

CONSOLIDATED FINANCIAL STATEMENTS



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C.R. 61

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 2007 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.



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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 2007 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

3 April 2008
Beirut, Lebanon

	Notes	2007 LL (000)	2006 LL (000)
ASSETS			
Cash and balances with Central Banks	4	6,888,098,047	5,514,475,295
Lebanese and other governmental bills and bonds	5	4,015,974,703	4,224,406,857
Bonds and financial assets with fixed income	6	1,153,667,345	679,235,595
Shares, securities and financial assets with variable income	7	321,102,698	229,212,033
Banks and financial institutions	8	4,899,819,476	4,852,084,964
Loans and advances to customers*	9	7,684,632,291	4,877,081,929
Bank acceptances	10	198,287,779	136,994,155
Investments under equity method	11	22,629,912	21,381,942
Property, plant and equipment	12	495,915,385	451,220,840
Intangible assets	13	13,502,111	12,211,111
Other assets	14	3,375,797	1,960,689
Regularization accounts and other debit balances	15	195,489,013	137,119,070
Goodwill	16	215,131,320	216,361,043
TOTAL ASSETS		26,107,625,877	21,353,745,523
* After deduction of:			
Provision for doubtful and bad loans		170,190,206	162,928,106
Provision for retail loans		4,482,386	2,540,403
	9	174,672,592	165,468,509
Unrealized interest on:			
Sub-standard loans		4,871,664	5,599,140
Doubtful and bad loans		83,241,959	68,729,152
		88,113,623	74,328,292
		262,786,215	239,796,801
OFF-BALANCE SHEET ITEMS			
Signature commitments received		172,142,614	124,886,923
Engagements on term financial instruments	47	130,894,954	388,317,067
Commitments on derivatives		16,881,739	-
Engagements received from customers	50	3,537,055,577	2,290,250,555
Fiduciary assets and assets under management	46	5,420,836,606	4,264,506,141
Assets under custody	46	3,945,669,110	3,155,185,382
Forward and swap currency operations	52	1,705,167,113	774,467,805
Bad debts fully provided for		282,040,192	269,229,627

The consolidated financial statements were authorized for issue in accordance with the Board of Directors' resolution on 3 April 2008.

	Notes	2007 LL (000)	2006 LL (000)
LIABILITIES AND EQUITY			
Liabilities			
Due to Bank of Lebanon	17	-	27,702,076
Banks and financial institutions	18	956,076,355	285,315,361
Customers' deposits	19	21,555,904,904	17,859,545,423
Engagements by acceptances	10	198,287,779	136,994,155
Liabilities under financial instruments	20	153,147,545	153,147,545
Other liabilities	21	348,032,900	228,015,036
Regularization accounts and other credit balances	22	106,713,718	66,582,376
Provisions for risks and charges	23	40,205,303	35,734,300
Total liabilities		23,358,368,504	18,793,036,272
Equity attributable to equity holders of the parent			
Share capital and cash contribution to capital	24	492,261,524	476,748,525
Revaluation variance accepted in the supplementary capital	25	18,599,623	18,599,623
Reserves for general banking risks	26	101,659,571	80,928,740
Reserves, premiums and equity differences	27	1,529,808,263	1,526,596,971
Employees' share-based payments	33	32,071,613	17,927,140
Treasury GDRs	28	(1,530,549)	(11,763,237)
Retained earnings		56,304,781	31,928,371
Net results of the financial period – profit		289,684,156	246,569,901
Cumulative changes in fair value	29	109,241,295	69,526,153
		2,628,100,277	2,457,062,187
Minority interest	30	121,157,096	103,647,064
Total equity		2,749,257,373	2,560,709,251
TOTAL LIABILITIES AND EQUITY		26,107,625,877	21,353,745,523
OFF-BALANCE SHEET ITEMS			
Financing commitments	47	468,751,288	225,995,144
Bank guarantees	47	1,189,419,968	874,097,855
Committed credit line	47	390,751,055	261,009,147
Currency options		446,517,731	-
Engagements on term financial instruments		-	29,454,469
Fiduciary assets and assets under management	46	5,420,836,606	4,264,506,141
Assets under custody	46	3,945,669,110	3,155,185,382
Forward and swap currency operations	52	1,706,867,489	774,254,177

The consolidated financial statements were authorized for issue in accordance with the Board of Directors' resolution on 3 April 2008.

