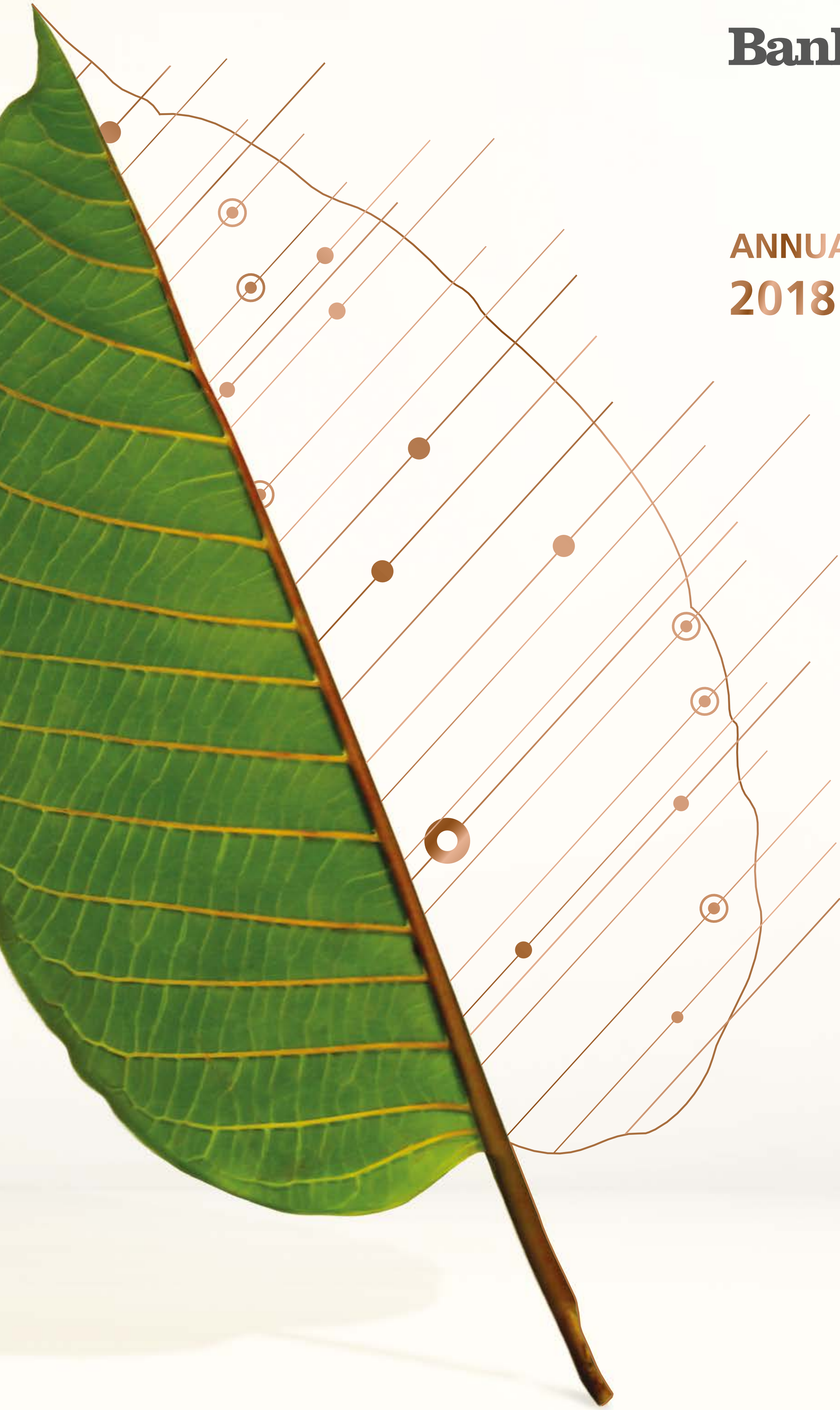


Bank Audi

ANNUAL REPORT 2018

Bank Audi

ANNUAL REPORT 2018

STATEMENT OF THE CHAIRMAN AND GROUP CHIEF EXECUTIVE OFFICER

The year 2018 was a good year for Bank Audi which withstood atypical operating conditions in Lebanon and other markets of presence and managed to end the year with a sound growth in activity aggregates, a net improvement in its bottom line, an ameliorated financial standing and an increasingly adequate risk coverage.

In fact, consolidated assets of Bank Audi rose from USD 43.8 billion as at end-December 2017 to USD 47.2 billion as at end-December 2018, increasing by USD 3.5 billion, or a growth of 8%. The latter was primarily driven by a 21% assets growth in Lebanon within a 13.5% contraction of assets outside Lebanon. Consolidated assets under management, including fiduciary deposits and custody accounts, have in turn increased from USD 11 billion as at end-December 2017 to USD 12.2 billion as at end-December 2018, highlighting the importance of Private Banking as a fourth development pillar of the Group. It is worth mentioning that deposits of Bank Audi Lebanon increased by USD 642 million (a growth of 3.2%) over the year, while deposits of Bank Audi in Egypt reported a year-on-year increase by USD 607 million, i.e. a growth of 22.9%.

In parallel, Bank Audi's consolidated loan portfolio shrank by USD 3 billion to USD 13.3 billion as at end-December 2018, of which USD 2.3 billion of real decrease and USD 0.7 billion due to FX translation impact. Amid a persisting challenging environment in Lebanon and Turkey, Management adopted a policy focusing on improving efficiency and reducing risk, resulting mainly in net loan settlements and a reduction of loan exposures of USD 2.4 billion in Odea Bank in Turkey. In Egypt, where a stronger macroeconomic situation supports business prospects, Bank Audi Egypt registered an increase in its loan portfolio by USD 101 million.

The year 2018 also portrayed a continuation of the Bank's good financial standing in terms of liquidity, capital adequacy, financial flexibility, assets quality and profitability, suggesting a sound risk coverage in a tough operating environment. With respect to liquidity, primary liquidity represented 80.4% of customers' deposits at year-end 2018, with 9.4% of foreign currency deposits placed with correspondent banks abroad. As to financial flexibility, the Bank's core equity Tier 1 ratio (CET1) as per Basel III stood at 11.4% as at end-December 2018, compared to 10.5% as at end-December 2017 and 10% minimum regulatory ratio. The Bank's capital adequacy ratio also improved from 16.9% to 18.9% over the same period.

At the level of loan quality, credit-impaired loans represented 5.5% of gross loans at year-end 2018 post adoption of IFRS 9 as compared to 3.9% as at 1 January 2018. This 1.6% increase is accounted for to the extent of 1% by the contraction in gross loans by 17.7% over the year. The credit-impaired loans coverage ratio increased to 63%, reaching 107% when including real guarantees. Allowance on ECL Stage 1 & 2 amounted to USD 309 million at end-December 2018, representing 2.3% of net loans. Stage 1 & 2 provisions as per IFRS 9 amounted to USD 381 million, representing 1.9% of consolidated credit risk-weighted assets and rising to 2.5% when accounting the excess provisions booked under provisions for risk and charges.

As to profitability, Bank Audi reported a positive growth in net profits driven by effective asset utilisation policies. The Bank reported USD 501 million of recurrent consolidated net profits after provisions and taxes in 2018, rising by 7.9% compared to the net profits before discontinued operations in 2017. This performance is even more significant when considering that it was achieved amid the allocation of most of Odea Bank's operating results to loan loss provisions (compared to a contribution to consolidated net profits of USD 88 million in 2017) and within an increase in taxes on income and interest in Lebanon by USD 106 million within the context of the new taxes implemented in 2017.

The Bank's earning power has strengthened in 2018 amid effective asset utilisation policies, in particular in Lebanese entities, which benefitted from market opportunities totally offsetting rising costs of deposits and the aforementioned new taxes. Subsequently, consolidated spread expanded from 2.39% as at end-December 2017 to 2.62% as at end-December 2018.

As to efficiency, consolidated general operating expenses decreased year-on-year by USD 81 million (although close to a quarter is due to FX translation impact), driving an improvement in the cost to income ratio from 51.2% in 2017 to 46.3% in 2018. In parallel, loan loss provisions of USD 176 million consumed 21.9% of pre-provisions pre-tax profits compared to 19.5% in 2017.

With respect to return ratios, net income represented 1.12% of average assets as at end-December 2018 as compared to 1.06% as at end-December 2017. Net common income represented 14% of average common equity compared to 13.4% as at end-December 2017; and the earnings per common share rose from USD 1.03 in 2017 to USD 1.15 in 2018.

In terms of competitive positioning, Bank Audi continues to have an undisputed leadership among Lebanese banking groups in terms of most business criteria (assets, deposits, loans, equity and net profits) and to reinforce its position among the top 20 Arab banks, ranking 18th in terms of assets.

In brief, strengthening the risk profile, reinforcing the financial flexibility and delivering a solid growth of recurrent net profits are the key headlines of Bank Audi's results in 2018. The Group's main purpose remain to achieve quality growth by efficiently meeting the needs of both businesses and individuals in the various countries of presence and ensuring long-term sustainable value to all stakeholders.

It is important to mention as well that the results of the past year and the strategic directions of our Group are being supported by significant developments in support functions, such as HR and IT.

At the HR level, with the first Employee Engagement Survey administered in Lebanon in the last quarter of 2017, 2018 was the year of "Employee Experience" (EX) dedicated to the improvement of the drivers of "Engagement" while supporting the Bank in times of major transformation. Having said that, the primary focus of the HR team in Lebanon was to extensively communicate the Engagement Survey results to all Managers during the first half of 2018 and implement targeted initiatives in priority areas for improvement under "HR Support", "Rewards", "Collaboration", "Communication", as well as "Training and Development". Consequently, and in order to support the branches in delivering the ultimate service to the Bank's clients, the HR team reengineered the branches' capacity model. Potential head office employees were identified and reassigned to various relative positions in branches. In total, 821 employee vertical and horizontal moves were achieved during 2018, including different appointments at branches and head office departments. As to training and development, and in addition to building capabilities for the efficient navigation of the new core banking system, efforts remained centered on the development and growth of employees' technical and behavioural skills by offering over 120,440 training hours during 2018.

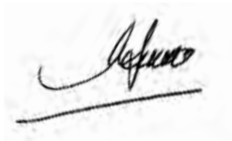
At the IT level, the past year was a momentous one for the Group which completed its planned transformation journey. Not only did we build on previously launched initiatives, but we also successfully completed the final act of our program by replacing our Core Banking system in Lebanon. Staying true to the three key pillars of its strategy, the Bank continued to strive to improve the customer experience, enable the operations with better capabilities, and increase operational efficiencies. At the customer experience level, Bank Audi Lebanon introduced tools to support the branches in better serving customers. These tools include the Omni-channel whereby the Bank launched three new platforms (state-of-the-art ATMs, an integrated Contact Center, and the second phase of Internet Banking and Supply Chain Portal). In parallel, efforts were made to enable the organisation with better capabilities, whereby new solutions were recently introduced, covering Trade Innovation, Order Management System, and Customer Onboarding and Loan Origination System.

On another note, one of the most strategic developments at Bank Audi in 2018 is the European Bank for Reconstruction and Development (EBRD) completing an equity investment in Bank Audi sal on 15 March 2018. This marks the EBRD's first-ever investment in Lebanon, and its first equity investment in a banking institution in the southern and eastern Mediterranean (SEMED) region. The EBRD acquired common ordinary shares of Bank Audi listed on the Beirut Stock Exchange, representing approximately 2.51% of its total common shares outstanding.

Bank Audi is a longstanding partner of the EBRD, with investment supporting small and medium-sized enterprises, as well as trade in Bank Audi sae (Egypt) and in Odea Bank in Turkey, in which the EBRD has also invested in equity. Nonetheless, this new USD 65 million equity investment, which comes in the context of persisting challenging regional conditions, is of particular importance as it shows the confidence of EBRD in the Bank's performance and direction at a time when Bank Audi continues to consolidate and reinforce its leadership in Lebanon and market positioning across its core countries of operations, in particular in Egypt and Turkey. It also helps send a positive signal on the growth potential and a strong vote of confidence in the resilience of the Group.

In closing, we leave our final words for our main stakeholders, in particular our clients, our staff and our shareholders. We definitely owe such accomplishments to our shareholders for their trust and loyalty, to our staff for their dedication which remains the pillar of our success and which deserves all our gratefulness and support, and to our clients for choosing Bank Audi as their banking partner.

Samir N. Hanna
Chairman and Group Chief Executive Officer



FINANCIAL HIGHLIGHTS

USD 47.2 billion
Total assets

USD 32 billion
Total customers' deposits

USD 13.3 billion
Total loans to customers

USD 3.9 billion
Total shareholders' equity

USD 501 million
Net profits in 2018

OUR BANK AT A GLANCE

188
Years of banking experience

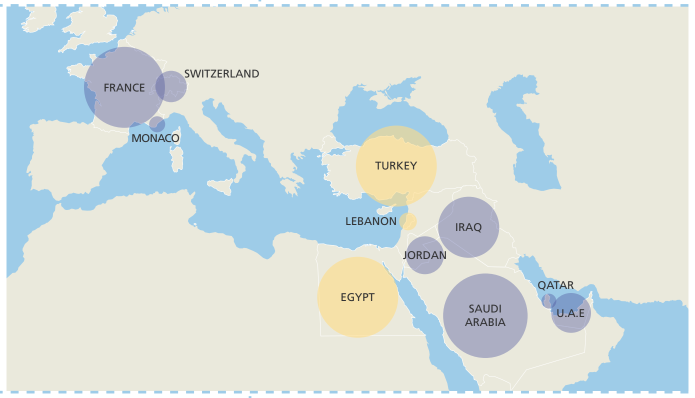
11
Different countries of presence

#1
in Lebanon in terms of assets

1.1 million
Customers served through **201** branches and **6,306** employees

USD 12.2 billion
of assets under management underscoring the importance of the Private Banking business line

Listed
Listed on both the Beirut Stock Exchange and the London Stock Exchange



USD 8 billion
Annual trading volume in 2018; market maker on Lebanese TBs and sovereign bonds

87%
of our staff are university graduates

GRI Standards
Pioneering the reporting standards in the MENA region

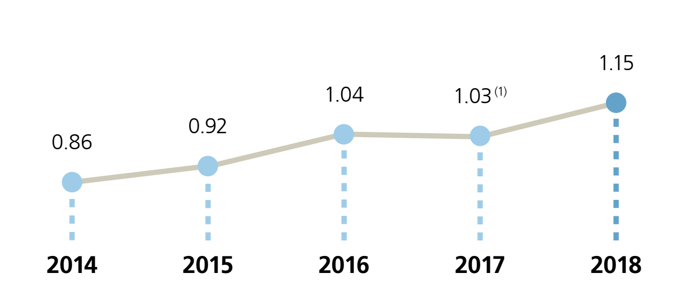
ESMS
Environmental and Social Management system integrated into core credit decision since 2013

BANK AUDI sal: SELECTED FINANCIAL HIGHLIGHTS (USD MILLION)

	2014	2015	2016	2017	2018	CAGR 14-18
Assets	41,961	42,270	44,267	43,752	47,201	2.99%
Loans to customers	17,171	17,929	17,215	16,294	13,267	-6.24%
Customers' deposits	35,821	35,609	35,955	33,451	31,956	-2.81%
Shareholders' equity	3,348	3,287	3,698	4,188	3,886	3.80%
Net earnings	350	403	470	559	501	9.33%
Number of branches	207	217	201	203	201	-0.73%
Number of staff	6,408	6,891	7,017	6,541	6,306	-0.40%
Liquidity and loan quality						
Liquid assets/Deposits	64.84%	64.00%	71.26%	77.31%	100.44%	
Loans to deposits	47.94%	50.35%	47.88%	48.71%	41.52%	
Credit-impaired loans/Gross loans[1]	3.08%	3.14%	2.69%	3.88%	5.52%	
Allowance for ECL Stage 3/Credit-impaired loans (including allowance for ECL Stage 1 & 2)	96.71%	92.12%	149.29%	116.13%	102.82%	
Net credit-impaired loans/Equity	4.69%	6.33%	4.91%	7.18%	7.40%	
Allowance for ECL Stage 1 & 2/Net loans	0.81%	0.90%	2.43%	2.50%	2.33%	
Capital adequacy						
Equity/Assets	7.98%	7.78%	8.35%	9.57%	8.23%	
Common equity Tier 1 ratio	8.78%	8.71%	9.09%	10.51%	11.37%	
Capital adequacy ratio	13.49%	13.36%	14.78%	16.93%	18.91%	
Profitability						
Cost to income	55.08%	53.82%	46.95%	51.18%	46.27%	
ROAA	0.90%	0.96%	1.10%	1.06%	1.12%	
ROACE	13.63%	13.69%	14.76%	13.41%	14.00%	

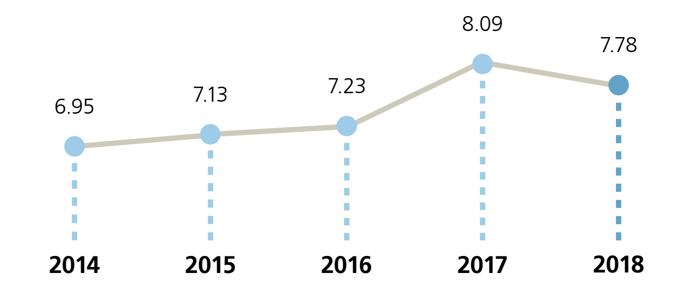
[1] After adoption of IFRS 9

COMMON EARNINGS PER SHARE (USD)

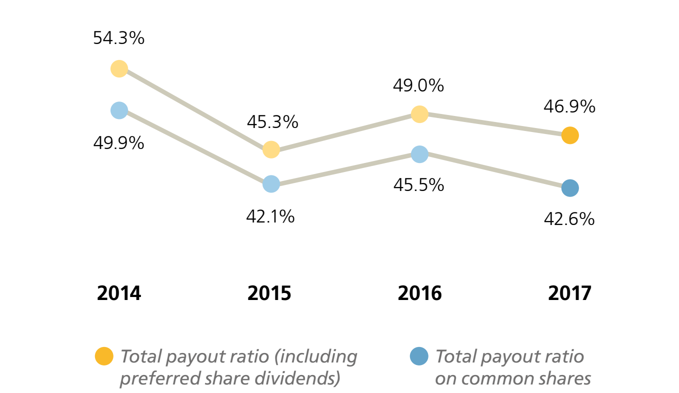


[1] Excluding net profits from discontinued operations.

