

Independent Auditors' Report to the Shareholders of Bank Audi sal - Audi Saradar Group



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We have audited the accompanying consolidated financial statements of Bank Audi sal – Audi Saradar Group (the Bank) and its subsidiaries (the Group), which comprise the consolidated balance sheet as of 31 December 2006 and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

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

Ernst & Young

Semaan, Gholam & Co

29 March 2007
Beirut, Lebanon

Consolidated Income Statement

31 December 2006

	Notes	2006 LL (000)	2005 LL (000)
Interest and similar income		1,248,216,409	995,149,482
Lebanese and other governmental Treasury bills and bonds		297,778,861	218,690,101
Deposits and similar accounts with banks and financial institutions		580,088,584	488,807,072
Bonds and financial instruments with fixed income		57,519,222	41,719,054
Loans and advances to customers		296,922,512	223,595,368
Loans and advances to related parties		13,577,938	9,910,775
Other interest and similar income		2,329,292	12,427,112
Interest expense and similar charges		(809,809,757)	(675,039,524)
Deposits and similar accounts from banks and financial institutions		(16,172,220)	(37,114,881)
Deposits from customers and other creditor balances		(758,103,797)	(610,853,787)
Deposits from related parties		(18,199,160)	(3,114,974)
Certificates of deposits		(16,205,625)	(16,205,625)
Other interest and similar charges		(1,128,955)	(7,750,257)
Net provisions less recoveries on doubtful loans		(24,670,489)	(31,646,911)
Provisions for loans and advances		(41,755,944)	(59,154,977)
Recovery of provisions for loans and advances		17,085,455	27,508,066
Net interest income		413,736,163	288,463,047
Revenues from shares, securities and financial assets with variable income		12,758,923	6,887,010
Net commissions		105,975,041	96,988,889
Commissions received		142,158,920	115,166,566
Commissions paid		(36,183,879)	(18,177,677)
Profit from financial operations		150,196,434	87,317,390
Profit from trading and non-trading investments		33,188,421	12,348,957
Profit on foreign exchange operations		27,064,022	27,640,739
Profit on financial instruments		89,943,991	47,327,694
Loss on financial operations		(26,233,086)	(13,085,860)
Loss on trading and non-trading investments		(2,477,182)	(2,763,669)
Loss on foreign exchange operations		(9,341,439)	(6,171,912)
Loss on financial instruments		(14,414,465)	(4,150,279)
Net profit from financial operations		123,963,348	74,231,530
Other operating income		19,936,920	18,042,177
Other operating expenses		(7,830,123)	(4,749,156)
General and administrative expenses		(317,812,438)	(254,790,099)
Salaries, wages and related charges	34	(173,372,578)	(146,817,502)
General operating expenses	35	(126,512,720)	(107,972,597)
Employees' share - based payments	36	(17,927,140)	-
Depreciation and amortization	38	(34,537,176)	(29,666,430)
(Provisions) recoveries on investments and contingencies		(7,049,437)	1,553,122
Income from investments under equity method	11	740,966	910,558
Other expense, net		(12,167,076)	(6,276,274)
Profit before tax		297,715,111	191,594,374
Income tax expense	21	(50,300,456)	(32,063,133)
Net profit for the year	33	247,414,655	159,531,241
Attributable to:			
Equity holders of the parent		246,569,901	158,060,267
Minority interest		844,754	1,470,974
		247,414,655	159,531,241
Basic Earnings per common share	37	7.113	5.770
Diluted Earnings per common share	37	6.853	5.770

Consolidated Balance Sheet

31 December 2006

	Notes	2006 LL (000)	2005 LL (000)
ASSETS			
Cash and balances with Central Banks	4	5,514,475,295	5,096,495,881
Lebanese and other governmental bills and bonds	5	4,224,406,857	3,331,669,355
Bonds and financial assets with fixed income	6	679,235,595	743,366,661
Shares, securities and financial assets with variable income	7	229,212,033	212,587,564
Banks and financial institutions	8	4,852,084,964	3,448,827,772
Loans and advances to customers ⁽¹⁾	9	4,877,081,929	3,720,066,473
Bank acceptances	10	136,994,155	129,184,218
Investments under equity method	11	21,381,942	7,152,453
Property, plant and equipment (including revaluation reserve approved by the Central Bank of Lebanon)	12	460,259,708	383,996,560
Intangible assets	13	12,211,111	12,213,402
Other assets	14	1,960,689	993,133
Regularization accounts and other debit balances	15	137,119,070	118,468,000
Goodwill	16	216,361,043	99,329,885
Total assets		21,362,784,391	17,304,351,357
⁽¹⁾ After deduction of:			
Provision for doubtful and bad loans	9	165,468,509	113,868,342
Unrealized interest on:			
Sub-standard loans		5,599,140	10,874,604
Doubtful and bad loans		68,729,152	58,615,861
		74,328,292	69,490,465
		239,796,801	183,358,807
OFF-BALANCE SHEET ITEMS			
Signature commitments received	42	124,886,923	60,113,354
Engagements on term financial instruments	42	388,317,067	115,250,459
Engagements received from customers	42	2,284,125,510	2,265,957,578
Fiduciary assets and assets under management	41	4,264,506,141	3,586,437,308
Assets under custody	41	3,155,185,382	2,726,532,959
Forward and swap currency operations	43	774,467,805	860,211,214
Bad debts fully provided for		269,229,627	262,040,882

