

consolidated financial statements



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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 2011 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

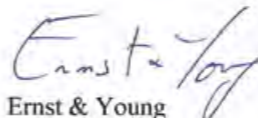
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable 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 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.


Ernst & Young

20 March 2012
Beirut, Lebanon


Semaan, Gholam & Co

CONSOLIDATED INCOME STATEMENT
For the Year Ended 31 December, 2011

| | Notes | 2011 LBP (000) | 2010 LBP (000) |
|---|-------|----------------------|-------------------|
| Interest and similar income | 5 | 2,080,223,290 | 1,987,204,453 |
| Interest and similar expenses | 6 | (1,270,771,879) | (1,293,926,916) |
| NET INTEREST INCOME | | 809,451,411 | 693,277,537 |
| Fee and commission income | 7 | 337,611,784 | 313,786,108 |
| Fee and commission expense | 8 | (60,100,799) | (50,704,256) |
| NET FEE AND COMMISSION INCOME | | 277,510,985 | 263,081,852 |
| Net gain on financial assets at fair value through profit and loss | 9 | 126,601,905 | 137,722,647 |
| Net gain on sale of debt instruments at amortised cost | 10 | 220,929,768 | 59,750,566 |
| Revenues from equity instruments at fair value through other comprehensive income | 23 | 27,720,041 | - |
| Net gain on available for sale financial instruments | 11 | - | 127,426,708 |
| Net gain on sale of subsidiaries and associates | 12 | 2,023,947 | - |
| Other operating income | 13 | 51,922,332 | 48,114,560 |
| TOTAL OPERATING INCOME | | 1,516,160,389 | 1,329,373,870 |
| Net credit losses | 14 | (137,659,442) | (47,503,525) |
| Impairment loss on available for sale financial instruments | | - | (921,909) |
| NET OPERATING INCOME | | 1,378,500,947 | 1,280,948,436 |
| Personnel expenses | 15 | (391,580,901) | (353,079,404) |
| Depreciation of property and equipment | 28 | (39,444,251) | (37,719,731) |
| Amortisation of intangible assets | 29 | (7,935,792) | (7,052,136) |
| Other operating expenses | 16 | (253,273,871) | (232,578,514) |
| TOTAL OPERATING EXPENSES | | (692,234,815) | (630,429,785) |
| OPERATING PROFIT | | 686,266,132 | 650,518,651 |
| Share of profit of associates under equity method | 27 | 5,133,333 | 4,191,742 |
| Net gain (loss) on disposal of assets | | 391,233 | (92,806) |
| PROFIT BEFORE TAX | | 691,790,698 | 654,617,587 |
| Income tax | 17 | (141,239,358) | (123,605,285) |
| PROFIT FOR THE YEAR | | 550,551,340 | 531,012,302 |
| Attributable to: | | | |
| Equity holders of the Bank | | 544,239,196 | 508,555,670 |
| Non-controlling interest | | 6,312,144 | 22,456,632 |
| | | LBP | LBP |
| Basic earnings per share | 18 | 1,510 | 1,452 |
| Diluted earnings per share | 18 | 1,507 | 1,413 |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended 31 December, 2011

| | Notes | 2011 LBP (000) | 2010 LBP (000) |
|---|-----------|---------------------|-------------------|
| PROFIT FOR THE YEAR | | 550,551,340 | 531,012,302 |
| Other comprehensive income | | | |
| Exchange differences on translation of foreign operations | | (50,362,493) | (51,735,210) |
| Hedge of net investments | | 4,125,382 | (11,215,641) |
| | 47 | (46,237,111) | (62,950,851) |
| Net unrealised loss on financial assets measured at fair value through other comprehensive income | | (29,480,637) | - |
| Net unrealised loss on available for sale financial instruments (a) | | - | (30,597,126) |
| Net deferred income taxes | | (232,368) | 4,348,830 |
| | 47 | (29,713,005) | (26,248,296) |
| Other comprehensive loss for the year, net of tax | 47 | (75,950,116) | (89,199,147) |
| Total comprehensive income for the year, net of tax | | 474,601,224 | 441,813,155 |
| Attributable to: | | | |
| Equity holders of the Bank | | 468,289,080 | 419,356,523 |
| Non-controlling interest | | 6,312,144 | 22,456,632 |
| | | 474,601,224 | 441,813,155 |
| (a) Net unrealised loss on available for sale financial instruments | | - | 74,333,239 |
| Gains arising during the year | | - | (105,852,274) |
| Gains transferred to income statement on disposal | | - | 921,909 |
| Amounts transferred to the income statement in respect of impairment losses | | - | (30,597,126) |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December, 2011