Consolidated Income Statement

Year ended 31 December 2007

	Notes	2007 LL (000)	2006 LL (000)
INTEREST AND SIMILAR INCOME	34	1,525,547,793	1,248,216,409
Lebanese and other governmental Treasury bills and bonds		345,860,930	297,778,861
Deposits and similar accounts with banks and financial institutions		665,740,578	580,088,584
Bonds and financial instruments with fixed income		59,082,491	57,519,222
Loans and advances to customers		429,387,891	296,922,512
Loans and advances to related parties		17,958,316	13,577,938
Other interest and similar income		7,517,587	2,329,292
INTEREST EXPENSE AND SIMILAR CHARGES		(1,004,997,407)	(809,809,757)
Deposits and similar accounts from banks and financial institutions		(12,262,030)	(16,172,220)
Deposits from customers and other creditor balances		(955,591,113)	(758,103,797)
Deposits from related parties		(18,852,395)	(18,199,160)
Certificates of deposits		(16,205,625)	(16,205,625)
Other interest and similar charges		(2,086,244)	(1,128,955)
NET PROVISIONS LESS RECOVERIES ON DOUBTFUL LOANS		(3,956,811)	(24,670,489)
Provisions for loans and advances	9	(26,989,734)	(41,755,944)
Recovery of provisions for loans and advances		23,032,923	17,085,455
NET INTEREST INCOME		516,593,575	413,736,163
REVENUES FROM SHARES, SECURITIES AND FINANCIAL ASSETS WITH VARIABLE INCOME		10,642,417	12,758,923
NET COMMISSIONS	40	160,249,197	105,975,041
Commissions received		192,108,879	142,158,920
Commissions paid		(31,859,682)	(36,183,879)
PROFIT FROM FINANCIAL OPERATIONS		138,945,665	150,196,434
Profit from trading and non-trading investments		22,394,893	33,188,421
Profit on foreign exchange operations		30,887,922	27,064,022
Profit on financial instruments		85,662,850	89,943,991
LOSS ON FINANCIAL OPERATIONS		(41,037,289)	(26,233,086)
Loss on trading and non-trading investments		(1,510,067)	(2,477,182)
Loss on foreign exchange operations		(14,259,140)	(9,341,439)
Loss on financial instruments		(25,268,082)	(14,414,465)
NET PROFIT FROM FINANCIAL OPERATIONS	35	97,908,376	123,963,348
OTHER OPERATING INCOME		31,066,982	19,936,920
OTHER OPERATING EXPENSES		(10,095,610)	(7,830,123)
GENERAL AND ADMINISTRATIVE EXPENSES		(417,523,845)	(317,812,438)
Salaries, wages and related charges	36	(236,151,271)	(173,372,578)
General operating expenses	37	(163,893,665)	(126,512,720)
Employees' share-based payments	33	(17,478,909)	(17,927,140)
DEPRECIATION AND AMORTIZATION	39	(31,845,094)	(34,537,176)
RECOVERIES (PROVISIONS) ON INVESTMENTS		7,731,851	(7,049,437)
INCOME FROM INVESTMENTS UNDER EQUITY METHOD	11	1,065,666	740,966
OTHER EXPENSE, NET		(859,489)	(12,167,076)
PROFIT BEFORE TAX		364,934,026	297,715,111
Income tax expense	21	(63,024,620)	(50,300,456)
PROFIT FOR THE YEAR	41	301,909,406	247,414,655
Attributable to:			
Equity holders of the parent		289,684,156	246,569,901
Minority interest		12,225,250	844,754
		301,909,406	247,414,655
Basic earnings per common share	38	7.994	7.113
Diluted earnings per common share	38	7.604	6.853

