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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 statement of financial position as at 31 December 2010 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Directors' Responsibility for the Consolidated Financial Statements**

The Directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

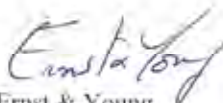
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in 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 consolidated financial statements.

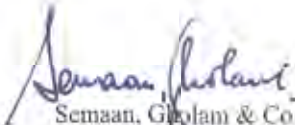
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

  
Ernst & Young

17 March 2011  
Beirut, Lebanon

  
Semaan, Gholam & Co

Consolidated Income Statement  
For the year ended 31 December, 2010

	Notes	2010 LBP (000)	2009 LBP (000)
Interest and similar income	5	2,032,265,253	1,880,992,436
Interest and similar expense	6	(1,293,926,916)	(1,241,820,422)
<b>NET INTEREST INCOME</b>		<b>738,338,337</b>	<b>639,172,014</b>
Fee and commission income	7	313,786,108	265,499,438
Fee and commission expense	7	(50,704,256)	(43,638,184)
<b>NET FEE AND COMMISSION INCOME</b>		<b>263,081,852</b>	<b>221,861,254</b>
Net trading income	8	92,661,847	98,603,512
Net gain on financial assets designated at fair value through profit or loss	9	-	13,844,215
Net gain on financial investments	10	187,177,274	77,183,045
Other operating income		48,114,560	56,329,294
<b>TOTAL OPERATING INCOME</b>		<b>1,329,373,870</b>	<b>1,106,993,334</b>
Net credit losses	11	(47,503,525)	(35,013,746)
Impairment loss on financial instruments	12	(921,909)	(11,746,470)
<b>NET OPERATING INCOME</b>		<b>1,280,948,436</b>	<b>1,060,233,118</b>
Personnel expenses	13	(353,079,404)	(303,028,267)
Depreciation of property and equipment	27	(37,719,731)	(35,354,571)
Amortisation of intangible assets	28	(7,052,136)	(7,388,688)
Other operating expenses	14	(232,578,514)	(192,192,187)
<b>TOTAL OPERATING EXPENSES</b>		<b>(630,429,785)</b>	<b>(537,963,713)</b>
<b>OPERATING PROFIT</b>		<b>650,518,651</b>	<b>522,269,405</b>
Share of profit of associates under equity method	26	4,191,742	1,657,893
Net (loss) gain on disposal of assets		(92,806)	2,536,513
<b>PROFIT BEFORE TAX</b>		<b>654,617,587</b>	<b>526,463,811</b>
Income tax	15	(123,605,285)	(90,871,253)
<b>Profit after tax from operating activities</b>		<b>531,012,302</b>	<b>435,592,558</b>
<b>PROFIT FOR THE YEAR</b>		<b>531,012,302</b>	<b>435,592,558</b>
<b>Attributable to:</b>			
<b>Equity holders of the parent</b>		<b>508,555,670</b>	<b>419,453,155</b>
<b>Non-controlling interest</b>		<b>22,456,632</b>	<b>16,139,403</b>
			(Restated)
		LBP	LBP
Basic earnings per share	16	1,452	1,206
Diluted earnings per share	16	1,413	1,175

Consolidated Statement of Comprehensive Income  
For the year ended 31 December, 2010

	Notes	2010 LBP (000)	2009 LBP (000)
<b>PROFIT FOR THE YEAR</b>		<b>531,012,302</b>	<b>435,592,558</b>
<b>Other comprehensive income</b>			
Exchange differences on translation of foreign operations	47	(51,735,210)	15,510,096
Hedge of net investments	19, 47	(11,215,641)	-
Cash flow hedges	47	-	(1,257,709)
		<b>(62,950,851)</b>	<b>14,252,387</b>
Net (loss) gain on available for sale financial assets*		<b>(30,597,126)</b>	<b>165,396,105</b>
Deferred income tax		<b>4,348,830</b>	<b>(20,378,691)</b>
	47	<b>(26,248,296)</b>	<b>145,017,414</b>
<b>Other comprehensive (loss) income for the year, net of tax</b>		<b>(89,199,147)</b>	<b>159,269,801</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>441,813,155</b>	<b>594,862,359</b>
Attributable to:			
Equity holders of the parent		<b>419,356,523</b>	<b>578,722,956</b>
Non-controlling interest		<b>22,456,632</b>	<b>16,139,403</b>
		<b>441,813,155</b>	<b>594,862,359</b>
* Available for sale financial assets:			
Gains arising during the period		<b>74,333,239</b>	<b>178,659,821</b>
Gains transferred to income statement on disposal	10	<b>(105,852,274)</b>	<b>(26,616,046)</b>
Amounts transferred to the income statement in respect of impairment losses	12	<b>921,909</b>	<b>13,352,330</b>
		<b>(30,597,126)</b>	<b>165,396,105</b>