| | Notes | 2011 LBP (000) | 2010 LBP (000) |
|---|-----------|-----------------------|-----------------------|
| ASSETS | | | |
| Cash and balances with central banks | 19 | 8,703,354,156 | 6,684,541,145 |
| Due from banks and financial institutions | 20 | 4,781,685,631 | 6,337,984,314 |
| Financial assets given as collateral | 21 | 17,424,499 | - |
| Derivative financial instruments | 22 | 82,208,905 | 40,658,695 |
| Financial assets measured at fair value | 23 | 1,047,909,244 | 8,686,761,118 |
| Loans and advances to customers at amortised cost | 24 | 12,692,176,685 | 12,643,760,113 |
| Loans and advances to related parties at amortised cost | 25 | 263,666,259 | 241,660,739 |
| Debtors by acceptances | | 280,819,027 | 274,810,921 |
| Financial assets classified at amortised cost | 26 | 14,307,303,427 | 7,226,553,102 |
| Investments in associates | 27 | 43,098,994 | 30,732,776 |
| Non-current assets held for sale | 30 | 26,378,990 | 29,255,233 |
| Property and equipment | 28 | 511,549,976 | 509,930,083 |
| Intangible fixed assets | 29 | 13,508,328 | 25,467,321 |
| Other assets | 31 | 288,171,397 | 237,855,028 |
| Goodwill | 32 | 261,430,736 | 277,204,245 |
| TOTAL ASSETS | | 43,320,686,254 | 43,247,174,833 |
| LIABILITIES | | | |
| Due to central banks | 33 | 133,393,748 | 133,376,376 |
| Due to banks and financial institutions | 34 | 1,007,558,353 | 909,667,974 |
| Derivative financial instruments | 22 | 58,246,585 | 59,273,388 |
| Customers' deposits at amortised cost | 35 | 37,097,210,003 | 37,198,987,427 |
| Deposits from related parties at amortised cost | 36 | 285,297,324 | 259,104,293 |
| Engagements by acceptances | | 280,819,027 | 274,810,921 |
| Other liabilities | 37 | 832,086,936 | 693,802,278 |
| Provisions for risks and charges | 38 | 72,924,810 | 69,417,027 |
| TOTAL LIABILITIES | | 39,767,536,786 | 39,598,439,684 |
| SHAREHOLDERS' EQUITY – GROUP SHARE | | | |
| Share capital – Common shares | 39 | 438,197,690 | 436,990,300 |
| Share capital – Preferred shares | 39 | 17,242,500 | 17,242,500 |
| Issue premium – Common shares | 40 | 657,846,379 | 652,938,738 |
| Issue premium – Preferred shares | 40 | 359,632,500 | 359,632,500 |
| Cash contribution to capital | 41 | 72,586,125 | 72,586,125 |
| Non-distributable reserves | 42 | 691,359,522 | 544,767,637 |
| Distributable reserves | 43 | 381,883,848 | 507,351,858 |
| Treasury shares | 46 | (103,912,267) | (37,162,510) |
| Retained earnings | | 328,515,461 | 209,541,068 |
| Other components of equity | 47 | 24,386,612 | 198,840,925 |
| Result of the year | | 544,239,196 | 508,555,670 |
| | | 3,411,977,566 | 3,471,284,811 |
| NON-CONTROLLING INTERESTS | 48 | 141,171,902 | 177,450,338 |
| TOTAL SHAREHOLDERS' EQUITY | | 3,553,149,468 | 3,648,735,149 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 43,320,686,254 | 43,247,174,833 |

| | Notes | 2011 LBP (000) | 2010 LBP (000) |
|---|-------|-----------------------|-------------------|
| OFF-BALANCE SHEET ITEMS | | | |
| Financing commitments | | | |
| Financing commitments given | 51 | 387,780,831 | 690,308,103 |
| Engagements to customers | 51 | 173,708,035 | 248,973,399 |
| Bank guarantees | | | |
| Guarantees given to banks and financial institutions | 51 | 418,780,973 | 506,316,916 |
| Guarantees received from banks and financial institutions | 54 | 512,946,616 | 840,067,951 |
| Guarantees given to customers | 51 | 2,254,601,814 | 2,439,775,953 |
| Guarantees received from customers | 54 | 11,843,245,819 | 11,471,797,067 |
| Foreign currency forwards | | | |
| Foreign currencies to receive | | 2,380,990,441 | 2,323,756,878 |
| Foreign currencies to deliver | | 2,362,954,627 | 2,346,536,185 |
| | | 1,979,743,213 | 457,550,855 |
| Commitments on term financial instruments | | | |
| Fiduciary assets | | 1,205,948,235 | 1,268,874,494 |
| Assets under management | | 10,522,174,198 | 10,863,500,057 |
| Mutual funds | | 223,399,270 | 180,794,756 |
| Bad debts fully provided for | | 320,791,417 | 321,294,683 |