Consolidated Balance Sheet

31 December 2006

	Notes	2006 LL (000)	2005 LL (000)
LIABILITIES AND EQUITY			
Liabilities			
Due to Bank of Lebanon	17	27,702,076	27,725,603
Banks and financial institutions	18	285,315,361	408,129,754
Customers' deposits	19	17,859,545,423	14,906,942,325
Engagements by acceptances	10	136,994,155	129,184,218
Liabilities under financial instruments	20	153,147,545	153,147,545
Other liabilities	21	228,015,036	168,386,021
Regularization accounts and other credit balances	22	66,582,376	46,872,365
Provisions for risks and charges	23	44,773,168	26,615,679
Total liabilities		18,802,075,140	15,867,003,510
Equity attributable to equity holders of the parent			
Share capital and cash contribution to capital	24	476,748,525	376,748,525
Revaluation variance accepted in the supplementary capital	25	18,599,623	18,599,623
Reserves for general banking risks	26	80,928,740	65,121,968
Reserves, premiums and equity differences	27	1,526,596,971	672,391,464
Employees' share – based payments	36	17,927,140	-
Treasury GDR's	28	(11,763,237)	(4,661,617)
Retained earnings		31,928,371	2,358,521
Net results of the financial period - profit		246,569,901	158,060,267
Cumulative changes in fair value	29	69,526,153	108,652,696
Minority interest	30	103,647,064	40,076,400
Total Equity		2,560,709,251	1,437,347,847
TOTAL LIABILITIES AND EQUITY		21,362,784,391	17,304,351,357
OFF-BALANCE SHEET ITEMS			
Financing commitments	42	225,995,144	213,353,815
Bank guarantees	42	874,097,855	588,223,685
Other engagements		-	190,228
Engagements on term financial instruments	42	29,454,469	29,171,470
Fiduciary assets and assets under management	41	4,264,506,141	3,586,437,308
Assets under custody	41	3,155,185,382	2,726,532,959
Forward and swap currency operations	43	774,254,177	856,556,090

Consolidated Statement of Cash Flow

Year-ended 31 December 2006

	Notes	2006 LL (000)	2005 LL (000)
OPERATING ACTIVITIES			
Profit before tax		296,870,357	190,123,400
Adjustments for:			
Depreciation and amortization	38	29,026,191	28,220,161
Provision for fixed assets acquired in settlement of debt	38	5,510,985	1,446,269
Provision for risks and charges		5,238,796	1,518,090
Provision for impairment of participations		3,445,421	3,262,850
Gain on investments under equity method		(740,966)	(670,484)
Loss (gain) on sale of properties acquired in settlement of debt		136,688	(1,372,331)
Write back of provision for risks and charges		(536,458)	(1,377,295)
Provision for employees' end of service benefits	34	3,501,809	2,629,747
Provisions for doubtful loans		41,755,944	59,154,977
Recoveries of provision for doubtful loans		(17,085,455)	(27,508,066)
Employees' share – based payments	36	17,927,140	-
Release of reserve for general banking risks		-	(229,174)
Operating profit before changes in operating assets and liabilities		385,050,452	255,198,144
Deposits with the Central Banks, banks and financial institutions maturing in more than 3 months		209,474,268	256,671,062
Loans and advances to customers		(1,193,632,648)	(496,939,189)
Lebanese Treasury bills – trading		(434,875,665)	(10,382,937)
Bonds and financial assets with fixed income - trading		34,898,231	1,231,395
Shares, securities and financial assets with variable income - trading		(19,979,546)	(16,976,119)
Other assets		(967,556)	(83,539)
Regularization and other debit accounts		26,169,231	(26,852,199)
Customers' deposits		2,952,603,098	1,643,521,563
Other liabilities		38,694,319	26,630,659
Regularization and other credit accounts		19,710,011	(7,529,919)
Minority interest		63,570,664	5,807,721
Cash from operations		2,080,714,858	1,630,296,642
Employees' end-of-service benefits (paid) recovered	23	(831,107)	(880,398)
Taxation paid	21	(29,365,759)	(27,431,400)
Provisions for contingencies and charges paid	23	(72,015)	-
Net cash from operating activities		2,050,445,977	1,601,984,844
INVESTING ACTIVITIES			
Bank of Lebanon certificates of deposit – other than trading		(115,259,161)	(507,632,063)
Lebanese Treasury bills - other than trading		(475,475,072)	(177,894,134)
Bonds and financial assets with fixed income - other than trading		29,149,348	(126,427,254)
Shares, securities and financial assets with variable income - other than trading		(21,520,165)	2,111,918
Investments and related loans		-	(35,229,167)
Purchase of tangible and intangible fixed assets		(101,128,490)	(26,238,856)
Investments and related loans under equity method		(13,488,523)	-
Proceeds from sale of properties acquired in settlement debt		7,651,457	2,224,101
Cost of business combinations	3	(148,833,011)	-
Net cash used in investing activities		(838,903,617)	(869,085,455)
FINANCING ACTIVITIES			
Settlement of BDL soft loan		(23,527)	(30,239,763)
Increase in share capital	24	100,000,000	12,500,000
Issue premium on capital increase	24	804,207,939	175,937,500
Proceeds from sale of GDRs		(8,417,236)	20,714,059
Distribution of dividends	31	(79,293,536)	(61,712,597)
Net cash from financing activities		816,473,640	117,199,199
Effect of exchange rate changes		10,250,106	6,814,417
INCREASE IN CASH AND CASH EQUIVALENTS		2,038,266,106	856,913,005
Cash and cash equivalents at 1 January		3,927,689,186	3,070,776,181
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	32	5,965,955,292	3,927,689,186