities under preferntial terms agreed upon between the Central Bank and the merging bank.

Article 7

During the year that follows the tear during which the final merger approval has been granted by the Central Council, the council may exempt the merging bank from the income tax on part of the bank profit not ezceeding two billion Lebanese Pounds. This can be done only after the approval of the Central Bank and the Banking Control Commission has been granted. The concerned departments of the Ministry of Finance make sure that the merging bank has added these tax exemptions to its capital during a period of six months after the Central Council has approved this capital increase or else the merging bank is denied its entitlement to these tax exemptions. The merged bank is also exempted from the tax stated in article 45 of the income tax law in case its fixed assets have been approved to be revaluated.

Article 8

All procedures and formalities arising from the merger, including issuance of new shares, are exempt from stamp duties, registration fees, public notary and other public offices expenses.

Article 9

Other than the above – mentioned exclusions and exemptions, all applicable laws and regulations are to be followed especially those of the Code of Commerce, Code of Money and Credit, and other banking regulations.

Article 10

The articles of this law are applied to many bank that buys all assets and rights of another bank wishing to liquidate its business and delete its name from the the list of banks and that takes into its responsibility all the obligations and liabilities of such bank.

Article 11

This law is to be published in the official gazette and remains in force for five subsequent years from the date of publication.

On the 16th of March 1998, law No. 679 was issued and extended the deadline of law No. 192/93 another five more years.

Statement of Operations

	(Unaudited) **31.12.1999** **LBP** After Merger	**31.12.1998** **LBP** Before Merger
Interest Income		
Lebanese Treasury Bills	98,860,000	44,353,000
Deposits with Banks	27,688,000	25,007,000
Fixed Income Securities	16,153,000	11,786,000
Advances and Overdrafts	67,566,000	34,933,000
Related Parties Advances	1,343,000	1,998,000
	211,610,000	118,077,000
Interest Expenses		
Deposits from Banks	5,323,000	3,372,000
Customers' Deposits	138,397,000	69,729,000
Related Parties Deposits	1,727,000	1,235,000
Certificates of Deposit	13,832,000	10,950,000
	159,279,000	85,286,000
Net Interest Income	**52,331,000**	**32,791,000**
Provision for Credit Losses and Contingencies (net)	**447,000**	**303,000**
Net Interest Income after Provision for Credit Losses	51,884,000	32,488,000
Commissions, fees and other Revenues (net)	**13,013,000**	**7,064,000**
Income from Securities	**6,584,000**	**1,207,000**
Exchange Gains	**1,503,000**	**584,000**
Net Financial Revenues	72,984,000	41,343,000
Other Expenses		
Salaries and Related Charges	16,945,000	8,650,000
General Operating Expenses	13,694,000	7,903,000
Depreciation	3,380,000	1,015,000
Non-recurring restructuring costs	7,387,000	-
	41,406,000	17,568,000
Income Before Taxes	31,578,000	23,775,000
Income Tax Provision	4,279,000	2,384,000
Net Income	27,299,000	21,391,000

Balance Sheet

Assets & Liabilities

	(Unaudited) 31.12.1999 LBP	31.12.1998 LBP
Cash and Central Bank	236,323 ,000	148,820,000
Lebanese Treasury Bills and Bonds	869,521,000	691,441,000
Fixed Income Securities	292,958,000	172,664,000
Banks and Financial Institutions	351,955,000	408,033,000
Demand	111,777,000	61,865,000
Time	240,178,000	346,168,000
Loans and Advances to Customers	757,873,000	640,628,000
Commercial Loans	353,716,000	412,904,000
Other Loans	330,030,000	147,168,000
Overdrawn Current Accounts	2,196,000	936,000
Debit v/s Credit Balances and Margin Accounts	741,000	308,000
Loans and Advances to related parties	22,731,000	31,377,000
Doubtful Accounts ***	48,459,000	47,935,000
Acceptances	66,820,000	42,992,000
Investment Securities	2,912 ,000	2,647,000
Fixed Assets (Including Revaluation Surplus approved by Central Bank of Lebanon)	32,659,000	32,072,000
Non Tangible Assets	876,000	1,194,000
Regularization Accounts and other Debit Balances	16,037,000	9,944,000
Other Assets Revaluation	407,000	407,000
Goodwill	66,007,000	63,810,000
Total Assets	2,694,348,000	2,214,652,000
*** Stated Net of:	69,806,000	59,358,000
Unearned Interest on non Performing Accounts	32,923,000	23,561,000
Provisions for Bad Debts	36,883,000	35,797,000
Liabilities and Shareholders' Equity		
Banks and Financial Institutions	125,647,000	60,054,000
Demand	25,176,000	14,614,000
Time	97,428,000	45,440,000
Securities sold under repurchase agreements	3,043,000	-
Customers Deposits	2,006,211,000	1,720,287,000
Demand	111,934,000	106,917,000
Time	623,337,000	585,819,000
Saving Accounts	1,239,208,000	978,314,000
Credit v/s Debit Balances and Margin Accounts	6,150,000	1,902,000
Related Parties	25,582,000	47,335,000
Certificates of Deposit	180,406,000	170,343,000
Acceptances payable	66,820,000	42,992,000
Regularization Accounts and Other Credit Balances	83,699,000	56,002,000
Provisions for Risks and Contingencies	14,344,000	16,546,000
Long Term Soft Loan	48,000,000	-
Equity	169,221,000	146,848,000
Blocked Deposit restricted for Capital Increase	-	39,208,000
Revaluation Reserve part of Suplementary Capital	1,450,000	1,450,000
Capital and Cash Contribution to Capital	52,338,000	48,585,000
Reserve for Unidentified Banking Risks	2,380,000	1,005,000
Reserves and Premiums	85,366,000	34,910,000
Surplus Revaluation Reserve	388,000	299,000
Net Income for the Period	27,299,000	21,391,000
Minority Interest	-	1,580,000
Total Liabilities&Shareholders' Equity	2,694,348,000	2,214,652,000

	Ratio %
Growth in Deposits	16
Increase in lending activities	21
Increase in cash and cash equivalents	20
Increase in consolidated Balance Sheet	23
Gearing Ratio	8
Increase in net income before extraordinary items	55
Return on average equity	20
Return (before extraordinary items) on average equity	23
Liquidity ratio in foreign currency	60
Liquidity ratio in Lebanese Pounds	100

Net income after income tax has improved by over 30 % compared to 1998 and by over 50 % before the effect of non recurring merger cost.

Total provisions (inclusive of the funds in escrow) to classified debts as of December 31st, 1999, amount to approximately 70 %.

In 1999, provisions in the amount of around LBP 2 billion were written back to income and reallocated to other classified accounts to strengthen level of provisioning against classified debts.

Outstanding net credit exposure of the classified accounts is fully secured by adequate real guaranties.

Issued in 1996

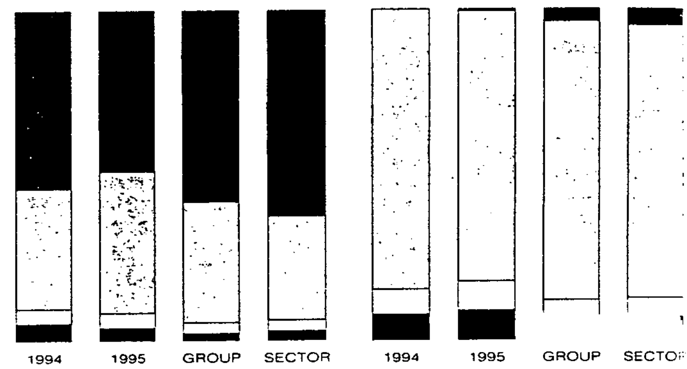
Transorient Bank Sal

Nationality : Lebanese
Trade Register No. : 17122 Beirut.
Date of Establishment : November 1966.
List of Banks no. : 69.
Head Office (Temporarily) :
Bauchrieh, Serail Street,
Transorient Bank SAL Bldg.
Telephone : (01) 897706 - 895684.
Telex : 44925-43947 LE TOBANK - 44532 TOBEX.
Telefax : (01) 897705.
P.O.Box : 11-6260.
Cable : TRANSORBANK.
Activities : Commercial banking.
Auditors : Deloite & Touche.
Solicitors : Mr. Roger Assi & Mr. Charles Airut.
Founders : Mr Hamed Baki
Mr Farid Homsi
Mr William Mitri
Mr Riad Rizk,
Mr. Abdul Rahman Azem.
Shareholders :
Mr. Adib S. Millet 83.95%
Others 16.05%
Board of Directors :
Mr. Adib S. Millet *Chairman General Manager*
Mr. Farid S. Millet *Vice Chairman*
Mr. Chakib El Hayek
Mr. Ahmad A. Kabbarah
Mr. Gabriel M. Atallah
Dr. Adib F. Millet *General Manager*
Mr. Rami W. Gandour
Management :
Mr. Adib S. Millet *Chairman*
Mr. Farid S. Millet *Vice - Chairman*
Dr. Adib F. Millet *General Manager*
Mr. Georges Karkabi *Assistant General Manager*
Mr. Nabil Issa Assistant *General Manager*
Mr. Charbel Moubarak *Assistant General Manager*
Mr. Jean Honein *Central Manager*
Network
Local branches :
Bauchrieh, Bourj Hammoud, Ras Beirut, Sin El Fil , Achrafieh, Chiyah, Elyssar, Tripoli, Kfarakka (El-Koura), Jal El Dib
Correspondents :
Amsterdam *ABN - Amro Bank*
Brussels *Banque Bruxelles Lambert , Kredietbank*
Frankfurt *Deutsche Bank*
London *Midland Bank,*
Milano *Banca Commerciale Italiana*
New York *Chemical Bank., Bank of New York*
Paris *Banque Libanaise pour le Commerce,*
Credit Commercial de France
Tokyo *Bank of New York*
Zürich *Union Bank of Switzerland*
Head of Correspondents & General Banking Divisions
Mr. Joseph Moujaes *Personal Manager*
Me. Selim Eid *Secretary to the General Management*
Mr. Samir Hobeika *Manager Foreign Relations Department*
Mr. Richard Sawan *Accounts Manager*
Mrs. Josephine El Koreh *E.D.P.*
Mr. Khalil Bou Khalil *Internal Audit Manager*
Branches
Achrafieh
Address: *Independance Street - Sassine*
Telephone : *(01) 397900 - 397600 - (03) 270605*
Fax : *422678.* Telex : *41384 LE TOBANK.*
Management : *Mr. Youssef El Khoury (Manager).*
Sin El Fil
Address: *Souad Daaboul Bldg Horch Tabet Near St Rita Church*
Telephone : *(01) 481773 - 500306 - 496915 - (03) 270604*
Telex : *40042 TOBANK.* Fax : *500352*
Management : *Mr. Pierre Zahr (Manager).*
Bauchrieh
Address: *Bauchrieh Serail Street, Transorient Bank SAL Bldg.*
Telephone: *(01) 897750/1/2/3 - (03) 270601*
Dealing Room: *890017-899490*
Telefax: *(01) 897705.*
Telex : *44925 - 43947 LE TOBANK.*
Dealing Room: *40372- 44532 TOB EX*
Management : *Mr. Ghassan Bou Chahine (Manager)*
Bourj Hammoud
Address : *Dora Blvd, Tchaghlassian Bldg*
Telephone : *(01) 899359- 269221 - 263599 - (03) 270602*
Telex : *42644 LE TOBANK.* Fax : *583120*
Management : *Mr. Jean Homsy (Central Manager).*
Jal El Dib
Address: *Jal El Dib, Main Road, Near Jal El Dib Square*
Telephone: *(01) 411158 - 412511*
Management: *Mr. Gabriel Fattal (Manager)*

Modifications in balance sheet structure in percentage

Assets
- Permanent assets
- Other financial assets
- Loans and discounts
- Liquid assets

Liabilities and shareholders' equity
- Investment capital
- Other financial liabilities
- Customers' deposits
- Banks' deposits



Chiyah
Address: *Chiah Blvd. Salem Center For Commerce, Bdeir Youssef Bldg.*
Telephone : *(01) 836987. - (03) 270607*
Management : *Mr. Mohammad Abboud (Assistant Manager)*
Ras Beirut
Address : *Mrs Curi Street, Minkara Center*
Telephone : *(01) 350168/9 - 354458 - (03) 270603.*
Telex: *21372 LE TOBANK - 22315 TOBEX LE*
Telefax : *(01) 349935*
Management : *Mr. Nabil Alameddine (Central Manager).*
Elyssar
Address : *Mazraat Yachouh Elyssar Main Road*
Telephone : *(04) 928190/1/2 - (03) 270608*
Telex : *40936 LE TOBANK.* Fax : *920109*
Management : *Mr. Joseph Assily (Manager).*
Tripoli
Address: *Halim Abou Ezzeddine Street.* P.O.Box *800*
Telephone : *(06) 430270 - 430571 - (03) 270606*
Telex: *41968 - 46034 LE TOBANK.* Telefax : *(06) 441616*
Management : *Mr. Rachid Mounla (Regional Manager).*
Kfarakka (El-Koura)
Telephone : *(06) 651516 - (03) 270610.*
Management: *Mr. Mikael Sarkis.*

MILLET Adib Chairman of the Board of Directors, General Manager
Personal: Born 1932 in Lebanon married to Hoda Achkar with 2 children. Education : A.U.B.
Directorship Millet Textile Corporation Ltd. Berkeley Ltd.; Tammerlain Ltd.; Frobisher Ltd.; Spintex Ltd. Managing Director.
Personal address Dik El Mehdi , Own Bldg Telephone : (04)926785.