CONSOLIDATED CASH FLOW STATEMENT For the Year Ended 31 December, 2011

| | Notes | 2011 LBP (000) | 2010 LBP (000) |
|--|-------|------------------------|-------------------|
| OPERATING ACTIVITIES | | | |
| Profit before tax | | 691,790,698 | 654,617,587 |
| Adjustments to reconcile profit before tax to net cash flows: | | | |
| Non-cash: | | | |
| Depreciation and amortisation | 28&29 | 47,380,043 | 44,771,867 |
| Impairment of assets acquired in settlement of debt reversed | 30 | (602,355) | (816,407) |
| Net gain on non-trading financial instruments | 10 | (220,929,768) | (165,602,840) |
| Provisions for loans and advances | 14 | 174,435,507 | 81,463,836 |
| Recoveries of provision for loans and advances | 14 | (36,776,065) | (33,960,311) |
| Share of net profit of associates | 27 | (5,133,333) | (4,191,742) |
| Net gain on disposal of assets acquired in settlement of debt | 13 | (5,432,691) | (5,909,291) |
| Net (gain) loss on sale or disposal of assets | | (230,061) | 92,806 |
| Provision for risks and charges | 38 | 4,448,225 | 7,716,933 |
| Write-back of provisions for risks and charges | 38 | (4,638,841) | (1,200,959) |
| Provision for impairment of financial instruments | | - | 921,909 |
| Provision for end of services benefits | 38 | 10,302,753 | 7,857,314 |
| Employees' share-based payments expenses | 15 | 39,990 | 919,096 |
| Gain on sale of subsidiaries and associates | | (2,023,947) | - |
| | | 652,630,155 | 586,679,798 |
| Working capital adjustments: | | | |
| Deposits with the central banks, banks and financial institutions maturing in more than 3 months | | (1,990,469,522) | 235,857,191 |
| Change in derivatives and financial assets held for trading | | 152,092,007 | (156,851,948) |
| Change in financial assets given as collateral | | (17,424,499) | - |
| Change in loans and advances to customers and related parties | | (198,120,320) | (2,692,391,123) |
| Change in other assets | | (50,316,369) | (52,901,847) |
| Change in deposits from customers and related parties | | (75,584,393) | 2,721,959,064 |
| Change in other liabilities | | (185,793,156) | 60,456,703 |
| Proceeds from sale of assets acquired in settlement of debts | | 9,139,613 | 15,673,999 |
| Change in non-controlling interest | | (36,278,436) | (24,983,886) |
| Cash from (used in) operations | | (1,740,124,920) | 693,497,951 |
| Provisions for risks and charges paid | 38 | (4,075,364) | (2,633,950) |
| End of service benefits paid | 38 | (1,834,079) | (4,120,870) |
| Taxation paid | 15 | (123,206,787) | (102,744,635) |
| Net cash flows from (used in) operating activities | | (1,869,241,150) | 583,998,496 |
| INVESTING ACTIVITIES | | | |
| Increase (decrease) in financial instruments – other than trading | | 580,609,111 | (1,171,107,158) |
| Purchase of property and equipment and intangibles | | (65,300,547) | (52,515,778) |
| Investments under equity method and related loans | | (7,222,466) | 5,156,235 |
| Cash collected from sale of property and equipment and intangibles | | 1,927,032 | 271,662 |
| Proceeds from sale of associates and subsidiaries | | 20,879,611 | - |
| Cost of business combination | 3 | - | (41,587,675) |
| Net cash flows from (used in) investing activities | | 530,892,741 | (1,259,782,714) |
| FINANCING ACTIVITIES | | | |
| Issuance of preferred shares series "E" | | - | 186,682,819 |
| Redemption of issued debt | | - | (153,147,545) |
| Increase in share capital and issue premium from stock options exercise | | 4,394,664 | 51,675,861 |
| Distribution of dividends | 39 | (230,812,746) | (196,206,879) |
| Treasury GDR transactions | | (67,942,480) | (42,029,477) |
| Net cash flows used in financing activities | | (294,360,562) | (153,025,221) |
| DECREASE IN CASH AND CASH EQUIVALENTS | | (1,632,708,971) | (828,809,439) |
| Net foreign exchange difference | | 6,846,026 | 9,045,381 |
| Cash and cash equivalents at 1 January | | 6,925,603,331 | 7,745,367,389 |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER | 49 | 5,299,740,386 | 6,925,603,331 |
| Operational cash flows from interest and dividends | | | |
| Interest paid | | (1,288,576,773) | (1,229,306,936) |
| Interest received | | 2,092,213,742 | 1,964,861,426 |
| Dividends received | | 30,086,330 | 24,563,917 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 December, 2011