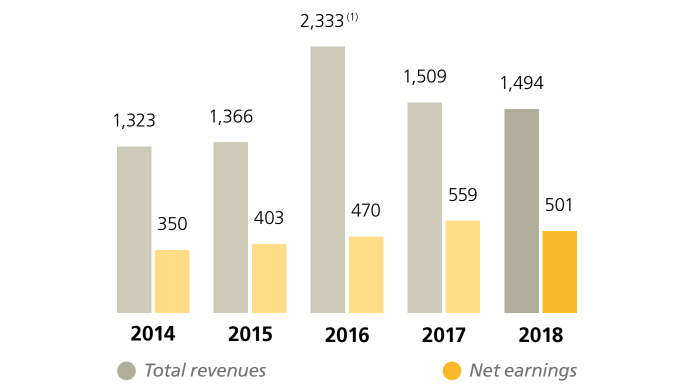
COMMON BOOK PER SHARE (USD)



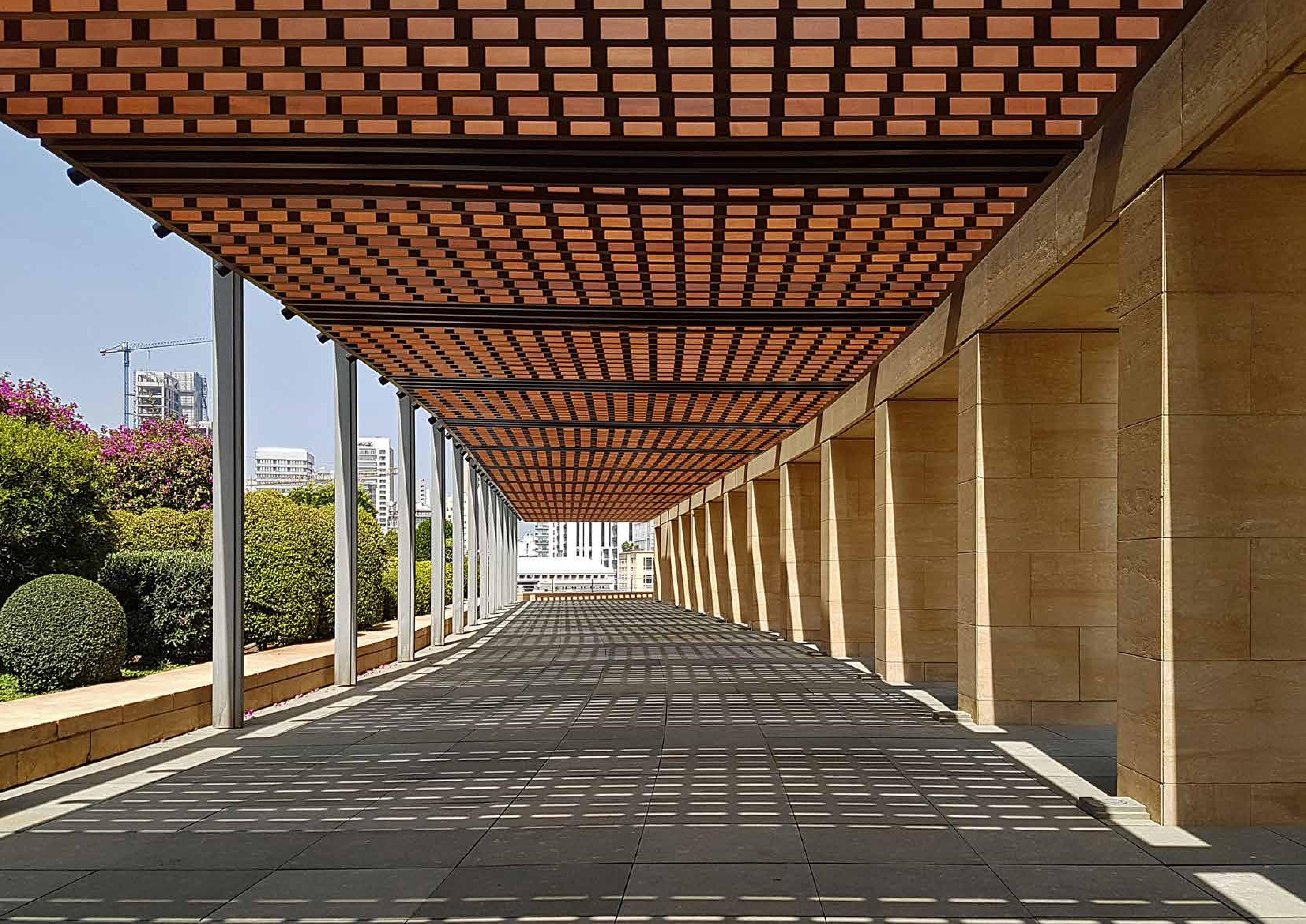
PAYOUT RATIO



REVENUES AND NET EARNINGS (USD MILLION)



[1] USD 1,477 million excluding non recurrent revenues related to exchange transactions with the Central Bank of Lebanon.



01
CORPORATE GOVERNANCE

Merging generations

Allows you to move forward with human purpose, with the partnership of past learnings, current goals, and harnessing and leveraging the power of technology.

1.0. | CORPORATE GOVERNANCE FRAMEWORK

INTRODUCTION

The Board of Directors of Bank Audi aims at achieving the Group's long-term success through the implementation of Governance practices that promote continuity, consistency, and effectiveness in the way the Board operates and governs the Bank.

The year 2018 witnessed continuing political and economic uncertainties in the Group's main countries of presence, entailing a particular attention by the Board to prudent and effective controls, within a continuous focus on ensuring strategic direction and management supervision. The year was also characterised by the entry into effect of IFRS 9, that entailed a particular supervision by the Board and by its Audit and Risk Committees, as well as the adoption and implementation of specific policies, and the creation of a special IFRS 9 Management Committee to oversee implementation and adopt accounting treatments. Other changes introduced to the Governance framework of the Bank during 2018 included the adoption of a comprehensive Board members succession plan, as well as the adoption, review and/or update of a number of policies. The Board also continued to monitor the evolution in Governance-related regulations and best practices in order to ensure that the necessary changes are introduced to its own guidelines and processes, and to ensure that the Bank's business and operations are conducted with integrity and in compliance with the relevant laws, regulations, internationally accepted principles and best practices of Corporate Governance and business ethics.

The Board is satisfied that, in 2018, it fully discharged all its responsibilities, as mapped in its yearly rolling agenda, and acted on the recommendations of its committees in a way to meet its obligations towards its shareholders and to all other stakeholders. The Board is also satisfied that the Bank's Governance framework conforms to applicable directives and guidelines, and is adapted to the Bank's needs and to the high expectations of its stakeholders.

GOVERNANCE FRAMEWORK

Bank Audi is governed by a Board of Directors consisting of up to 12 members (currently 11) elected by the General Assembly of shareholders for terms not exceeding 3 years. The responsibility of the Board is to ensure strategic direction, management supervision and adequate control of the company, with the ultimate goal of increasing the long-term value of the Bank.

Bank Audi's Governance framework and that of its major banking subsidiaries encompass a number of policies, charters, and terms of reference that shape the Group's Governance framework over a wide range of issues including risk supervision, compliance, AML/CFT, audit, remuneration, evaluation, succession planning, ethics and conduct, budgeting, and capital management. Clear lines of responsibility and accountability are in place throughout the organisation with a continuous chain of supervision for the Group as a whole, including effective channels of communication of the Group Executive Committee's guidance and core group strategy. Strategic objectives setting corporate values and promoting high standards of conduct have been established and widely communicated throughout the Group, providing appropriate incentives to ensure professional behaviour.

The Bank's Corporate Governance Guidelines are accessible on the Bank's website at bankaudigroup.com

The Board is supported in carrying out its duties by the Audit Committee, the Risk Committee, the Remuneration Committee, the Compliance/AML/CFT Board Committee, the Corporate Governance and Nomination Committee, and the Executive Committee.

- The mission of the Group Audit Committee is to assist the Board in fulfilling its oversight responsibilities as regards: (i) The adequacy of accounting and financial reporting policies; (ii) the integrity of the financial statements and the reliability of disclosures; (iii) the appointment, remuneration, qualifications, independence and effectiveness of the external auditors; and (iv) the independence and effectiveness of the internal audit function[1].
- The mission of the Group Risk Committee is to assist the Board in discharging its risk-related responsibilities. The Committee is expected to: (i) consider and recommend the Group's risk policies and risk appetite to the Board; (ii) monitor the Group's risk profile for all types of risks; and (iii) oversee the management framework of the aforementioned risks, and assess its effectiveness.
- The mission of the Remuneration Committee is to assist the Board in maintaining a set of values and incentives for Group executives and employees that are focused on performance and promote integrity, fairness, loyalty and meritocracy.
- The mission of the Compliance/AML/CFT Board Committee is to assist the Board of Directors in its functions and supervisory role with respect to: (i) fighting money laundering and terrorist financing and understanding the related risks, and assisting it with making the appropriate decisions in this regard; (ii) protecting the Bank from other compliance-related risks, and, more generally, overseeing the Bank's compliance with applicable laws, policies and regulations.
- The mission of the Corporate Governance and Nomination Committee is to assist the Board in maintaining an effective institutional and Corporate Governance framework for the Group, an optimal Board composition, and effective Board processes and structure.
- The mission of the Group Executive Committee is to develop and implement business policies for the Bank and to issue guidance for the Group within the strategy approved by the Board. The Group Executive Committee also supports the Group Chief Executive Officer in the day-to-day running of the Bank and in guiding the Group.

[1] It is not the duty of the Audit Committee to plan or to conduct audits or make specific determinations that the Bank's statements and disclosures are complete and accurate, nor is it its duty to assure compliance with laws, regulations and the Bank's Code of Ethics and Conduct. These are the responsibilities of Management and/or of external auditors.

2.0. | SHAREHOLDING STRUCTURE

The following table sets out the composition of the holders of common shares as at 28 February 2019:

Shareholders/Groups of Shareholders	Country (Ultimate Economic Ownership)	Percentage Ownership[1] (%)
FRH Investment Holding sal	Lebanon	9.65
Audi family[2]	Lebanon	6.90
Family of late Sheikha Suad Hamad Al Saleh Al Homaizi	Kuwait	6.04
Sheikh Dhiab Bin Zayed Al Nehayan	United Arab Emirates	4.97
Al Sabah family[2]	Kuwait	4.71
Investment and Business Holding sal	Lebanon	3.61
Oun Hussein Khashlook Group	Iraq	2.56
Al Hobayb family[2]	Kingdom of Saudi Arabia	2.55
European Bank for Reconstruction and Development – EBRD	—	2.51
International Finance Corporation – IFC	—	2.50
Ali Ghassan El Merhebi family	Lebanon	2.35
Said El Khoury family	Lebanon	2.22
Kel Group	Lebanon	2.15
Mohammed Bin Dhoheyan Bin Abdul Aziz Al Dhoheyan	Kingdom of Saudi Arabia	2.01
Executives and employees[3]	Lebanon	3.76
Others	—	11.51
The Bank of New York Mellon[4]	—	30.00
Total shareholding[5]	—	**100.00**

[1] Percentage ownership figures represent common shares owned by the named shareholders and are expressed as a percentage of the total number of common shares issued and outstanding.

[2] The Audi family, Al Sabah family and Al Hobayb family include the following members of the Board: (i) Marc Jean Audi and Sherine Raymond Audi, (ii) Mariam Nasser Sabah Al Nasser Al Sabah, and (iii) Abdullah Al Hobayb, respectively.

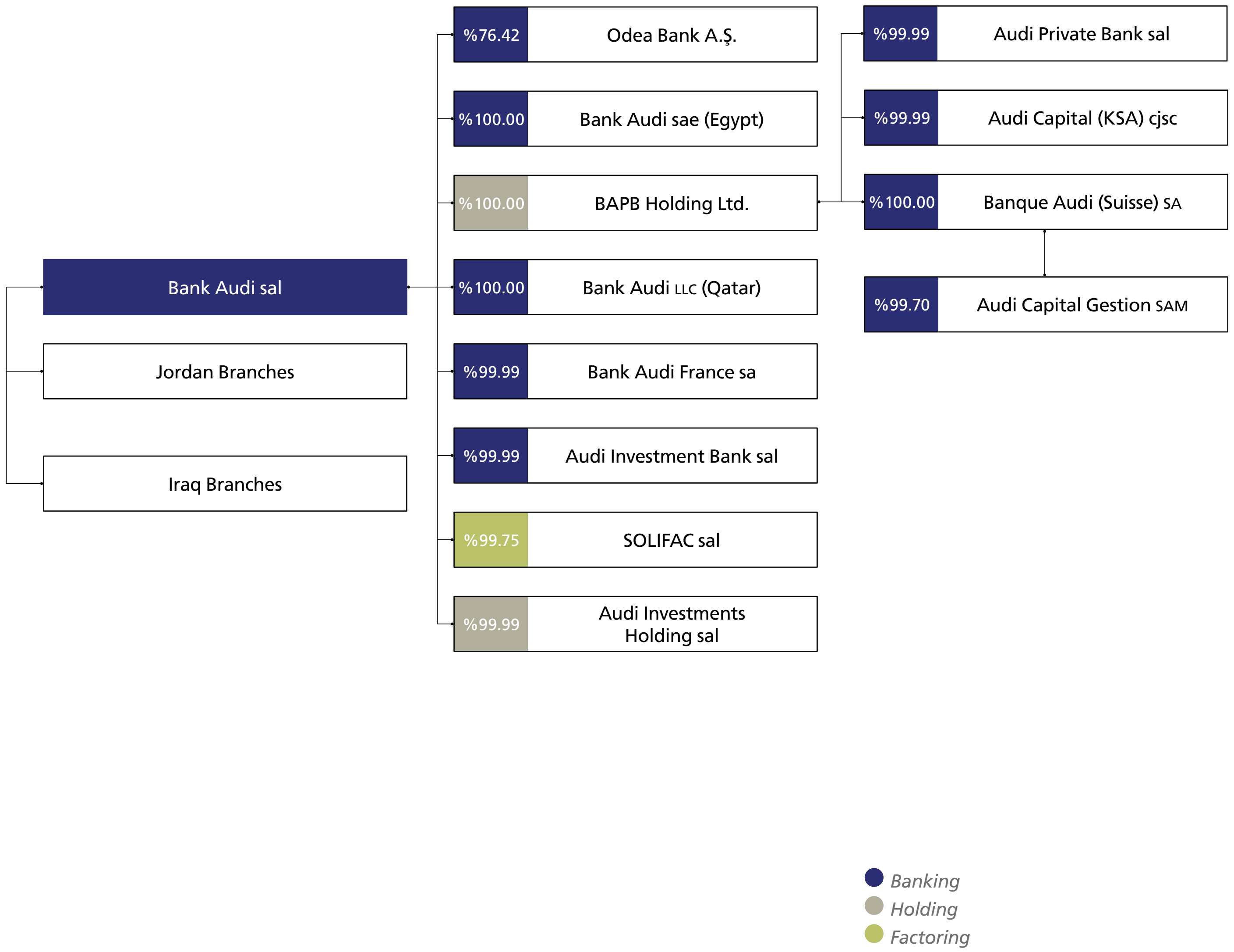
[3] Excluding members of the Audi family accounted for in a separate row above.

[4] The Bank of New York Mellon holds common shares in its capacity as depositary under the Bank's GDR Program.
In addition to the ownership of common shares mentioned above, 10.60 % of the Bank's common shares are held through GDRs by each of FRH Investment Holding sal (including by its controlling shareholder), the Audi family, the family of late Sheikha Suad H. Al Homaizi, Sheikh Dhiab Bin Zayed Al Nehayan, and the Al Hobayb family (respectively 2.30%, 0.92%, 1.81%, 3.13% and 2.44%). Information on GDR ownership is based on self-declarations (pursuant to applicable Lebanese regulations) as GDR ownership is otherwise anonymous to Bank Audi.

[5] As at the date hereof, the total number of common shares was 399,749,204. The Bank (and its affiliates) is the custodian of shares and/or GDRs representing 70.19% of the Bank's common shares.

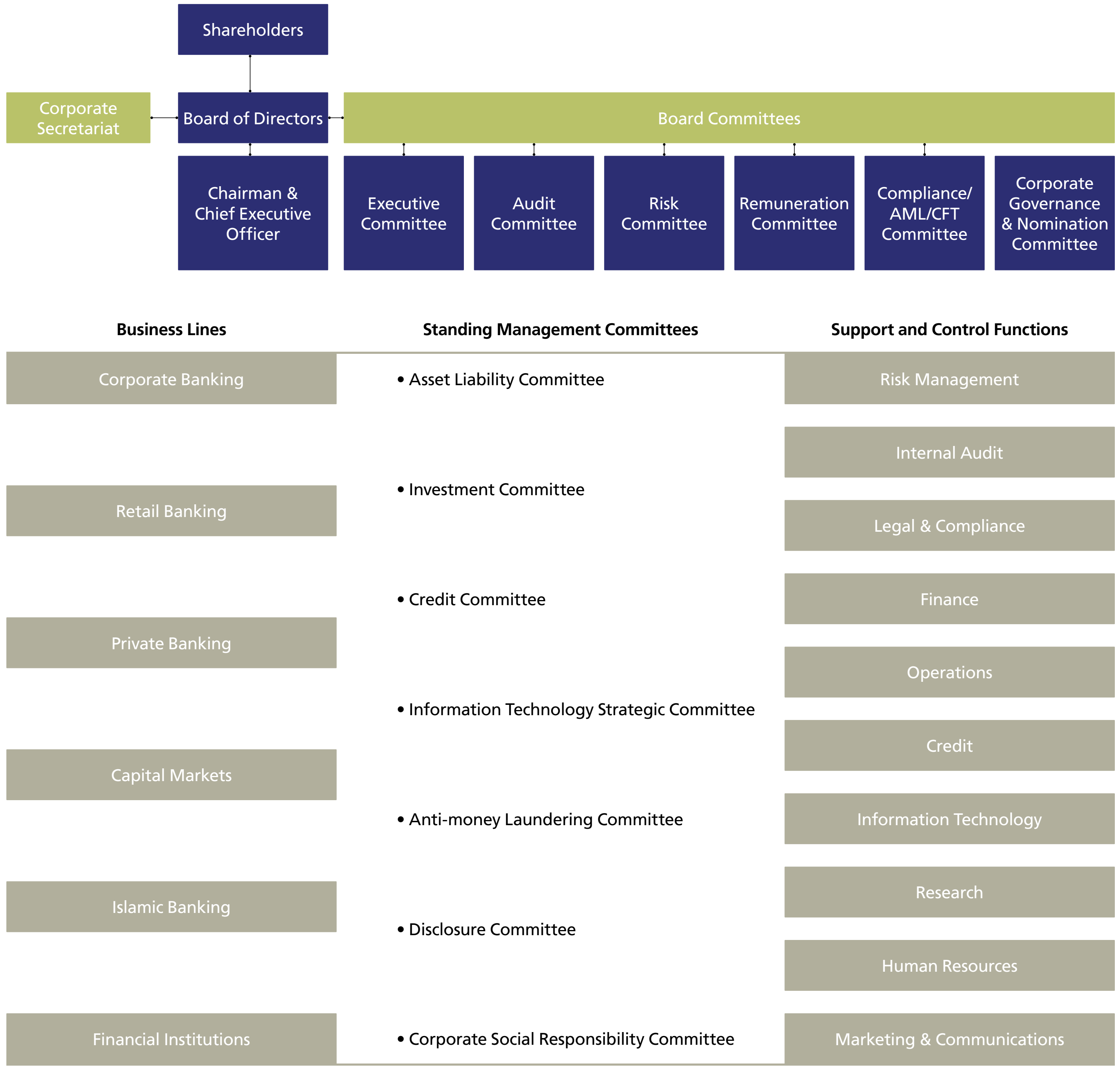
3.0. | CORPORATE STRUCTURE

The major subsidiaries and branches abroad of Bank Audi sal as at 31/12/2018 are:



Percentage ownership represents the economic ownership of the Bank with direct and/or indirect ownership through subsidiaries.