Balance sheet and contra accounts at year end	LL Million 1994	LL Million 1995	LL Million 95/94	USD Million 1994	USD Million 1995	USD Million 95/94	% 1994	% 1995
Assets								
1. Cash and central bank	27,760.659	38,995.230	40.5	16.855	24.433	45.0	12.5	12.7
2. Lebanese treasury bills	52,195.271	63,003.756	20.7	31.691	39.476	24.6	23.5	20.6
3. Banks and financial institutions	39,690.581	47,314.473	19.2	24.099	29.646	23.0	17.9	15.4
- Current accounts	*8,455.930*	*10,528.641*	*24.5*	*5.134*	*6.597*	*28.5*	*3.8*	*3.4*
- Loans and time deposits	*31,234.651*	*36,785.832*	*17.8*	*18.965*	*23.049*	*21.5*	*14.1*	*12.0*
4. Head office and branches, parent company and foreign sister financial institutions and subsidiaries	-	-	-	-	-	-	-	-
- Current accounts	-	-	-	-	-	-	-	-
- Loans and time deposits	-	-	-	-	-	-	-	-
5. Commercial bills discounted	6,408.891	19,526.241	204.7	3.891	12.234	214.4	2.9	6.4
6. Loans to customers	74,577.387	112,121.655	50.3	45.281	70.252	55.1	33.6	36.6
- Short term loans	*66,559.061*	*109,001.645*	*63.8*	*40.412*	*68.297*	*69.0*	*30.0*	*35.6*
- Medium and long term loans	*8,018.326*	*3,095.741*	*-61.4*	*4.868*	*1.940*	*-60.2*	*3.6*	*1.0*
- Debtor accounts against creditor accounts	-	*24.269*	-	-	*0.015*	-	-	*0.0*
7. Bank acceptances	7,938.842	11,759.443	48.1	4.820	7.368	52.9	3.6	3.8
8. Marketable securities	1,152.900	1,117.200	-3.1	0.700	0.700		0.5	0.4
9. Miscellaneous debtor accounts	125.108	158.307	26.5	0.076	0.099	30.6	0.1	0.1
10. Regularization accounts	524.978	717.110	36.6	0.319	0.449	41.0	0.2	0.2
11. Financial fixed assets	843.531	672.891	-20.2	0.512	0.422	-17.7	0.4	0.2
12. Non financial fixed assets	10,741.996	11,009.110	2.5	6.522	6.898	5.8	4.8	3.6
13. Revaluation variance	-	-	-	-	-	-	-	-
Total assets *	**221,960.144**	**306,395.416**	**38.0**	**134.766**	**191.977**	**42.5**	**100.0**	**100.0**
Contra accounts								
14. Engagements by signature received	83,556.553	134,095.727	60.5	50.733	84.020	65.6	40.4	43.2
15. Real securities received	123,317.826	175,993.619	42.7	74.874	110.272	47.3	59.6	56.8
Total contra accounts	**206,874.379**	**310,089.346**	**49.9**	**125.607**	**194.292**	**54.7**	**100.0**	**100.0**
Liabilities and shareholders' equity								
1. Central bank	-	-	-	-	-	-	-	-
2. Banks and financial institutions	49.668	1,966.002	-	0.030	1.232	-	0.0	0.6
- Current accounts	*49.668*	*1,966.002*	-	*0.030*	*1.232*	-	*0.0*	*0.6*
- Time deposits and borrowings	-	-	-	-	-	-	-	-
3. Head office and branches, parent company and foreign sister financial institutions and subsidiaries	-	-	-	-	-	-	-	-
- Current accounts	-	-	-	-	-	-	-	-
- Time deposits and borrowings	-	-	-	-	-	-	-	-
4. Deposits from customers	187,927.966	250,359.987	33.2	114.103	156.867	37.5	84.7	81.7
- Sight deposits	*26,045.775*	*28,494.132*	*9.4*	*15.814*	*17.853*	*12.9*	*11.7*	*9.3*
- Time deposits	*14,165.823*	*25,143.818*	*77.5*	*8.601*	*15.754*	*83.2*	*6.4*	*8.2*
- Sight saving accounts	*13,307.376*	*11,019.472*	*-17.2*	*8.080*	*6.904*	*-14.5*	*6.0*	*3.6*
- Time saving accounts	*134,408.992*	*185,701.286*	*38.2*	*81.608*	*116.354*	*42.6*	*60.6*	*60.6*
- Creditor accounts against debtor accounts	-	*1.279*	-	-	*0.001*	-	-	*0.0*
5. Engagements by acceptances	7,938.842	11,759.443	48.1	4.820	7.368	52.9	3.6	3.8
6. Miscellaneous creditor accounts	5,260.937	7,993.588	51.9	3.194	5.009	56.8	2.4	2.6
7. Regularization accounts	3,396.549	6,758.985	99.0	2.062	4.235	105.4	1.5	2.2
8. Subordinated borrowings and debenture loans	-	3,910.200	-	-	2.450	-	-	1.3
9. Provisions for risks and expenses	2,794.341	2,377.415	-14.9	1.697	1.490	-12.2	1.3	0.8
10. Share capital	2,160.000	2,160.000		1.311	1.353	3.2	1.0	0.7
11. Cash contribution to capital	3,788.100	3,670.800	-3.1	2.300	2.300		1.7	1.2
12. Reserves and premiums	16.977	2,761.753	-	0.010	1.730	-	0.0	0.9
13. Balance carried forward	-	-	-	-	-	-	-	
14. Net income (or loss) for the year	2,065.250	6,115.729	196.1	1.254	3.832	205.6	0.9	2.0
15. Revaluation variance	6,561.514	6,561.514	-	3.984	4.111	3.2	3.0	2.1
Total liabilities and shareholders'equity	**221,960.144**	**306,395.416**	**38.0**	**134.766**	**191.977**	**42.5**	**100.0**	**100.0**
Contra accounts								
15. Engagements by signature issued	23,376.291	30,914.000	32.2	14.193	19.370	36.5	100.0	100.0
- Guarantees and endorsements	*6,416.716*	*8,778.325*	*36.8*	*3.896*	*5.500*	*41.2*	*27.4*	*28.4*
- Discounted bills circulating under our endorsement	-	-	-	-	-	-	-	
- Confirmed documentary credits	*16,959.575*	*22,135.675*	*30.5*	*10.297*	*13.869*	*34.7*	*72.6*	*71.6*
- Other engagements	-	-	-	-	-	-	-	
16. Bank's assets given as guarantees	-	-	-	-	-	-	-	
Total contra accounts	**23,376.291**	**30,914.000**	**32.2**	**14.193**	**19.370**	**36.5**	**100.0**	**100.0**
Total footing	245,336.435	337,309.416	37.5	148.960	211.347	41.9	-	
Total L/C openings of the year	***79,116.000***	***91,127.000***	***15.2***	***47.090***	***56.202***	***19.3***	-	
*** After deduction of provisions for doubtful debts**	**9,265.119**	**9,862.611**	**6.4**	**5.625**	**6.180**	**9.9**	-	

ransorient Bank Sal

Summarized balance sheet at year end	LL Million 1994	LL Million 1995	95/94	USD Million 1994	USD Million 1995	95/94	% 1994	% 1995
Assets								
1. Liquid assets	119,646.311	149,313.459	24.8	72.645	93.555	28.8	53.9	48.7
2. Loans and discounts	80,986.278	131,647.896	62.6	49.172	82.486	67.8	36.5	43.0
3. Other financial accounts	9,741.828	13,752.060	41.2	5.915	8.617	45.7	4.4	4.5
4. Permanent assets	11,585.527	11,682.001	0.8	7.034	7.320	4.1	5.2	3.8
Total assets	**221,960.144**	**306,395.416**	**38.0**	**134.766**	**191.977**	**42.5**	**100.0**	**100.0**
Liabilities and shareholders' equity								
1. Banks' deposits	49.668	1,966.002	-	0.030	1.232	-	0.0	0.6
2. Customers' deposits	187,927.966	250,359.987	33.2	114.103	156.867	37.5	84.7	81.7
3. Other financial accounts	16,596.328	26,512.016	59.7	10.077	16.612	64.9	7.5	8.7
4. Investment capital	17,386.182	27,557.411	58.5	10.556	17.267	63.6	7.8	9.0
Total liabilities and shareholders' equity	**221,960.144**	**306,395.416**	**38.0**	**134.766**	**191.977**	**42.5**	**100.0**	**100.0**
Contra accounts								
1. Engagements by signature	23,376.291	30,914.000	32.2	14.193	19.370	36.5	100.0	100.0
2. Other engagements	-	-	-	-	-	-	-	-
Total contra accounts	**23,376.291**	**30,914.000**	**32.2**	**14.193**	**19.370**	**36.5**	**100.0**	**100.0**
Total footings	**245,336.435**	**337,309.416**	**37.5**	**148.960**	**211.347**	**41.9**	-	-

Working capital at year end	LL Million 1994	LL Million 1995	95/94	USD Million 1994	USD Million 1995	95/94
Investment capital (IC)	17,386.182	27,557.411	58.5	10.556	17.267	63.6
Of which shareholders' equity (net worth)	*5,965.077*	*8,592.553*	*44.0*	*3.622*	*5.384*	*48.7*
- Permanent assets (PA)	11,585.527	11,682.001	0.8	7.034	7.320	4.1
= Working capital (IC - PA)	**5,800.655**	**15,875.410**	**173.7**	**3.522**	**9.947**	**182.4**
+ Other financial accounts net	6,854.500	12,759.956	86.2	4.162	7.995	92.1
= Working capital + need of working capital	**12,655.155**	**28,635.366**	**126.3**	**7.684**	**17.942**	**133.5**

Structural ratios x 100	1994	1995	95-94
1. Ratio of working capital to total assets - permanent assets	2.76	5.39	2.63
2. Ratio of working capital to total liabilities - investment capital	2.84	5.69	2.86
3. Ratio of investment capital to permanent assets	150.07	235.90	85.83
4. Ratio of other financial assets to other financial liabilities	58.70	51.87	-6.83

Operating surplus or deficit at year end	LL Million 1994	LL Million 1995	95/94	USD Million 1994	USD Million 1995	95/94	% of total credits 1994	% of total credits 1995	% of total deposits 1994	% of total deposits 1995
Customers' deposits in LL	74,622.212	92,655.564	24.2	45.308	58.055	28.1	-	-	39.7	37.0
+ Customers' deposits in FX	113,305.754	157,704.423	39.2	68.795	98.812	43.6	-	-	60.3	63.0
= Operating resources (OR)	**187,927.966**	**250,359.987**	**33.2**	**114.103**	**156.867**	**37.5**	-	-	**100.0**	**100.0**
Commercial bills discounted in LL	35.650	105.428	195.7	0.022	0.066	205.2	0.0	0.1	0.0	0.0
+ Commercial bills discounted in FX	6,373.241	19,420.813	204.7	3.870	12.168	214.5	7.9	14.8	3.4	7.8
+ Loans to customers in LL	14,924.967	17,248.559	15.6	9.062	10.807	19.3	18.4	13.1	7.9	6.9
+ Loans to customers in FX	59,652.420	94,873.096	59.0	36.219	59.444	64.1	73.7	72.1	31.7	37.9
= Operating uses (OU)	**80,986.278**	**131,647.896**	**62.6**	**49.172**	**82.486**	**67.8**	**100.0**	**100.0**	**43.1**	**52.6**
Operating uses in LL	***14,960.617***	***17,353.987***	***16.0***	***9.084***	***10.873***	***19.7***	***18.5***	***13.2***	-	-
Operating uses in FX	***66,025.661***	***114,293.909***	***73.1***	***40.088***	***71.613***	***78.6***	***81.5***	***86.8***	-	-
Operating deficit (OU - OR)	-	-	-	-	-	-	-	-	-	-
Operating deficit in LL	-	-	-	-	-	-	-	-	-	-
Operating deficit in FX	-	-	-	-	-	-	-	-	-	-
Operating surplus (OR - OU)	**106,941.688**	**118,712.091**	**11.0**	**64.931**	**74.381**	**14.6**	-	-	-	-
Operating surplus in LL	***59,661.595***	***75,301.577***	***26.2***	***36.224***	***47.181***	***30.2***	-	-	-	-
Operating surplus in FX	***47,280.093***	***43,410.514***	***-8.2***	***28.707***	***27.200***	***-5.3***	-	-	-	-
Base of activity : Deposit collection	**187,927.966**	**250,359.987**	**33.2**	**114.103**	**156.867**	**37.5**	-	-	-	-
Base of activity : Credit distribution	-	-	-	-	-	-	-	-	-	-

Operating ratios x 100	1994	1995	95-94
1. Ratio of operating uses to operating resources	43.09	52.58	9.49
2. Ratio of operating uses in LL to operating resources in LL	20.05	18.73	-1.32
3. Ratio of operating uses in FX to operating resources in FX	58.27	72.47	14.20
4. Ratio of short term loans to sight deposits	255.55	382.54	126.99
5. Ratio of medium and long term loans to time deposits + savings accounts	4.95	1.40	-3.56
6. Ratio of operating surplus to customers' deposits	56.91	47.42	-9.49
7. Ratio of operating deficit to loans and discounts	-	-	-
8. Ratio of engagements by signature to loans and discounts	28.86	23.48	-5.38