| | Attributable to the Equity Holders of the Bank | | | | | | | | | | | | | Non-controlling Interest | Total Shareholders' Equity |
|--|--|--------------------------------|-------------------------------|----------------------------------|----------------|------------------------------|----------------------------|------------------------|----------------------|--------------------|----------------------------|--------------------|----------------------|--------------------------|----------------------------|
| | Share Capital Common Shares | Share Capital Preferred Shares | Issue Premium – Common Shares | Issue Premium – Preferred Shares | Merger Premium | Cash Contribution to Capital | Non-distributable Reserves | Distributable Reserves | Treasury Shares | Retained Earnings | Other Components of Equity | Result of the Year | Total | | |
| | LBP (000) | LBP (000) | LBP (000) | LBP (000) | LBP (000) | LBP (000) | LBP (000) | LBP (000) | LBP (000) | LBP (000) | LBP (000) | LBP (000) | LBP (000) | | |
| Balance at 1 January, 2011 before early adoption of IFRS 9 | 436,990,300 | 17,242,500 | 652,938,738 | 359,632,500 | - | 72,586,125 | 544,767,637 | 507,351,858 | (37,162,510) | 209,541,068 | 198,840,925 | 508,555,670 | 3,471,284,811 | 177,450,338 | 3,648,735,149 |
| Effect of IFRS 9 early adoption | - | - | - | - | - | - | - | - | - | (5,665,970) | (101,875,065) | - | (107,541,035) | - | (107,541,035) |
| Balance at 1 January, 2011 after early adoption of IFRS 9 | 436,990,300 | 17,242,500 | 652,938,738 | 359,632,500 | - | 72,586,125 | 544,767,637 | 507,351,858 | (37,162,510) | 203,875,098 | 96,965,860 | 508,555,670 | 3,363,743,776 | 177,450,338 | 3,541,194,114 |
| Net profits for the year | - | - | - | - | - | - | - | - | - | - | - | 544,239,196 | 544,239,196 | 6,312,144 | 550,551,340 |
| Other comprehensive income | - | - | - | - | - | - | - | - | - | (75,950,116) | - | - | (75,950,116) | - | (75,950,116) |
| Total comprehensive income | - | - | - | - | - | - | - | - | - | (75,950,116) | - | 544,239,196 | 468,289,080 | 6,312,144 | 474,601,224 |
| Appropriation of 2010 profits | - | - | - | - | - | - | 147,072,635 | 18,821,882 | - | 111,452,238 | 396,169 | (277,742,924) | - | - | - |
| Distribution of dividends on ordinary shares | - | - | - | - | - | - | - | - | - | - | - | (208,671,340) | (208,671,340) | - | (208,671,340) |
| Distribution of dividends on preferred shares | - | - | - | - | - | - | - | - | - | - | - | (22,141,406) | (22,141,406) | - | (22,141,406) |
| Employees' share-based payments | 1,207,390 | - | 4,907,641 | - | - | - | (1,720,367) | - | - | - | - | - | 4,394,664 | - | 4,394,664 |
| Entities deconsolidated during the year | - | - | - | - | - | - | (347,561) | (4,825,290) | - | 2,885,818 | 1,226,307 | - | (1,060,726) | - | (1,060,726) |
| Entities under equity method | - | - | - | - | - | - | - | - | - | 594,186 | - | - | 594,186 | - | 594,186 |
| Treasury shares transactions | - | - | - | - | - | - | (1,192,723) | - | (66,749,757) | - | - | - | (67,942,480) | - | (67,942,480) |
| Non-controlling interest share of capital | - | - | - | - | - | - | - | - | - | - | - | - | - | (41,145,510) | (41,145,510) |
| Non-controlling interest share of reserves | - | - | - | - | - | - | (7,395,514) | (2,294,773) | - | 11,810,416 | (675,059) | - | 1,445,070 | (1,445,070) | - |