4.0. | GROUP HIGH LEVEL CHART



5.0. | BOARD OF DIRECTORS

H.E. Mr. Raymond W. AUDI serves as Honorary Chairman since his resignation in April 2017.

COMPOSITION OF THE BOARD OF DIRECTORS

Out of the 11 current members of the Board of Directors, 8 were elected by a resolution of the Ordinary General Assembly of shareholders held on 8 April 2016 for a three-year term and 3 were elected by a resolution of the Ordinary General Assembly of shareholders held on 10 April 2017 for the remainder of the current Board's mandate (i.e. until the Annual General Assembly expected to be held in April 2019, that will examine the activity and accounts of the year 2018).

The Ordinary General Assembly expected to be held in April 2019, will consider the election of a new Board of Directors for a three-year term expiring on the date of the annual Ordinary General Assembly meeting (expected to be held in April 2022) that will examine the accounts and activity of the year 2021.

The names of Directors[1] serving at the date of this report are the following:

MEMBERS	Independent (as per the Bank's Corporate Governance Guidelines[2])	Member of the Group Executive Committee	Member of the Group Audit Committee	Member of the Board Group Risk Committee	Member of the Remuneration Committee	Member of the Compliance/ AML/ CFT Board Committee	Member of the Corporate Governance and Nomination Committee
Mr. Samir N. HANNA *(Chairman)*		Chair •					Chair •
Dr. Marwan M. GHANDOUR *(Vice-Chairman)*	•		Chair •		Chair •		•
Dr. Freddie C. BAZ *(Vice-Chairman)*		Deputy Chair •		•		•	•
Mr. Marc J. AUDI		•					
Sheikha Mariam N. AL SABAH	•						
Dr. Imad I. ITANI		•				•	
Mr. Abdullah I. AL HOBAYB	•		•		•		
Dr. Khalil M. BITAR	•		•	Chair •	•		
Ms. Sherine R. AUDI						•	
Mr. Carlos A. OBEID	•					Chair •	
Mr. Aristidis I. VOURAKIS		•		•			

SECRETARY OF THE BOARD

Mr. Farid F. LAHOUD
(Group Corporate Secretary)

The Board is advised, for Audit Committee matters, by **Mr. Maurice H. Sayde** (who served as a member of the Board and Chairman of its Group Audit Committee from June 2006 until July 2008).

[1] Listed according to their dates of appointment (beyond the Vice-Chairmen).

[2] Definition of "Director independence" as per the Bank's Governance Guidelines (summary):
"In order to be considered independent Director by the Board, a Director should have no relationship with the Bank that would interfere with the exercise of independent judgment in carrying out responsibilities as a Director. Such a relationship should be assumed to exist when a Director (him/herself or in conjunction with affiliates):
- *is occupying, or has recently occupied an executive function in the Bank or the Group;*
- *is providing, or has recently provided advisory services to the Executive Management;*
- *is a major shareholder (i.e. owns, directly or indirectly, more than 5% of outstanding Bank Audi common stock), or is a relative of a major shareholder;*
- *has, or has recently had a business relationship with any of the Senior Executives or with a major shareholder;*
- *is the beneficiary of credit facilities granted by the Bank;*
- *is a significant client or supplier of the Bank;*
- *has been, over the 3 years preceding his appointment, a partner or an employee of the Bank's external auditor;*
- *is a partner with the Bank in any material joint venture.*

In addition to the above, the Board of Directors is satisfied with the ability of the independent Directors to exercise sound judgment after fair consideration of all relevant information and views without undue influence from Management or inappropriate outside interests."

FREQUENCY OF MEETINGS

In 2018, the Board of Directors held 8 meetings, the Group Audit Committee held 6 meetings, the Group Risk Committee held 6 meetings, the Remuneration Committee held 3 meetings, the Compliance/AML/CFT Board Committee held 4 meetings, the Corporate Governance and Nomination Committee held 3 meetings, and the Group Executive Committee held 27 meetings.

CHANGES TO THE BOARD OF DIRECTORS DURING THE YEAR 2018

During the year the 2018, no changes were brought to the composition of the Board of Directors.

GROUP SHARIA' SUPERVISORY BOARD

Dr. Mohamed A. ELGARI (Chair)

Sheikh Nizam M. YAQOOBI

Dr. Khaled R. AL FAKIH

LEGAL ADVISORS

Cortbaoui & Kanaan

AUDITORS

BDO, Semaan, Gholam & Co.

Ernst & Young p.c.c.

6.0. | BIOGRAPHY OF THE HONORARY CHAIRMAN

RAYMOND W. AUDI

RAYMOND W. AUDI
HONORARY CHAIRMAN OF THE BOARD
Age: 86 – Lebanon

Raymond Audi acts as Honorary Chairman of the Board after having decided to stand down from his position as Chairman – General Manager and retire from his corporate responsibilities in order to devote more time to his personal life.

He started his banking career in 1962, when, together with his brothers and with prominent Kuwaiti businessmen, he founded Bank Audi, building on a successful long standing family business. He served as Chairman of the Board of Directors and General Manager from 1998 to 2017 (stepping down temporarily when he served as Minister of the Displaced in the Lebanese government, in line with the sound Governance principles he always upheld).

Raymond Audi has played an instrumental role in leading Bank Audi through an extraordinary journey over more than 50 years, relinquishing his chairmanship after having expressed his great satisfaction at the status of the Bank, as well as his confidence in its future.

The Board of Directors celebrated Raymond Audi's career, expressed its gratitude for his unwavering dedication and leadership, and appointed him Honorary Chairman in April 2017.

In addition to his role at Bank Audi, Raymond Audi served as President of the Association of Banks in Lebanon in 1994, and as Minister of the Displaced in the Lebanese government in 2008.

He is the recipient of several honours and awards, including, in July 2007, an Honorary Doctorate in Humane Letters from the Lebanese American University, and in October 2018, a "Doctorat Honoris Causa" from Université Saint-Joseph.

7.0. | BIOGRAPHIES OF BOARD MEMBERS

SAMIR N. HANNA

CHAIRMAN – GENERAL MANAGER
GROUP CHIEF EXECUTIVE OFFICER
Age: 74 – Lebanon
Director since August 1990
Term expires at the 2019 annual General Assembly of shareholders
- Executive Director
- Chairman of the Group Executive Committee
- Chairman of the Corporate Governance and Nomination Committee

Samir Hanna is the Chairman and Chief Executive Officer of the Bank Audi Group. He joined Bank Audi in January 1963 and held several managerial and executive positions across various departments of the Bank. He was appointed General Manager of Bank Audi in 1986 and member of its Board of Directors in 1990. In the early 1990s, he initiated and managed the restructuring and expansion strategy of Bank Audi, transforming it into a strong banking powerhouse offering universal banking products and services including Corporate, Commercial, Retail, Investment and Private Banking.

He grew the Bank to its current position as the largest bank in Lebanon (and among the top 20 Arab banking groups), with a presence in 11 countries, consolidated assets exceeding USD 47 billion and consolidated deposits exceeding USD 32 billion.

Samir Hanna was elected Chairman of the Board of Bank Audi sal, succeeding Mr. Raymond Audi, on 10 April 2017. He is also the Chairman of Odea Bank A.Ş., Bank Audi's subsidiary in Turkey, and member of the Board of Directors of several other affiliates of Bank Audi.

As Group Chief Executive Officer, he heads all aspects of the Bank's Executive Management.

MARWAN M. GHANDOUR

VICE-CHAIRMAN OF THE BOARD
Age: 75 – Lebanon
Director since March 2000
Term expires at the 2019 annual General Assembly of shareholders
- Independent Non-executive Director
- Chairman of the Group Audit Committee
- Chairman of the Remuneration Committee
- Member of the Corporate Governance and Nomination Committee

Marwan Ghandour is an independent member of the Board of Directors since March 2000 and the Vice-Chairman of the Board of Directors since December 2009. He also serves as member of the Board of Directors of Odea Bank A.Ş., Bank Audi's subsidiary in Turkey (Vice-Chairman until 31 December 2017), and a member of the Board of Directors of Bank Audi sae (Egypt).

Marwan Ghandour is a previous Vice-Governor of the Central Bank of Lebanon. He held this position between January 1990 and August 1993, with primary responsibilities in the area of monetary policy. During this period, he was also a member of the Higher Banking Commission and various other government committees involved in economic policy. In this capacity, he liaised with renowned international institutions such as the International Monetary Fund (IMF), the World Bank and the Bank for International Settlements (BIS). From 1995 until July 2011, Marwan Ghandour served as Chairman and General Manager of Lebanon Invest sal, a leading financial services group in the region whose holding company merged with Bank Audi in 2000.

Since 2000, Marwan Ghandour has also served as member or Chair of the boards of a number of subsidiaries of the Bank Audi Group including (i) Chairman of the Board of Directors of Banque Audi (Suisse) SA from 2011 until 2015, and (ii) Chairman of the Board of Directors of Audi Investment Bank sal from 2005 until 2011.

Marwan Ghandour holds a PhD in Economics (Econometrics) from the University of Illinois (Post-doctorate research at Stanford University).

FREDDIE C. BAZ

VICE-CHAIRMAN OF THE BOARD
GENERAL MANAGER – GROUP STRATEGY DIRECTOR
Age: 66 – Lebanon
Director since March 1996
Term expires at the 2019 annual General Assembly of shareholders
- Executive Director
- Deputy Chairman of the Group Executive Committee
- Member of the Group Risk Committee
- Member of the Compliance/AML/CFT Board Committee
- Member of the Corporate Governance and Nomination Committee

Freddie Baz is the Vice-Chairman of the Board and the Group Strategy Director. He joined the Bank in 1991 as Advisor to the Chairman and founded the Secretariat for Planning and Development at the Bank. As Group Strategy Director, he is now responsible for the development of the Group strategy and for its oversight and communication, internally and externally. In addition to his duties as Group Strategy Director, Freddie Baz held the position of Group Chief Financial Officer from 2006 to 2015, with overall authority over the finance and accounting, MIS and budgeting functions throughout the Group. In March 2015, he decided, jointly with the Group CEO, to hand over his Group CFO responsibilities to his deputy, in conclusion of five years of cooperation and of common efforts to achieve that objective.

In June 2015, Freddie Baz was appointed Vice-Chairman of the Board of Directors of Bank Audi sal and Bank Audi's representative on the Board of Directors of the Association of Banks in Lebanon. He is also the Chairman of the Board of Directors of Bank Audi France sa, a fully owned subsidiary of Bank Audi, and a member of the Board of Directors of several affiliates of Bank Audi. Furthermore, he is the General Manager of Bankdata Financial Services WLL which publishes Bilanbanques, the only reference in Lebanon that provides an extensive structural analysis of all banks located in Lebanon, in addition to other specialised periodicals and reports.

Freddie Baz holds a State PhD degree in Economics from the University of Paris I (Panthéon – Sorbonne).

MARC J. AUDI

GENERAL MANAGER – COUNTRY MANAGER LEBANON
Age: 61 – Lebanon
Director since March 1996
Term expires at the 2019 annual General Assembly of shareholders
- Executive Director
- Member of the Group Executive Committee

Marc Audi is the Lebanon Country Manager of the Bank Audi Group. He serves as a member of the Board of Directors since 1996 and has been a General Manager since 2004.

Marc Audi started his banking career in 1981. He held several executive positions within the Bank Audi Group, in a number of countries including France, the USA (California), Switzerland and Lebanon. Throughout his career, he held executive responsibilities at group level, in Commercial Lending, in Capital Markets and in Private Banking (notably serving as General Manager of Banque Audi (Suisse) SA, the Private Banking arm of the Group, until 2005).

Marc Audi currently serves as member of the Board of Directors of Banque Audi (Suisse) SA and of several other affiliates of the Bank Audi Group.

Marc Audi holds a Master's of Business Administration from the University of Paris IX – Dauphine.

MARIAM N. AL SABAH

BOARD MEMBER
Age: 70 – Kuwait
Director since March 2001
Term expires at the 2019 annual General Assembly of shareholders
- Independent Non-executive Director

Sheikha Mariam Al Sabah is the daughter of late Sheikh Nasser Sabah Al Nasser Al Sabah and the widow of late Sheikh Ali Sabah Al Salem Al Sabah, who was the son of the former Prince of Kuwait and who held several ministerial positions in Kuwait, notably the Ministry of Interior. Sheikh Nasser Al Sabah was one of the founders of Bank Audi.

Sheikha Mariam Al Sabah is a member of the Board of Directors of several Kuwaiti companies.

She is a member of the Board of Directors of Bank Audi since March 2001.

IMAD I. ITANI

GENERAL MANAGER – HEAD OF GROUP RETAIL BANKING
Age: 57 – Lebanon
Director since June 2002
Term expires at the 2019 annual General Assembly of shareholders
- Executive Director
- Member of the Group Executive Committee
- Member of the Compliance/AML/CFT Board Committee

Imad Itani is the Head of Retail Banking of the Bank Audi Group. He serves as a member of the Board of Directors since 2002 and has been a General Manager since 2004.

Imad Itani started his banking career at Bank Audi in 1997, after having worked for a few years in Corporate Finance for major energy companies in Canada.

Imad Itani formed and headed the team that successfully launched the Bank's Retail business line, today a major pillar of the Bank's innovative and leading position. In 2002, he was appointed Deputy General Manager and Member of the Board of Directors. He was later appointed General Manager – Head of Group Retail Banking. In addition to his responsibilities as Head of Group Retail Banking, Imad Itani is also Head of Group Islamic Banking.

He is the Chairman of the Board of Audi Investment Bank sal, a fully owned subsidiary of Bank Audi, and a member of the Boards of Directors (and Chairman of the Audit Committees) of Odea Bank A.Ş., Bank Audi's subsidiary in Turkey, and of Bank Audi sae, Bank Audi's subsidiary in Egypt.

Imad Itani holds a PhD in Economics from the University of Chicago and is a former lecturer in Economics and Finance to graduate students at the American University of Beirut.

ABDULLAH I. AL HOBAYB

BOARD MEMBER
Age: 76 – Saudi Arabia
Director since April 2010
Term expires at the 2019 annual General Assembly of shareholders
- Independent Non-executive Director
- Member of the Group Audit Committee
- Member of the Remuneration Committee

Abdullah Al Hobayb is an independent member of the Board of Directors since 2010. He is the Chairman of several leading companies in their respective fields in Saudi Arabia, comprising ABB Saudi Arabia, Ink Products Company Ltd, Philips Lighting Saudi Arabia, Manufacturers Trading Company Ltd, Arabian Co. For Electrical & Mechanical Works and Electrical Materials Center Co. Ltd.

He is also the Chairman of Audi Capital (KSA) (an Investment Banking subsidiary of Bank Audi, incorporated in the Kingdom of Saudi Arabia) and was, until July 2014, a member of the Board of Directors of Bank Audi sae in Egypt and of Odea Bank A.Ş., Bank Audi's subsidiary in Turkey.

Abdullah Al Hobayb holds a Master's degree in Electrical Engineering from Karlsruhe University in Germany.

KHALIL M. BITAR

BOARD MEMBER
Age: 76 – Lebanon
Director since April 2010
Term expires at the 2019 annual General Assembly of shareholders
- Independent Non-executive Director
- Chairman of the Board Group Risk Committee
- Member of the Remuneration Committee
- Member of the Group Audit Committee

Khalil Bitar is an independent member of the Board of Directors since2010. He is a current Professor of Physics and a former Dean of the Faculty of Arts and Sciences of the American University of Beirut (AUB). He held this last position from 1997 until 2009, playing an instrumental role in advocating AUB's strengths and regional position as the premier centre for higher education, and in re-stablishing its PhD programs.
Throughout his career, he held several academic and administrative positions, including Associate Director of the Supercomputer Computations Research Institute – Florida State University (between the years 1994 and 1997) and visiting Professor at leading academic institutes in Europe and North America (including the European Organisation for Nuclear Research in Geneva, the International Centre for Theoretical Physics in Italy, The Institute for Advanced Study in New Jersey, the Fermi National Accelerator Laboratory (Fermilab) in Illinois, the University of Illinois, Brookhaven National Lab. in New York, the Max Planck Institute in Munich, and the Rockefeller University in New York). He also served two mandates as member of The Institute for Advanced Study in Princeton, New Jersey, between 1968 and 1972.
Khalil Bitar is also a member of the Board of Directors of Audi Private Bank sal and the Chairman of its Risk Committee. He also served as member of the Board of Directors of Audi Investment Bank sal and Chairman of its Risk Committee from March 2012 until November 2013, and continues to serve as advisor to its Board for Risk Committee matters.

Khalil Bitar holds a Bachelor of Science degree in Physics from the American University of Beirut, a Master's of Science degree in Physics, and a PhD in Theoretical Physics from Yale University in the United States.

SHERINE R. AUDI

GENERAL MANAGER AND BOARD MEMBER OF BANK AUDI FRANCE
Age: 58 – Lebanon
Director since April 2017
Term expires at the 2019 annual General Assembly of shareholders
- Executive Director
- Member of the Compliance/AML/CFT Board Committee

Sherine Audi is the General Manager of Bank Audi France sa ("BAF"), the French subsidiary of the Bank. She started her banking career in 1980 at BAF, now a fully owned subsidiary of Bank Audi sal.