Transorient Bank Sal

Profit and loss account at year end	LL Million 1994	LL Million 1995	LL Million 95/94	USD Million 1994	USD Million 1995	USD Million 95/94	% 1994	% 19
1. Interest received on advances and debtor accounts	10,506.671	18,801.340	78.9	6.379	11.780	84.7	51.0	5
2. Income from portfolio securities	7,668.285	10,047.344	31.0	4.656	6.295	35.2	37.2	30
3. Interest received on banks and correspondents accounts	2,441.356	4,362.006	78.7	1.482	2.733	84.4	11.8	1
Of which interest received on Lebanese Tbs	*7,668.285*	*10,047.344*	*31.0*	*4.656*	*6.295*	*35.2*	*37.2*	*30*
4. Total interest received (1+2+3)	**20,616.312**	**33,210.690**	**61.1**	**12.517**	**20.809**	**66.2**	**100.0**	**10**
5. Interest paid on long term debt	-	-	-	-	-	-	-	
6. Interest paid on customers deposits and creditor accounts	13,218.052	19,648.094	48.6	8.026	12.311	53.4	98.7	98
7. Interest paid on banks and correspondents creditor accounts	171.649	249.055	45.1	0.104	0.156	49.7	1.3	1
8. Total interest paid (5+6+7)	**13,389.701**	**19,897.149**	**48.6**	**8.130**	**12.467**	**53.3**	**100.0**	**10**
9. Net interest margin (4-8)	7,226.611	13,313.541	84.2	4.388	8.342	90.1		
10. Bad debts and allocation to provision accounts	-90.522	96.631	-	-0.055	0.061	-		
11. Net bank operating income after bad debts and allocation to provision accounts (9-10)	**7,317.133**	**13,216.910**	**80.6**	**4.443**	**8.281**	**86.4**	**65.0**	**72**
12. Net commissions received and other income	3,733.825	4,715.737	26.3	2.267	2.955	30.3	33.2	25
13. Net income related to foreign exchange transactions	210.114	289.478	37.8	0.128	0.181	42.2	1.9	1
14. Net extraordinary income	-	-	-	-	-	-	-	
15. Net financial income (11+12+13+14)	**11,261.072**	**18,222.125**	**61.8**	**6.837**	**11.417**	**67.0**	**100.0**	**10**
16. Staff expenses	5,612.518	7,646.044	36.2	3.408	4.791	40.6	49.8	42
17. Other general operating expenses	3,583.304	3,780.826	5.5	2.176	2.369	8.9	31.8	20
18. Net profit for the year -before taxes- (15-16-17)	**2,065.250**	**6,795.255**	**229.0**	**1.254**	**4.258**	**239.5**		
19. Income tax	-	-	-	-	-	-	-	
20. Net profit -after taxes- (18-19)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	

Operating, management and income ratios x 100

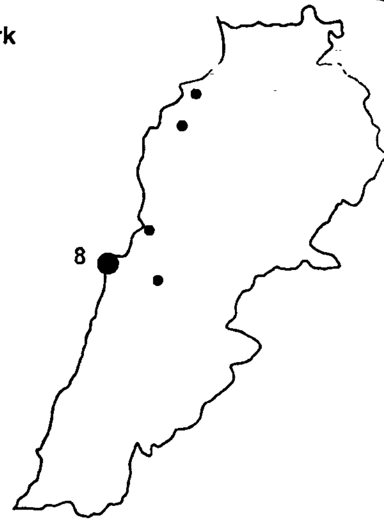
	1994	1995	95-9
Interest received			
1. Ratio of interest received on advances and debtor accounts to average loans to customers	15.08	17.68	2.6
2. Ratio of interest received on banks and correspondents accounts to average banks and correspondents accounts	3.81	5.67	1.8
3. Ratio of interest received on average Lebanese treasury bills	18.73	17.44	-1.2
4. Ratio of total interest received to average assets	10.87	12.57	1.7
Interest paid			
5. Ratio of interest paid on customers' deposits to average customers' deposits	8.18	8.97	0.7
6. Ratio of interest paid on banks' deposits to average banks' deposits	231.70	24.71	-206.9
7. Ratio of interest paid on long term debt to average long term debt	-	-	
8. Ratio of total interest paid to average liabilities	7.06	7.53	0.4
Operating results			
9. Ratio of net financial income to average total footings	5.37	6.25	0.8
10. Ratio of interest paid to interest received	64.95	59.91	-5.0
11. Global spread on average total assets	3.81	5.04	1.2
12. Ratio of bad debts and allocation to provision accounts to net interest margin	-1.25	0.73	1.9
Sources of financial income			
13. Ratio of net bank operating income to net financial income	64.98	72.53	7.5
14. Ratio of net commissions received to net financial income	33.16	25.88	-7.2
15. Ratio of other income to net financial income	1.87	1.59	-0.2
Management ratios			
16. Ratio of general operating expenses to net bank operating income	125.68	86.46	-39.2
17. Ratio of general operating expenses to net financial income	81.66	62.71	-18.9
18. Ratio of general operating expenses to average customers' deposits	5.69	5.21	-0.4
19. Ratio of general operating expenses and interest paid on deposits to average deposits (break even point)	13.91	14.27	0.3
20. Ratio of general operating expenses to total cost of deposits	40.88	36.37	-4.5
21. Ratio of staff expenses to general operating expenses	61.03	66.91	5.8
22. Ratio of staff expenses to average staff employed (LL Million)	20.37	27.31	6.9
23. Ratio of net financial income to average staff employed (LL Million)	40.88	65.08	24.2
24. Ratio of staff expenses to net financial income	49.84	41.96	-7.8
Income ratios			
1. Net return on average shareholders' equity	34.20	93.36	59.1
2. Net return on average assets	1.09	2.57	1.4
3. Ratio of net financial income to average deposits	6.96	8.28	1.3
4. Ratio of net financial income to average deposits plus investment capital	6.41	7.51	1.1

Issued in 1997.

Transorient Bank Sal

Nationality : Lebanese.
Trade Register No. : 17122 Beirut.
Date of Establishment : November 1966.
List of Banks no. : 89.
Head Office (Temporarily) : Bauchrieh, Serail Street, Transorient Bank SAL Bldg.
Telephone : (01) 897706 - 895684.
Telex : 44925-43947 LE TOBANK - 44532 TOBEX.
Telefax : (01) 897705.
P.O.Box :11-6260.
Cable :TRANSORBANK.
Activities : Commercial banking.
Auditors : Deloite & Touche.
Solicitors : Mr. Roger Assi & Mr. Charles Airut.
Founders :
Mr Hamed Baki, Mr Farid Homsi, Mr William Mitri, Mr Riad Rizk, Mr. Abdul Rahman Azem.
Shareholders :
Mr. Adib Millet 45%, Mr. Farid S. Millet 15%, Dr. Adib F. Millet 15%,
Mr. Milad F. Millet 15%, Others 10%.
Board of Directors :
Mr. Adib S. Millet *Chairman General Manager*, Mr. Farid S. Millet *Vice Chairman*,
Mr. Chakib El Hayek, Mr. Ahmad A. Kabbarah, Mr. Gabriel M. Atallah,
Dr. Adib F. Millet *General Manager*, Mr. Rami W. Gandour.
Management :
Mr. Adib S. Millet *Chairman*, Mr. Farid S. Millet *Vice - Chairman*,
Dr. Adib F. Millet *General Manager*, Mr. Georges Karkabi *Assistant General Manager*,
Mr. Nabil Issa *Assistant General Manager*, Mr. Charbel Moubarak *Assistant General Manager*,
Mr. Jean Honein *Central Manager*
Network :
Local branches : *Bauchrieh, Bourj Hammoud, Ras Beirut, Sin El Fil , Achrafieh, Chiyah, Elyssar, Tripoli, Kfarakka, Jal El Dib, Jounieh, Mansourieh.*
Correspondents :
Amsterdam *ABN - Amro Bank* Brussels *Banque Bruxelles Lambert, Kredietbank*
Frankfurt *Deutsche Bank, Commerzbank* London *Midland Bank*, Milano *Banca Commerciale Italiana*
New York *Bank of New York, Chase Manhattan Bank*, Paris *Banque Libanaise pour le Commerce, Banque Banorabe*, Tokyo *Bank of New York* Zürich *Union Bank of Switzerland* .
Head of Correspondents & General Banking Divisions:
Mr. Joseph Moujaes *Personal Department*, Me. Selim Eid *Secretary to the General Management*,
Mr. Samir Hobeika *Manager Foreign Relations Department*, Mr. Richard Sawan *Accounts Manager*, Mrs. Josephine Nassar *E.D.P.*, Mr. Khalil Abou Khalil *Internal Audit Manager*,
Mr. Nabil Abou Chacra *Credit Manager*.

Network



Ashrafieh
Bauchrieh
Bourj Hammoud
Jal El Dib
Chiyah
Ras Beirut
Sin El Fil
Mansourieh
Elyssar
Jounieh
Kfaraka-El-Koura
Tripoli

Profit and loss account	LL Million			USD Million			%	
at year end	1995	1996	96/95	1995	1996	96/95	1995	1996
1. Interest received on advances & debtor accounts	18.801.340	28.053.267	49.2	11.780	18.076	53.4	56.6	53.2
2. Income from portfolio securities	-	92.448	-	-	0.060	-	-	0.2
3. Interest received on banks & corresp. accounts	14.409.350	24.576.404	70.6	9.028	15.835	75.4	43.4	46.6
Of which interest received on Lebanese Tbs	*10.047.344*	*18.641.778*	*85.5*	*6.295*	*12.011*	*90.8*	*30.3*	*35.4*
4. Total interest received (1+2+3)	**33,210.690**	**52,722.119**	**58.8**	**20.809**	**33.970**	**63.3**	**100.0**	**100.0**
Of which in Lebanese pounds	*15,358.316*	*29,428.263*	*91.6*	*9.623*	*18.962*	*97.0*	*46.2*	*55.8*
Of which in foreign currencies	*17.852.374*	*23.293.856*	*30.5*	*11.186*	*15.009*	*34.2*	*53.8*	*44.2*
5. Interest paid on long term debt	-	-	-	-	-	-	-	-
6. Interest paid on customers deposits & creditor accts.	19,648.094	31.677.016	61.2	12.311	20.410	65.8	98.7	99.0
7. Interest paid on banks & corresp. creditor accounts	249.055	316.558	27.1	0.156	0.204	30.7	1.3	1.0
8. Total interest paid (5+6+7)	**19,897.149**	**31,993.574**	**60.8**	**12.467**	**20.614**	**65.4**	**100.0**	**100.0**
Of which in Lebanese pounds	*11,218.901*	*20,886.466*	*86.2*	*7.029*	*13.458*	*91.5*	*56.4*	*65.3*
Of which in foreign currencies	*8,678.248*	*11,107.108*	*28.0*	*5.437*	*7.157*	*31.6*	*43.6*	*34.7*
9. Net interest margin (4-8)	**13,313.541**	**20,728.545**	**55.7**	**8.342**	**13.356**	**60.1**	**100.0**	**100.0**
Of which in Lebanese pounds	*4,139.415*	*8,541.797*	*106.4*	*2.594*	*5.504*	*112.2*	*31.1*	*41.2*
Of which in foreign currencies	*9,174.126*	*12,186.748*	*32.8*	*5.748*	*7.852*	*36.6*	*68.9*	*58.8*
10. Bad debts and allocation to provision accounts	96.631	4,532.221	-	0.061	2.920	-		
11. Net bank operating income after bad debts and allocation to provision accounts (9-10)	**13,216.910**	**16,196.324**	**22.5**	**8.281**	**10.436**	**26.0**	**72.5**	**68.0**
12. Net commissions received and other income	4,715.737	7,407.312	57.1	2.955	4.773	61.5	25.9	31.1
13. Net income related to foreign exchange transactions	289.478	214.607	-25.9	0.181	0.138	-23.8	1.6	0.9
14. Net extraordinary income	-	-	-	-	-	-	-	-
15. Net financial income (11+12+13+14)	**18,222.125**	**23,818.243**	**30.7**	**11.417**	**15.347**	**34.4**	**100.0**	**100.0**
16. Staff expenses	7,646.044	10,132.462	32.5	4.791	6.529	36.3	42.0	42.5
17. Other general operating expenses	3,780.826	5,507.796	45.7	2.369	3.549	49.8	20.7	23.1
18. Net profit for the year -before taxes- (15-16-17)	**6,795.255**	**8,177.985**	**20.3**	**4.258**	**5.269**	**23.8**		
19. Income tax	-	1,050.000	-	-	0.677	-	-	4.4
20. Net profit -after taxes- (18-19)	**6,795.255**	**7,127.985**	**4.9**	**4.258**	**4.593**	**7.9**	**37.3**	**29.9**