| Reserve for share option agreements | - | - | - | - | - | - | - | (126,992,131) | - | - | - | - | (126,992,131) | - | (126,992,131) |
| Transfer between reserves | - | - | - | - | - | - | 9,806,688 | (10,186,724) | - | (2,043,415) | 2,423,451 | - | - | - | - |
| Other movements | - | - | - | - | - | - | 368,727 | 9,026 | - | (58,880) | - | - | 318,873 | - | 318,873 |
| Balance at 31 December, 2011 | 438,197,690 | 17,242,500 | 657,846,379 | 359,632,500 | - | 72,586,125 | 691,359,522 | 381,883,848 | (103,912,267) | 328,515,461 | 24,386,612 | 544,239,196 | 3,411,977,566 | 141,171,902 | 3,553,149,468 |
| Balance at 1 January, 2010 | 421,632,029 | 15,312,500 | 843,902,284 | 173,125,000 | 36,006,451 | 72,586,125 | 424,680,192 | 357,992,094 | (74,390,330) | 124,367,704 | 288,658,018 | 419,453,155 | 3,103,325,222 | 202,434,224 | 3,305,759,446 |
| Net profits for the year | - | - | - | - | - | - | - | - | - | - | - | 508,555,670 | 508,555,670 | 22,456,632 | 531,012,302 |
| Other comprehensive income | - | - | - | - | - | - | - | - | - | - | (89,199,147) | - | (89,199,147) | - | (89,199,147) |
| Total comprehensive income | - | - | - | - | - | - | - | - | - | - | (89,199,147) | 508,555,670 | 419,356,523 | 22,456,632 | 441,813,155 |
| Appropriation of 2009 profits | - | - | - | - | - | - | 100,115,575 | 42,136,061 | - | 79,857,941 | 1,136,735 | (223,246,312) | - | - | - |
| Distribution of dividends on ordinary shares | - | - | - | - | - | - | - | - | - | 1,513,295 | - | (181,602,937) | (180,089,642) | - | (180,089,642) |
| Distribution of dividends on preferred shares | - | - | - | - | - | - | - | - | - | - | - | (14,603,906) | (14,603,906) | - | (14,603,906) |
| Employees' share-based payments | 15,446,092 | - | 55,754,262 | - | - | - | (18,852,651) | - | - | 247,253 | - | - | 52,594,956 | - | 52,594,956 |
| Entities acquired during the year | - | - | - | - | - | - | - | - | - | - | - | - | - | 1,156,628 | 1,156,628 |
| Redemption of ordinary shares | (87,821) | 398,750 | (96,717,808) | (398,750) | - | - | (4,478,798) | 87,821 | 101,196,606 | - | - | - | - | - | - |
| Issue of preferred shares "E" | - | 1,531,250 | - | 186,906,250 | - | - | - | - | - | - | - | - | 188,437,500 | - | 188,437,500 |
| Treasury shares transactions | - | - | - | - | - | - | 21,939,309 | - | (63,968,786) | - | - | - | (42,029,477) | - | (42,029,477) |
| Non-controlling interest share of capital | - | - | - | - | - | - | - | - | - | - | - | - | - | (35,057,732) | (35,057,732) |
| Non-controlling interest share of reserves | - | - | - | - | - | - | (2,332,041) | 1,137,453 | - | (361,072) | - | - | (1,555,660) | (13,539,414) | (15,095,074) |
| Reserve for share option agreements | - | - | - | - | - | - | - | (58,866,366) | - | - | - | - | (58,866,366) | - | (58,866,366) |
| Cost of equity transactions | - | - | - | - | - | - | - | - | - | - | (1,754,681) | - | (1,754,681) | - | (1,754,681) |
| Transfer between reserves | - | - | (150,000,000) | - | (36,006,451) | - | 23,348,548 | 162,657,903 | - | - | - | - | - | - | - |
| Difference of exchange | - | - | - | - | - | - | 347,503 | 2,206,892 | - | 3,915,947 | - | - | 6,470,342 | - | 6,470,342 |
| Balance at 31 December, 2010 | 436,990,300 | 17,242,500 | 652,938,738 | 359,632,500 | - | 72,586,125 | 544,767,637 | 507,351,858 | (37,162,510) | 209,541,068 | 198,840,925 | 508,555,670 | 3,471,284,811 | 177,450,338 | 3,648,735,149 |