She held several positions there, including in credit, business development, operations and administration, while gradually climbing the corporate ladder. She was appointed Assistant General Manager in 1995, then Executive Director in 2000, and Director – General Manager since 2010. In this capacity, she is now in charge of the development and implementation of the strategy of BAF, as approved by the Board. She heads all the executive aspects of BAF's activity and drives its strategic transformations (including technological and regulatory ones) as required by the current market rules and practices.

She also acts as the representative of BAF towards the French banking authorities and professional organisations.

Sherine Audi holds a diploma of Certified Director (by Sciences Po. Paris, jointly with the French Institute of Directors).

CARLOS A. OBEID

BOARD MEMBER
Age: 54 – Lebanon
Director since April 2017
Term expires at the 2019 annual General Assembly of shareholders
- Independent Non-executive Director
- Chairman of the Compliance/AML/CFT Board Committee

Carlos Obeid is the Group Chief Financial Officer of Mubadala Investment Company. In this position, he is responsible for the provision of specialist advisory and transactional services across the organisation and its related companies (Project & Corporate Finance, Treasury, Financial Planning & Business Performance, Mergers and Acquisitions).

He has an extensive experience including in (i) strategic planning and valuation assessment, (ii) automation of finance systems, and (iii) credit rating processes and reviews, having raised over USD 6.5 billion in corporate bonds, over USD 2.5 billion in project bonds, and over USD 12 billion in project finance). He played a leading role in capital deployments totaling over USD 35 billion.

He has also been responsible for strategic steering and guidance, for senior leadership recruitment and assessment, and, where applicable, for the establishment, restructuring or realignment of listed companies (including ALDAR and Waha Capital), joint ventures (including Mubadala-GE Capital, Capitala, Viceroy Hotel Group) and wholly owned entities (Cleveland Clinic Abu Dhabi, Yahsat, Global Foundries, Masdar).

Carlos Obeid holds an MBA degree from INSEAD (1991), and a Bachelor of Electrical Engineering from AUB (1986).

ARISTIDIS I. VOURAKIS

GENERAL MANAGER – DEPUTY GROUP CHIEF EXECUTIVE OFFICER
Age: 43 – Greece
Director since April 2017
Term expires at the 2019 annual General Assembly of shareholders
- Executive Director
- Member of the Group Executive Committee
- Member of the Group Risk Committee

Aristidis Vourakis joined the Bank as Deputy Group Chief Executive Officer in April 2017 after 19 years with J.P. Morgan, where he was Managing Director leading J.P. Morgan team focusing on Financial Institutions in Central Eastern Europe, Middle East, and Africa. He was also JP Morgan's Senior Country Officer for Greece and Cyprus.

Based out of London, Aristidis Vourakis has led a large number of capital raising, funding and IPO transactions for credit institutions across Europe, and managed the development and implementation of regional expansion strategies and group reorganisations. He has also supported a number of Greek companies and the sovereign itself, in accessing international capital markets following the sovereign debt restructuring in 2012.

He is currently a member of the Board of Directors of several affiliates of Bank Audi.

Aristidis Vourakis holds an M.Sc. in Accounting and Finance with distinction from the London School of Economics and Political Science.

8.0. | GROUP EXECUTIVE COMMITTEE

VOTING MEMBERS

Mr. Samir N. HANNA *(Chair)*	Chairman – General Manager & Group Chief Executive Officer
Dr. Freddie C. BAZ *(Deputy Chair)*	Group Strategy Director
Mr. Marc J. AUDI	Country Manager Lebanon
Dr. Imad I. ITANI	Head of Group Retail Banking
Mr. Aristidis I. VOURAKIS	Deputy Group Chief Executive Officer
Mr. Khalil I. DEBS	Group Head of Corporate Banking
Mr. Tamer M. GHAZALEH	Group Chief Financial Officer
Mr. Philippe R. SEDNAOUI	Group Head of Private Banking

NON-VOTING MEMBERS

Mr. Chahdan E. JEBEYLI	Group Chief Legal & Compliance Officer
Mr. Mohamad A. FAYED	Chief Executive Officer & Managing Director – Bank Audi sae (Egypt)

INVITEES

Mr. Elia S. SAMAHA	Group Chief Credit Officer
Mr. Michel E. ARAMOUNI	DGM – Group Capital Markets

SECRETARY

Mr. Farid F. LAHOUD	Group Corporate Secretary

9.0. | REMUNERATION POLICY AND PRACTICES

Based on the recommendation of its Remuneration Committee, the Board has approved a "Group Compensation and Benefits Policy" founded on the following principles:

1. The objective of the Policy is to establish coherent and transparent Compensation and Benefits practices in the Bank and the Group, that are consistent with the Bank's culture, business, long-term objectives, risk strategy, performance, and control environment, as well as with legal and regulatory requirements.

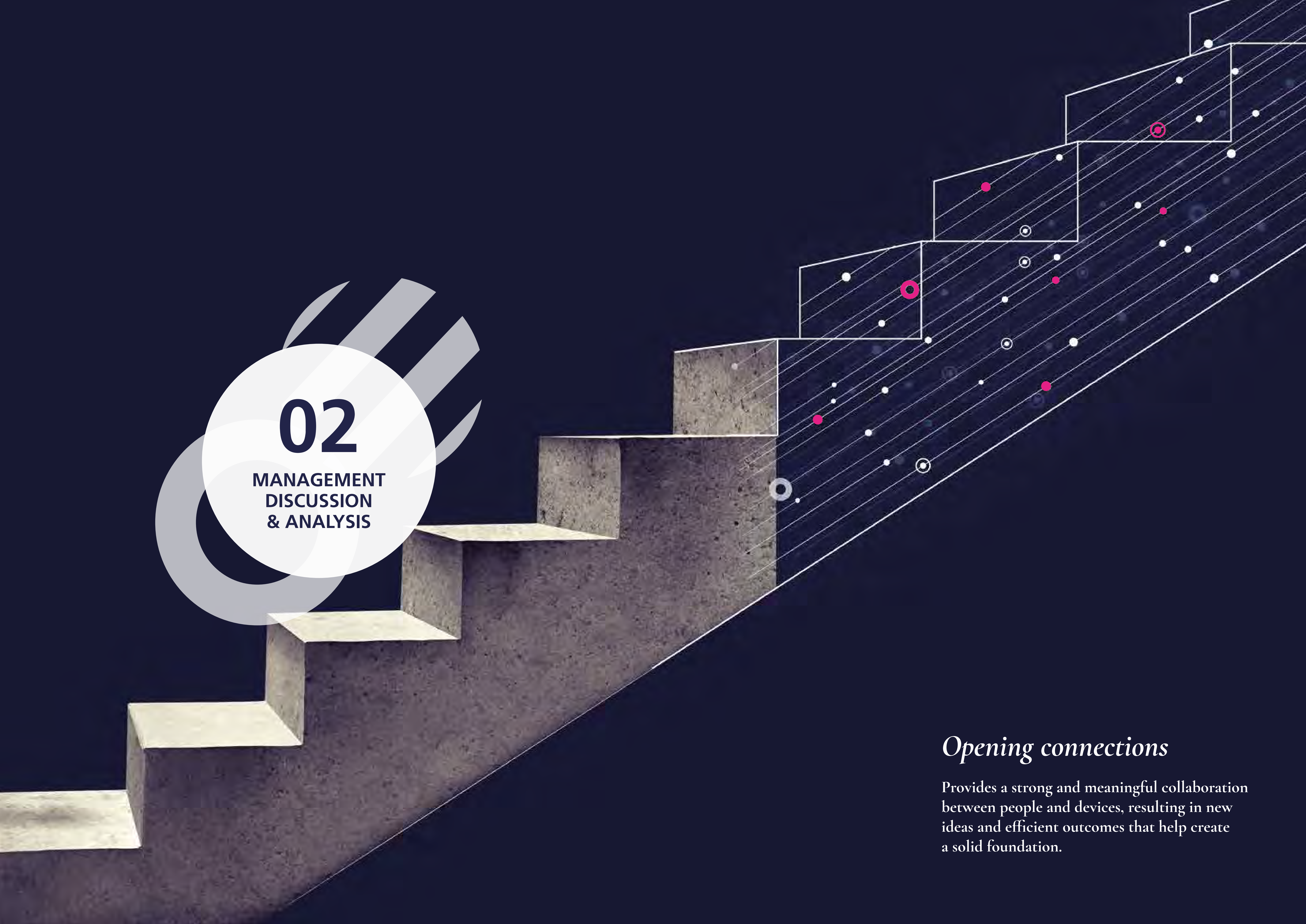
2. It is Bank Audi's policy to provide all employees of the Group with a comprehensive and competitive compensation package that is commensurate with each employee's position, grade and performance. Such performance is assessed on the following 3 performance criteria: key job responsibilities, SMART business goals, and behavioural competencies. Individual compensations are also linked to the achievement of objectives and are aligned with prudent risk taking. The compensation and benefits of control functions are determined in a way that preserves their objectivity and independence.

3. The aggregate consolidated amount of compensation and benefits paid by the Bank is included in the annual budget approved by the Board and is set in a way not to affect the Group's medium and long-term capacity to sustain such levels of compensation nor its financial position or its interests.

4. Core Compensation and Benefits include basic salary and performance-based bonus (in addition to a number of ancillary benefits including individual and family medical coverage, education allowances, and others).

5. There is currently no outstanding stock-related compensation. And there are no compensation arrangements encompassing claw backs or deferrals of payments, save for matters resulting from applicable laws and regulations. Amounts of compensation paid annually are disclosed in accordance with the International Financial Reporting Standards and with the provisions of Article 158 of the Lebanese Code of Commerce.

As reported in the Bank's financial statements, salaries, bonuses, attendance fees and other short-term benefits awarded to key Management personnel (as defined in Note 51 accompanying the financial statements), during the year 2018, amounted to LBP 39,272 million, in addition to post-employment benefits aggregating LBP 2,567 million. Provision for end-of-service benefits of key Management personnel amounted to LBP 4,190 million as of 31 December 2018 (2017: LBP 10,705 million).



02 MANAGEMENT DISCUSSION & ANALYSIS

Opening connections

Provides a strong and meaningful collaboration between people and devices, resulting in new ideas and efficient outcomes that help create a solid foundation.

1.0. | OVERVIEW OF BANK AUDI sal

Bank Audi is a diversified banking group operating principally in Lebanon, the MENA region and Turkey, with activities in 11 countries through a network of branches and subsidiaries developed primarily through green-field operations.

Bank Audi ranks first among Lebanese banks and is among the top 20 Arab banking groups. As at 31 December 2018, Bank Audi's total consolidated assets were USD 47.2 billion and its shareholders' equity was USD 3.9 billion. Bank Audi's consolidated net income after tax was USD 501 million in 2018. With leading position in its key markets, the Bank Audi Group benefits from a strong franchise in Corporate and Commercial Banking, Retail and Individual Banking, Private Banking and Wealth Management, as well as Treasury and Capital Markets activities and a well-known profile throughout the MENA region and Turkey. The Group serves 1.1 million customers through a talent pool of 6,306 staff and a network of 201 branches and 479 advanced self-service machines (ITMs, ATMs and "NOVO e-branch" (which are fully electronic branches allowing the Bank to offer, in addition to the transactional activities, advisory to clients enabling them to apply to loans and services, outside the Bank's normal working hours), digital channels (Online and Mobile Banking).

Founded in 1830, Bank Audi is registered in the Beirut Commercial Registry under number 11347 and in the Lebanese list of banks under number 56. Bank Audi is licensed by the Central Bank of Lebanon. The Central Bank of Lebanon is the lead supervisor of Bank Audi and its subsidiaries. Bank Audi's head office and registered address is Bank Audi Plaza, Omar Daouk Street, Bab Idriss, P.O. Box: 11-2560, Beirut, Lebanon.

The initial shareholders of the Bank were members of the Audi family, together with certain Kuwaiti investors. Today, the shareholder base comprises more than 1,500 holders of common shares and Global Depositary Receipts (representing common shares), including individual investors, institutional investors and two supranational agencies. The Global Depositary Receipts are listed on both the Beirut Stock Exchange (the "BSE") and the London Stock Exchange, and the Bank's common shares are listed on the BSE. In September 2014, the International Finance Corporation ("IFC"), a member of the World Bank Group, acquired common shares representing approximately 2.50% of the total outstanding common shares of the Bank. In March 2018, the European Bank for Reconstruction and Development acquired common shares representing approximately 2.51% of the total outstanding common shares of the Bank, which is its first-ever investment in Lebanon and its first equity investment in a banking institution in the southern and eastern Mediterranean region.

The Management Discussion and Analysis ("MD&A") that follows covers the consolidated performance of Bank Audi in 2018. The Bank's consolidated financial statements have been prepared in accordance with standards issued or adopted by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee and the general accounting plan for banks in Lebanon and the regulations of the Central Bank and the Banking Control Commission of Lebanon (the "Banking Control Commission" or "BCC") and include the results of the Bank and its consolidated subsidiaries as listed in Note 46 to the 2018 Financial Statements. Ernst & Young p.c.c. and BDO, Semaan, Gholam & Co. have jointly audited the annual financial statements.

Terms such as "Bank Audi", "the Bank" or "the Group" refer to Bank Audi sal and its consolidated subsidiaries. Main development pillars mentioned in the discussion and analysis refer to the following: **Lebanese entities** (consisting of Bank Audi sal, Audi Investment Bank sal and other minor Lebanese entities excluding consolidation adjustments), **Turkey** (representing Odea Bank A.Ş.), **Egypt** (representing Bank Audi sae (Egypt)), **BAPB** (Private Banking entities consisting of Audi Private Bank sal, Banque Audi (Suisse), Audi Capital (KSA), and Audi Capital Gestion (Monaco)), **other entitites** (consisting of Bank Audi France sa, Bank Audi sal – Jordan Branches, Bank Audi sal – Iraq Branches, Bank Audi LLC (Qatar) and other European and MENA entities). References to "IFRS" are to International Financial Reporting Standards.

Certain statements in the MD&A constitute "forward-looking statements". These statements appear in a number of places in this document and include statements regarding the Bank's intent, belief or current expectations or those of the Bank's Management with respect to, among other things, the Bank's results of operations, financial condition and future economic performance; its competitive position and the effect of such competition on its results of operations; trends affecting the Bank's financial condition or results of operations; the Bank's business plans, including those related to new products or services and anticipated customer demand for these products or services and potential acquisitions; the Bank's growth and investment programs and related anticipated capital expenditure; the Bank's intentions to contain costs, increase operating efficiency and promote best practices; the potential impact of regulatory actions on the Bank's business, competitive position, financial condition and results of operations. These forward-looking statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "is expected to", "will", "will continue", "should", "approximately", "would be", "seeks", or "anticipates", or similar expressions or comparable terminology, or the negatives thereof. Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Performance or achievements of the Bank may differ materially from those expressed or implied in the forward-looking statements as a result of various factors. In addition, many other factors could affect the Bank's actual financial results or results of operations and could cause actual results to differ materially from those in the forward-looking statements. The Bank does not undertake to update any forward-looking statements made herein.

As per regulatory requirements, the Bank maintains its accounts in Lebanese Pounds (LBP). Nonetheless, all figures presented in the following MD&A are in US Dollars (USD), unless otherwise stated, since the Bank transacts and funds the large majority of its business in US Dollars and functional currencies linked to the US Dollar. US Dollar amounts are translated from Lebanese Pounds at the closing rate of exchange published by the Central Bank of Lebanon (1,507.5 as of each of 31 December 2017 and 2018). References to foreign currency translation differences reflect the movement of functional currencies in the countries in which the Bank has a presence against the US Dollar.

All references to the Lebanese banking sector are to the 50 commercial banks operating in Lebanon as published by the Association of Banks in Lebanon ("ABL"). All references to the Bank's peer group in Lebanon are to the Alpha Bank Group consisting of 15 banks, with total deposits in excess of USD 2.0 billion each, as determined by Bankdata Financial Services WLL (publishers of Bilanbanques). All references to the Bank's

peer group in the MENA region are to the top regional Arab banking groups as compiled by the Bank's Research Department.

Lebanon's economic and banking data is derived from the International Monetary Fund, the Central Bank of Lebanon, various Lebanese governmental entities, and the Bank's internal sources. The region's economic and banking data is derived from the International Monetary Fund, the Economist Intelligence Unit, Bloomberg, the region's central banks and the Bank's internal sources.

This discussion and analysis starts with an overview of the Bank's strategy, followed by a review of the operating environment and a comparative analysis of the Group's financial conditions and results of operations as at end-December 2018 as compared to end-December 2017. An overview of share information comes next, followed by dividend policy, risk management, resources deployed, compliance, environmental & social management system, and corporate social responsibility.

2.0. | STRATEGY

The year 2018 was yet another productive year for Bank Audi, posting a good performance despite the profound political and economic uncertainties in the Group's main countries of presence. Reinforcing the balance sheet, enhancing the financial flexibility and delivering a solid growth of recurrent net profits were indeed the key headlines of Bank Audi's results during the past year. The Group stayed on track in achieving the set medium term targets of a sustained, albeit measured growth in assets, double-digit growth in recurrent net profits without incurring significant additional risk-weighted assets. Thus, the Group's financial flexibility was further reinforced.

Consolidated assets grew by 8% in 2018 to USD 47.2 billion and generated an 8% growth in recurrent net profits achieved amid the allocation of Odea Bank's operating results to loan loss provisions (compared to a contribution to consolidated net profits of USD 88 million in 2017) and within an increase in taxes on income and interest in Lebanon by USD 106 million. The financial standing and overall efficiency of the Group further improved, as witnessed by an 80.4% primary liquidity to customers' deposits ratio, a 5.5% credit-impaired loans to gross loans ratio (post adoption of IFRS 9), an 18.9% capital adequacy ratio, 10% of positive jaws effect, and a 14% return on average common equity ratio.

Parallel to this business performance, the Group continued to achieve several milestones around technology and innovation. The IT/digitalisation transformation plan has continued with success with the launch of a new core banking system, "Flexcube", in Bank Audi sae (Egypt) late 2017, followed by a large scale installation of the Flexcube operating system at the parent company in Beirut, which was almost done in record time with positive results. New digital customer experiences were also rolled as Bank Audi in Lebanon reached a new milestone with 110 thousands active Mobile App customers conducting over 1.2 million monthly logins (+40% year-on-year) to manage their accounts, transactions, do payments, and transfers (internal, local, and international). This transformation has not only changed the technological foundation of the Bank, but also the underlying fabric of the organisation in terms of how we work, think, design, and deliver solutions around customers need.