Balance sheet and contra accounts

at year end	LL Million 1995	LL Million 1996	LL Million 96/95	USD Million 1995	USD Million 1996	USD Million 96/95	% 1995	% 1996
Assets								
1. Cash and central bank	38,995.230	52,493.128	34.6	24.433	33.823	38.4	12.7	11.2
2. Lebanese treasury bills	63,003.756	128,196.615	103.5	39.476	82.601	109.2	20.6	27.5
3. Banks and financial institutions	47,314.473	74,762.190	58.0	29.646	48.172	62.5	15.4	16.0
- Current accounts	*10,528.641*	*20,323.162*	*93.0*	*6.597*	*13.095*	*98.5*	*3.4*	*4.4*
- Loans and time deposits	*36,785.832*	*54,439.028*	*48.0*	*23.049*	*35.077*	*52.2*	*12.0*	*11.7*
4. Head office and branches, parent company and foreign sister financial institutions and subsidiaries	-	-	-	-	-	-	-	
- Current accounts	-	-	-	-	-	-	-	-
- Loans and time deposits	-	-	-	-	-	-	-	-
5. Commercial bills discounted	19,526.241	25,839.465	32.3	12.234	16.649	36.1	6.4	5.5
6. Loans to customers	112,121.655	148,875.288	32.8	70.252	95.925	36.5	36.6	31.9
- Short term loans	*109,001.645*	*137,906.505*	*26.5*	*68.297*	*88.857*	*30.1*	*35.6*	*29.5*
- Medium and long term loans	*3,095.741*	*10,968.783*	*254.3*	*1.940*	*7.068*	*264.4*	*1.0*	*2.3*
- Debtor accounts against creditor accounts	*24.269*	-	-	*0.015*	-	-	*0.0*	-
7. Bank acceptances	11,759.443	17,413.600	48.1	7.368	11.220	52.3	3.8	3.7
8. Marketable securities	1,117.200	4,257.360	281.1	0.700	2.743	291.9	0.4	0.9
9. Miscellaneous debtor accounts	158.307	245.083	54.8	0.099	0.158	59.2	0.1	0.1
10. Regularization accounts	717.110	1,085.991	51.4	0.449	0.700	55.7	0.2	0.2
11. Financial fixed assets	672.891	672.835	0.0	0.422	0.434	2.8	0.2	0.1
12. Non financial fixed assets	11,009.110	13,094.792	18.9	6.898	8.437	22.3	3.6	2.8
13. Revaluation variance	-	-	-	-	-	-	-	
Total assets *	**306,395.416**	**466,936.347**	**52.4**	**191.977**	**300.861**	**56.7**	**100.0**	**100.0**
*** After deduction of provisions for doubtful debts**	**9,862.611**	**13,368.478**	**35.5**	**6.180**	**8.614**	**39.4**	-	-
Contra accounts								
14. Engagements by signature received	134,095.727	142,032.422	5.9	84.020	91.516	8.9	43.3	36.7
15. Real securities received	175,643.969	244,838.149	39.4	110.053	157.757	43.3	56.7	63.3
Total contra accounts	**309,739.696**	**386,870.571**	**24.9**	**194.072**	**249.272**	**28.4**	**100.0**	**100.0**
Liabilities and shareholders' equity								
1. Central bank	-	-	-	-	-	-	-	-
2. Banks and financial institutions	1,966.002	5,635.145	186.6	1.232	3.631	194.8	0.6	1.2
- Current accounts	*1,966.002*	*22.285*	*-98.9*	*1.232*	*0.014*	*-98.8*	*0.6*	*0.0*
- Time deposits and borrowings	-	*5,612.860*	-	-	*3.617*	-	-	*1.2*
3. Head office and branches, parent company and foreign sister financial institutions and subsidiaries	-	-	-	-	-	-	-	
- Current accounts	-	-	-	-	-	-	-	
- Time deposits and borrowings	-	-	-	-	-	-	-	
4. Deposits from customers	250,359.987	373,393.944	49.1	156.867	240.589	53.4	81.7	80.0
- Sight deposits	*28,494.132*	*47,568.342*	*66.9*	*17.853*	*30.650*	*71.7*	*9.3*	*10.2*
- Time deposits	*25,143.818*	*37,000.105*	*47.2*	*15.754*	*23.840*	*51.3*	*8.2*	*7.9*
- Sight saving accounts	*11,019.472*	*11,894.512*	*7.9*	*6.904*	*7.664*	*11.0*	*3.6*	*2.5*
- Time saving accounts	*185,701.286*	*276,909.335*	*49.1*	*116.354*	*178.421*	*53.3*	*60.6*	*59.3*
- Creditor accounts against debtor accounts	*1.279*	*21.650*	-	*0.001*	*0.014*	-	*0.0*	*0.0*
5. Engagements by acceptances	11,759.443	17,413.600	48.1	7.368	11.220	52.3	3.8	3.7
6. Miscellaneous creditor accounts	7,993.588	21,060.595	163.5	5.009	13.570	170.9	2.6	4.5
7. Regularization accounts	6,758.985	12,286.309	81.8	4.235	7.916	86.9	2.2	2.6
8. Subordinated borrowings and debenture loans	3,910.200	-	-	2.450	-	-	1.3	-
9. Provisions for risks and expenses	2,377.415	3,779.773	59.0	1.490	2.435	63.5	0.8	0.8
10. Share capital	2,160.000	17,280.000	700.0	1.353	11.134	722.7	0.7	3.7
11. Cash contribution to capital	3,670.800	-	-	2.300	-	-	1.2	-
12. Reserves and premiums	8,643.741	8,958.996	3.6	5.416	5.773	6.6	2.8	1.9
13. Balance carried forward	-	-	-	-	-	-	-	-
14. Net income (or loss) for the year	6,795.255	7,127.985	4.9	4.258	4.593	7.9	2.2	1.5
15. Revaluation variance	-	-	-	-	-	-	-	-
Total liabilities and shareholders' equity	**306,395.416**	**466,936.347**	**52.4**	**191.977**	**300.861**	**56.7**	**100.0**	**100.0**
Contra accounts								
16. Engagements by signature issued	30,914.000	28,888.974	-6.6	19.370	18.614	-3.9	100.0	100.0
- Guarantees and endorsements	*8,778.325*	*13,674.210*	*55.8*	*5.500*	*8.811*	*60.2*	*28.4*	*47.3*
- Discounted bills circulating under our endorsement	-	-	-	-	-	-	-	
- Confirmed documentary credits	*22,135.675*	*15,214.764*	*-31.3*	*13.869*	*9.803*	*-29.3*	*71.6*	*52.7*
- Other engagements	-	-	-	-	-	-	-	
17. Bank's assets given as guarantees	-	-	-	-	-	-	-	
Total contra accounts	**30,914.000**	**28,888.974**	**-6.6**	**19.370**	**18.614**	**-3.9**	**100.0**	**100.0**
Total footings	**337,309.416**	**495,825.321**	**47.0**	**211.347**	**319.475**	**51.2**	-	-
Total L/C openings of the year	***91,127.000***	***83,605.000***	***-8.3***	***56.202***	***53.202***	***-5.3***	-	-
Funds under management - off-balance sheet	-	-	-	-	-	-	-	-

Issued in 1998

Transorient Bank Sal

Nationality : Lebanese.
Trade Register No. : 17122 Beirut.
Date of Establishment : November 1966.
List of Banks no. : 89.
Head Office (Temporarily) : Bauchrieh, Serail Street, Transorient Bank SAL Bldg.
Telephone : (01) 897706 - 881198 - 888630.
Telex : 44925-43947 LE TOBANK.
Telefax : (01) 897705.
P.O.Box : 11-6260.
Cable : TRANSORBANK.
Swift Code : TRANLBBX.
Activities : Commercial banking.
Auditors : Deloite & Touche.
Solicitors : Mr. Roger Assi & Mr. Charles Airut.

Founders :
Mr. Hamed Baki,
Mr. Farid Homsi,
Mr. William Mitri,
Mr. Riad Rizk,
Mr. Abdul Rahman Azem.

Shareholders :
Mr. Adib S. Millet 48%,
Mr. Farid S. Millet 16%,
Dr. Adib F. Millet 16%,
Mr. Milad F. Millet 16%,
Others 4%.

Board of Directors :
Mr. Adib S. Millet *Chairman*,
Mr. Farid S. Millet *Vice Chairman*,
Dr. Adib F. Millet *General Manager*.
Me. Chakib El Hayek,
Me. Ahmad A. Kabbarah,
Mr. Gabriel M. Atallah.

Management :
Mr. Adib S. Millet *Chairman*,
Dr. Adib F. Millet *General Manager*,
Mr. Georges K. Karkabi *Assistant General Manager*.
Mr. Nabil K. Issa *Assistant General Manager*.
Mr. Jean M. Honein *Central Manager*.

Head of Correspondents & General Banking Divisions:
Mr. Khalil Abou Khalil *Internal Audit Department*,
Mr. Said Azzam *Chief Dealer*.
Me. Selim Eid *Secretary to the General Management*,
Mr. Joseph Moujaes *Human Resources Dept.*,
Mrs. Jocelyne Nassar *E.D.P.*,
Mr. Antoine Samaha *Doc. Credit*.
Mr. Richard Sawan *Accounting*.

Network
Local branches :
Bauchrieh, Bourj Hammoud, Ras Beirut, Sin El Fil, Achrafieh, Chiyah, Elyssar, Tripoli, Kfarakka, Jal El Dib, Jounieh, Mansourieh et Sour.

Correspondents :
Principal Bankers: *Chase Manhattan Bank*,
New York: *Bank of New York, Midland Bank*,
London: *Bank of New York, Deutsche Bank*,
Frankfurt: *Commerzbank, Bank of New York, Banque Banorabe*,
Paris: *BLPC, UBS*,
Zurich: *Bank of New York*,
Tokyo : *BCI*,
Milano: *Istituto Bancario San Paolo Di Torino*,
Torino: *Bank of Nova Scotia, Toronto*.

Branches

Achrafieh :
Independance Street - Sassine Square.
Telephone : *(01) 204668/9 - 204671 - 337765.*
Fax : *442678.* Telex :*41384 LE TOBANK.*
Management : *Mr. Pierre Mouawad (Acting Manager).*

Bauchrieh :
Bauchrieh Serail Street, Transorient Bank SAL Bldg.
Telephone: *(01) 897750/1/2/3.*
Telefax: *(01) 897753.*
Telex: *43685 LE TOBANK.*
Management : *Mr. Ghassan Bou Chahine*

Bourj Hammoud :
Dora Blvd, Tchaghlassian Bldg.
Telephone : *(01) 269221 - 263755.*
Telex : *42644 LE TOBANK.*
Fax : *(01) 269401.*
Management : *Mr. Kivork Kechichian*

Chiyah :
Chiah Blvd. Ghobeiri Center, Ghobeiri.
Telephone & Fax: *(01) 552481/2/0.*
Management : *Mr. Mohammad Abboud*

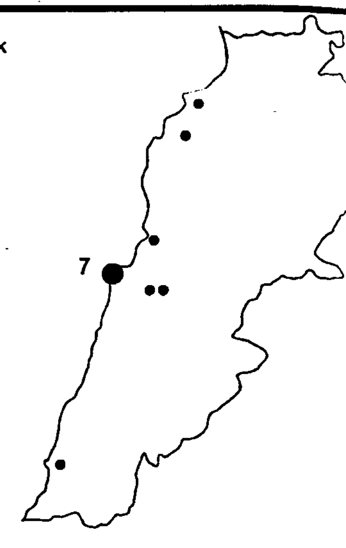
Jal El Dib :
Jal El Dib, Main Road, Near Jal El Dib Square.
Telephone: *(04) 523624/5 - (03) 372337.*
Management: *Mr. Gabriel Fattal (Regional Manager)*

Ras Beirut :
Mrs Curie Street, Minkara Center, Near Bristol Hotel. Telephone : *(01) 350168/9 - 739800.* Telex: *21372 LE TOBANK - 22315 TOBEX LE.* Telefax : *(01) 349935.* Management : *Mr. Bassem Arasoughli (Acting Manager).*

Sin El Fil :
Souad Daaboul Bldg, Horch Tabet, Near St Rita Church. Telephone : *(01) 481773 - 500306 - 496915 - 481874.* Telex : *40042 TOBANK LE.* Fax : *(01) 500352.*
Management : *Mr. Pierre Zahr.*

Elyssar :
Mazraat Yachouh, Elyssar Main Road.
Telephone : *(04) 920105/6/7/8 - (04) 928190/1/2.* Telex : *40936 LE TOBANK.*
Fax : *(04) 920109.*

Network



Management : *Mr. Joseph Assily.*

Mansourieh :
Main Road, Salamil Bldg.,
Telephone & Fax: *(04) 409693/4/5.*
Management: *Mr Nassif Moussallem.*

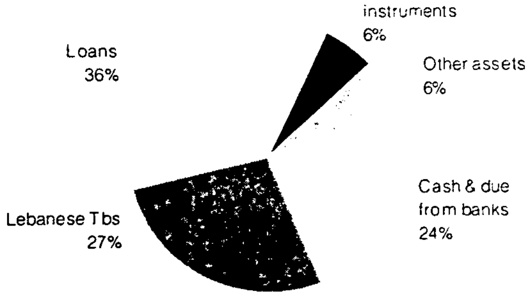
Jounieh :
Ghadir, Bkerké Main Road.
Telephone: *09-639006/7/8/9.*
Management: *Mr. Paul Chammas.*

Kfarakka (El-Koura) :
Telephone : *(06) 651516/7 - (03) 270610*
Management: *Mr. Michel Malek.*

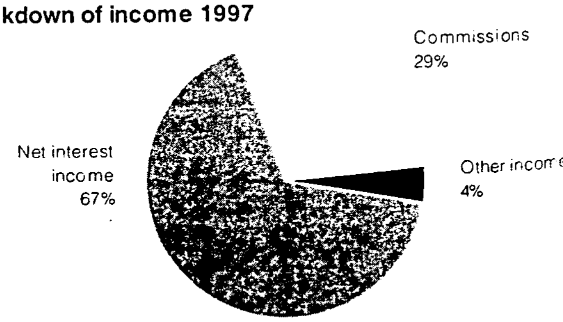
Tripoli :
Halim Abou Ezzeddine Street.
P.O.Box: *800.*
Telephone : *(06) 430270 - 430571.*
Telex: *41968 - 46034 LE TOBANK.*
Telefax : *(06) 441616.*
Management : *Mr. Ghassan Arnaout.*

Sour :
Jal El Bahr, Main Road.
Telephone & Fax: *(07) 348233/4 - 34883*
Management: *Mr. Rafic Nassar.*