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 LL (000)	2006 LL (000)
OPERATING ACTIVITIES			
Profit before tax		352,708,776	296,870,357
Adjustments for:			
Depreciation and amortization	39	31,704,599	29,660,787
Provision for fixed assets acquired in settlement of debt	39	140,496	4,876,389
Provision for risks and charges		2,482,101	5,238,796
Provision for impairment of participations		646,733	3,445,421
Net gain on financial instruments		(81,279,594)	(106,240,765)
Gain on investments under equity method		(1,065,666)	(740,966)
(Gain) loss on sale of properties acquired in settlement of debt		(440,133)	136,688
Write back of provision for risks and charges		(6,268,234)	(536,458)
Provision for employees' end of service benefits	23	6,124,031	3,501,809
Provisions for doubtful loans		26,989,734	41,755,944
Recoveries of provision for doubtful loans		(23,032,923)	(17,085,455)
Employees' share-based payments	33	17,478,909	17,927,140
Operating profit before changes in operating assets and liabilities		326,188,829	278,809,687
Deposits with the Central Banks, banks and financial institutions maturing in more than 3 months		(1,214,335,469)	209,474,268
Loans and advances to customers		(2,805,204,980)	(1,193,632,648)
Lebanese Treasury bills – trading		205,045,521	(386,135,136)
Bonds and financial assets with fixed income – trading		(158,020,272)	35,203,204
Shares, securities and financial assets with variable income – trading		(6,496,859)	(10,609,778)
Other assets		(1,415,108)	(967,556)
Regularization and other debit accounts		(39,905,126)	26,169,231
Customers' deposits		3,696,359,481	2,952,603,098
Other liabilities		109,629,424	38,694,318
Regularization and other credit accounts		40,131,342	19,710,011
Minority interest		17,510,032	63,570,664
Cash from operations		169,486,815	2,032,889,363
Employees' end of service benefits (paid) recovered	23	(2,944,234)	(831,107)
Taxation paid	21	(47,861,197)	(29,365,759)
Provisions for contingencies and charges paid	23	(23,152)	(72,015)
Net cash from operating activities		118,658,232	2,002,620,482
INVESTING ACTIVITIES			
Bank of Lebanon certificates of deposit – other than trading		485,337,221	(92,458,974)
Lebanese Treasury bills – other than trading		21,711,424	(471,911,121)
Bonds and financial assets with fixed income – other than trading		(315,156,738)	29,174,380
Shares, securities and financial assets with variable income – other than trading		(8,692,975)	(83,840)
Option premium paid		(16,755,109)	-
Purchase of tangible and intangible fixed assets		(91,371,313)	(101,128,490)
Investments and related loans under equity method		(182,304)	(13,488,523)
Proceeds from sale of properties acquired in settlement debt		19,648,062	7,651,457
Cost of business combinations	3	-	(148,833,011)
Net cash from (used in) investing activities		94,538,268	(791,078,122)
FINANCING ACTIVITIES			
Redemption of preferred shares class "A"		(90,450,000)	-
Settlement of BDL soft loan		(27,702,076)	(23,527)
Increase in share capital	24	15,512,999	100,000,000
Issue premium on capital increase	24	6,196,237	804,207,939
Treasury GDR transactions		10,323,955	(8,417,236)
Distribution of dividends	31	(125,089,968)	(79,293,536)
Net cash (used in) from financing activities		(211,208,853)	816,473,640
INCREASE IN CASH AND CASH EQUIVALENTS		1,987,647	2,028,016,000
Net foreign exchange difference		4,968,898	10,250,106
Cash and cash equivalents at 1 January		5,965,955,292	3,927,689,186
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	32	5,972,911,837	5,965,955,292
Operational cash flows from interest and dividends			
Interest received		1,397,476,230	1,098,878,667
Interest paid		(1,032,122,723)	(820,493,332)
Dividends received		10,642,417	12,758,923