Going forward, the Group's key strategic priorities are unchanged and continue focusing on its core business competencies while enhancing synergies across entities, enforcing prudent risk and disciplined cost management policies, and upholding best-in-class compliance practices. We also look forward to continue investing towards more digitisation of processes, services and innovative remote delivery of banking to better serve our customers.

The Bank's strategy is based around strengthening its key entities in Lebanon, Egypt and Turkey, and favouring improvements to asset quality, efficiency and profitability over balance sheet growth, while continuing to develop the Private Banking activities. The main objectives of this strategy are as follows:

Reinforce the Leading Positioning in Lebanon through:
- Implementing a cross-selling tool across main business segments to enhance revenues and earnings generation.
- Favouring improvement in operating conditions over balance sheet growth, through a re-pricing of assets and liabilities.
- Imposing a rigorous control of operating expenses through efficiency enhancement initiatives; and,
- Enforcing a tight follow-up on credit quality.

Growth Plans in Egypt Based on:
- A customer-centric approach supported by new tailored products and services to cover new business segments such as Islamic, mass affluent, mortgages and other.
- The introduction of new and innovative channels boasting latest technologies.
- The roll-out of a new branch model aimed at enhancing customers' experience; and,
- Levy all necessary resources so as to provide a conducive environment for the success of this plan.

Strengthen the Balance Sheet in Turkey while Focusing on Improving Efficiency and Profitability:
- Focus on margin and cost efficiency enhancement to improve bottom line and profitability metrics, along a tight follow-up on credit quality.
- Pursue a controlled and targeted growth strategy, with a particular emphasis on value-added loan growth ensuring good asset quality.
- Maintain the self-funded balance sheet structure, strong liquidity profile, and strong capital buffer; and,
- Leverage on the Group's wide footprint in the MENA region to capture cross-border opportunities and financial synergies on costs and revenues.

Leverage the Group's Expertise in Private Banking
- Improve synergies across entities in Europe, the Near East and the GCC, and increase market share in the MENA region.
- Sustain the growth momentum; and,
- Continue deploying a risk management and control/compliance framework.

The Group's main purpose remains to achieve quality growth by efficiently meeting the needs of both businesses and individuals in the various countries of presence, and ensuring long-term sustainable value to all stakeholders.

3.0. | OPERATING ENVIRONMENT

The global economy saw, during 2018, a continuation of the steady expansion it went through in the past couple of years. Growth across several of the world's largest economies was more or less maintained amid declining unemployment rates which are in some countries below pre-global financial crisis levels, yet proved less balanced. As a matter of fact, global industrial production and trade volumes are decelerating after having witnessed rapid growth in the previous year, adversely affecting investor sentiment and equity prices. Concerns about rising trade protectionism has been weighing on the global investment climate as it would disrupt global value chains. The ongoing trade tensions have resulted in a more uncertain global trade environment weighing to a certain extent on activity momentum and likely leading to reduced appetite for capital spending amid relatively less rosy global conditions. Within this context, the IMF estimated global growth in 2018 to have reached 3.7%, practically the same as the previous year's figure.

Having said that, core inflation, an indicator closely watched by central banks across the world, remains contained even if on the rise in some countries, and close to monetary authorities' targets. As such, global financial conditions remain generally accommodative and supportive of growth, even if they mildly tightened throughout the year 2018. Central banks across the world's largest economies proceeded, during 2018, with interest rate increases or the scaling back of asset purchases as global economic conditions have been favourable. In particular, the US Federal Reserve raised its key interest rate by a cumulative one percentage point in 2018 through four rate hikes. This came amid an accelerating domestic economic activity on the back of fiscal stimulus measures and steady gains in the labour market, though current interest rate levels remain low by historical standards and well below previous recoveries while the Fed announced fewer rate hikes for 2019.

In the MENA region, growth among oil-importing countries has continued at a modest pace in 2018 and is set to strengthen slightly over the medium term. Growth in the region is projected to reach 3.8% in 2018, up from 3.5% in 2017. However, growth is uneven and likely to remain low relative to previous trends, while unemployment remains elevated. Furthermore, higher oil prices are weighing on already weak external and fiscal balances. The outlook is increasingly clouded by tightening global financial conditions, bouts of financial market volatility, and mounting global trade tensions.

The MENA banking sectors remained at the image of macroeconomic developments at large. Measured by the consolidated assets of MENA banks, banking activity reported an annual growth of 3.9% in December 2018 relative to the same month of the previous year. Likewise, deposits registered a growth of 3.7% and loans reported a growth of 2.8% over the same period. Not less importantly, MENA banks' net banking profitability remained under pressure within the context of relatively low activity growth and tough operating conditions in their respective economies.
In Lebanon, Egypt and Turkey, the main markets of presence of the Bank in the region, economic/banking performances were uneven, with improving prospects in Egypt, relative slowdown in Lebanon and rebalancing post-crisis in Turkey.

3.1. | LEBANON

The real sector of the Lebanese economy has witnessed relatively tough conditions in 2018, but the banking sector continues to grow moderately. The IMF has revised down its 2018 real growth for Lebanon to 1% from a previous forecast of 1.5%. BDL estimates Lebanon's 2018 growth within a range of 1.5%-2%. While 2018 has seemingly reported a further slowdown in growth, it is still non-recessionary in the technical definition of recession, i.e. negative growth or net contraction in Lebanon's real economy.

The further growth slowdown in 2018 is related to the overall wait and see attitude characterising private sector investors refraining on investing in Lebanon's various economic sectors within the context of politico-economic uncertainties. Private consumption managed to continue growing moderately (especially benefitting in 2017 from the public sector wage scale) and rising government spending provided a tiny support to growth.

Out of 11 real sector indicators, 5 are up and 6 are down in 2018 relative to the previous year. Among indicators with positive growth, we mention the number of passengers at the airport with an expansion of 7.4%, the number of tourists with a rise of 5.8%, total exports with a growth of 4.3%, total imports with an increase of 2.5%, and electricity production with a growth of 1.2%. Among indicators with negative growth, we mention construction permits with a fall of 23.1%, value of property sales with a contraction of 18.3%, new car sales with a decline of 11.3%, merchandise at the port with a fall of 7.5%, cement deliveries with a decrease of 5.3%, and cleared checks with a decline of 2.5%.

At the banking level, Lebanon's customers' deposits managed to grow by USD 5.6 billion in 2018 (USD 6.8 billion when including financial sector and public sector deposits), against USD 6.2 billion in 2017. In particular, non-resident deposits grew by USD 2.6 billion over year, against a mere USD 1.2 billion over the previous year. At the level of lending however, banks' loans to the private sector almost stagnated in 2018, against a growth of USD 2.5 billion in 2017 and an average growth of USD 3.2 billion over the past five years.
The considerable improvement in non-resident deposit growth partially explains the widening balance of payments deficits between the two periods. The balance of payments recoded a deficit of USD 4.8 billion in 2018, compared to a deficit of USD 156 million over the previous year, amid contracting inflows and widening trade deficit.

At the fiscal level, a net deterioration was reported in public finance conditions, following the relative improvement of the previous year. Lebanon's public finance deficit actually rose from USD 2 billion over the first nine months of 2017 to USD 4.5 billion over the first nine months of 2018, within the context of a 27% growth in public expenditures and a 3% rise in public revenues. Public debt in parallel reached USD 84 billion, the equivalent of 148% of GDP.

At the capital markets level, equity and bond markets came under pressure in 2018. Domestic political uncertainties, along with emerging market weakness, took their heavy toll on the Lebanese Eurobond market. The weighted average yield rose by 341 bps in 2018 to reach 9.95%, falling from a peak level of 11.23% mid-September 2018.

Lebanon's five-year CDS spreads closed the year at 750 bps, up by 249 bps, after crossing above the 800 bps threshold several times during the second half of the year. On the equity market, the BSE saw a 15% drop in prices in 2018 amid increased price volatility, while the total turnover contracted by circa 38% year-on-year.

LEBANON MACRO/BANKING INDICATORS

(LBP Billion)	Dec-17	Dec-18	% Growth
Nominal GDP	81,682	85,489	4.7%
Real GDP growth	1.5%	1.0%	-0.5%
Domestic banks' assets	331,433	376,097	13.5%
Domestic banks' deposits	254,261	262,729	3.3%
Domestic banks' loans	89,977	89,524	-0.5%
(USD Billion)			
Nominal GDP	54.2	56.7	4.7%
Real GDP growth	1.5%	1.0%	-0.5%
Domestic banks' assets	219.9	249.5	13.5%
Domestic banks' deposits	168.7	174.3	3.3%
Domestic banks' loans	59.7	59.4	-0.5%

Sources: IMF, Central Bank of Lebanon, Bank Audi's Group Research Department.

3.2. | EGYPT

In Egypt, the macro environment continued to improve over the past year within the context of the continuation of adjustment reforms and the amelioration of the investment framework, supporting the country's economic prospects on the back of a relative improvement in macro and fiscal fundamentals.

As a matter of fact, all indicators point to a relatively bullish economic cycle. At the real sector level, growth has been revised upwards by the IMF to 5.3%, the second highest in the Middle East and North Africa, up from 4.2% in the previous year. It is set to slightly but gradually improve over the next couple of years, with the IMF forecasting it at 5.5% in 2019 and 5.9% in 2020.

At the external level, on the back of improved security, a more competitive pound, and rising hydrocarbon production, Egypt's current account deficit, driven by a significant rise in remittances and touristic receipts, eased to 2.4% of GDP in the 2017/18 fiscal year, from 6.1% of GDP a year earlier. The current account deficit is forecasted to improve to nil this fiscal year and swing to a surplus in 2019/20, assuming that the security situation remains stable.

At the fiscal level, public finances continued to improve within the context of the overall IMF program for Egypt. The government's deficit to GDP ratio declined from 12.5% in 2016 to 10.4% in 2017 to 9.3% in 2018, while the primary deficit to GDP contracted from 4.3% in 2016 to 2.5% in 2017 to 0.7% in 2018. Subsequently debt to GDP contracted to 92.5% in 2018 (against 103.0% in the previous year).

At the monetary level, Central Bank reserves have been on an upward trend while inflation has abated. FX reserves reached USD 42.6 billion in December, more than tripling in a couple of years, driving a USD 12 billion surplus in the balance of payments this year. Headline inflation has been falling gradually to reach 12.0% in December, after it hit 33% in December 2017, but it is still high by comparative developing countries standards.

At the capital markets level, equity and fixed income markets did not mirror the improvement in macroeconomic conditions. The Stock Market Price Index contracted by 13% in 2018, but amid higher turnover and better market liquidity and efficiency. The annual trading value rose by 7% year-on-year to reach USD 20 billion in 2018. As to fixed income markets, the 5-year CDS spread, a measure of the market perception of sovereign risks, rose by 75 bps in 2018 to reach 391 bps at end-year.

At the banking sector level, activity has been expanding at sound levels, with assets, deposits, loans and profits growing by double-digits annually in USD terms. Deposits grew by 12% in USD term over the year-ending November 2018. Loans grew by 20% over the same period. The aggregate net profits of listed banks rose by 17% in the first nine months of 2018 relative to the same period in 2017. Moody's has changed the banking system's outlook from "stable" to "positive" as a result of an improvement in the government profile on which the system is exposed, in addition to an improving economy supporting loan growth and profitability.

EGYPT MACRO/BANKING INDICATORS

(EGP Billion)	Dec-17	Dec-18	% Growth
Nominal GDP(*)	3,470.0	4,435.8	27.8%
Real GDP growth(*)	4.2%	5.3%	1.1%
Domestic banks' assets	4,813.3	5,577.9	15.9%
Domestic banks' deposits	3,329.3	3,761.3	13.0%
Domestic banks' loans	1,463.4	1,770.7	21.0%
(USD Billion)			
Nominal GDP(*)	236.5	249.5	5.5%
Real GDP growth(*)	4.2%	5.3%	1.1%
Domestic banks' assets	271.0	311.3	14.9%
Domestic banks' deposits	187.5	209.9	12.0%
Domestic banks' loans	82.4	98.8	19.9%

(*) IMF full-year estimates.

Sources: IMF, Central Bank of Egypt, Bank Audi's Group Research Department.

3.3. | TURKEY

Seventeen years after the previous crisis of the beginning of the past decade, Turkey has experienced a significant economic/monetary shock in 2018. Long-standing external finance vulnerabilities have been exposed by tighter external financing conditions and exacerbated by deteriorating economic data, economic policy uncertainty and US sanctions, feeding into self-reinforcing concerns about the private sector's vulnerability to currency weakness. This has been manifested most clearly through a plunge in the Turkish Lira and ensuing market pressures, leading to a prelude of a monetary crisis. The result was that the Turkish Lira has declined by close to 28% relative to the US dollar, from 3.77 at the beginning of the year to reach a peak of 7.22 on 12 August, before it appreciated to reach 5.27 by the closing of this report.

Monetary conditions were marked by spiking Turkish Lira's volatility, dwindling international reserves and elevated levels of inflation (exceeding 25%), which prompted the Central Bank of Turkey to implement a strong monetary tightening to support price stability, while shifting to a simplified monetary policy that has involved abandoning a multi-rate framework and ensuring funding via a single rate. In parallel, Turkish securities registered noticeable price falls during 2018. The BIST 100, which represents the 100 largest companies by market capitalisation, registered a 20.9% drop during 2018 to close at 91,270 at end-December 2018. Concurrently, the country's five-year CDS spreads expanded by 197 bps over 2018, moving from 165 bps at end-2017 to 362 bps at end-November 2018, in a sign of a deterioration in market perception of sovereign risks at large.

The Turkish banking sector has had to face volatile and tough operating conditions domestically, with political pressures and tensions with longtime allies contributing to a currency crisis and taking a toll on investor sentiment and activity growth throughout part of the year. While the currency depreciation and domestic tensions have raised concerns over asset quality and funding metrics of banks operating in the country, it is to Turkish banks' luck that this is happening at a time when their financial buffers in terms of liquidity and capital adequacy, which have proven relatively resilient so far, are at their best (primary liquidity ratio of 29.3% and capital adequacy ratio of 17.3% at end-November 2018).

Looking forward, the outlook doesn't look that dim, especially that external imbalances are starting to improve. The IMF forecasts the current account deficit (CAD) to improve from 5.7% of GDP today to 1.4% of GDP in 2019. One of the main reasons of the improvement in the CAD is the slowdown in the real economy, which means less imports of goods and services. Real GDP growth is actually set to slowdown to 3.5% in 2018 and 0.4% in 2019 before bouncing back in 2020. So the economy is rebalancing, with less output growth but better external imbalances amid sound public finances, which supports the outlook of the currency looking forward. In sum, macro fears have now shifted from the external imbalances and currency concerns to the real economy and sluggishness concerns at large.

TURKEY MACRO/BANKING INDICATORS

(TRY Billion)	Dec-17	Dec-18	% Growth
Nominal GDP	3,106.5	3,656.4	17.7%
Real GDP growth	7.4%	3.5%	-3.9%
Domestic banks' assets	3,257.8	3,867.1	18.7%
Domestic banks' deposits	1,710.9	2,036.0	19.0%
Domestic banks' loans	2,098.3	2,394.7	14.1%
(USD Billion)			
Nominal GDP	851.5	713.5	-16.2%
Real GDP growth	7.4%	3.5%	-3.9%
Domestic banks' assets	862.7	734.8	-14.8%
Domestic banks' deposits	453.4	387.1	-14.6%
Domestic banks' loans	555.8	455.1	-18.1%

Sources: IMF, BRSA, Bank Audi's Group Research Department.

4.0. | CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS

4.1. | BUSINESS OVERVIEW IN 2018

In 2018, the Group continued to enforce strict policies aiming at sustaining the Bank's risk profile, reinforcing liquidity and efficiency. Priorities across the various entities of the Group targeted the consolidation of the customers franchise within prudent lending policies giving priority to core customer relationships in defensive sectors and businesses that provide cross-selling and ancillary business, the reinforcement of spreads and non-interest income generation within disciplined cost policy and a conservative approach to capital consumption.

Within that scope, consolidated assets of Bank Audi rose from USD 43.8 billion as at end-December 2017 to USD 47.2 billion as at end-December 2018, increasing by USD 3.5 billion, or a growth of 8%. The latter was primarily driven by a 21% assets growth in Lebanon within a 13.5% contraction of assets outside Lebanon. Consolidated assets under management, including fiduciary deposits and custody accounts, have in turn increased by USD 1.2 billion over the same period, from USD 11 billion as at end-December 2017 to USD 12.2 billion as at end-December 2018, highlighting the importance of Private Banking as a fourth development pillar of the Group.

Consolidated performance is a reflection of the individual performances at level of the main development pillars. The following table sets out the evolution of main activity and performance highlights over the main development pillars as at end-December 2018 as compared to end-December 2017:

	Dec-17		Dec-18		Change	
(USD Million)	Volume	Share in Total	Volume	Share in Total	Volume	Share in Total
ASSETS						
Lebanese entities	29,650	67.8%	35,407	75.0%	5,756	19.4%
Turkey	8,725	19.9%	6,073	12.9%	-2,652	-30.4%
Egypt	3,187	7.3%	3,875	8.2%	689	21.6%
Private Banking entities	3,607	8.2%	3,170	6.7%	-438	-12.1%
Other entities	2,592	5.9%	2,645	5.6%	53	2.1%
Consolidation adjustments	-4,010	-9.2%	-3,969	-8.4%	41	-1.0%
Total	**43,752**	**100.0%**	**47,201**	**100.0%**	**3,449**	**7.9%**
DEPOSITS						
Lebanese entities	19,875	59.4%	20,472	64.1%	597	3.0%
Turkey	6,356	19.0%	3,972	12.4%	-2,384	-37.5%
Egypt	2,654	7.9%	3,261	10.2%	607	22.9%
Private Banking entities	2,935	8.8%	2,457	7.7%	-478	-16.3%
Other entities	1,720	5.1%	1,851	5.8%	131	7.6%
Consolidation adjustments	-88	-0.3%	-58	-0.2%	31	-34.8%
Total	**33,451**	**100.0%**	**31,956**	**100.0%**	**-1,496**	**-4.5%**
LOANS						
Lebanese entities	6,724	41.3%	6,111	46.1%	-612	-9.1%
Turkey	5,901	36.2%	3,522	26.5%	-2,379	-40.3%
Egypt	1,637	10.0%	1,738	13.1%	101	6.2%
Private Banking entities	968	5.9%	949	7.2%	-19	-1.9%
Other entities	1,107	6.8%	996	7.5%	-111	-10.0%
Consolidation adjustments	-42	-0.3%	-49	-0.4%	-7	16.3%
Total	**16,294**	**100.0%**	**13,267**	**100.0%**	**-3,026**	**-18.6%**
	FY-2017(*)		FY-2018		Change	
(USD Million)	Volume	Share in Total	Volume	Share in Total	Volume	Share in Total
NET EARNINGS						
Lebanese entities	229	49.5%	344	68.6%	114	49.8%
Turkey	88	19.0%	10	2.0%	-78	-88.4%
Egypt	55	11.9%	63	12.7%	8	15.2%
Private Banking entities	54	11.6%	59	11.8%	6	10.5%
Other entities	37	8.1%	24	4.8%	-13	-35.8%
Total	**464**	**100.0%**	**501**	**100.0%**	**37**	**7.9%**

(*) Excluding net profits from discontinued operations.