Breakdown of assets 1997



Breakdown of income 1997



Transorient Bank Sal

nce sheet and contra accounts / ear end	LL Million 1996	LL Million 1997	LL Million 97/96	USD Million 1996	USD Million 1997	USD Million 97/96	% 1996	% 1997
ssets								
1. Cash and Central bank	52,493.128	73,228.982	39.5	33.823	47.956	41.8	11.2	12.5
2. Lebanese Treasury bills and other government bills	128,196.615	160,704.653	25.4	82.601	105.242	27.4	27.4	27.4
3. Bonds and financial instruments with fixed income	776.000	34,442.592	-	0.500	22.556	-	0.2	5.9
4. Marketable securities & fin.instruments with variable income	4,930.195	2,097.731	-57.5	3.177	1.374	-56.8	1.1	0.4
5. Banks and financial institutions	73,986.190	68,755.839	-7.1	47.672	45.027	-5.5	15.8	11.7
- Current accounts	*30,071.626*	*28,010.381*	*-6.9*	*19.376*	*18.343*	*-5.3*	*6.4*	*4.8*
- Time deposits	*43,914.564*	*40,745.458*	*-7.2*	*28.295*	*26.683*	*-5.7*	*9.4*	*7.0*
- Securities purchased under resale agreements	-	-	-	-	-	-	-	-
6. H.O. & branches, parent co., sister inst. & subsidiaries	-	-	-	-	-	-	-	-
- Current accounts	-	-	-	-	-	-	-	-
- Time deposits	-	-	-	-	-	-	-	-
7. Loans and advances to customers	174,714.753	210,153.171	20.3	112.574	137.625	22.3	37.4	35.9
- Commercial loans	*25,839.465*	*21,508.556*	*-16.8*	*16.649*	*14.085*	*-15.4*	*5.5*	*3.7*
- Other loans to customers	*136,429.461*	*175,078.130*	*28.3*	*87.906*	*114.655*	*30.4*	*29.2*	*29.9*
- Overdraft accounts	*340.227*	*1,739.050*	*411.1*	*0.219*	*1.139*	*419.5*	*0.1*	*0.3*
- Net debtor accts / creditor accts & cash collateral	-	-	-	-	-	-	-	-
- Loans & advances to related parties	*1,136.817*	*1,409.842*	*24.0*	*0.732*	*0.923*	*26.0*	*0.2*	*0.2*
- Doubtful loans	*10,968.783*	*10,417.593*	*-5.0*	*7.068*	*6.822*	*-3.5*	*2.3*	*1.8*
8. Bank acceptances	17,413.600	18,323.504	5.2	11.220	12.000	6.9	3.7	3.1
9. Investments and loans to related parties	-	-	-	-	-	-	-	-
10. Investments in related parties under equity method	-	-	-	-	-	-	-	-
- Non-financial	-	-	-	-	-	-	-	-
- Financial	-	-	-	-	-	-	-	-
11. Tangible fixed assets (including revaluation variance)	13,094.792	15,686.707	19.8	8.437	10.273	21.8	2.8	2.7
12. Intangible fixed assets	-	-	-	-	-	-	-	-
13. Other assets	54.135	54.860	1.3	0.035	0.036	3.0	0.0	0.0
14. Regularisation accounts & miscellaneous debtor accounts	1,276.939	2,093.000	63.9	0.823	1.371	66.6	0.3	0.4
15. Revaluation variance of other fixed assets	92.077	90.594	-1.6	0.059	0.059	0.0	0.0	0.0
16. Goodwill	-	-	-	-	-	-	-	-
otal assets *	**467,028.424**	**585,631.633**	**25.4**	**300.920**	**383.518**	**27.4**	**100.0**	**100.0**
*** After deduction of :**	**23,497.687**	**34,204.068**	**45.6**	**15.140**	**22.400**	**47.9**	**100.0**	**100.0**
- Provisions for doubtful debts	*13,368.478*	*19,225.494*	*43.8*	*8.614*	*12.590*	*46.2*	*56.9*	*56.2*
- Unrealised interest	*10,129.209*	*14,978.574*	*47.9*	*6.527*	*9.809*	*50.3*	*43.1*	*43.8*
17. Financing engagements recvd from fin. intermediaries	-	-	-	-	-	-	-	-
18. Engagements by signature recvd from fin. intermediaries	-	228.513	-	-	0.150	-	-	1.2
19. Securities sold under repurchase agreements	-	-	-	-	-	-	-	-
20. Other engagements received	-	19,087.500	-	-	12.500	-	-	98.8
Total contra accounts	**-**	**19,316.013**	**-**	**-**	**12.650**	**-**	**-**	**100.0**
iabilities and shareholders' equity								
1. Central bank	-	-	-	-	-	-	-	-
2. Banks and financial institutions	979.145	2,023.481	106.7	0.631	1.325	110.0	0.2	0.3
- Current accounts	*22.285*	*103.156*	*362.9*	*0.014*	*0.068*	*370.5*	*0.0*	*0.0*
- Time deposits	*956.860*	*1,920.325*	*100.7*	*0.617*	*1.258*	*104.0*	*0.2*	*0.3*
- Securities sold under repurchase agreements	-	-	-	-	-	-	-	-
3. H.O. & branches, parent co., sister inst. & subsidiaries	-	-	-	-	-	-	-	-
- Current accounts	-	-	-	-	-	-	-	-
- Time deposits	-	-	-	-	-	-	-	-
4. Deposits from customers	388,292.282	493,068.781	27.0	250.188	322.900	29.1	83.1	84.2
- Sight deposits	*47,568.342*	*48,569.321*	*2.1*	*30.650*	*31.807*	*3.8*	*10.2*	*8.3*
- Time deposits	*37,000.105*	*39,579.736*	*7.0*	*23.840*	*25.920*	*8.7*	*7.9*	*6.8*
- Saving accounts	*288,803.847*	*400,162.904*	*38.6*	*186.085*	*262.058*	*40.8*	*61.8*	*68.3*
- Net creditor accts / debtor accts & cash collateral	*21.650*	*139.147*	*542.7*	*0.014*	*0.091*	*553.2*	*0.0*	*0.0*
- Related parties accounts	*14,898.338*	*4,617.673*	*-69.0*	*9.599*	*3.024*	*-68.5*	*3.2*	*0.8*
5. Engagements by acceptances	17,413.600	18,323.504	5.2	11.220	12.000	6.9	3.7	3.1
6. Liabilities under financial instruments	4,656.000	4,702.899	1.0	3.000	3.080	2.7	1.0	0.8
- Certificates of deposits	*4,656.000*	*4,702.899*	*1.0*	*3.000*	*3.080*	*2.7*	*1.0*	*0.8*
- Debenture bonds	-	-	-	-	-	-	-	-
- Other liabilities under financial instruments	-	-	-	-	-	-	-	-
7. Other liabilities	6,143.801	4,897.497	-20.3	3.959	3.207	-19.0	1.3	0.8
8. Regularisation accounts & miscellaneous creditor accts	12,304.765	18,101.043	47.1	7.928	11.854	49.5	2.6	3.
9. Provisions for risks and charges	3,779.773	3,914.424	3.6	2.435	2.563	5.3	0.8	0.
10. Subordinated loans (or notes)	-	-	-	-	-	-	-	-
11. Revaluation variance accepted as supplementary capital	6,561.514	6,060.514	-7.6	4.228	3.969	-6.1	1.4	1.
12. Share capital and cash contribution	17,280.000	17,280.000	-	11.134	11.316	1.6	3.7	3.
13. Reserves for general banking risks	-	440.000	-	-	0.288	-	-	0.
14. Reserves and premiums and equity differences	2,397.482	9,085.467	279.0	1.545	5.950	285.2	0.5	1.
- Group share	-	-	-	-	-	-	-	-
- Minority share	-	-	-	-	-	-	-	-
15. Balance carried forward	-	-	-	-	-	-	-	-
- Group share	-	-	-	-	-	-	-	-
- Minority share	-	-	-	-	-	-	-	-
16. Net income (or loss) for the year	7,127.985	7,643.429	7.2	4.593	5.003	9.0	1.5	1.
- Group share	-	-	-	-	-	-	-	-
- Minority share	-	-	-	-	-	-	-	-
17. Revaluation variance of other fixed assets	92.077	90.594	-1.6	0.059	0.059	0.0	0.0	0
T... liabilities and shareholders' equity	**467,028.424**	**585,631.633**	**25.4**	**300.920**	**383.518**	**27.4**	**100.0**	**100**

Transorient Bank Sal

Contra accounts at year end	LL Million 1996	LL Million 1997	97/96	USD Million 1996	USD Million 1997	97/96	% 1996	% 199
18. Financing engagements issued	-	-	-	-	-	-	-	
- To financial intermediaries	-	-	-	-	-	-	-	
- To customers	-	-	-	-	-	-	-	
19. Engagements by signature issued	28,888.974	24,311.494	-15.8	18.614	15.921	-14.5	100.0	100
- To financial intermediaries	*14,517.768*	*10,064.727*	*-30.7*	*9.354*	*6.591*	*-29.5*	*50.3*	*41*
- To customers	*14,371.206*	*14,246.767*	*-0.9*	*9.260*	*9.330*	*0.8*	*49.7*	*58*
20. Securities purchased under resale agreements	-	-	-	-	-	-	-	
21. Other engagements issued	-	-	-	-	-	-	-	
22. Engagements on term financial instruments	-	-	-	-	-	-	-	
23. Fiduciary accounts & funds under management	-	-	-	-	-	-	-	
Total contra accounts	**28,888.974**	**24,311.494**	**-15.8**	**18.614**	**15.921**	**-14.5**	**100.0**	**100.**
Total footings	**495,917.398**	**609,943.127**	**23.0**	**319.534**	**399.439**	**25.0**	-	
Total risk weighted assets	***204,348.000***	***259,973.000***	***27.2***	***131.668***	***170.251***	***29.3***	-	
Cash contribution to capital	-	-	-	-	-	-	-	
Total L/C openings of the year	***83,605.000***	***75,382.000***	***-9.8***	***53.202***	***48.967***	***-8.0***	-	

Profit and loss account at year end	LL Million 1996	LL Million 1997	97/96	USD Million 1996	USD Million 1997	97/96	% 1996	% 199
1. Interest and similar income	**51,874.287**	**63,983.811**	**23.3**	**33.424**	**41.902**	**25.4**	**100.0**	**100.**
- Lebanese treasury bills	*18,641.778*	*25,246.251*	*35.4*	*12.011*	*16.533*	*37.6*	*35.9*	*39*
- Deposits & similar accounts in banks & fin. institutions	*4,690.638*	*6,357.339*	*35.5*	*3.022*	*4.163*	*37.8*	*9.0*	*9*
- Deposits in head office & branches, parent company & foreign sister financial institutions & subsidiaries	-	-	-	-	-	-	-	
- Bonds and financial instruments with fixed income	*1,334.638*	*1,452.964*	*8.9*	*0.860*	*0.952*	*10.6*	*2.6*	*2*
- Loans and advances to customers	*27,207.233*	*30,927.257*	*13.7*	*17.530*	*20.254*	*15.5*	*52.4*	*48*
- Loans and advances to related parties	-	-	-	-	-	-	-	
- Other interest and similar income	-	-	-	-	-	-	-	
2. Interest and similar charges	**31,568.886**	**40,853.112**	**29.4**	**20.341**	**26.754**	**31.5**	**100.0**	**100.**
- Deposits & similar accts from banks & fin. institutions	*153.489*	*283.763*	*84.9*	*0.099*	*0.186*	*87.9*	*0.5*	*0*
- Deposits from head office & branches, parent company & foreign sister financial institutions & subsidiaries	-	-	-	-	-	-	-	
- Deposits from customers and other creditor accounts	*30,062.537*	*39,709.950*	*32.1*	*19.370*	*26.005*	*34.3*	*95.2*	*97*
- Deposits from related parties	*1,228.010*	*560.350*	*-54.4*	*0.791*	*0.367*	*-53.6*	*3.9*	*1*
- Cash contribution to capital and subordinated loans	-	-	-	-	-	-	-	
- Certificates of deposits	*124.850*	*299.049*	*139.5*	*0.080*	*0.196*	*143.4*	*0.4*	*0*
- Bonds and financial instruments with fixed income	-	-	-	-	-	-	-	
- Other interest and similar charges	-	-	-	-	-	-	-	
3. Net allocation to provisions	**3,684.389**	**6,553.307**	**77.9**	**2.374**	**4.292**	**80.8**		
- Provisions for doubtful debts	*5,309.627*	*7,265.886*	*36.8*	*3.421*	*4.758*	*39.1*		
- Provisions for doubtdul debts no more required	*1,625.238*	*712.579*	*-56.2*	*1.047*	*0.467*	*-55.4*		
4. Net interest received	**16,621.012**	**16,577.392**	**-0.3**	**10.709**	**10.856**	**1.4**		
5. Income from marketable securities & financial instruments with variable income	**53.167**	**42.140**	**-20.7**	**0.034**	**0.028**	**-19.4**		
6. Net commissions	**6,204.959**	**7,235.066**	**16.6**	**3.998**	**4.738**	**18.5**		
- Commissions received	*6,620.978*	*7,743.105*	*16.9*	*4.266*	*5.071*	*18.9*		
- Commissions paid	*416.019*	*508.039*	*22.1*	*0.268*	*0.333*	*24.1*		
7. Profit on financial operations	372.928	545.030	46.1	0.240	0.357	48.5	100.0	100
- Marketable securities	-	-	-	-	-	-	-	
- Financial fixed assets	*158.321*	*58.335*	*-63.2*	*0.102*	*0.038*	*-62.6*	*42.5*	*10*
- Foreign exchange transactions	*214.607*	*486.695*	*126.8*	*0.138*	*0.319*	*130.5*	*57.5*	*89*
- Financial instruments	-	-	-	-	-	-	-	
8. Loss on financial operations	203.996	201.164	-1.4	0.131	0.132	0.2	100.0	100
- Marketable securities	-	-	-	-	-	-	-	
- Financial fixed assets	-	-	-	-	-	-	-	
- Foreign exchange transactions	-	-	-	-	-	-	-	
- Financial instruments	*203.996*	*201.164*	*-1.4*	*0.131*	*0.132*	*0.2*	*100.0*	*100*
9. Net profit or loss on financial operations	**168.932**	**343.866**	**103.6**	**0.109**	**0.225**	**106.9**		
10. Other operating income	**1,205.768**	**1,087.708**	**-9.8**	**0.777**	**0.712**	**-8.3**		
11. Other operating charges	**435.693**	**227.082**	**-47.9**	**0.281**	**0.149**	**-47.0**		
12. General operating expenses	**14,659.175**	**14,446.453**	**-1.5**	**9.445**	**9.461**	**0.2**	**100.0**	**100.**
- Staff expenses	*10,132.462*	*9,684.980*	*-4.4*	*6.529*	*6.342*	*-2.9*	*69.1*	*67*
- Other operating expenses	*4,526.713*	*4,761.473*	*5.2*	*2.917*	*3.118*	*6.9*	*30.9*	*33*
13. Allocation to prov. & depreciation of fixed assets	**972.626**	**1,455.121**	**49.6**	**0.627**	**0.953**	**52.1**		
14. Net allocation to prov. on financial fixed assets	-	-	-	-	-	-		
15. Net allocation to prov. on contra accounts	-	-	-	-	-	-		
16. Net income for the year - before taxes	**8,186.344**	**9,157.516**	**11.9**	**5.275**	**5.997**	**13.7**		
17. Net extraordinary income - before taxes	**0.099**	**-169.086**	-	**0.000**	**-0.111**	-		
- Extraordinary income	*0.099*	-	-	*0.000*	-	-		
- Extraordinary expenses	-	*169.086*	-	-	*0.111*	-		
18. Income tax	**1,058.457**	**1,345.000**	**27.1**	**0.682**	**0.881**	**29.2**		
19. Share in results of related cos. under equity method	-	-	-	-	-	-		
- Non-financial institutions	-	-	-	-	-	-		
- Financial institutions	-	-	-	-	-	-		
20. Net profit for the year - after taxes	**7,127.986**	**7,643.430**	**7.2**	**4.593**	**5.006**	**9.0**		
- Group share	-	-	-	-	-	-		
- Minority share	-	-	-	-	-	-		

Issued in 1999.