Consolidated Statement of Financial Position  
As at 31 December, 2010

	Notes	2010 LBP (000)	2009 LBP (000)
<b>ASSETS</b>			
Cash and balances with central banks	17	6,684,541,145	6,206,156,293
Due from banks and financial institutions	18	6,337,984,314	7,737,364,110
Derivative financial instruments	19	40,658,695	38,436,439
Financial assets held for trading	20	1,009,099,259	835,042,479
Loans and advances to customers	21	12,643,760,113	9,930,856,223
Loans and advances to related parties	22	241,660,739	239,824,175
Debtors by acceptances	51	274,810,921	284,422,998
Available for sale financial instruments	23	7,677,661,859	6,003,316,357
Financial assets classified as loans and receivables	24	7,011,522,455	7,298,526,697
Financial instruments held to maturity	25	215,030,647	367,378,773
Investments in associates	26	30,732,776	31,697,269
Property and equipment	27	509,930,083	503,489,670
Intangible fixed assets	28	25,467,321	25,905,687
Non-current assets held for sale	29	29,255,233	29,261,024
Deferred taxes assets	15	573,708	2,416,603
Other assets	30	237,281,320	174,832,706
Goodwill	31	277,204,245	218,746,364
<b>TOTAL ASSETS</b>		<b>43,247,174,833</b>	<b>39,927,673,867</b>
<b>LIABILITIES</b>			
Due to central banks	32	133,376,376	133,359,003
Due to banks and financial institutions	33	909,667,974	775,059,042
Derivative financial instruments	19	59,273,388	28,630,659
Customers' deposits	34	37,198,987,427	34,382,301,284
Deposits from related parties	35	259,104,293	267,874,328
Debt issued and other borrowed funds	36	-	153,147,545
Engagements by acceptances	51	274,810,921	284,422,998
Current tax liabilities	15	65,185,192	45,721,390
Deferred tax liabilities	15	21,200,843	21,262,611
Other liabilities	37	607,416,243	467,547,680
Provisions for risks and charges	38	27,043,833	24,127,222
End of service benefits	39	42,373,194	38,460,659
<b>TOTAL LIABILITIES</b>		<b>39,598,439,684</b>	<b>36,621,914,421</b>
<b>SHAREHOLDERS' EQUITY – GROUP SHARE</b>			
Share capital – common shares	40	436,990,300	421,632,029
Share capital – preferred shares	40	17,242,500	15,312,500
Issue premium – common shares	41	652,938,738	843,902,284
Issue premium – preferred shares	41	359,632,500	173,125,000
Merger premiums	41	-	36,006,451
Cash contribution to capital	42	72,586,125	72,586,125
Capital reserves	43	1,052,119,495	782,672,286
Treasury shares	46	(37,162,510)	(74,390,330)
Retained earnings		209,541,068	124,367,704
Other components of equity	47	198,840,925	288,658,018
Result of the year		508,555,670	419,453,155
		<b>3,471,284,811</b>	<b>3,103,325,222</b>
<b>NON-CONTROLLING INTEREST</b>	48	<b>177,450,338</b>	<b>202,434,224</b>
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>3,648,735,149</b>	<b>3,305,759,446</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		<b>43,247,174,833</b>	<b>39,927,673,867</b>

Consolidated Statement of Financial Position  
As at 31 December, 2010

	Notes	2010 LBP (000)	2009 LBP (000)
<b>OFF-BALANCE SHEET ITEMS</b>			
<b>Financing commitments</b>			
Financing commitments given	51	690,308,103	778,181,327
Engagements to customers	51	248,973,399	487,833,725
<b>Bank guarantees</b>			
Guarantees given to banks and financial institutions	51	506,316,916	294,932,444
Guarantees received from banks and financial institutions	54	840,067,951	810,038,352
Guarantees given to customers	51	2,439,775,953	2,453,685,630
Guarantees received from customers	54	11,471,797,067	8,033,875,678
<b>Foreign currency forwards</b>			
Foreign currencies to receive		2,323,756,878	1,275,714,082
Foreign currencies to deliver		2,346,536,185	1,269,291,802
<b>Commitments on term financial instruments</b>			
<b>Fiduciary assets</b>			
<b>Assets under management</b>			
<b>Mutual funds</b>			
<b>Bad debts fully provided for</b>			
		457,550,855	631,713,913
		1,268,874,494	1,493,914,683
		10,863,500,057	9,006,902,657
		180,794,756	137,622,941
		321,294,683	359,735,133