At end-December 2018, the contribution of Lebanese entities to consolidated assets (including consolidation adjustments) reached 66.6% with 12.9% accounted for by Odea Bank in Turkey, 8.2% by Bank Audi sae (Egypt), 6.7% by Private Banking entities and 5.6% by other entities. A similar breakdown at the level of net earnings in 2018 reveals a contribution of 68.6% for Lebanese entities, 2% for Odea Bank (within the allocation of almost all its operating profits to loan loss provisions), 12.7% for Bank Audi sae, 11.8% for Private Banking entities, and 4.8% for other entities.

A detailed performance discussion across main development pillars reveals that:

In Lebanon – Assets of Lebanese entities grew in 2018 by 19.4% from USD 30 billion as at end-December 2017 to USD 35.4 billion as at end-December 2018, mainly by benefitting from market opportunities with a strong leverage on profitability. Business priorities of the Lebanese operations continued to be margin-oriented, favouring improvement in operating conditions over growth through a re-pricing of assets and liabilities terms while implementing cross-selling tools across main business segments to boost productivity gains. On the backdrop of increased competition among market players on deposits, customers' deposits of Lebanese entities increased by USD 597 million to USD 20.5 billion as at end-December 2018. Lending activity was subdued mirroring the sluggish economic activity in Lebanon during this year, registering net loans settlements and exposure reduction by USD 612 million, reaching USD 6.1 billion at the same date. Subsequently, Lebanese operations reported USD 344 million of net recurrent profits in 2018, rising by 50% relative to the 2017 net profits before discontinued operations of USD 229 million (see section on Lebanese Entities' Performance on Page 61).

In Turkey – The performance of Odea Bank factors in the challenging operating conditions prevailing in Turkey throughout the year, as well as the depreciation of the Turkish Lira versus the USD by 28%, and their translation on the banking sector activity at large. It also reflects the ongoing deleveraging policy favouring, in priority, further enhancing the Bank's liquidity and solvency within a tight control on credit quality. Loans to customers at Odea Bank contracted by TRY 3.7 billion in 2018, from TRY 22.2 billion as at end-December 2017 to TRY 18.5 billion as at end-December 2018. In parallel, deposits of Odea Bank decreased from TRY 23.9 billion as at end-December 2017 to TRY 20.9 billion, representing a reduction by TRY 3 billion. The operating profits of Odea Bank were fully allocated to loans loss provisions hampering its contribution to the consolidated position, particularly when compared to a contribution by USD 88 million in 2017. Notwithstanding this measure allowed improving coverage ratio, standing at 53% on Stage 3 loans (excluding collaterals) and 5.2% of Stage 1 & 2 loans compared to 41% and 5.2% respectively as at 1 January 2018. Total primary liquidity represented 35% of deposits, of which 36% in foreign currencies, amid solid capital ratios with a CET1 ratio of 14.2% and a total capital adequacy ratio of 21.4%. The Bank intends to continue to strengthen its position in the Turkish market which continues to be a growth market in spite of the current heightened volatility (see section on Odea Bank's performance on Page 61).

In Egypt – On the back of improving macroeconomic conditions in Egypt, Bank Audi Egypt has resumed its growth, launching a new development plan and investing in innovative channels boasting latest technologies. Assets of Bank Audi Egypt grew in 2018 by 21.7%, reaching EGP 68.4 billion at end-December 2018. Its net profits increased by 24% from EGP 1,021 million in 2017 to EGP 1,267 million in 2018. This result was principally driven by sound credit policies focusing on defensive businesses, as well as by the Bank's asset and liability management policy which allowed Bank Audi Egypt to take advantage of certain opportunities in 2018 (see section on the performance of Private Banking entities on Page 62).

At the level of the Private Banking Activity – In 2018, the Bank completed the legal ownership reorganisation of its Private Banking operations, which unified entities under a holding structure in Cyprus allowing to optimise the deployment of internal resources and maximise the availability of external resources. Hence, Private Banking entities continued to leverage in 2018 on existing intra-group synergies and efficiencies, and the pooling of resources. Total client assets of those entities (comprising of assets under management, fiduciary deposits and on-balance sheet deposits) were stable in 2018, reaching USD 11 billion as at end-December 2018, almost the same level as at end-December 2017. In parallel, cost saving triggered an 10.5% increase in net profits of Private Banking entities, moving from USD 53.7 million in 2017 to USD 59.3 million in 2018 (see section on the performance of Private Banking entities on Page 62).

The individual performance reflected on the activity and earnings breakdown by geography. The following table sets out a geographic breakdown of the Bank's assets, customers' deposits and loans as at end-December 2018 as compared to end-December 2017:

BREAKDOWN BY GEOGRAPHY

	Assets			Deposits			Loans		
	Dec-17	Dec-18	Change	Dec-17	Dec-18	Change	Dec-17	Dec-18	Change
By region									
Lebanon	62.1%	69.6%	7.5%	63.1%	67.7%	4.6%	41.9%	46.6%	4.7%
Abroad	37.9%	30.4%	-7.5%	36.9%	32.3%	-4.6%	58.1%	53.4%	-4.7%

At end-December 2018, the contribution of Lebanese entities to consolidated assets (including Audi Private Bank) reached 69.6% with 12.9% accounted for by Odea Bank in Turkey, 8.2% by Bank Audi sae (Egypt), 6.1% by entities in Europe and 3.2% by other MENA entities. A similar breakdown at the level of net earnings in 2018 reveals a contribution of 74.5% for Lebanese entities, 2% for Odea Bank (within the allocation of almost all its operating profits to loan loss provisions), 12.7% for Bank Audi sae, 7.6% for entities in Europe and 3.2% for other MENA entities. Had the recent depreciation of the Egyptian Pound and Turkish Lira since November 2016 onward never happened, the contribution of Lebanese entities to the consolidated assets and earnings would have been circa 60%.

4.2. | ONE-OFF DEVELOPMENTS IN 2018

Three principal exceptional developments also impacted the Group's performance in 2018:

New Taxation Measures Recently Approved by the Lebanese Parliament – In the last quarter of 2017, the Ministry of Finance, in its law No. 64 published in the Official Gazette on 26 October 2017, amended several tax articles and introduced new tax measures, a number of which affecting the Lebanese banking sector at large. Those include raising:

- The corporate tax rate from a current 15% to 17%;
- The capital gain tax rate from 10% to 15%;
- The withholding tax on dividends of listed companies from 5% to 10%; and
- the abolishment of the interest tax deduction clause related to investments in Tbs and CDs that are now subject to 7% tax, directly deducted from interest income.
- The abolishment of the 7% interest tax exemption on placements with the Central Bank of Lebanon, as well as money market placements, directly deducted from interest income.

The impact of those new tax measures on Bank Audi's operations in 2017 was limited to USD 12.4 million, owing to the number of days remaining till year-end since the application of those measures came into effect in October 2017. The impact increases to USD 106 million in 2018, representing 13.2% of gross operating profits. Notwithstanding a mitigating asset and liabilities policy, benefitting from available market opportunities in Lebanon, allowed compensating this impact through a recurrent increase in net interest income.

Central Bank Exchange Transactions and Extraordinary Revenue – In 2017, the Central Bank introduced a new scheme to finance 100% of the purchase price of Lebanese Treasury bills or Lebanese Pound-denominated certificates of deposit issued by the Central Bank of Lebanon by Lebanese banks at a 2% annual interest rate. Participating banks are required to deposit 80% of the US Dollar-equivalent of the financed amount with the Central Bank for a tenor equivalent to the tenor of the relevant purchased instruments. The scheme permits (i) the Central Bank to increase its US Dollar-denominated assets and (ii) participating banks to earn a positive return equal to the difference between the interest rate of the Lebanese Treasury bills and the Central Bank financing rate of 2%, as well as receiving the interest amounts payable on the deposits with the Central Bank. The Bank also participated in this scheme, along with a number of similar schemes introduced by the Central Bank of Lebanon in 2018 (see "Consolidated Financial Condition – Asset Allocation – Changes in Primary Liquidity").

Adoption of IFRS 9 – In July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 which replaced all previous versions of the standard. On 7 November 2017, the Central Bank issued Circular No. 143 in connection with IFRS 9, which became effective as of 1 January 2018, pursuant to which banks and financial institutions are required, inter alia, to: (i) adopt policies relating to impairment, write-off and assets classification; (ii) set a governance framework through the establishment of a Senior Management committee to oversee impairment results and staging classifications; and (iii) adopt defined accounting treatment for any excess or shortfall of available provisions, as compared to required provisions.

IFRS 9 introduces new requirements for classification and measurement, impairment, and hedge accounting. Prior to 1 January 2018, the Group had early adopted classification and measurement in line with IFRS 9 (2009) and IFRS 9 (2010), in addition to hedge accounting treatment as prescribed by IFRS 9 (2013). With effect from 1 January 2018, the Group began the adoption of the provisions of the final version of IFRS 9 (2014), which encompassed the impairment for financial assets, in addition to modifications to the classification methodology. In accordance with the transitional provisions of IFRS 9, the Group applied this standard retrospectively and incorporated changes in measures arising on initial application through an adjustment to opening retained earnings or reserves (as applicable) as at 1 January 2018. The increase in impairment allowances, when measured in accordance with IFRS 9's "Expected Credit Losses Model", as compared to the previous IAS 39 "Incurred Loss Model", amounts to LBP 433 billion (USD 287 million), which is partially covered by the Group's excess collective provisions, and total adjustments related to classification and measurements other than impairment reduced opening equity by LBP 1 billion (USD 809 million). Accordingly, the impact on the Group's equity from the adoption of IFRS 9 impairment requirements amounted to LBP 260 billion (USD 172 million), out of which the share of non-controlling interests of LBP 59 billion (USD 39 million).

4.3. | CONSOLIDATED ACTIVITY MANAGEMENT

The table below sets out the evolution of the Group's financial position as at end-December 2018 as compared to end-December 2017:

SUMMARISED STATEMENT OF FINANCIAL POSITION (USD MILLION)

	Dec-17	Dec-18	Vol.	%
Primary liquidity	14,932	19,173	4,241	28.4%
Portfolio securities	10,929	12,923	1,994	18.2%
Loans to customers	16,294	13,267	-3,026	-18.6%
Other assets	864	1,081	217	25.1%
Fixed assets	733	756	23	3.2%
Assets = Liabilities + Equity	43,752	47,201	3449	7.9%
Bank deposits	4,522	9,357	4,835	106.9%
Customers' deposits	33,451	31,956	-1,496	-4.5%
Subordinated debt	819	819	-1	-0.1%
Other liabilities	771	1,184	413	53.5%
Shareholders' equity (profit included)	4,188	3,886	-301	-7.2%
AUMs, fiduciary deposits and custody accounts	10,990	12,199	1,209	11.0%
Assets + AUMS	54,742	59,400	4658	8.5%

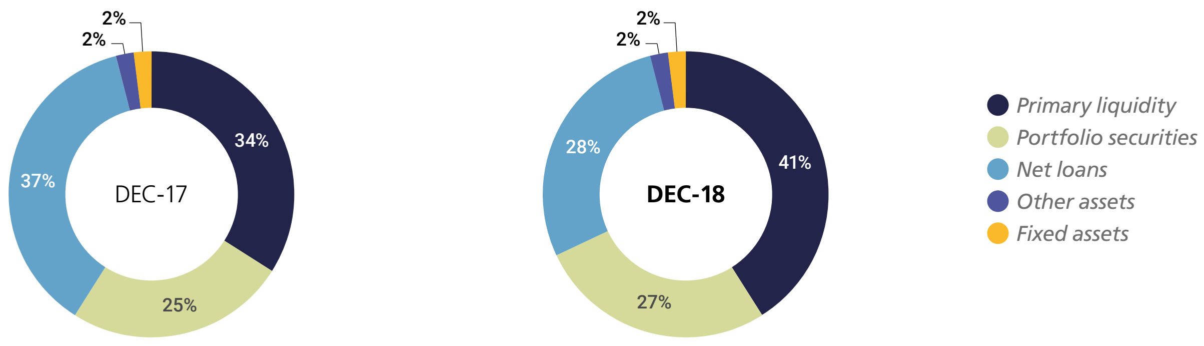
The Bank's Statement of Financial Position primarily reflects a high liquidity level, with the Bank's consolidated primary liquidity (excluding certificates of deposit issued by the Central Bank) represented 60.0% of consolidated customers' deposits as at end-December 2018, as compared to 44.6% as at end-December 2017. The Bank's loan to deposits ratio decreased to 41.5%, from 48.7% as at end-December 2017. Portfolio securities, as a percentage of total deposits, increased from 32.7% as at end-December 2017 to 40.4% as at end-December 2018, and the Bank's net exposure to Lebanese sovereign Eurobonds, as a percentage of foreign currency-denominated customers' deposits increased from 0.4% as at end-December 2017 to 3.8% as at end-December 2018. This still represents the lowest level among the Bank's Lebanese bank peers' portfolios, according to statistics published by Bankdata Financial Services WLL.

In parallel, risk-weighted assets contracted from USD 26 billion as at end-December 2017 to USD 23.1 billion as at end-December 2018, principally justifying the reported improvement in the capitalisation level to 11.4% CET1 ratio and 18.9% total capital adequacy ratio.

ASSET ALLOCATION

The following chart displays the allocation by asset class as at end-December 2018 as compared to end-December 2017. The discussion that follows analyses the evolution of the various asset classes and their respective key indicators over the same period.

ASSETS BREAKDOWN



Changes in Primary Liquidity

The Bank's primary liquidity (comprised principally of cash, as well as amounts held at the Central Bank and other central banks, including free accounts and compulsory reserves, and excluding certificates of deposit issued by the Central Bank), placements with banks and loans to banks and reverse repurchase facilities with central banks and financial institutions increased by 28% in 2018 to USD 19.2 billion as at end-December 2018 compared to USD 14.9 billion as at end-December 2017. This represents 60.0% of customers' deposits as at end-December 2018, compared to 44.6% of customers' deposits as at end-December 2018.

The table below highlights the breakdown of primary liquidity by type and by currency as at end-December 2018:

LIQUIDITY (USD MILLION)

	LBP	USD	EUR	EGP	TRY	JOD	OTHERS	TOTAL
Central banks	7,950	6,102	972	572	194	116	540	16,447
o.w. Reserves requirements	498	2,880	6	128	0	109	6	3,627
o.w. Cash deposits	7,452	3,223	966	444	194	7	534	12,820
Placement with banks	34	1,498	453	14	343	48	336	2,727
o.w. Deposits with banks	22	1,493	437	1	212	48	336	2,550
o.w. Loans to banks and financial institutions and reverse repurchase agreements	12	5	15	13	131			177
Total liquidity	7,984	7,600	1,425	586	537	164	876	19,173

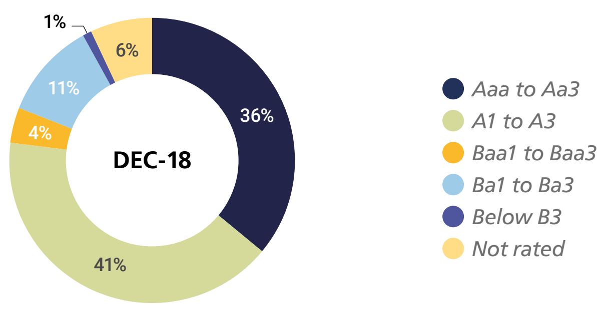
The Bank's primary liquid assets in Lebanese Pounds are essentially composed of cash and deposits with the Central Bank. The Bank participated in the financing transactions conducted in 2017 and 2018 (refer to section "One-off Developments in 2018"). As a result, the Bank's primary liquidity in Lebanese Pounds increased from USD 4.1 billion as at end-December 2017 to USD 8.0 billion as at end-December 2018. Consequently, the ratio of Lebanese Pound-denominated liquid assets to Lebanese Pound-denominated customers' deposits also increased from 92.1% as at end-December 2017 to 158% as at end-December 2018. When deducting Lebanese Pound-denominated funding from the Central Bank of Lebanon from the corresponding Lebanese Pound-denominated liquidity placement with BDL, the ratio would move from 93.3% as at end-December 2017 to 95.3% as at end-December 2018 .

The Bank's primary liquid assets denominated in foreign currency consist of cash and short-term deposits placed at the Central Bank and other central banks, excluding certificates of deposit and placements in prime banks in OECD countries. The Bank's primary liquidity in foreign currencies was USD 11.2 billion as at end-December 2018, as compared to USD 10.9 billion as at end-December 2017, representing 41.6% and 37.4% respectively of consolidated customers' deposits in foreign currencies. In particular, placement with correspondent banks in foreign currencies increased from USD 939 million as at end-December 2017 to exceed USD 2.5 billion as at end-December 2018. In 2016, as a result of the Bank's participation in BDL exchange transaction, a portion of foreign currency liquidity was reallocated to domestic placements, reducing its share to 3.2% of foreign currency-denominated deposits as at end-December 2017. This liquidity has been replenished since then to account for 9.4% of foreign currency deposits by end-December 2018.