Consolidated Statement of Changes in Equity Year ended 31 December 2007

	Profit for the Year LL (000)	Share Capital and Cash Contribution to Capital LL (000)	Revaluation Reserve LL (000)	Reserve for General Banking Risks LL (000)	Legal Reserve LL (000)	General Reserve LL (000)	Issue and Merger Premium LL (000)	Reserves Appropriated to Capital Increase LL (000)	Reserve for Translation Difference LL (000)	Gain on Sale of Treasury GDR LL (000)	Treasury GDR LL (000)	Cumulative Changes in Fair Value LL (000)	Retained Earnings LL (000)	Employees' Share-based Payments LL (000)	Total LL (000)	Minority Interest LL (000)	Total Equity LL (000)
Balance at 1 January 2006	158,060,267	376,748,525	18,599,623	65,121,968	63,911,568	24,354,845	550,627,313	1,105,308	1,073,470	31,318,960	(4,661,617)	108,652,696	2,358,521	-	1,397,271,447	40,076,400	1,437,347,847
Differences arising on translation of the operating assets and liabilities of subsidiaries	-	-	-	-	-	-	-	-	13,501,071	-	-	-	-	-	13,501,071	-	13,501,071
Net movement in cumulative changes in fair value	-	-	-	-	-	-	-	-	-	-	-	(39,126,543)	-	-	(39,126,543)	-	(39,126,543)
Total income and expense for the year recognized directly in equity	-	-	-	-	-	-	-	-	13,501,071	-	-	(39,126,543)	-	-	(25,625,472)	-	(25,625,472)
Profit for the year 2006	246,569,901	-	-	-	-	-	-	-	-	-	-	-	-	-	246,569,901	844,754	247,414,655
Total income and expense for the year	246,569,901	-	-	-	-	-	-	-	13,501,071	-	-	(39,126,543)	-	-	220,944,429	844,754	221,789,183
Appropriation of 2005 profits	(78,766,731)	-	-	14,159,130	15,292,018	36,112,508	-	-	-	-	-	-	13,203,075	-	-	-	-
Distribution of dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
■ Preferred shares "A"	(10,854,000)	-	-	-	-	-	-	-	-	-	-	-	-	-	(10,854,000)	-	(10,854,000)
■ Preferred shares "C"	(13,190,625)	-	-	-	-	-	-	-	-	-	-	-	-	-	(13,190,625)	-	(13,190,625)
■ Preferred shares "D"	(3,768,750)	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,768,750)	-	(3,768,750)
■ Ordinary shares	(51,480,161)	-	-	-	-	-	-	-	-	-	-	-	-	-	(51,480,161)	-	(51,480,161)
Issuance of ordinary shares	-	100,000,000	-	-	-	-	804,207,939	-	-	-	-	-	-	-	904,207,939	-	904,207,939
Transfer from reserve for general banking risks	-	-	-	-	10,428,143	(26,928,771)	-	-	-	-	-	-	16,500,628	-	-	-	-
Transfer from retained earnings	-	-	-	-	315,555	-	-	-	-	-	-	-	(315,555)	-	-	-	-
Entities under equity method	-	-	-	-	-	(400,832)	-	-	-	-	-	-	-	-	(400,832)	-	(400,832)
Absorption of subsidiaries' income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,470,975)	(1,470,975)
Minority share of capital relating to consolidated subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	63,219,329	63,219,329
Minority share of reserves	-	-	-	(7,999)	-	378,246	-	-	-	-	-	-	(1,347,802)	-	(977,555)	977,555	-
Employees' share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	17,927,140	17,927,140	-	17,927,140
Entities deconsolidated in 2006	-	-	-	-	(78,781)	7,708,223	-	-	-	-	-	-	-	-	7,629,442	-	7,629,442
Entities consolidated in 2006	-	-	-	1,297,575	-	(1,405,165)	-	-	-	-	-	-	-	-	(107,590)	-	(107,590)
