BANQUE DU LIBAN

Basic Circular No 105

To Banks, Financial Institutions and Auditors

Attached is a copy of Basic Decision No 9371 of July 7, 2006, relating to the accounting treatment of goodwill resulting from mergers.

Beirut, July 7, 2006

The Governor of the Banque du Liban

Riad Toufic Salamé

Basic Decision No 9371

Accounting Treatment of Goodwill Resulting from Mergers

The Governor of the Banque du Liban,

Pursuant to the Code of Money and Credit, notably Articles 146, 174 and 179 thereof; and

Pursuant to the Decision of the Central Council of the Banque du Liban, taken in its meeting of June 14, 2006,

Decides the following:

Article 1:

In accordance with International Financial Reporting Standards, banks and financial institutions must refrain from depreciating, over specific periods, the goodwill resulting from future merger operations. Instead, they must submit this goodwill to a periodic impairment test, at least once a year, and record the value of depreciation, if any, in the profit and loss account.

Article 2:

Banks and financial institutions must, in coordination with their auditors, take all necessary measures to carry out the aforementioned impairment test, including the distribution, at the merger date, of the goodwill resulting from future merger operations over cash-generating units.

Article 3:

Lebanese banks whose financial positions comprise a "goodwill" item, resulting from merger operations prior to the issuance date of this Decision, must adopt the following measures and procedures:

1- Stop depreciating the goodwill as of the 2006 cycle, submit it to the impairment test mentioned in Articles 1 and 2 above, and perform the necessary accounting entries and adjustments, in accordance with International Financial Reporting Standards and in cooperation with their auditors.

2- Concerning banks that received soft loans from the Banque du Liban for previous merger operations, the spread between the present value of net returns on soft loans and the value of the goodwill resulting from the merger operation shall be considered as part of the impairment test.

3- In case the above-mentioned impairment test cannot be performed, banks must amortize the entire goodwill balance, either from retained earnings or from the profit and loss account, in accordance with the International Financial Reporting Standards relating to the treatment of previous accounting errors.

Article 4:

In addition to the provisions of this Decision, and unless stipulated otherwise, banks must abide by International Financial Reporting Standards relating to goodwill accounting.

Article 5:

Auditors of banks and financial institutions must incorporate in their annual reports on financial statements all relevant disclosures, including the details and results of the impairment test.

Article 6:

This Decision shall come into effect upon its issuance.

Article 7:

This Decision shall be published in the Official Gazette

Beirut, July 7, 2006

The Governor of the Banque du Liban

Riad Toufic Salamé