Transorient Bank Sal

Nationality : Lebanese.
Trade Register No. : 17122 Beirut.
Date of Establishment : November 1966.
List of Banks no. : 89.
Head Office (Temporarily) : Bauchrieh, Serail Street, Transorient Bank Sal Bldg.
Telephone : (01) 897706 - 881198 - 888630.
Telex : 44925-43947 LE TOBANK.
Telefax : (01) 897705.
P.O.Box : 11-6260.
Cable : TRANSORBANK.
Swift Code : TRANLBBX.
Activities : Commercial banking.
Auditors : Deloitte & Touche.
Solicitors : Mr. Charles Airut.

Founders : Mr. Hamed Baki, Mr. Farid Homsi, Mr. William Mitri, Mr. Riad Rizk, Mr. Abdul Rahman Azem.
Shareholders : Bank of Beirut 96%, Others 4%.
Board of Directors :
Mr. Adib S. Millet *Chairman*,
Me. Ahmad A. Kabbarah,
Mr. Gabriel M. Atallah.
Management :
Mr. Adib S. Millet *Chairman*,
Mr. Rached B. Ghanem *General Manager*,
Mr. Georges K. Karkabi *Assistant General Manager*,
Mr. Nabil K. Issa *Assistant General Manager*,
Mr. Jean M. Honein *Central Manager*.
Network
Local branches : *Bauchrieh, Bourj Hammoud, Ras Beirut, Sin El Fil, Achrafieh, Chiyah, Elyssar, Tripoli, Kfarakka, Jal El Dib, Jounieh, Mansourieh, Sour and Ain Remmaneh.*
Head of Correspondents & General Banking Divisions:
Mr. Khalil Abou Khalil *Internal Audit Department*,
Mr. Said Azzam *Chief Dealer*,
Me. Selim Eid *Secretary to the General Management*,
Mr. Joseph Moujaes *Human Resources Dept.*,
Mrs. Jocelyne Nassar *EDP*,
Mr. Antoine Samaha *Documentary Credit*,
Mr. Richard Sawan *Accounting*.

Correspondents :
Frankfurt *Bank of New York, Deutsche Bank, Commerzbank*, London *Midland Bank*, Milano *Banca Commerciale Italiana*, New York *The Chase Manhattan Bank, The Bank of New York*, Paris *Banque Banorabe, Banque Libanaise pour le Commerce*, Tokyo *The Bank of New York*, Torino *Istituto Bancario San Paolo Di Torino*, Toronto *The Bank of Nova Scotia*, Zurich *Union Bank of Switzerland*.

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Ain Remmaneh:
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Fax: *(01) 385341.*
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Bauchrieh Serail Street,
Transorient Bank Sal Bldg
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Telefax: *(01) 897753.*
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Bourj Hammoud :
Dora Blvd, Tchaghlassian Bldg.
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Telex : *42644 LE TOBANK.*
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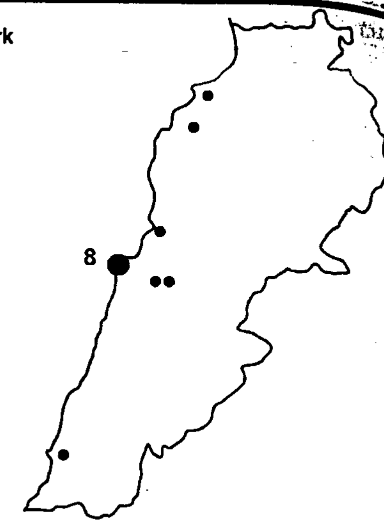
Telex : *40936 LE TOBANK.*
Fax : *(04) 920109.*
Management : *Mr. Gabriel Fattal (Regional Manager).*

Network



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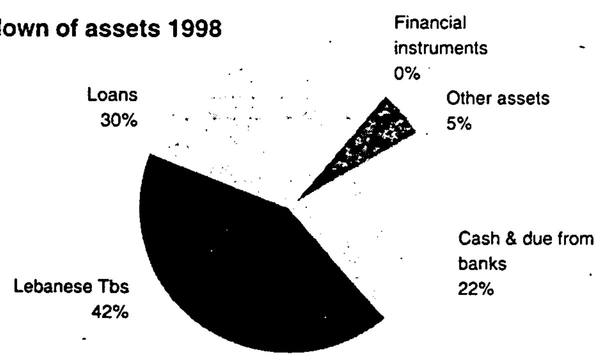
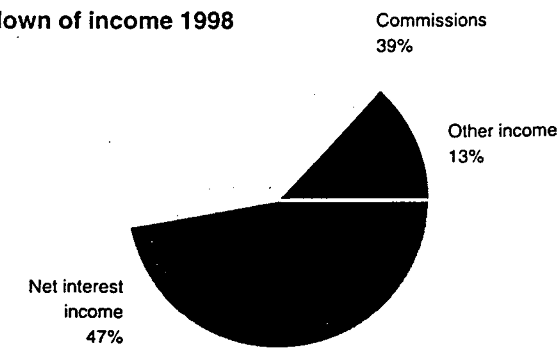
Main Road, Salamil Bldg.,
Telephone & Fax: *(04) 409693/4/5.*
Management: *Mr. Nassif Moussallem (Manager).*
Jounieh:
Ghadir, Bkerké main road.
Telephone: *(09) 639006/7/8/9.*
Management: *Mr. Paul Chammas (Manager).*
Kfarakka (El-Koura):
Telephone : *(06) 651516/7 - (03) 270610.*
Management: *Mr. Michel Malek (Manager).*
Tripoli:
Halim Abou Ezzeddine Street.
P.O.Box: *800.*
Telephone : *(06) 430270 - 430571.*
Telex: *41968 - 46034 LE TOBANK.*
Telefax : *(06) 441616.*
Management : *Mr. Ghassan Aranaout (Manager).*
Sour:
Jal El Bahr, Main Road.
Telephone & Fax: *(07) 348233/4 - 348832.*
Management: *Mr. Rafic Nassar (Manager).*

Breakdown of assets 1998



Breakdown of income 1998



Transorient Bank Sal

Balance sheet and contra accounts

At year end	LL Million 1997	LL Million 1998**	98/97	USD Million 1997	USD Million 1998	98/97	% 1997	% 1998
Assets								
1. Cash and Central bank	73,228.982	44,150.274	-39.7	47.956	29.277	-38.9	12.5	6.7
2. Lebanese Treasury bills and other government bills	160,704.653	277,411.752	72.6	105.242	183.960	74.8	27.4	42.2
3. Bonds and financial instruments with fixed income	34,442.592	-	-	22.556	-	-	5.9	-
4. Marketable securities & fin.instruments with variable income	2,097.731	1,280.212	-39.0	1.374	0.849	-38.2	0.4	0.2
5. Banks and financial institutions	68,755.839	87,220.453	26.9	45.027	57.838	28.5	11.7	13.3
- Current accounts	*28,010.381*	*22,429.467*	*-19.9*	*18.343*	*14.874*	*-18.9*	*4.8*	*3.4*
- Time deposits	*40,745.458*	*64,790.986*	*59.0*	*26.683*	*42.965*	*61.0*	*7.0*	*9.9*
- Securities purchased under resale agreements	-	-	-	-	-	-	-	-
6. H.O. & branches, parent co., sister inst. & subsidiaries	-	13,601.317	-	-	9.019	-	-	2.1
- Current accounts	-	*303.192*	-	-	*0.201*	-	-	*0.0*
- Time deposits	-	*13,298.125*	-	-	*8.818*	-	-	*2.0*
7. Loans and advances to customers	210,153.171	197,093.300	-6.2	137.625	130.698	-5.0	35.9	30.0
- Commercial loans	*21,508.556*	*8,746.826*	*-59.3*	*14.085*	*5.800*	*-58.8*	*3.7*	*1.3*
- Other loans to customers	*175,078.130*	*134,763.461*	*-23.0*	*114.655*	*89.366*	*-22.1*	*29.9*	*20.5*
- Overdraft accounts	*1,739.050*	*752.760*	*-56.7*	*1.139*	*0.499*	*-56.2*	*0.3*	*0.1*
- Net debtor accts / creditor accts & cash collateral	-	-	-	-	-	-	-	-
- Loans & advances to related parties	*1,409.842*	*971.539*	*-31.1*	*0.923*	*0.644*	*-30.2*	*0.2*	*0.1*
- Doubtful loans	*10,417.593*	*51,858.714*	*397.8*	*6.822*	*34.389*	*404.1*	*1.8*	*7.9*
8. Bank acceptances	18,323.504	15,118.142	-17.5	12.000	10.025	-16.5	3.1	2.3
9. Investments and loans to related parties	-	-	-	-	-	-	-	-
10. Investments in related parties under equity method	-	-	-	-	-	-	-	-
- Non-financial	-	-	-	-	-	-	-	-
- Financial	-	-	-	-	-	-	-	-
11. Tangible fixed assets (including revaluation variance)	15,686.707	18,432.698	17.5	10.273	12.223	19.0	2.7	2.8
12. Intangible fixed assets	-	-	-	-	-	-	-	-
13. Other assets	54.860	89.621	63.4	0.036	0.059	65.4	0.0	0.0
14. Regularisation accounts & miscellaneous debtor accounts	2,093.000	2,241.953	7.1	1.371	1.487	8.5	0.4	0.3
15. Revaluation variance of other fixed assets	90.594	89.467	-1.2	0.059	0.059	0.0	0.0	0.0
16. Goodwill	-	-	-	-	-	-	-	-
Total assets *	**585,631.633**	**656,729.189**	**12.1**	**383.518**	**435.497**	**13.6**	**100.0**	**100.0**
*** After deduction of :**	**34,204.068**	**54,706.516**	**59.9**	**22.400**	**36.278**	**62.0**	**100.0**	**100.0**
- Provisions for doubtful debts	*19,225.494*	*35,063.757*	*82.4*	*12.590*	*23.252*	*84.7*	*56.2*	*64.1*
- Unrealised interest	*14,978.574*	*19,642.759*	*31.1*	*9.809*	*13.026*	*32.8*	*43.8*	*35.9*
17. Financing engagements recvd from fin. intermediaries	-	-	-	-	-	-	-	-
18. Engagements by signature recvd from fin. intermediaries	228.513	2,785.512	-	0.150	1.847	-	1.2	15.0
19. Securities sold under repurchase agreements	-	-	-	-	-	-	-	-
20. Other engagements received	19,087.500	15,834.000	-17.0	12.500	10.500	-16.0	98.8	85.0
Total contra accounts	**19,316.013**	**18,619.512**	**-3.6**	**12.650**	**12.347**	**-2.4**	**100.0**	**100.0**
Liabilities and shareholders' equity								
1. Central bank	-	-	-	-	-	-	-	-
2. Banks and financial institutions	2,023.481	13,570.604	570.7	1.325	8.999	579.1	0.3	2.1
- Current accounts	*103.156*	*1,975.839*	-	*0.068*	*1.310*	-	*0.0*	*0.3*
- Time deposits	*1,920.325*	*11,594.765*	*503.8*	*1.258*	*7.689*	*511.4*	*0.3*	*1.8*
- Securities sold under repurchase agreements	-	-	-	-	-	-	-	-
3. H.O. & branches, parent co., sister inst. & subsidiaries	-	152.120	-	-	0.101	-	-	0.0
- Current accounts	-	*152.120*	-	-	*0.101*	-	-	*0.0*
- Time deposits	-	-	-	-	-	-	-	-
4. Deposits from customers	493,068.781	562,325.252	14.0	322.900	372.895	15.5	84.2	85.6
- Sight deposits	*48,569.321*	*50,309.788*	*3.6*	*31.807*	*33.362*	*4.9*	*8.3*	*7.7*
- Time deposits	*39,579.736*	*61,149.029*	*54.5*	*25.920*	*40.550*	*56.4*	*6.8*	*9.3*
- Saving accounts	*400,162.904*	*446,888.626*	*11.7*	*262.058*	*296.345*	*13.1*	*68.3*	*68.0*
- Net creditor accts / debtor accts & cash collateral	*139.147*	*190.817*	*37.1*	*0.091*	*0.127*	*38.9*	*0.0*	*0.0*
- Related parties accounts	*4,617.673*	*3,786.992*	*-18.0*	*3.024*	*2.511*	*-17.0*	*0.8*	*0.6*
5. Engagements by acceptances	18,323.504	15,118.142	-17.5	12.000	10.025	-16.5	3.1	2.3
6. Liabilities under financial instruments	4,702.899	-	-	3.080	-	-	0.8	[illegible]
- Certificates of deposits	*4,702.899*	-	-	*3.080*	-	-	*0.8*	[illegible]
- Debenture bonds	-	-	-	-	-	-	-	[illegible]
- Other liabilities under financial instruments	-	-	-	-	-	-	-	[illegible]
7. Other liabilities	4,897.497	3,625.097	-26.0	3.207	2.404	-25.0	0.8	0.6
8. Regularisation accounts & miscellaneous creditor accts	18,101.043	18,232.818	0.7	11.854	12.091	2.0	3.1	2.8
9. Provisions for risks and charges	3,914.424	4,274.022	9.2	2.563	2.834	10.6	0.7	0.[illegible]
10. Subordinated loans (or notes)	-	-	-	-	-	-	-	-
11. Revaluation variance accepted as supplementary capital	6,060.514	6,060.514	-	3.969	4.019	1.3	1.0	0.[illegible]
12. Share capital and cash contribution	17,280.000	17,280.000	-	11.316	11.459	1.3	3.0	2.[illegible]
13. Reserves for general banking risks	440.000	985.000	123.9	0.288	0.653	126.7	0.1	0.[illegible]
14. Reserves and premiums and equity differences	9,085.467	15,528.896	70.9	5.950	10.298	73.1	1.6	2.[illegible]
- Group share	-	-	-	-	-	-	-	-
- Minority share	-	-	-	-	-	-	-	-
15. Balance carried forward	-	-	-	-	-	-	-	-
- Group share	-	-	-	-	-	-	-	-
- Minority share	-	-	-	-	-	-	-	-
16. Net income (or loss) for the year	7,643.429	-512.742	-106.7	5.006	-0.340	-106.8	1.3	-0[illegible]
- Group share	-	-	-	-	-	-	-	-
- Minority share	-	-	-	-	-	-	-	-
17. Revaluation variance of other fixed assets	90.594	89.466	-1.2	0.059	0.059	-	0.0	0[illegible]
Total liabilities and shareholders' equity	**585,631.633**	**656,729.189**	**12.1**	**383.518**	**435.497**	**13.6**	**100.0**	**100[illegible]**

...ffiliated with Bank of Beirut Sal in 1998.

