

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
BANK AUDI sal - AUDI SARADAR GROUP



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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
BANK AUDI SAL – AUDI SARADAR GROUP

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 2008 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 2008 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.


Ernst & Young

2 April 2009
Beirut, Lebanon


Semaan, Gholam & Co

Consolidated Balance Sheet (31 December 2008)

	Notes	2008 LL (000)	2007 LL (000)
ASSETS			
Cash and balances with Central Banks	4	4,440,912,539	4,227,585,323
Due from banks and financial institutions	5	5,460,552,948	4,761,899,646
Derivative financial instruments	6	48,442,051	25,624,359
Financial assets held for trading	7	21,142,253	719,227,173
Financial assets designated at fair value through profit & loss	8	324,104,505	475,347,158
Loans and advances to customers	9	8,982,760,985	6,828,316,341
Loans and advances to related parties	10	256,876,352	268,277,807
Debtors by acceptances	11	234,396,245	198,287,779
Available for sale financial instruments	12	3,809,668,101	4,221,699,076
Financial assets classified as loans & receivables	13	5,910,767,280	2,943,814,388
Financial instruments held to maturity	14	259,918,374	512,433,293
Investments in associates	15	33,123,593	22,629,912
Property and equipment	16	479,888,225	455,661,101
Intangible fixed assets	17	18,936,701	13,502,111
Other non-current assets held for sale	18	38,533,657	40,254,284
Deferred taxes assets		10,852,427	2,392,943
Other assets	19	228,040,592	177,820,637
Goodwill	20	209,674,694	215,131,320
TOTAL ASSETS		30,768,591,522	26,109,904,651
LIABILITIES			
Due to banks and financial institutions	21	699,149,736	956,076,355
Derivative financial instruments	6	46,588,397	3,979,150
Customers' deposits	22	25,736,656,272	21,163,808,261
Deposits from related parties	23	237,029,650	392,096,643
Debt issued and other borrowed funds	24	153,147,545	153,147,545
Engagements by acceptances	11	234,396,245	198,287,779
Current tax liabilities	25	71,780,325	58,349,047
Deferred tax liabilities		2,479,346	873,922
Other liabilities	26	570,483,237	393,823,273
Provision for risks and charges	27	22,426,042	14,650,007
End of service benefits	28	30,644,100	25,555,296
TOTAL LIABILITIES		27,804,780,895	23,360,647,278
SHAREHOLDERS' EQUITY – GROUP SHARE			
Share capital – Common shares	29	376,083,279	361,925,399
Share capital – Preferred shares	29	57,750,000	57,750,000
Issue premium – Common shares	30	1,017,928,321	957,937,538
Issue premium – Preferred shares	30	281,437,500	281,437,500
Merger premium	30	36,006,451	36,006,451
Share capital and cash contribution to capital	29	72,586,125	72,586,125
Capital reserves	31	518,887,254	361,112,335
Treasury shares	33	(58,091,049)	(1,530,549)
Retained earnings		50,515,985	56,304,781
Revaluation reserve of real estate	34	18,599,623	18,599,623
Available for sale reserve	35	98,754,940	109,241,295
Foreign currency translation reserve		7,131,054	27,045,623
Reserves for cash flow hedges		1,257,709	-
Other reserves		2,277,000	-
Result of the year		351,547,718	289,684,156
		2,832,671,910	2,628,100,277
MINORITY INTEREST	36	131,138,717	121,157,096
TOTAL SHAREHOLDERS' EQUITY		2,963,810,627	2,749,257,373
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		30,768,591,522	26,109,904,651

The attached notes 1 to 60 form part of these interim consolidated financial statements

Consolidated Balance Sheet (31 December 2008)

	Notes	2008 LL (000)	2007 LL (000)
OFF-BALANCE SHEET ITEMS			
Financing Commitments			
Financing commitments given to banks and financial institutions	49	565,196,156	468,751,288
Financing commitments received from banks and financial institutions		299,274,499	172,142,614
Engagements to customers	49 & 51	589,426,852	390,751,055
Bank Guarantees			
Guarantees given to banks and financial institutions	49	253,330,700	230,499,000
Guarantees given to customers	49	1,342,841,513	958,921,000
Guarantees received from customers	50	4,077,578,725	3,537,055,577
Currency Forwards			
Foreign currencies to receive		1,222,074,353	1,705,167,113
Foreign currencies to deliver		1,237,529,137	1,706,867,489
Engagements on term financial instruments			
Fiduciary assets	6	104,102,412	577,412,685
Assets under management		2,743,542,230	3,159,895,548
Bad debts fully provided for		7,061,327,295	6,206,610,169
		313,125,264	282,040,192

