

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BLOM BANK SAL

We have audited the accompanying financial statements of BLOM Bank SAL (the Bank) and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is 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.

Auditor's 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 auditor's 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

16 March 2009
Beirut, Lebanon



Semaan, Gholam & Co.

2. CONSOLIDATED INCOME STATEMENT Year ended 31 December 2008

	NOTES	2008 LL million	Restated 2007 LL million
Interest and similar income	4	1,631,367	1,484,708
Interest and similar expense	5	(1,013,138)	(1,034,637)
Net interest income		618,229	450,071
Fees and commission income		127,613	96,007
Fees and commission expense		(15,976)	(6,627)
Net fees and commission income	6	111,637	89,380
Net trading income	7	41,305	28,638
Net loss on financial assets designated at fair value through profit or loss		(4,523)	(1,793)
Net profit on financial operations	8	9,809	19,832
Other operating income	9	67,861	24,584
Total operating income		844,318	610,712
Credit loss (expense) income	10	(13,040)	11,435
Impairment losses on financial investments	23	(15,723)	-
Net operating income		815,555	622,147
Personnel expenses	11	(174,191)	(129,133)
Depreciation of property and equipment	24	(25,462)	(17,717)
Amortization of intangible assets	25	(947)	(633)
Other operating expenses	12	(162,253)	(109,113)
Total operating expenses		(362,853)	(256,596)
Net operating profits		452,702	365,551
Net profit from sale or disposal of other assets		5,024	35
Profit before tax		457,726	365,586
Income tax expense	30	(78,472)	(57,000)
Profit for the year		379,254	308,586
Attributable to:			
Equity holders of the parent		365,271	303,472
Minority interest		13,983	5,114
		379,254	308,586
Basic/diluted earnings per share attributable to equity holders of the parent for the year (in LL)	13	16,116	12,395

3. CONSOLIDATED BALANCE SHEET AT 31 December 2008

	NOTES	2008 LL million	Restated 2007 LL million
ASSETS			
Cash and balances with central banks	15	3,580,467	3,553,739
Due from banks and financial institutions	16	5,817,382	7,472,944
Derivative financial instruments	17	39,867	19,030
Financial assets held-for-trading	18	14,264	104,554
Financial assets designated at fair value through profit or loss	19	81,955	63,070
Loans and advances to customers	20	5,230,447	4,173,367
Loans and advances to related parties	39	6,926	5,940
Bank acceptances	21	202,211	245,357
Non-current assets held for sale	22	27,561	12,895
Financial investments - available for sale	23	4,691,986	5,883,359
Financial assets classified as loans and receivables	23	6,094,232	3,090,241
Financial investments - held to maturity	23	634,306	-
Investment properties		581	602
Property and equipment	24	324,576	259,747
Intangible assets	25	5,307	4,459
Other assets	26	165,600	132,735
Goodwill	27	63,145	60,586
Total assets		26,980,813	25,082,625
Liabilities and equity			
Liabilities			
Due to banks and financial institutions	28	1,196,746	1,555,914
Derivative financial instruments	17	56,779	24,083
Customers' deposits	29	22,636,095	20,606,553
Related parties' deposits	39	140,278	101,963
Engagements by acceptances	21	202,211	245,357
Current tax liabilities	30	53,159	31,984
Other liabilities	31	430,211	382,308
Provisions for risks and charges	32	31,481	15,894
Retirement benefits obligation	33	34,534	26,160
Total liabilities		24,781,494	22,990,216
Equity attributable to equity holders of parent			
Share capital - Common shares	34	223,600	215,000
Share capital - Preferred shares	34	18,200	25,000
Share premium on common shares	34	374,059	374,059
Share premium on preferred shares	34	246,310	351,903
Capital reserves	35	595,391	528,961
Treasury shares	36	(39,877)	(36,122)
Retained earnings		229,863	175,603
Reserves for revaluation variance - real estate	24	14,727	14,727
Cumulative changes in fair values	37	3,905	13,995
Foreign currency translation reserve		46,565	37,737
Other reserves		106	-
Results of the financial period - Profit		365,271	303,472
		2,078,120	2,004,335
Minority interest		121,199	88,074
Total equity		2,199,319	2,092,409
Total liabilities and equity		26,980,813	25,082,625

The consolidated financial statements were authorized for issue in accordance with a resolution of the board of directors on 16 March 2009.