Transorient Bank Sal

Contra accounts at year end	LL Million 1997	LL Million 1998**	98/97	USD Million 1997	USD Million 1998	98/97	% 1997	% 199
18. Financing engagements issued	-	-	-	-	-	-	-	
- To financial intermediaries	-	-	-	-	-	-	-	
- To customers	-	-	-	-	-	-	-	
19. Engagements by signature issued	24,311.494	19,449.533	-20.0	15.921	12.898	-19.0	100.0	100
- To financial intermediaries	*10,064.727*	*4,933.732*	*-51.0*	*6.591*	*3.272*	*-50.4*	*41.4*	*25.*
- To customers	*14,246.767*	*14,515.801*	*1.9*	*9.330*	*9.626*	*3.2*	*58.6*	*74.*
20. Securities purchased under resale agreements	-	-	-	-	-	-	-	
21. Other engagements issued	-	-	-	-	-	-	-	
22. Engagements on term financial instruments	-	-	-	-	-	-	-	
23. Fiduciary accounts & funds under management	-	-	-	-	-	-	-	
Total contra accounts	**24,311.494**	**19,449.533**	**-20.0**	**15.921**	**12.898**	**-19.0**	**100.0**	**100.**
Total footings	**609,943.127**	**676,178.722**	**10.9**	**399.439**	**448.394**	**12.3**	**-**	
Total risk weighted assets	***259,973.000***	***249,483.000***	***-4.0***	***170.251***	***165.440***	***-2.8***	**-**	
Cash contribution to capital	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
Total L/C openings of the year	***75,382.000***	***55,271.216***	***-26.7***	***48.967***	***36.454***	***-25.6***	**-**	

Profit and loss account at year end	LL Million 1997	LL Million 1998	98/97	USD Million 1997	USD Million 1998	98/97	% 1997	% 199
1. Interest and similar income	**63,983.811**	**72,645.629**	**13.5**	**41.902**	**48.173**	**15.0**	**100.0**	**100.**
- Lebanese treasury bills	*25,246.251*	*31,231.928*	*23.7*	*16.533*	*20.711*	*25.3*	*39.5*	*43.*
- Deposits & similar accounts in banks & fin. institutions	*6,357.339*	*8,373.373*	*31.7*	*4.163*	*5.553*	*33.4*	*9.9*	*11.*
- Deposits in head office & branches, parent company & foreign sister financial institutions & subsidiaries	-	-	-	-	-	-	-	
- Bonds and financial instruments with fixed income	*1,452.964*	*1,779.435*	*22.5*	*0.952*	*1.180*	*24.0*	*2.3*	*2.*
- Loans and advances to customers	*30,927.257*	*31,260.893*	*1.1*	*20.254*	*20.730*	*2.4*	*48.3*	*43.*
- Loans and advances to related parties	-	-	-	-	-	-	-	
- Other interest and similar income	-	-	-	-	-	-	-	
2. Interest and similar charges	**40,853.112**	**47,897.236**	**17.2**	**26.754**	**31.762**	**18.7**	**100.0**	**100.**
- Deposits & similar accts from banks & fin. institutions	*283.763*	*466.727*	*64.5*	*0.186*	*0.310*	*66.6*	*0.7*	*1.*
- Deposits from head office & branches, parent company & foreign sister financial institutions & subsidiaries	-	-	-	-	-	-	-	
- Deposits from customers and other creditor accounts	*39,709.950*	*46,789.915*	*17.8*	*26.005*	*31.028*	*19.3*	*97.2*	*97.*
- Deposits from related parties	*560.350*	*466.915*	*-16.7*	*0.367*	*0.310*	*-15.6*	*1.4*	*1.*
- Cash contribution to capital and subordinated loans	-	-	-	-	-	-	-	
- Certificates of deposits	*299.049*	*173.679*	*-41.9*	*0.196*	*0.115*	*-41.2*	*0.7*	*0.*
- Bonds and financial instruments with fixed income	-	-	-	-	-	-	-	
- Other interest and similar charges	-	-	-	-	-	-	-	
3. Net allocation to provisions	**6,553.307**	**17,518.233**	**167.3**	**4.292**	**11.617**	**170.7**		
- Provisions for doubtful debts	*7,265.886*	*22,329.004*	*207.3*	*4.758*	*14.807*	*211.2*		
- Provisions for doubtful debts no more required	*712.579*	*4,810.771*	*575.1*	*0.467*	*3.190*	*583.6*		
4. Net interest received	**16,577.392**	**7,230.160**	**-56.4**	**10.856**	**4.795**	**-55.8**		
5. Income from marketable securities & financial instruments with variable income	**42.140**	**166.139**	**294.3**	**0.028**	**0.110**	**299.2**		
6. Net commissions	**7,235.066**	**6,026.404**	**-16.7**	**4.738**	**3.996**	**-15.7**		
- Commissions received	*7,743.105*	*6,482.189*	*-16.3*	*5.071*	*4.299*	*-15.2*		
- Commissions paid	*508.039*	*455.785*	*-10.3*	*0.333*	*0.302*	*-9.2*		
7. Profit on financial operations	486.695	538.988	10.7	0.319	0.357	12.1	100.0	100.
- Marketable securities	-	-	-	-	-	-	-	
- Financial fixed assets	-	-	-	-	-	-	-	
- Foreign exchange transactions	*486.695*	*538.988*	*10.7*	*0.319*	*0.357*	*12.1*	*100.0*	*100.*
- Financial instruments	-	-	-	-	-	-	-	
8. Loss on financial operations	142.829	340.074	138.1	0.094	0.226	141.1	100.0	100.
- Marketable securities	-	-	-	-	-	-	-	
- Financial fixed assets	*142.829*	*340.074*	*138.1*	*0.094*	*0.226*	*141.1*	*100.0*	*100.*
- Foreign exchange transactions	-	-	-	-	-	-	-	
- Financial instruments	-	-	-	-	-	-	-	
9. Net profit or loss on financial operations	**343.866**	**198.914**	**-42.2**	**0.225**	**0.132**	**-41.4**		
10. Other operating income	**1,087.708**	**2,002.948**	**84.1**	**0.712**	**1.328**	**86.5**		
11. Other operating charges	**227.082**	**349.868**	**54.1**	**0.149**	**0.232**	**56.0**		
12. General operating expenses	**14,446.453**	**14,140.503**	**-2.1**	**9.461**	**9.377**	**-0.9**	**100.0**	**100.**
- Staff expenses	*9,684.980*	*9,486.003*	*-2.1*	*6.342*	*6.290*	*-0.8*	*67.0*	*67.*
- Other operating expenses	*4,761.473*	*4,654.500*	*-2.2*	*3.118*	*3.087*	*-1.0*	*33.0*	*32.9*
13. Allocation to prov. & depreciation of fixed assets	**1,455.121**	**1,648.816**	**13.3**	**0.953**	**1.093**	**14.7**		
14. Net allocation to prov. on financial fixed assets	**-**	**-**	**-**	**-**	**-**	**-**		
15. Net allocation to prov. on contra accounts	**-**	**-**	**-**	**-**	**-**	**-**		
16. Net income for the year - before taxes	**9,157.516**	**-514.622**	**-**	**5.997**	**-0.341**	**-**		
17. Net extraordinary income - before taxes	**-169.086**	**1.880**	**-**	**-0.111**	**0.001**	**-**		
- Extraordinary income	-	*1.880*	-	-	*0.001*	-		
- Extraordinary expenses	*169.086*	-	-	*0.111*	-	-		
18. Income tax	**1,345.000**	**-**	**-**	**0.881**	**-**	**-**		
19. Share in results of related cos. under equity method	**-**	**-**	**-**	**-**	**-**	**-**		
- Non-financial institutions	-	-	-	-	-	-		
- Financial institutions	-	-	-	-	-	-		
20. Net profit for the year - after taxes	**7,643.430**	**-512.742**	**-**	**5.006**	**-0.340**	**-**		
- Group share	-	-	-	-	-	-		
- Minority share	-	-	-	-	-	-		

** Balance sheet is given for information only since figures are consolidated with Bank of Beirut Sal in 1998.
P&L account is not consolidated since merger took place a week before year end 1998.

Issued in 2000.

Transorient Bank Sal

Nationality : Lebanese.
Trade Register No. : 17122 Beirut.
Date of Establishment : November 1966.
List of Banks no. : 89.
Head Office (Temporarily) : Bauchrieh, Serail Street, Transorient Bank Sal Bldg.
Telephone : (01) 897706 - 881198 - 888630. .
Telex : 44925-43947 LE TOBANK.
Telefax : (01) 897705.
P.O.Box : 11-6260.
Cable : TRANSORBANK.
Swift Code : TRANLBBX.
Activities : Commercial banking.
Auditors : Deloite & Touche.
Solicitors : Mr. Charles Airut.

Founders : Mr. Hamed Baki, Mr. Farid Homsi, Mr. William Mitri, Mr. Riad Rizk, Mr. Abdul Rahman Azem.

Shareholders :
Bank of Beirut 96%, Others 4%.

Board of Directors :
Mr. Adib S. Millet *Chairman*,
Me. Ahmad A. Kabbarah,
Mr. Gabriel M. Atallah.

Management : Mr. Adib S. Millet *Chairman*, Mr. Rached B. Ghanem *General Manager*,
Mr. Georges K. Karkabi
Assistant General Manager,
Mr. Nabil K. Issa *Assistant General Manager*, Mr. Jean M. Honein *Central Manager*.

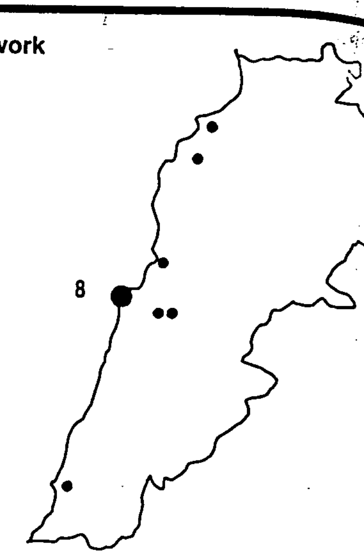
Network
Local branches : *Bauchrieh, Bourj Hammoud, Ras Beirut, Sin El Fil , Achrafieh, Chiyah, Elyssar, Tripoli, Kfarakka, Jal El Dib, Jounieh, Mansourieh, Sour et Ain Remmaneh.*

Correspondents :
Frankfurt *Bank of New York*,
Deutsche Bank, Commerzbank,
London *Midland Bank*,
Milano *BCI*,
New York *Chase Manhattan Bank*,
Bank of New York,
Paris *Banque Banorabe, BLC*,
Tokyo *Bank of New York*,
Torino *Istituto Bancario San Paolo Di Torino*,
Toronto *Bank of Nova Scotia*,
Zurich *UBS*.

Head of Correspondents & General Banking Divisions:
Mr. Khalil Abou Khalil
Internal Audit Department,
Mr. Said Azzam *Chief Dealer*,
Me. Selim Eid
Secretary to the General Management,
Mr. Joseph Moujaes *Human Resources Dept.*,
Mrs. Jocelyne Nassar *EDP*,
Mr. Antoine Samaha *Doc. Credit*,
Mr. Richard Sawan *Accounting*.

Branches
Achrafieh:
Independance Street, Sassine Square.
Telephone ; *(01) 204668/9 - 204671 - 337765.*
Fax : *(01) 204668.*
Telex :*41384 LE TOBANK.*
Management : *Mr. Pierre Mouawad (Acting Manager).*
Ain Remmaneh:
Camille Chamoun Blvd, Ghannoum Street.
Telephone: *(01) 385342/3/4.*
Fax: *(01) 385341.*
Management: *Mr. Michel Chahine (Manager).*
Bauchrieh:
Bauchrieh Serail Street,
Transorient Bank Sal Bldg.
Telephone: *(01) 897750/1/2/3.*
Telefax: *(01) 897753.*
Telex: *43685 LE TOBANK.*
Management : *Mr. Kevork Kechichian (Manager)*
Bourj Hammoud :
Dora Blvd, Tchaghlassian Bldg.
Telephone : *(01) 269221 - 263755.*
Telex : *42644 LE TOBANK.*
Fax : *(01) 269401.*
Management : *Mr. Ghassan Bou Chahine (Manager).*
Chiyah:
Chiah Blvd. Ghobeiri Center, Ghobeiri.
Telephone & Fax: *(01) 552481/2/0.*
Management : *Mr. Mohammad Abboud (Manager)*
Jal El Dib:
Jal El Dib, Main Road, Near Jal El Dib Square.
Telephone: *(04) 523624/5 - (03) 372337.*
Management: *Mr. Pierre Zahr (Manager).*
Ras Beirut:
Mrs Curie Street, Minkara Center,
Near Bristol Hotel.
Telephone : *(01) 350168/9 - 739800.*
Telex: *21372 LE TOBANK - 22315 TOBEX LE.*
Telefax : *(01) 349935.*
Management : *Mr. Bassem Arasoghli (Acting Manager).*
Sin El Fil:
Souad Daaboul Bldg. Horch Tabet,
Near St. Rita Church.
Telephone : *(01) 481773 - 500306 - 496915 - 481874.*
Telex : *40042 TOBANK LE.*
Fax : *(01) 500352.*
Management : *Mr. Joseph Assily (Manager).*
Elyssar:
Mazraat Yachouh, Elyssar Main Road.
Telephone : *(04) 920105/6/7/8.*
Telex : *40936 LE TOBANK.*
Fax : *(04) 920109.*
Management : *Mr. Gabriel Fattal (Regional Manager).*