The attached notes 1 to 60 form part of these interim consolidated financial statements

Consolidated Income Statement (Year ended 31 December 2008)

	Notes	2008 LL (000)	2007 LL (000)
NET INTEREST INCOME		637,680,502	520,550,386
Interest and similar income	40	1,729,336,931	1,525,547,793
Interest and similar expense		(1,091,656,429)	(1,004,997,407)
NET FEES AND COMMISSIONS		212,743,851	160,249,197
Fees & commissions income	39	253,608,931	192,108,879
Fees & commissions expense		(40,865,080)	(31,859,682)
Net trading income	41	67,406,174	72,987,329
Net gain or loss on financial assets and liabilities designated at fair value through profit or loss	41	(34,709,164)	(4,249,357)
Net gain on financial investments	41	46,870,475	39,812,821
Other operating income		66,532,429	42,153,291
TOTAL OPERATING INCOME		996,524,267	831,503,667
Net provisions for credit losses (Provision) write back on impairment of financial instruments		(7,546,809) (13,147,677)	(3,956,811) 1,681,150
NET OPERATING INCOME		975,829,781	829,228,006
Personnel expenses	42	(299,390,549)	(253,630,180)
Depreciation of property and equipment		(31,736,871)	(26,859,688)
Amortisation of intangibles assets		(6,208,415)	(4,844,910)
Impairment of goodwill		(1,267,841)	-
Other operating expenses	43	(209,049,715)	(180,006,348)
TOTAL OPERATING EXPENSES		(547,653,391)	(465,341,126)
OPERATING PROFIT		428,176,390	363,886,880
Share of profit of investments in associates under equity method		3,710,843	1,065,666
Net loss on sale or disposal of assets		(2,910,374)	(18,520)
PROFIT BEFORE TAX		428,976,859	364,934,026
Income tax	25	(70,084,691)	(63,024,620)
PROFIT FOR THE PERIOD		358,892,168	301,909,406
Profit – Minority interest		7,344,450	12,225,250
Profit – Group share		351,547,718	289,684,156
Basic earnings per share	44	9.764	7.994
Diluted earnings per share	44	9.288	7.604

The attached notes 1 to 60 form part of these interim consolidated financial statements

Consolidated Cash Flow Statement (Year ended 31 December 2008)

	Notes	2008 LL (000)	2007 LL (000)
OPERATING ACTIVITIES		421,632,409	352,708,776
Profit before tax		421,632,409	352,708,776
Adjustments to reconcile profit before tax to net cash flows:			
Non-cash:			
Depreciation and amortisation		37,945,287	31,704,598
Impairment of assets acquired in settlement of debt		136,536	140,496
Impairment of goodwill		1,267,841	-
Net gain on financial instruments		(34,725,585)	(81,279,594)
Provisions for loans and advances	9	38,471,199	26,989,734
Recoveries of provision for loans and advances	9	(30,924,390)	(23,032,923)
Share of net profit of associates		(3,710,843)	(1,065,666)
Loss (gain) on disposal of property and equipment, intangibles and assets acquired in settlement of debt		1,014,310	(440,133)
Provision for risks and charges		3,101,069	2,482,101
Write back of provisions for risks and charges		(2,851,380)	(6,268,234)
Provision (write back) for impairment of financial instruments		13,147,677	(1,681,150)
Provision for end of services benefits	28	10,328,865	6,124,031
Employees share-based payments expense	42	9,637,374	17,478,909
		464,470,369	323,860,945
Working capital adjustments:			
Deposits with the Central Banks, banks and financial institutions maturing in more than 3 months		16,109,160	(1,076,415,639)
Decrease in financial assets held for trading		738,331,018	40,528,390
Decrease (increase) in financial assets designated at fair value through profit and loss		123,839,628	(223,573,808)
Increase in loans and advances to customers and related parties		(2,154,853,408)	(2,217,166,837)
Increase in other assets		(37,734,539)	(41,268,654)
Change in current and deferred tax accounts		(7,162,750)	(19,915,229)
Increase in deposits from customers and related parties		4,416,313,233	3,696,359,481
Increase in other liabilities		178,748,343	168,802,073
Proceeds from sale of assets acquired in settlement of debts		6,962,369	16,485,502
Change in minority interest		9,077,767	17,510,032
Cash from operations		3,754,101,190	685,206,256
Provisions for contingencies and charges paid	27	(2,731,337)	(23,152)
End of service benefits paid		(4,811,138)	(2,944,234)
Taxation paid		(50,345,453)	(48,748,563)
Net cash flows from operating activities		3,696,213,262	633,490,307
INVESTING ACTIVITIES		(2,295,818,151)	(315,147,642)
Increase in financial instruments – other than trading		(2,295,818,151)	(315,147,642)
Option premium paid		-	(16,755,109)
Purchase of property and equipment and intangibles		(67,521,749)	(91,371,313)
Investments and related loans equity method		(8,997,993)	(182,304)
Cash collected from sale of property and equipment and intangibles		5,166,698	3,162,561
Cost of business combination	3	(3,649,296)	-
Net cash flows used in investing activities		(2,370,820,491)	(420,293,807)
FINANCING ACTIVITIES		-	(90,450,000)
Redemption of preferred shares class "A"		-	(27,702,076)
Settlement of BDL soft loan		53,816,631	21,709,236
Increase in share capital and issue premium from stock options exercise		(126,994,993)	(125,089,968)
Distribution of dividends	37	(57,592,345)	10,323,955
Treasury GDR transactions		-	-
Net cash flows used in financing activities		(130,770,707)	(211,208,853)
DECREASE IN CASH AND CASH EQUIVALENTS		1,194,622,064	1,987,647
Net foreign exchange difference		(9,243,488)	4,968,898
Cash and cash equivalents at 1 January		5,972,911,837	5,965,955,292
CASH AND CASH EQUIVALENTS	38	7,158,290,413	5,972,911,837
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS		2,097,468,914	1,397,476,230
Interest received		(1,092,024,822)	(1,032,122,723)
Interest paid		18,160,834	10,642,417
Dividends received		-	-