CONSOLIDATED BALANCE SHEET AT 31 December 2008

	NOTES	2008 LL million	Restated 2007 LL million
OFF BALANCE SHEET			
Financing commitments			
- Commitments issued to financial institutions	40	35,517	21,043
- Commitments received from financial institutions		31,071	39,981
- Commitments issued to customers	40	449,489	338,331
Guarantees commitments			
- Guarantees issued to financial institutions	40	260,675	196,378
- Guarantees received from financial institutions		58,886	26,537
- Guarantees issued to customers	40	525,271	550,636
- Guarantees received from customers	44-1 (A)	8,625,099	6,905,003
Commitments on financial instruments			
- Financial assets to receive		-	143,647
out of which: values sold with an option to repurchase		-	143,647
- Financial asset to deliver		-	143,647
out of which: values bought with an option to resell		-	143,647
Foreign currency operations			
- Foreign currencies to receive	17	2,072,651	2,942,549
- Foreign currencies to deliver		2,056,942	2,939,186
Commitments on term financial instruments	17	77,325	34,142
Other commitments		159,144	156,978
Fiduciary deposits	41	1,225,649	919,611
Financial assets under management	41	4,082,514	3,039,525
Doubtful loans fully provided for and transferred to off balance sheet	20	83,928	28,312

4. CONSOLIDATED CASH FLOW STATEMENT Year ended 31 December 2008

	NOTES	2008 LL million	Restated 2007 LL million
OPERATING ACTIVITIES			
Profit for the financial period before income tax		457,726	365,586
Adjustments for:			
Prior year adjustment by subsidiary company		(8,773)	-
Depreciation of property and equipment	24	25,462	17,717
Amortization of intangible assets	25	947	633
Profit from sale of property and equipment		(5,024)	(35)
Write-back of provision for loans and advances, net		(1,160)	(11,435)
Provision for impairment of financial assets	23	15,723	-
Impairment allowance for placements with other banks	16	3,765	-
Unrealized loss (profit) for investment properties		21	(63)
Provision for doubtful sundry debtors	26	1,275	189
Provision for retirement obligation benefits	33	10,526	2,491
Net provision for risks and charges	32	574	(937)
Provision for fiduciary customers' commitments	32	9,160	-
Net provision for outstanding claims and IBNR reserves	32	7,226	2,507
Profit from sale of non-current assets held for sale		(1,184)	(1,044)
Profit from sale of financial assets classified as loans and receivables	8	(101)	(14,558)
Profit from sale of available-for-sale financial investments	8	(9,232)	(4,642)
Unrealized loss on financial assets designated at fair value through profit or loss		4,523	1,793
		511,454	358,202
Changes in operating assets and liabilities:			
Financial assets held-for-trading (2)		26,866	(49,058)
Financial assets designated at fair value through profit or loss		(23,408)	(64,863)
Banks and financial institutions – debit		(229,354)	(415,840)
Derivative financial instruments – debit		(20,837)	(18,129)
Loans and advances to customers		(1,055,920)	(1,172,634)
Loans and advances to related parties		(986)	1,460
Non-current assets held for sale		(13,460)	6,590
Other assets		(34,144)	(38,501)
Derivative financial instruments – credit		32,696	20,517
Banks and financial instruments – credit		104,308	91,021
Customers' deposits		2,029,542	2,991,431
Related parties' deposits		38,315	26,704
Other liabilities		47,903	118,322
Cash from operations	30	1,412,975	1,855,222
Taxes paid		(56,838)	(53,953)
Settlement of provisions for risks and charges		(1,591)	(54)
Retirement obligation benefits paid	33	(2,194)	(2,694)
Net cash from operating activities		1,352,352	1,798,521

	NOTES	2008 LL million	Restated 2007 LL million
INVESTING ACTIVITIES			
Term deposits with central banks		(199,704)	(230,653)
Financial investments – available for sale (1) (3)		(1,588,100)	(1,189,338)
Financial assets classified as loans and receivables (1) (2) (3)		(180,179)	(250,495)
Financial assets – held to maturity		(634,956)	-
Purchase of intangible assets	25	(1,760)	(2,104)
Purchase of property and equipment	24	(98,760)	(76,826)
Cash proceeds from the sale of property and equipment		11,034	3,551
Net cash used in investing activities		(2,692,425)	(1,745,865)
FINANCING ACTIVITIES			
Redemption of preferred shares		(113,093)	-
Purchase of treasury shares, net		(3,635)	12,818
Minority interests		17,446	(1,038)
Dividends paid		(157,552)	(147,245)
Net cash used in financing activities		(256,834)	(135,465)
Effect of exchange rate changes		4,879	11,425
Decrease in cash and cash equivalents		(1,592,028)	(71,384)
Cash and cash equivalents as of 1 January		8,853,528	8,924,912
Cash and cash equivalents as of 31 December	38	7,261,500	8,853,528
Operational cash flows from interest and dividends			
Interest paid		941,149	956,207
Interest received		1,335,022	1,226,092
Dividend received		8,255	969

(1) Non cash transactions in the investing activities include an increase in financial assets classified as loans and receivables in the amount of LL 2,775,362 million, against a decrease in financial investments – available for sale in the investing activities in the same amount during 2008.

(2) Non cash transactions in the investing activities include an increase in financial assets classified as loans and receivables in the amount of LL 63,424 million, against a decrease in financial assets held for trading in the operating activities in the same amount during 2008.

(3) Non cash transactions in the investing activities include a decrease in financial assets classified as loans and receivables in the amount of LL 1,109,280 million against an increase in financial investments – available for sale for the same amount during 2007.

5. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY For the year ended 31 December 2008

Attributable to equity holders of the parent

	Share capital common shares LL million	Share capital preferred shares LL million	Share premium on common shares LL million	Share premium on preferred shares LL million	Capital reserves LL million	Treasury shares LL million
Balance at 31 December 2007	215,000	25,000	374,059	351,903	528,961	(36,122)
Cumulative changes in fair value	-	-	-	-	-	-
Translation Difference	-	-	-	-	-	-
Results of the financial period—profit for the year 2008	-	-	-	-	-	-
Total income and expenses for the period recognized directly in equity	-	-	-	-	-	-
Capital increase (Note 34)	8,600	700	-	-	(9,300)	-
Redemption of Preferred Shares 2002 (Note 34)	-	(7,500)	-	(105,593)	-	-
Dividends Distributions (Note 14)	-	-	-	-	-	-
Appropriation of 2007 profits	-	-	-	-	83,936	-
Purchase of treasury shares	-	-	-	-	-	(14,900)
Sale of treasury shares	-	-	-	-	120	11,145
Minority interest share in capital of newly established subsidiary companies	-	-	-	-	-	-
Minority interest share from dividends distribution in subsidiary companies	-	-	-	-	-	-
Reallocation of tax related to dividends distribution booked in 2007	-	-	-	-	(8,326)	-
Dividends on treasury shares (note 36)	-	-	-	-	-	-
Other adjustment related to a subsidiary	-	-	-	-	-	-
Other transfers	-	-	-	-	-	-
Balance at 31 December 2008	223,600	18,200	374,059	246,310	595,391	(39,877)
Balance at 31 December 2006	215,000	25,000	374,059	351,903	463,864	(52,108)
Cumulative changes in fair values	-	-	-	-	-	-
Translation difference	-	-	-	-	-	-
Profit for the year 2007	-	-	-	-	-	-
Total income and expenses for the year	-	-	-	-	-	-
Dividends distributions (Note 14)	-	-	-	-	-	-
Appropriation of 2006 profits	-	-	-	-	67,894	-
Sale of treasury shares, net	-	-	-	-	(3,168)	15,986
Increase in minority due to decrease in majority share	-	-	-	-	-	-
Minority interest share from dividends distribution in subsidiary companies	-	-	-	-	-	-
Dividends on treasury shares	-	-	-	-	-	-
Foreign currency translation reserve realized upon sale of branches in Romania (Note 2)	-	-	-	-	-	-
Others	-	-	-	-	371	-
Balance at 31 December 2007	215,000	25,000	374,059	351,903	528,961	(36,122)

Reserve for revaluation variance Real estate LL million	Cumulative changes in fair fair value LL million	Foreign currency translation reserve LL million	Other reserve LL million	Results of the financial period-profit LL million	Retained earnings LL million	Total LL million	Minority interest LL million	Total LL million
14,727	13,995	37,737	-	303,472	175,603	2,004,335	88,074	2,092,409
-	(10,090)	-	-	-	-	(10,090)	(1,876)	(11,966)
-	-	1,657	-	-	-	1,657	3,572	5,229
-	-	-	-	365,271	-	365,271	13,983	379,254
-	(10,090)	1,657	-	365,271	-	356,838	15,679	372,517
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	(113,093)	-	(113,093)
-	-	-	-	(159,141)	-	(159,141)	-	(159,141)
-	-	-	106	(144,331)	60,289	-	-	-
-	-	-	-	-	-	(14,900)	-	(14,900)
-	-	-	-	-	-	11,265	-	11,265
-	-	-	-	-	-	-	21,227	21,227
-	-	-	-	-	-	-	(3,730)	(3,730)
-	-	-	-	-	8,326	-	-	-
-	-	-	-	-	1,589	1,589	-	1,589
-	-	-	-	-	(8,773)	(8,773)	(51)	(8,824)
-	-	7,171	-	-	(7,171)	-	-	-
14,727	3,905	46,565	106	365,271	229,863	2,078,120	121,199	2,199,319
14,727	21,001	33,116	-	269,604	121,207	1,837,373	79,171	1,916,544
-	(7,006)	-	-	-	-	(7,006)	(264)	(7,270)
-	-	11,792	-	-	-	11,792	4,826	16,618
-	-	-	-	303,472	-	303,472	5,114	308,586
-	(7,006)	11,792	-	303,472	-	308,258	9,676	317,934
-	-	-	-	(148,391)	-	(148,391)	-	(148,391)
-	-	-	-	(121,213)	53,319	-	-	-
-	-	-	-	-	-	12,818	-	12,818
-	-	-	-	-	-	-	2,141	2,141
-	-	-	-	-	-	-	(2,871)	(2,871)
-	-	-	-	-	1,146	1,146	-	1,146
-	-	(7,171)	-	-	-	(7,171)	(45)	(7,216)
-	-	-	-	-	(69)	302	2	304
14,727	13,995	37,737	-	303,472	175,603	2,004,335	88,074	2,092,409