Network



Mansourieh:
Main Road, Salamil Bldg.
Telephone & Fax: *(04) 409693/4/5.*
Management: *Mr. Nassif Moussallem (Manager*
Jounieh: Ghadir, Bkerké Main Road.
Telephone: *(09) 639006/7/8/9.*
Management: *Mr. Paul Chammas (Manager).*
Kfarakka (El-Koura):
Telephone : *(06) 651516/7 - (03) 270610.*
Management: *Mr. Michel Malek (Manager).*
Tripoli:
Halim Abou Ezzeddine Street.
P.O.Box: *800.*
Telephone : *(06) 430270 - 430571.*
Telex: *41968 - 46034 LE TOBANK.*
Telefax : *(06) 441616.*
Management : *Mr. Ghassan Arnaout (Manager,*
Sour:
Jal El Bahr, Main Road.
Telephone & Fax: *(07) 348233/4 - 348832.*
Management: *Mr. Rafic Nassar (Manager).*

Transorient Bank Sal

ance sheet and contra accounts	LL Million			USD Million			%	
ear end	1998	1999	99/98	1998	1999	99/98	1998	1999
sets								
1. Cash and Central bank	44,150.274	-	-	29.277	-	-	6.7	-
2. Lebanese Treasury bills and other government bills	277,411.752	-	-	183.960	-	-	42.2	-
3. Bonds and financial instruments with fixed income	-	-	-	-	-	-	-	-
4. Marketable securities & fin.instruments with variable income	1,280.212	-	-	0.849	-	-	0.2	-
5. Banks and financial institutions	87,220.453	-	-	57.838	-	-	13.3	-
- Current accounts	*22,429.467*	-	-	*14.874*	-	-	*3.4*	-
- Time deposits	*64,790.986*	-	-	*42.965*	-	-	*9.9*	-
- Securities purchased under resale agreements	-	-	-	-	-	-	-	-
6. H.O. & branches, parent co., sister inst. & subsidiaries	13,601.317	-	-	9.019	-	-	2.1	-
- Current accounts	*303.192*	-	-	*0.201*	-	-	*0.0*	-
- Time deposits	*13,298.125*	-	-	*8.818*	-	-	*2.0*	-
7. Loans and advances to customers	197,093.300	-	-	130.698	-	-	30.0	-
*- Commercial loans ***	*8,746.826*	-	-	*5.800*	-	-	*1.3*	-
*- Other loans to customers ***	*134,763.461*	-	-	*89.366*	-	-	*20.5*	-
*- Overdraft accounts ***	*752.760*	-	-	*0.499*	-	-	*0.1*	-
- Net debtor accts / creditor accts & cash collateral	-	-	-	-	-	-	-	-
- Loans & advances to related parties	*971.539*	-	-	*0.644*	-	-	*0.1*	-
- Doubtful loans	*51,858.714*	-	-	*34.389*	-	-	*7.9*	-
8. Bank acceptances	15,118.142	-	-	10.025	-	-	2.3	-
9. Investments and loans to related parties	-	-	-	-	-	-	-	-
10. Investments in related parties under equity method	-	-	-	-	-	-	-	-
- Non-financial	-	-	-	-	-	-	-	-
- Financial	-	-	-	-	-	-	-	-
11. Tangible fixed assets (including revaluation variance)	18,432.698	-	-	12.223	-	-	2.8	-
12. Intangible fixed assets	-	-	-	-	-	-	-	-
13. Other assets	89.621	-	-	0.059	-	-	0.0	-
14. Regularisation accounts & miscellaneous debtor accounts	2,241.953	-	-	1.487	-	-	0.3	-
15. Revaluation variance of other fixed assets	89.467	-	-	0.059	-	-	0.0	-
16. Goodwill	-	-	-	-	-	-	-	-
Total assets *	**656,729.189**	**-**	**-**	**435.497**	**-**	**-**	**100.0**	**-**
*** After deduction of :**	**54,706.516**	**-**	**-**	**36.278**	**-**	**-**	**100.0**	**-**
- Provisions for doubtful debts	35,063.757	-	-	23.252	-	-	64.1	-
- Unrealised interest	19,642.759	-	-	13.026	-	-	35.9	-
of which unrealised interest on substandard loans	-	-	-	-	-	-	-	-
*** of which substandard loans*	-	-	-	-	-	-	-	-
17. Financing engagements recvd from fin. intermediaries	-	-	-	-	-	-	-	-
18. Engagements by signature recvd from fin. intermediaries	2,785.512	-	-	1.847	-	-	15.0	-
19. Securities sold under repurchase agreements	-	-	-	-	-	-	-	-
20. Other engagements received	15,834.000	-	-	10.500	-	-	85.0	-
Total contra accounts	**18,619.512**	**-**	**-**	**12.347**	**-**	**-**	**100.0**	**-**
Liabilities and shareholders' equity								
1. Central bank	-	-	-	-	-	-	-	-
2. Banks and financial institutions	13,570.604	-	-	8.999	-	-	2.1	-
- Current accounts	*1,975.839*	-	-	*1.310*	-	-	*0.3*	-
- Time deposits	*11,594.765*	-	-	*7.689*	-	-	*1.8*	-
- Securities sold under repurchase agreements	-	-	-	-	-	-	-	-
3. H.O. & branches, parent co., sister inst. & subsidiaries	152.120	-	-	0.101	-	-	0.0	-
- Current accounts	*152.120*	-	-	*0.101*	-	-	*0.0*	-
- Time deposits	-	-	-	-	-	-	-	-
4. Deposits from customers	562,325.252	-	-	372.895	-	-	85.6	-
- Sight deposits	*50,309.788*	-	-	*33.362*	-	-	*7.7*	-
- Time deposits	*61,149.029*	-	-	*40.550*	-	-	*9.3*	-
- Saving accounts	*446,888.626*	-	-	*296.345*	-	-	*68.0*	-
- Net creditor accts / debtor accts & cash collateral	*190.817*	-	-	*0.127*	-	-	*0.0*	-
- Related parties accounts	*3,786.992*	-	-	*2.511*	-	-	*0.6*	-
5. Engagements by acceptances	15,118.142	-	-	10.025	-	-	2.3	-
6. Liabilities under financial instruments	-	-	-	-	-	-	-	-
- Certificates of deposits	-	-	-	-	-	-	-	-
- Debenture bonds	-	-	-	-	-	-	-	-
- Other liabilities under financial instruments	-	-	-	-	-	-	-	-
7. Other liabilities	3,625.097	-	-	2.404	-	-	0.6	-
8. Regularisation accounts & miscellaneous creditor accts	18,232.818	-	-	12.091	-	-	2.8	-
9. Provisions for risks and charges	4,274.022	-	-	2.834	-	-	0.7	-
10. Subordinated loans (or notes)	-	-	-	-	-	-	-	-
11. Revaluation variance accepted as supplementary capital	6,060.514	-	-	4.019	-	-	0.9	-
12. Share capital and cash contribution	17,280.000	-	-	11.459	-	-	2.6	-
13. Reserves for general banking risks	985.000	-	-	0.653	-	-	0.1	-
14. Reserves and premiums and equity differences	15,528.896	-	-	10.298	-	-	2.4	-
- Group share	-	-	-	-	-	-	-	-
- Minority share	-	-	-	-	-	-	-	-
15. Balance carried forward	-	-	-	-	-	-	-	-
- Group share	-	-	-	-	-	-	-	-
- Minority share	-	-	-	-	-	-	-	-
16. Net income (or loss) for the year	-512.742	-	-	-0.340	-	-	-0.1	-
- Group share	-	-	-	-	-	-	-	-
- Minority share	-	-	-	-	-	-	-	-
17. Revaluation variance of other fixed assets	89.466	-	-	0.059	-	-	0.0	-
Total liabilities and shareholders' equity	**656,729.189**	**-**	**-**	**435.497**	**-**	**-**	**100.0**	**-**

Balance sheet is given for information only since figures are consolidated with Bank of Beirut Sal.

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ontra accounts t year end	LL Million 1998	1999	99/98	USD Million 1998	1999	99/98	% 1998	1999
18. Financing engagements issued	-	-	-	-	-	-	-	-
- To financial intermediaries	-	-	-	-	-	-	-	-
- To customers	-	-	-	-	-	-	-	-
19. Engagements by signature issued	19,449.533	-	-	12.898	-	-	100.0	-
- To financial intermediaries	*4,933.732*	-	-	*3.272*	-	-	*25.4*	-
- To customers	*14,515.801*	-	-	*9.626*	-	-	*74.6*	-
20. Securities purchased under resale agreements	-	-	-	-	-	-	-	-
21. Other engagements issued	-	-	-	-	-	-	-	-
22. Engagements on term financial instruments	-	-	-	-	-	-	-	-
23. Fiduciary accounts & funds under management	-	-	-	-	-	-	-	-
Total contra accounts	**19,449.533**	-	-	**12.898**	-	-	**100.0**	-
Total footings	**676,178.722**	-	-	**448.394**	-	-	-	-
Total risk weighted assets	***249,483.000***	-	-	***165.440***	-	-	-	-
Cash contribution to capital	-	-	-	-	-	-	-	-
Total L/C openings of the year	***55,271.216***	-	-	***36.454***	-	-	-	-

Profit and loss account at year end	LL Million 1998	1999	99/98	USD Million 1998	1999	99/98	% 1998	1999
1. Interest and similar income	**72,645.629**	-	-	**48.173**	-	-	100.0	-
- Lebanese treasury bills	*31,231.928*	-	-	*20.711*	-	-	*43.0*	-
- Deposits & similar accounts in banks & fin. institutions	*8,373.373*	-	-	*5.553*	-	-	*11.5*	-
- Deposits in head office & branches, parent company & foreign sister financial institutions & subsidiaries	-	-	-	-	-	-	-	-
- Bonds and financial instruments with fixed income	*1,779.435*	-	-	*1.180*	-	-	*2.4*	-
- Loans and advances to customers	*31,260.893*	-	-	*20.730*	-	-	*43.0*	-
- Loans and advances to related parties	-	-	-	-	-	-	-	-
- Other interest and similar income	-	-	-	-	-	-	-	-
2. Interest and similar charges	**47,897.236**	-	-	**31.762**	-	-	**100.0**	-
- Deposits & similar accts from banks & fin. institutions	*466.727*	-	-	*0.310*	-	-	*1.0*	-
- Deposits from head office & branches, parent company & foreign sister financial institutions & subsidiaries	-	-	-	-	-	-	-	-
- Deposits from customers and other creditor accounts	*46,789.915*	-	-	*31.028*	-	-	*97.7*	-
- Deposits from related parties	*466.915*	-	-	*0.310*	-	-	*1.0*	-
- Cash contribution to capital and subordinated loans	-	-	-	-	-	-	-	-
- Certificates of deposits	*173.679*	-	-	*0.115*	-	-	*0.4*	-
- Bonds and financial instruments with fixed income	-	-	-	-	-	-	-	-
- Other interest and similar charges	-	-	-	-	-	-	-	-
3. Net allocation to provisions	**17,518.233**	-	-	**11.617**	-	-		
- Provisions for doubtful debts	*22,329.004*	-	-	*14.807*	-	-		
- Provisions for doubtful debts no more required	*4,810.771*	-	-	*3.190*	-	-		
4. Net interest received	**7,230.160**	-	-	**4.795**	-	-		
5. Income from marketable securities & financial instruments with variable income	**166.139**	-	-	**0.110**	-	-		
6. Net commissions	**6,026.404**	-	-	**3.996**	-	-		
- Commissions received	*6,482.189*	-	-	*4.299*	-	-		
- Commissions paid	*455.785*	-	-	*0.302*	-	-		
7. Profit on financial operations	538.988	-	-	0.357	-	-	100.0	-
- Marketable securities	-	-	-	-	-	-	-	-
- Financial fixed assets	-	-	-	-	-	-	-	-
- Foreign exchange transactions	*538.988*	-	-	*0.357*	-	-	*100.0*	-
- Financial instruments	-	-	-	-	-	-	-	-
8. Loss on financial operations	340.074	-	-	0.226	-	-	100.0	-
- Marketable securities	-	-	-	-	-	-	-	-
- Financial fixed assets	*340.074*	-	-	*0.226*	-	-	*100.0*	-
- Foreign exchange transactions	-	-	-	-	-	-	-	-
- Financial instruments	-	-	-	-	-	-	-	-
9. Net profit or loss on financial operations	**198.914**	-	-	**0.132**	-	-		
10. Other operating income	**2,002.948**	-	-	**1.328**	-	-		
11. Other operating charges	**349.868**	-	-	**0.232**	-	-		
12. General operating expenses	**14,140.503**	-	-	**9.377**	-	-	**100.0**	-
- Staff expenses	*9,486.003*	-	-	*6.290*	-	-	*67.1*	-
- Other operating expenses	*4,654.500*	-	-	*3.087*	-	-	*32.9*	
13. Allocation to prov. & depreciation of fixed assets	**1,648.816**	-	-	**1.093**	-	-		
14. Net allocation to prov. on financial fixed assets	-	-	-	-	-	-		
15. Net allocation to prov. on contra accounts	-	-	-	-	-	-		
16. Net income for the year - before taxes	**-514.622**	-	-	**-0.341**	-	-		
17. Net extraordinary income - before taxes	**1.880**	-	-	**0.001**	-	-		
- Extraordinary income	*1.880*	-	-	*0.001*	-	-		
- Extraordinary expenses	-	-	-	-	-	-		
18. Income tax	-	-	-	-	-	-		
19. Share in results of related cos. under equity method	-	-	-	-	-	-		
- Non-financial institutions	-	-	-	-	-	-		
- Financial institutions	-	-	-	-	-	-		
20. Net profit for the year - after taxes	**-512.742**	-	-	**-0.340**	-	-		
- Group share	-	-	-	-	-	-		
- Minority share	-	-	-	-	-	-		

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P&L account is not consolidated since merger took place a week before year end 1998.