Consolidated Statement of Changes in Equity (Year ended 31 December 2008)

	Share Capital - Common Shares LL (000)	Share Capital - Preferred Shares LL (000)	Share Capital and Cash Contribution to Capital LL (000)	Issue Premium - Common Shares LL (000)	Issue Premium - Preferred Shares LL (000)	Merger Premiums LL (000)	Foreign Currency Translation Reserve LL (000)	Revaluation Reserve of Real Estate LL (000)	Treasury Shares LL (000)	Other Reserves LL (000)	Capital Reserves LL (000)	Reserve for Cash Flow Hedges LL (000)	Available for Sale Reserves LL (000)	Retained Earnings LL (000)	Result of the Year LL (000)	Total LL (000)	Minority Interest LL (000)	Total Equity LL (000)
Balance at 1 January 2007	327,662,400	76,500,000	72,586,125	965,445,098	353,383,703	36,006,451	14,574,541	18,599,623	(11,763,237)	-	256,043,058	-	69,526,153	31,928,371	246,569,901	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 recognised directly in equity	-	-	-	-	-	-	12,471,082	-	-	-	-	-	39,715,142	-	-	52,186,224	-	52,186,224
Net profits for the year 2007	-	-	-	-	-	-	-	-	-	-	-	-	-	289,684,156	289,684,156	12,225,250	301,909,406	
Total income and expense for the year	-	-	-	-	-	-	12,471,082	-	-	-	-	-	39,715,142	-	289,684,156	341,870,380	12,225,250	354,095,630
Appropriation of 2006 profits	-	-	-	-	-	-	-	-	-	-	101,881,172	-	-	19,598,761	(121,479,933)	-	-	-
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"	-	-	-	-	(85,650,000)	-	-	-	-	-	(4,800,000)	-	-	-	-	(90,450,000)	-	(90,450,000)
Transfer of share nominal value	-	-	-	(13,703,797)	13,703,797	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of common shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Employees' share-based payments	1,496,759	-	-	6,196,237	-	-	-	-	-	-	(2,110,726)	-	-	-	-	5,582,270	-	5,582,270
Reserve for employees' share-based payments	-	-	-	-	-	-	-	-	-	-	17,478,909	-	-	-	-	17,478,909	-	17,478,909
Cancellation of stock option plan rights	-	-	-	-	-	-	-	-	-	-	(1,223,662)	-	-	1,223,662	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-	-	-	-	(332,489)	-	2,387,774	(2,387,774)	-
Treasury GDR transactions	-	-	-	-	-	-	-	-	10,232,688	-	91,267	-	-	-	-	10,323,955	-	10,323,955
Entities deconsolidated in 2007	-	-	-	-	-	-	-	-	-	-	436,951	-	-	-	-	436,951	-	436,951
Reallocation from preferred shares	20,685,627	(20,685,627)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transferred from general reserve	12,080,613	1,935,627	-	-	-	-	-	-	-	-	(14,016,240)	-	-	-	-	-	-	-
Difference of exchange	-	-	-	-	-	-	-	-	-	-	5,606,812	-	-	-	-	3,886,476	-	9,493,288
Balance at 31 December 2007	361,925,399	57,750,000	72,586,125	957,937,538	281,437,500	36,006,451	27,045,623	18,599,623	(1,530,549)	-	361,112,335	-	109,241,295	56,304,781	289,684,156	2,628,100,277	121,157,096	2,749,257,373