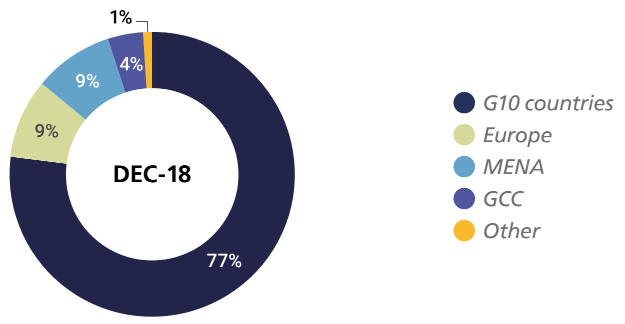
Such placements are mainly based in low risk OECD and GCC countries that show high levels of solvency and financial and monetary stability. 77% of the placements (excluding reverse repo agreements) denominated in foreign currency are held in banks rated A3 or better.

The charts below set out the breakdown of money markets placements held with banks (excluding reverse repo agreements) as at end-December 2018 by rating and geographic location:

BREAKDOWN OF PLACEMENTS WITH BANKS BY RATING IN 2018



BREAKDOWN OF PLACEMENTS WITH BANKS BY REGION IN 2018



Exposure to other banks is continuously monitored by the Group's Risk Management Department in close coordination with the Group Financial Institutions and Correspondent Banking Department ("Group FI"). Regular portfolio reviews are conducted throughout the year to assess the Bank's risk profile and ensure that related positions remain within the overall risk appetite of the Group. During these reviews, specific attention is paid to concentration risk levels to ensure that these remain under control. Management seeks to gradually increase its exposure to other banks to exceed the levels recommended by the overall risk appetite of the Group.

By geography, the primary liquid assets in foreign currency of Bank Audi Lebanon represented 72% of customers' deposits in foreign currency while the ratio of total primary liquid assets to deposits of Odea Bank and Bank Audi Egypt accounted for in the consolidated ratio reached respectively 36% and 37% at the same date.

Changes in Securities' Portfolio

The Bank's securities' portfolio is composed of certificates of deposit issued by central banks where the Bank conducts its operations, Treasury bills denominated in Lebanese Pounds, sovereign bonds denominated in foreign currency (principally US Dollar-denominated Eurobonds issued by the Lebanese Republic), non-Lebanese sovereign bonds, other fixed income instruments, and equity securities.

Consolidated securities' portfolio increased by USD 2 billion in 2018, moving from USD 10.9 billion at as end-December 2017 to USD 12.9 billion as at end-December 2018. As a percentage of customers' deposits, the Bank's securities portfolio represented 40.4% as at end-December 2018 as compared to 32.7% as at end-December 2017.

The table below sets out the distribution of the Bank's securities portfolio by asset class and currencies as follows:

PORTFOLIO SECURITIES BY ASSET CLASS (USD MILLION)

	Dec-17	Dec-18	Vol.	%
Financial assets held at FVTPL	992	146	-846	-85.3%
LBP-denominated	558	0	-558	-100.0%
Foreign currency-denominated	434	146	-228	-66.4%
Financial assets designated at fair value through OCI	105	834	729	695.7%
LBP-denominated	44	11	-33	-75.0%
Foreign currency-denominated	61	823	762	1229%
Financial assets classified at amortised cost	9,832	11,943	2,110	21.5%
LBP-denominated	2,327	5,037	2,710	116.5%
Foreign currency-denominated	7,505	6,905	-600	-8.0%
Total portfolio securities	10,929	12,923	1,993	18.2%
LBP-denominated	2,929	5,048	2,119	72.2%
Foreign currency-denominated	8,000	7,874	-126	-1.6%

The classification of the securities portfolio over the aforementioned asset classes depends on the basis of the business model of each of the Group's entity for managing the financial assets and the contractual cash flow characteristics of the financial assets. All assets are initially measured at fair value plus, in the case of financial asset not at fair value through profit or loss, particular transaction cost. Assets are subsequently measured at amortised cost, or other comprehensive income or fair value.

As at end-December 2018, financial assets classified at amortised cost represented 92.4% of the total securities portfolio compared to 90.0% as at end-December 2017. The share of financial assets designated at fair value through OCI was 6.5% as at end-December 2018 (compared to 1.0% as at end-December 2017) while financial assets held at fair value through profit or loss accounted for the remaining 1.1% (9.1% as at end-December 2017).

The following table sets out the distribution of the financial assets classified at amortised cost by type of security, as at end-December 2018 as compared to end-December 2017:

DISTRIBUTION OF FINANCIAL ASSETS CLASSIFIED AT AMORTISED COST BY TYPE (USD MILLION)

	Dec-17	Dec-18	Vol.	%
Central Bank of Lebanon certificates of deposit	5,726	6,515	788	13.8%
Net Lebanese Treasury bills and Eurobonds	1,734	3,204	1,470	84.8%
Risk-ceded government Eurobonds	501	987	486	97.0%
Other non-Lebanese sovereign securities	1,605	1,028	-576	-35.9%
Other fixed income securities	265	208	-57	-21.6%
Financial assets classified at amortised cost	9,832	11,943	2,110	21.5%

The USD 2.1 billion increase in financial assets classified at amortised cost in 2018 is accounted for predominantly by the USD 1.9 billion increase in Lebanese Treasury bills and Eurobonds (included risk-ceded bonds) while the USD 788 million increase in certificates of deposit issued by the Central bank of Lebanon totally offsets the contraction in the non-Lebanese securities and other fixed income instruments.

The following table sets out the distribution of the Bank's securities portfolio, by type of security and currency, as at end-December 2018 as compared to end-December 2017:

PORTFOLIO SECURITIES BREAKDOWN (USD MILLION)

	Dec-17	Dec-18	Vol.	%
Central Bank of Lebanon certificates of deposit	6,256	6,515	259	4.14%
LBP-denominated	917	2,827	1,910	208.29%
Foreign currency-denominated	5,340	3,688	-1,652	-30.9%
Net Lebanese Treasury bills and Eurobonds	2,079	3,208	1,129	54.29%
LBP-denominated	1,971	2,211	240	12.18%
Foreign currency-denominated	108	997	889	823.15%
Risk-ceded government Eurobonds	501	987	486	96.97%
LBP-denominated				
Foreign currency-denominated	501	987	486	96.97%
Other non-Lebanese sovereign securities	1,605	1,814	209	13.04%
TRY	115	145	30	26.08%
EGP	797	1,061	264	33.13%
JOD	428	266	-162	-37.85%
USD	161	260	99	61.49%
Other	105	82	-22	-21.90%
Other fixed income securities	343	279	-64	-18.62%
LBP-denominated				
Foreign currency-denominated	343	279	-64	-18.66%
Equity securities	145	120	-26	-17.59%
LBP-denominated	43	10	-33	-76.74%
Foreign currency-denominated	103	110	7	6.80%
Total portfolio securities	10,929	12,923	1,994	18.24%

Lebanese Bond and Central Bank of Lebanon Certificates of Deposit Portfolio
In 2018, Lebanese Pound-denominated Treasury bills and certificates of deposit issued by the Central Bank of Lebanon increased by USD 2.2 billion predominantly led by Lebanese Pound-denominated certificates of deposit issued by the Central Bank of Lebanon increasing by USD 1.9 billion. This increase reflects primarily the Bank's participation in the financings transactions offered by the Central Bank of Lebanon amid limited market availability of Lebanese Treasury bills because of scarce auction offering by the Ministry of Finance (see section "One-off Developments in 2018").

Certificates of deposit issued by the Central Bank in foreign currencies decreased by USD 1.7 billion as at end-December 2018 as compared to end-December 2017, while the Group's net exposure to Lebanese sovereign Eurobonds (net of risk-ceded Eurobonds) increased by USD 889 million over the same period to USD 997 million as at end-December 2018. In relative terms, the Bank's net exposure to sovereign Eurobonds represented 3.8% of foreign currency-denominated customers' deposits (net of risk-ceded Eurobonds) as at end-December 2018, as compared to 0.4% as at end-December 2017. Certificates of deposit issued by the Central Bank in foreign currencies amounted to USD 3.7 billion as at end-December 2018, representing 13.7% of foreign currency-denominated customers' deposits.

The Bank's overall exposure to the foreign currency-denominated Lebanese sovereign exposure (Lebanese sovereign bonds (net of risk-ceded and certificates of deposit) as a percentage of regulatory Tier 1 capital improved slightly during 2018 reaching 1.45 times as at end-December 2018 compared to 1.54 times as at end-December 2017.

Non-Lebanese Sovereign Securities
The Bank's non-Lebanese sovereign bonds portfolio is primarily composed of Egyptian, Jordanian and Turkish sovereign bonds. In 2018, the non-Lebanese sovereign bonds portfolio increased by USD 209 million, from USD 1,605 million as at end-December 2017 to USD 1,814 million as at end-December 2018. The Bank's exposure to the sovereign risk of Egypt, which is denominated in Egyptian Pounds, increased by USD 264 million to USD 1,061 million as at end-December 2018. This evolution underscores Management's policy to benefit from enticing market opportunities ahead of an expected change in the tax regime on those investments. In parallel, the exposure to the sovereign risk of Turkey increased by a mere USD 30 million, reaching USD 145 million at end-December 2018, while the exposure to the sovereign risk of Jordan was reduced to USD 266 million as at end-December 2018 from USD 428 million as at end-December 2017.

Non-Lebanese sovereign bonds accounted for 14% of the total securities portfolio (compared to 14.7% as at end-December 2017) and 6.7% of foreign currency denominated customers' deposits as at end-December 2018, as compared to 5.5% as at end-December 2017, with the latter increase owed principally to the contraction of consolidated foreign currency-denominated customers' deposits over the period.

Other International Fixed Income Securities
In 2018, the Bank's exposure to other international fixed income securities decreased by USD 64 million to USD 279 million as at end-December 2018 from USD 343 million as at end-December 2017. These placements continue to favour highly rated financial institutions, a fact mitigated by issuer diversification within the portfolio, as well as the high proportion of relatively short tenor bonds (with maturities under two years), rendering these investments somewhat similar to ordinary placements with banks in terms of implied risk profile and market risk exposure.

Changes in Loan Portfolio

Bank Audi is a universal bank whose lending activities cover a broad range of credit facilities to corporate and retail customers in the countries where the Bank has presence and beyond. Bank Audi's extension of credit is to the below customer segments:

(a) The Corporate segment which covers corporations, governments, and other institutions.
(b) The small and medium-sized enterprises (SME) segment which covers smaller companies.
(c) The Retail segment which covers individuals (see section on Retail Banking on Page 64).
(d) The Private Banking segment which provides investment advice, financial planning, brokerage services, and lending to high net worth individuals (see section on Private Banking on Page 65).

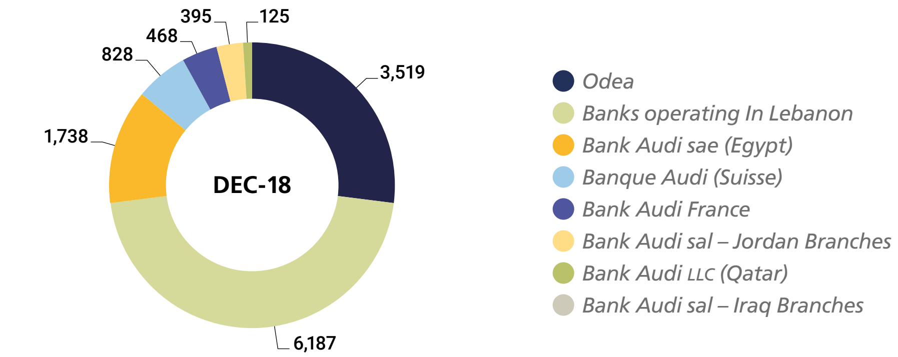
The credit process in 2018 emphasised on the strengthening of collaboration between in-country Management and Group Management, as well as the adoption of tighter credit criteria and measures. Below is a discussion of the main drivers and developments in the loan portfolio during 2018.

Loan Portfolio Evolution
Amid a persisting challenging environment in Lebanon and Turkey during 2018, the Bank's lending portfolio contracted by 18.6%, with consolidated net loans shrinking from USD 16.3 billion as at end-December 2017 to USD 13.3 billion as at end-December 2018, corresponding to a decrease of USD 3 billion. This decrease was primarily due to:

- A contraction by USD 2.38 billion in Odea Bank's loan portfolio, of which:
  1. USD 1.7 billion of decrease in outstanding loans resulting from loan settlements or de-risking of some names whose returns were falling short of the Bank's targets relative to their higher risk profile; and
  2. USD 0.7 billion of foreign exchange translation impact following the depreciation of the Turkish Lira versus the USD by 28% during 2018.
- A contraction of USD 612 million in the loan portfolio of entities operating in Lebanon.

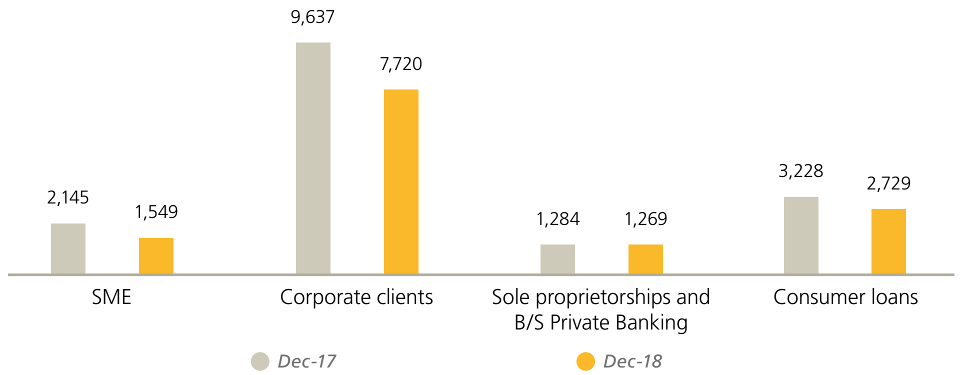
As at end-December 2018, 47% of consolidated net loans were booked in entities operating in Lebanon, 27% in Odea Bank – Turkey, 13% in Bank Audi sae (Egypt), and 13% in other entities.

BREAKDOWN OF NET LOANS & ADVANCES BY ENTITY AS AT END - DECEMBER 2018 (USD MILLION)



Analysis of Loans by Class of Borrower
The following chart sets out the distribution of the Bank's loan portfolio by class of borrower as at end-December 2018 as compared to end-December 2017:

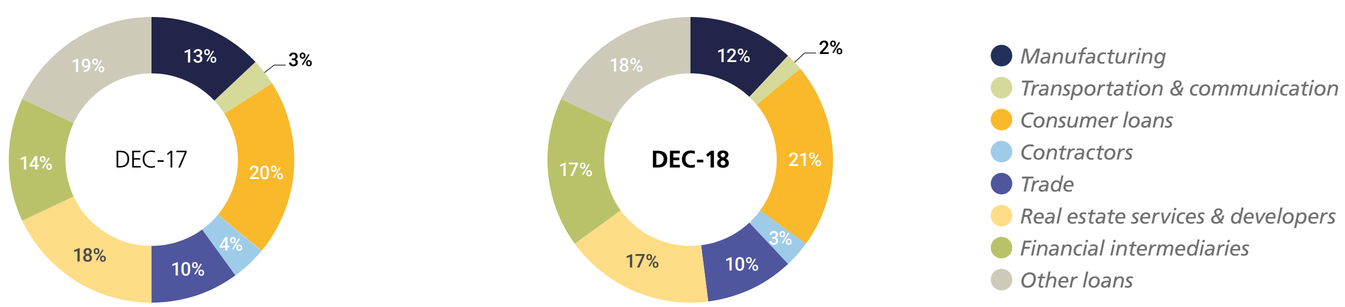
BREAKDOWN OF NET LOANS & ADVANCES BY TYPE OF CUSTOMER (USD MILLION)



The distribution of the Bank's consolidated loan portfolio by type of borrower continues to indicate a concentration of corporate segment which constituted 58% of the loan book as at end-December 2018. Corporate relationships constitute the core strategic constituent of the loan portfolio across the Group. Given challenges on the socio-political and economic fronts in these two markets, efforts to grow the Bank's share in SME lending slowed down in Odea Bank and the entities operating in Lebanon.

Analysis of Loans by Economic Sector
Industry concentration risk is controlled through diversification in sectors and industry limits. Industry limits may vary by geography depending on the various regional and local considerations.
The Bank focuses on the diversification of industry exposures in its lending portfolio. Amid macro fears in Turkey and Lebanon, coupled with political instability, Bank Audi has made a concerted effort to restrict growth opportunities particularly to industries which present higher credit risk. These include industries such as real estate, tourism and related industries, and sectors that generally experience high volatility to the economic environment.
With reductions in the above volatile sectors, the credit portfolio has gained further diversification by industry. The following charts show the allocation of direct exposure to industries as a percentage of the total portfolio:

BREAKDOWN OF NET LOANS & ADVANCES BY ECONOMIC SECTOR

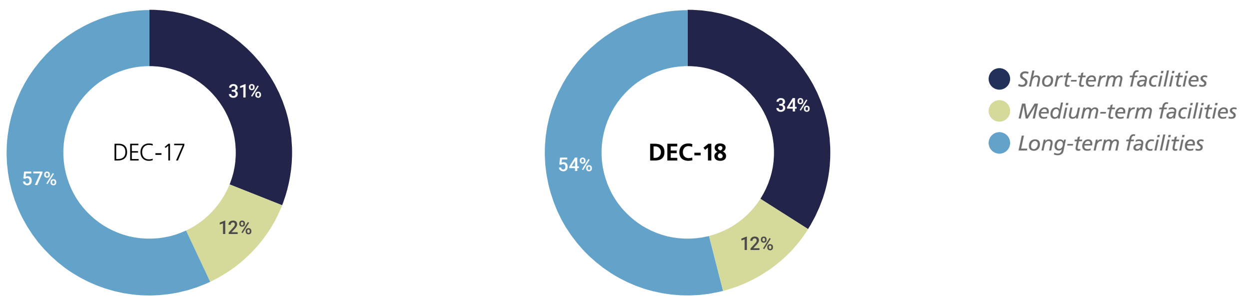


The distribution of the Bank's consolidated loan portfolio by economic sector continues to show the largest sectors being Real Estate Services and Developers (combined), excluding consumer lending, noting that in absolute terms, exposures to those sectors have significantly dropped by USD 683 million during 2018 (corresponding to a 23% decrease in the Real Estate Services and Developers funded portfolio). The concentration of the loan portfolio by economic sector remains within the Board of Directors' approved concentration limits and the Bank's consolidated equity.