Consolidated Cash Flow Statement  
For the year ended 31 December, 2010

	Note	2010 LBP (000)	2009 LBP (000)
<b>OPERATING ACTIVITIES</b>			
Profit before tax		654,617,587	526,463,811
Adjustments to reconcile profit before tax to net cash flows:			
<b>Non-cash:</b>			
Depreciation and amortisation	27&28	44,771,867	42,743,259
Impairment of assets acquired in settlement of debt reversed	29	(744,565)	-
Net gain on financial instruments	10	(165,602,840)	(55,932,254)
Provisions for loans and advances	11	81,463,836	59,973,811
Recoveries of provision for loans and advances	11	(34,087,822)	(24,991,202)
Share of net profit of associates	26	(4,191,742)	(1,657,893)
Net (gain) loss on disposal of assets acquired in settlement of debt	14	-	632,840
Net loss (gain) on sale or disposal of assets		92,806	(2,563,513)
Provision for risks and charges	38	7,716,933	3,607,670
Write back of provisions for risks and charges	38	(1,200,959)	(3,437,350)
Provision for impairment of financial instruments	12	921,909	11,746,470
Provision for end of service benefits	39	7,857,314	10,321,224
Employees' share-based payments expenses	13	919,096	4,584,259
		592,533,420	571,491,132
<b>Working capital adjustments:</b>			
Deposits with the central banks, banks and financial institutions maturing in more than 3 months		235,857,191	(3,245,709,631)
Change in derivatives and financial assets held for trading		(156,851,948)	(821,852,352)
Change in financial assets designated at fair value through profit or loss		-	324,104,505
Change in loans and advances to customers and related parties		(2,692,391,123)	(968,370,645)
Change in other assets		(54,724,727)	50,309,615
Change in current and deferred tax accounts		1,761,112	3,155,995
Change in deposits from customers and related parties		2,721,959,064	8,514,939,481
Change in other liabilities		60,518,471	59,709,862
Proceeds from sale of assets acquired in settlement of debts		9,764,708	8,952,222
Change in minority interest		(24,983,886)	71,295,507
		693,442,282	4,568,025,691
<b>Cash from operations</b>			
Provisions for contingencies and charges paid	38	(2,633,950)	(475,465)
End of service benefits paid	39	(4,120,870)	(2,969,572)
Taxation paid	15	(102,968,528)	(72,857,903)
		583,718,934	4,491,722,751
<b>Net cash flows from operating activities</b>			
<b>INVESTING ACTIVITIES</b>			
Increase in financial instruments – other than trading		(1,171,107,158)	(3,477,070,158)
Purchase of property and equipment and intangibles		(52,515,778)	(106,725,016)
Investments and related loans equity method		5,156,235	868,192
Cash collected from sale of property and equipment and intangibles		271,662	7,934,894
Cost of business combination	3	(41,587,675)	(16,017,188)
		(1,259,782,714)	(3,591,009,276)
<b>Net cash flows used in investing activities</b>			
<b>FINANCING ACTIVITIES</b>			
Redemption of preferred shares Series "C"		-	(150,750,000)
Issuance of preferred shares Series "E"		186,682,819	-
Redemption of issued debt	36	(153,147,545)	-
Increase in share capital and issue premium from stock options exercise		51,675,861	9,581,503
Distribution of dividends	40	(196,206,879)	(144,038,454)
Treasury GDR transactions		(42,029,477)	(13,838,852)
		(153,025,221)	(299,045,803)
<b>Net cash flows used in financing activities</b>			
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>			
		(829,089,001)	601,667,672
<b>Net foreign exchange difference</b>			
		9,324,943	(14,590,696)
Cash and cash equivalents at 1 January		7,745,367,389	7,158,290,413
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	49	<b>6,925,603,331</b>	<b>7,745,367,389</b>