Differences arising on translation of the operating assets and liabilities of subsidiaries	-	-	-	-	-	-	(27,585,009)	-	-	-	-	-	-	-	-	(27,585,009)	-	(27,585,009)
Net movement in cumulative changes in fair value	-	-	-	-	-	-	-	-	-	-	-	-	(10,486,355)	-	-	(10,486,355)	-	(10,486,355)
Total income and expense for the period recognised directly in equity	-	-	-	-	-	-	(27,585,009)	-	-	-	-	-	(10,486,355)	-	-	(38,071,364)	-	(38,071,364)
Net profits for the year 2008	-	-	-	-	-	-	-	-	-	-	-	-	-	351,547,718	351,547,718	7,344,450	358,892,168	
Total income and expense for the year	-	-	-	-	-	-	(27,585,009)	-	-	-	-	-	(10,486,355)	-	351,547,718	313,476,354	7,344,450	320,820,804
Appropriation of 2007 profits	-	-	-	-	-	-	-	-	-	2,993,111	123,706,777	-	-	35,989,275	(162,689,163)	-	-	-
Distribution of dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- 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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(99,200,462)	(99,200,462)	-	(99,200,462)
Employees' share-based payments	-	-	-	-	-	-	-	-	-	-	9,637,374	-	-	-	-	9,637,374	-	9,637,374
Exercise of options	14,157,880	-	-	60,011,401	-	-	-	-	-	-	(20,352,650)	-	-	-	-	53,816,631	-	53,816,631
Cancellation of stock option plan rights	-	-	-	-	-	-	-	-	-	-	(710,016)	-	710,016	-	-	-	-	-
Entities under equity method	-	-	-	-	-	-	-	-	-	-	(470,155)	-	-	-	(470,155)	-	(470,155)	
Absorption of subsidiaries' income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(12,225,250)	(12,225,250)
Minority share of capital relating to consolidated subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13,958,567	13,958,567
Minority share of reserves	-	-	-	-	-	-	-	-	-	-	(3,822,384)	-	-	2,918,530	-	(903,854)	903,854	-
Treasury GDR transactions	-	-	-	-	-	-	-	-	(56,560,500)	-	(1,031,846)	-	-	-	-	(57,592,346)	-	(57,592,346)
Reserve related to foreclosed assets disposed off	-	-	-	-	-	-	-	-	-	(716,111)	716,111	-	-	-	-	-	-	-
Cash flow hedges	-	-	-	-	-	-	-	-	-	-	-	1,257,709	-	-	-	1,257,709	-	1,257,709
Prior year adjustment	-	-	-	-	-	-	-	-	-	-	2,303,871	-	-	(763,217)	-	1,540,654	-	1,540,654
Entities consolidated in 2008	-	-	-	-	-	-	-	-	-	-	44,771	-	-	109,885	-	154,656	-	154,656
Entities deconsolidated in 2008	-	-	-	-	-	-	-	-	-	-	(77,368)	-	-	135,291	-	57,923	-	57,923
Transfer from general reserve to translation reserve	-	-	-	-	-	-	7,670,440	-	-	-	(7,670,440)	-	-	-	-	-	-	-
Transfer from general reserve to retained earnings	-	-	-	-	-	-	-	-	-	-	58,137,221	-	-	(58,137,221)	-	-	-	-
Difference of exchange	-	-	-	(20,618)	-	-	-	-	-	-	(2,636,347)	-	-	-	13,248,645	10,591,680	-	10,591,680
Balance at 31 December 2008	376,083,279	57,750,000	72,586,125	1,017,928,321	281,437,500	36,006,451	7,131,054	18,599,623	(58,091,049)	2,277,000	518,887,254	1,257,709	98,754,940	50,515,985	351,547,718	2,832,671,910	131,138,717	2,963,810,627

The attached notes 1 to 60 form part of these interim consolidated financial statements.