Treasury GDR transactions	-	-	-	-	-	-	-	-	-	(1,315,616)	(7,101,620)	-	-	-	(8,417,236)	-	(8,417,236)
Difference of exchange	-	-	-	358,066	1,220,732	(4,829,763)	-	-	-	-	-	-	1,529,504	-	(1,721,461)	1	(1,721,460)
Balance at 31 December 2006	246,569,901	476,748,525	18,599,623	80,928,740	91,089,235	34,989,291	1,354,835,252	1,105,308	14,574,541	30,003,344	(11,763,237)	69,526,153	31,928,371	17,927,140	2,457,062,187	103,647,064	2,560,709,251
Differences arising on translation of the operating assets and liabilities of subsidiaries	-	-	-	-	-	-	-	-	12,471,082	-	-	-	-	-	12,471,082	-	12,471,082
Net movement in cumulative changes in fair value	-	-	-	-	-	-	-	-	-	-	-	39,715,142	-	-	39,715,142	-	39,715,142
Total income and expense for the year recognized directly in equity	-	-	-	-	-	-	-	-	12,471,082	-	-	39,715,142	-	-	52,186,224	-	52,186,224
Profit for the year 2007	289,684,156	-	-	-	-	-	-	-	-	-	-	-	-	-	289,684,156	12,225,250	301,909,406
Total income and expense for the year	289,684,156	-	-	-	-	-	-	-	12,471,082	-	-	39,715,142	-	-	341,870,380	12,225,250	354,095,630
Appropriation of 2006 profits	(121,479,933)	-	-	20,920,230	23,707,683	57,253,259	-	-	-	-	-	-	19,598,761	-	-	-	-
Distribution of dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
■ Preferred shares "A"	(10,854,000)	-	-	-	-	-	-	-	-	-	-	-	-	-	(10,854,000)	-	(10,854,000)
■ Preferred shares "C"	(13,190,625)	-	-	-	-	-	-	-	-	-	-	-	-	-	(13,190,625)	-	(13,190,625)
■ Preferred shares "D"	(14,603,906)	-	-	-	-	-	-	-	-	-	-	-	-	-	(14,603,906)	-	(14,603,906)
■ Ordinary shares	(86,441,437)	-	-	-	-	-	-	-	-	-	-	-	-	-	(86,441,437)	-	(86,441,437)
Redemption of preferred shares "A"	-	-	-	-	-	(4,800,000)	(85,650,000)	-	-	-	-	-	-	-	(90,450,000)	-	(90,450,000)
Issuance of common shares – stock options	-	1,496,759	-	-	-	-	6,196,237	-	-	-	-	-	-	(2,110,726)	5,582,270	-	5,582,270
Employees' share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	17,478,909	17,478,909	-	17,478,909
Entities under equity method	-	-	-	-	-	(995,469)	-	-	-	-	-	-	-	-	(995,469)	-	(995,469)
Absorption of subsidiaries' income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(844,754)	(844,754)
Minority share of capital relating to consolidated subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,517,310	8,517,310
Minority share of reserves	-	-	-	46,294	-	2,673,969	-	-	-	-	-	-	(332,489)	-	2,387,774	(2,387,774)	-
Treasury GDR transactions	-	-	-	-	-	-	-	-	-	91,267	10,232,688	-	-	-	10,323,955	-	10,323,955
Capital increase by raising the nominal value	-	14,016,240	-	-	-	(14,016,240)	-	-	-	-	-	-	-	-	-	-	-
Cancellation of stock option plan rights	-	-	-	-	-	-	-	-	-	-	-	-	1,223,662	(1,223,662)	-	-	-
Entities deconsolidated in 2007	-	-	-	-	-	436,951	-	-	-	-	-	-	-	-	436,951	-	436,951
Transfer from legal reserve to general reserve	-	-	-	-	(4,048,640)	4,048,640	-	-	-	-	-	-	-	-	-	-	-
Difference of exchange	-	-	-	(235,693)	1,091,713	4,750,840	-	-	-	-	-	-	3,886,476	(48)	9,493,288	-	9,493,288
Balance at 31 December 2007	289,684,156	492,261,524	18,599,623	101,659,571	111,839,991	84,341,241	1,275,381,489	1,105,308	27,045,623	30,094,611	(1,530,549)	109,241,295	56,304,781	32,071,613	2,628,100,277	121,157,096	2,749,257,373