Analysis of Loans by Maturity

As part of its overall risk management activities, Bank Audi attempted to cap exposure to long-term loans. The following charts set out the maturity profile of the Bank's loan portfolio as at end-December 2018 as compared to end-December 2017:

BREAKDOWN OF NET LOANS & ADVANCES BY MATURITY SINCE INCEPTION

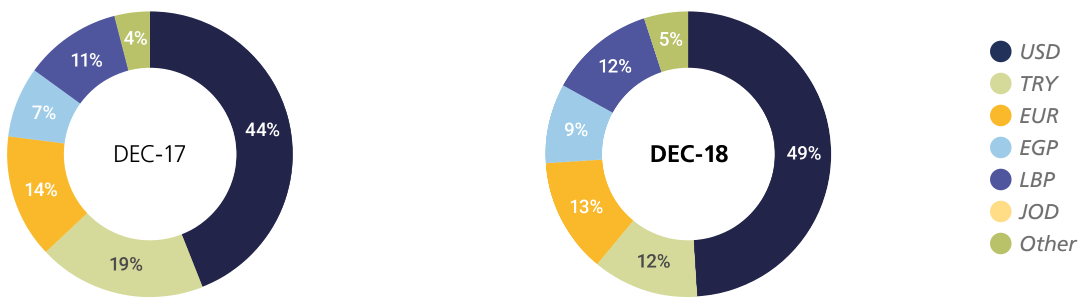


As at end-December 2018, short-term facilities having a maturity of less than one year represented 34% of the Bank's consolidated loan portfolio, while medium-term facilities with maturities between one and three years represented 12% of the Bank's consolidated loan portfolio. Loans with maturities over three years dropped to 54% of the Bank's consolidated loan portfolio at the same date. The continued skewness towards long tenor loans is attributed to (a) participation in a variety of long-term products offered by the Central Bank of Lebanon, including subsidised and environmental loans, and (b) participations in project finance or corporate finance loans which are typically large loans with tenor exceeding 5 years. In fact, the stickiness and stability of customers' deposits supports this loan maturity profile.

Analysis of Loans by Currency

The following charts set out the distribution of the Bank's loan portfolio by currency as at end-December 2018 as compared to end-December 2017:

BREAKDOWN OF NET LOANS & ADVANCES BY CURRENCY



Loans in US Dollars continued to comprise the largest portion of the loan portfolio as at end-December 2018, in line with the dollarization rate of the Bank's balance sheet. The proportion of USD loans as compared to loans in other currencies rose to 49% as at end-December 2018 up from 44% as at end-December 2017, primarily resulting from the contraction of the Turkish Lira loan book in USD terms affected by the currency devaluation.

Notwithstanding, efforts to reduce Odea Bank's USD loan book for a better capital optimisation continued in 2018 and consisted of significant repayments of maturing USD loans, as well as large conversions of USD loans into loans in Turkish Lira. Odea Bank's loans book constituted of 44% exposure in Turkish Lira, with the remainder in USD and Euro.

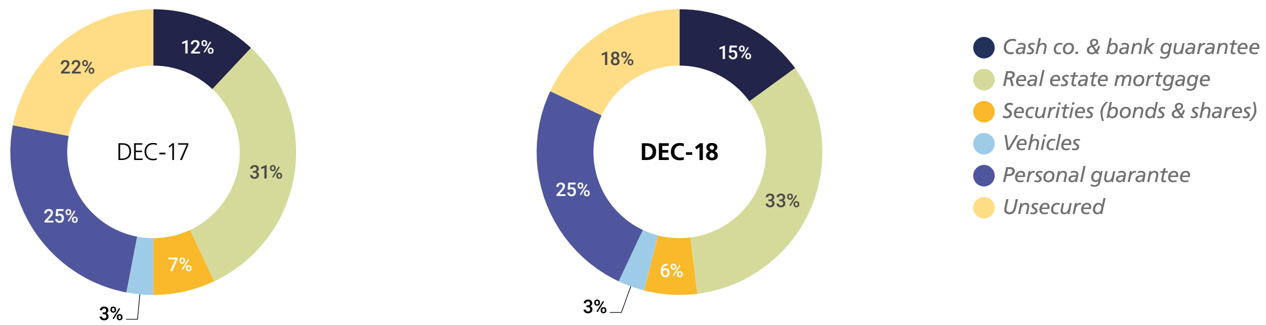
At end-December 2018, the portfolio of Lebanese entities was comprised of a loan book predominantly in foreign currency (74% of loans in foreign currency vs 74% at end 2017). This mirrors the overall loan dollarization rate of the banking sector in Lebanon, which stood at 70% at the same date. As for Bank Audi Egypt, 68% of the loan book was denominated in Egyptian Pounds, with the remainder in foreign currency.

Analysis of Loans by Type of Collateral

Although the Bank's lending decisions rely primarily on the availability of cash flows as a first source of repayment, the Bank ensures alternative exit strategies, mainly in the form of security, should those cash flows fall short for any reason. Consideration may be given to the prospects for support from financially reliable guarantors or the realisable value of any collateral. As at end-December 2018, 59% of the consolidated loan portfolio was secured, predominantly by real estate mortgages (33%) and cash collaterals and bank guarantees (15%).

The following charts set out the distribution of the Bank's loan portfolio by type of collateral as at end-December 2018 as compared to end-December 2017:

BREAKDOWN OF NET LOANS & ADVANCES BY COLLATERALS



Loan Quality

In scope of the adopted consolidation mode, Management embarked on strengthening controls in its lending procedures and practices. This reflected in a contraction of the loan portfolio as mentioned earlier, whereby consolidated net loans decreased to USD 13.3 billion at end-December 2018 as compared to USD 16.3 billion at end-December 2017. Management believes that such controls will contribute to ensure sustainable quality growth in the coming period.

Corporate portfolios exposures are evaluated based on the borrower's overall financial conditions, expected cash flow, available resources, payment history, the likelihood for support from any financially reliable guarantors and, if appropriate, the realisable value of any collateral. Management ensures that the allowances on its loan portfolio in form of provisions for loan losses exceed what is required by IFRS 9 guidelines, whereby calculations are made to determine expected credit losses for the performing portfolio, and specific provisions are calculated on the non-performing portfolio.

For consumer loans, each portfolio is collectively evaluated for impairment for each product category. The provision for loan losses for these loans is determined through a process that estimates the expected losses inherent in the portfolio based on historical delinquency flow rates and credit loss experience including a forward-looking component and applied to current aging of the portfolio.

The following table sets out the Bank's main loan quality indicators as at end-December 2018 as compared to end-December 2017:

LOAN QUALITY (USD MILLION)(*)

	1-Jan-18	Dec-18	Change
Credit-impaired loans	664	776	112
o.w. Corporate	483	628	145
o.w. Retail	180	148	-32
Net loans	16,325	13,267	-3,058
o.w. Corporate	11,765	10,515	-1,250
o.w. Retail	4,560	2,752	-1,808
Allowance for ECL Stage 3	363	488	125
o.w. Corporate	229	365	136
o.w. Retail	135	123	-12
Allowance for ECL Stage 1 & 2	408	309	-99
o.w. Corporate	381	287	-94
o.w. Retail	27	23	-4
Credit-impaired loans/Gross loans	3.88%	5.52%	1.64%
o.w. Corporate	3.91%	5.62%	1.71%
o.w. Retail	3.82%	5.11%	1.29%
Net credit-impaired loans/Gross loans	1.76%	2.04%	0.28%
o.w. Corporate	2.06%	2.35%	0.29%
o.w. Retail	0.97%	0.86%	-0.11%
Credit-impaired loans coverage (allowance for ECL Stage 3)	54.71%	62.95%	8.24%
o.w. Corporate	47.27%	58.16%	10.89%
o.w. Retail	76.64%	83.26%	8.62%
Allowance for ECL Stage 1 & 2/Net loans	2.50%	2.33%	-0.17%
o.w. Corporate	3.24%	2.72%	-0.52%
o.w. Retail	0.58%	0.83%	-0.25%

(*) *As per IFRS 9.*

Consolidated credit-impaired loans reached USD 776 million as at end-December 2018, increasing by USD 112 million from the previous year. The largest additions to credit-impaired loans emanated from Lebanese entities and Odea Bank whose portfolios of credit-impaired loans increased by USD 39 million and USD 49 million respectively.

As at end-December 2018, credit-impaired loans represented 5.5% of gross loans post adoption of IFRS 9 as compared to 3.9% as at 1 January 2018. This percentage increase relative to the overall loan book is partially attributed to the contraction of the gross loan book by 18%.

The credit-impaired loans coverage ratio increased to 63%, and reaching 107% when including real guarantees.

Stage 1 & 2 are allocated to cover credit risks tied to all kinds of on-balance sheet assets, as well as off-balance sheet financial commitments. The Bank had undergone internal calculation of IFRS 9 requirements in line with the directives of the Central Bank of Lebanon. Total Stage 1 & 2 provisions as per IFRS 9 amounted to USD 381 million, representing 1.9% of consolidated credit risk-weighted assets and rising to 2.5% when accounting the excess provisions booked under provisions for risk and charges. In particular, allowance for ECL Stage 1 & 2 amounted to USD 309 million at end-December 2018, a level which exceeds the requirements of the Central Bank of Lebanon in connection with the application of IFRS 9, representing 2.3% of net loans.

FUNDING SOURCES

The Bank's funding resources continue to be principally driven by customers' deposits. The following table sets out the distribution of the Bank's sources of funding as at end-December 2018 as compared to end-December 2017:

BREAKDOWN OF FUNDING SOURCES (USD MILLION)

	Dec-17	Dec-18	Vol.	%
Central banks' deposits	2,634	7,907	5,273	200%
Time deposit	2,634	7,907	5,273	200%
Repurchase agreements				
Banks' deposits	1,887	1,449	-439	-23%
Sight deposits	364	281	-83	-23%
Time deposits	1,378	1,168	-210	-15%
Repurchase agreements	145	1	-144	-99%
Customers' and related parties' deposits	33,451	31,956	-1,496	-4%
Sight deposits	5,826	5,649	-177	-3%
Time deposits, saving accounts and certificates of deposit	27,150	25,907	-1,243	-5%
Collateral and margins	475	400	-75	-16%
Subordinated loans	819	819	-1	0%
Other liabilities	771	1,184	413	53%
Shareholders' equity	4,188	3,886	-301	-7%
Total	43,752	47,201	3,449	8%

As at end-December 2018, the share of consolidated customers' deposits in total funding decreased to 67.7% of total funding compared to 76.5% as at end-December 2017, i.e. a reduction by 8.8%. This is justified by an increase in the share of banks' deposits, moving from 10.3% as at end-December 2017 to 19.8% as at end-December 2018, with the increase driven by the dues to the Central Bank of Lebanon in the scope of the financings transactions (see section "One-off Developments in 2018"). Other sources of funding include shareholders' equity representing 8.2% of total liabilities and shareholders' equity, other liabilities with a share of 2.4% and subordinated debt with a share of 1.8%.

The discussion that follows analyses the evolution of those funding classes and their respective key indicators over the same period.

Changes in Banks' Deposits

Banks' deposits include dues to the Central Bank of Lebanon, dues to other central banks of the countries where the Bank operates, repurchase agreements and dues to banks and financial institutions which include term loans granted from various supranational entities for the purpose of financing SMEs in the private sector at subsidised interest rates.

In 2018, dues to the Central Bank of Lebanon increased from USD 2.6 billion as at end-December 2017 to USD 7.9 billion as at end-December 2018, representing a rise of USD 5.3 billion, of which USD 4.6 billion is denominated in Lebanese Pounds and justified by the Bank's participation to the financing transactions offered by the Central Bank of Lebanon (see section "One-off Developments in 2018" on Page 43).

The USD 1.1 billion due to the Central Bank of Lebanon in foreign currencies as at end-December 2018 represents short-term credit agreements the Group entered with the Central Bank of Lebanon during the year, which were repaid in full in February 2019 (see Notes 32-33 of the 2017 financial statements in the 2017 Annual Report). The purpose of those short-term credit arrangements with the Central Bank of Lebanon falls within the scope of the Bank's asset and liability management, while also allowing to reduce the Group's exposure to the Central Bank.

Banks' deposits decreased from USD 1.9 billion as at end-December 2017 to USD 1.4 billion as at end-December 2018, corresponding to a reduction by USD 439 million.

Changes in Customers' Deposits

Consolidated customers' deposits (including related party deposits) amounted to USD 32.0 billion at end-December 2018 compared to USD 33.5 billion as at end-December 2017, decreasing by USD 1.5 billion during the year. Still, customers' deposits of Bank Audi Lebanon increased by USD 642 million (a growth of 3.2%) over the same period, while deposits of Bank Audi in Egypt reported a year-on-year increase by USD 607 million, i.e. a growth of 22.9%. Hence, the contraction of consolidated deposits stems principally from Odea Bank in Turkey, as a result of the adopted deleveraging strategy driving a real decrease in deposits by USD 1.7 billion within a FX translation impact of USD 0.7 billion.

As at end-December 2018, 63.9% of consolidated customers' deposits were sourced from Lebanese entities (including consolidation adjustments), 12.4% from Odea Bank, 10.2% from Bank Audi Egypt, 7.7% from Private Banking entities, and 5.8% from other entities, as compared to 59.1%, 19.0%, 7.9%, 8.8% and 5.1%, respectively, as at end-December 2017.

Analysis of Customers' Deposits by Business Segment

The following table sets out the breakdown of consolidated customers' deposits over business segments as at end-December 2018 as compared to end-December 2017:

BREAKDOWN OF CUSTOMERS' DEPOSITS BY SEGMENT (USD MILLION)

	Dec-17		Dec-18		Change	
	Volume	Share in Total	Volume	Share in Total	Volume	Share in Total
Deposits from customers	**33,451**	**100.0%**	**31,956**	**100.0%**	**-1,496**	
Corporate & SME Banking	8,175	24.4%	7,794	24.4%	-381	0.0%
Retail & Personal Banking	24,401	73.0%	23,283	72.9%	-1,118	-0.2%
Public	875	2.6%	879	2.7%	3	0.1%

In 2018, in relative terms, the decrease of customers' deposits is evenly distributed across Corporate & SME Banking deposits, and Retail and Personal Banking deposits. The latter decreased by USD 1.1 billion during the year, from USD 24.4 billion as at end-December 2017 to USD 23.3 billion as at end-December 2018. Notwithstanding, their share in the total customers' deposits was sustained at 73%.

Corporate and SME deposits also decreased by USD 381 million, from USD 8.2 billion as at end-December 2017 to 7.8 billion as at end-December 2018, still accounting for 24.4% of total deposits.

Analysis of Customers' Deposits by Type

As at end-December 2018, the distribution of consolidated customer's deposits over time and sight deposits remained unchanged relative to end-December 2017. Time deposits, which include saving deposits and certificates of deposit, continued to account for the vast majority of total deposits with a share of 81.1% (compared to 81.2% as at end-December 2017). Time deposits decreased by USD 1.2 billion during the year, from USD 27.2 billion as at end-December 2017 to USD 25.9 billion as at end-December 2018.

Sight and short-term deposits also decreased from USD 6.3 billion as at end-December 2017 to USD 6.0 billion as at end-December 2018, representing a share of 18.9% of total deposits.

Analysis of Customers' Deposits by Maturity

The following table sets out the maturity profile of the Bank's consolidated customers' deposits as at end-December 2018 and as at end-December 2017:

BREAKDOWN OF DEPOSITS BY MATURITY (USD MILLION)

	Dec-17		Dec-18		Change	
	Volume	Share in Total	Volume	Share in Total	Volume	Share in Total
Less than 1 month	20,665	61.8%	17,608	55.1%	-3,057	-6.7%
1-3 months	6,229	18.6%	5,379	16.8%	-849	-1.8%
3-12 months	4,538	13.6%	5,766	18.0%	1,228	4.5%
Less than 1 year	**31,431**	**94.0%**	**28,754**	**90.0%**	**-2,678**	**-4.0%**
1-5 years	2,019	6.0%	3,167	9.9%	1,147	3.9%
Over 5 years	1	0.0%	35	0.1%	35	0.1%
More than 1 year	**2,020**	**6.0%**	**3,202**	**10.0%**	**1,182**	**4.0%**
Total	**33,451**	**100.0%**	**31,956**	**100.0%**	**-1,496**	**0.0%**

The Bank's deposits continues to be predominantly composed of deposits with maturities of less than one month, accounting for 55.1% of total deposits as at end-December 2018 as compared to 61.8% as at end-December 2017, although displaying historically behavioural stickiness across the past decades, whereby short-term deposits are typically rolled over following the expiry of their term. Nonetheless, in 2018, the maturity profile of deposits continued to shift to the advantage of deposits with maturities between 3-12 months, which accounted for 18% of total deposits as at end-December 2018 as compared to 13.6% as at end-December 2017.

Analysis of Customers' Deposits by Currency

The following table sets out the distribution of the Bank's customers' deposits by currency as at end-December 2018 as compared to end-December 2017:

BREAKDOWN OF DEPOSITS BY CURRENCY (USD MILLION)

	Dec-17		Dec-18		Change	
	Volume	Share in Total	Volume	Share in Total	Volume	Share in Total
Lebanese Pound	4,410	13.2%	5,055	15.8%	645	2.6%
US Dollar	20,046	59.9%	18,772	58.7%	-1,274	-1.2%
Turkish Lira	2,744	8.2%	1,623	5.1%	-1,121	-3.1%
Euro	2,735	8.2%	2,517	7.9%	-218	-0.3%
Egyptian Pound	2,057	6.1%	2,541	8.0%	484	1.9%
Other currencies	1,460	4.4%	1,447	4.5%	-13	0.1%
Total	**33,451**	**100.0%**	**31,956**	**100.0%**	**-1,496**	**0.0%**

Customers' deposits denominated in US Dollars continued to comprise the bulk of consolidated deposits as at end-December 2018 and 2017. Deposits denominated in Euros accounted for 7.9% of total deposits as at end-December 2018 as compared to 8.2% as at end-December 2017, while the share of deposits denominated in Turkish Lira decreased by 3.1% to 5.1% of total deposits as at end-December 2018, from 8.2% as at end-December 2017, reflecting a real decrease in deposits by USD 1.7 billion within a FX translation impact of USD 0.7 billion.

Subordinated Debt

As at end-December 2018, the Bank continued to have four unsecured subordinated loans of an aggregate amount of USD 819 million (including USD 19 million accruals), or 2.6% of consolidated customers' deposits and 1.7% of total liabilities and shareholders' equity. Below is a detailed description of those loans:

On 31 October 2014, the Bank extended a subordinated loan to Odea Bank, its wholly-owned subsidiary in Turkey, amounting to USD 150 million, bearing an interest rate of 6.5% and maturing on 30 September 2024. In accordance with applicable BRSA regulations, this loan was treated as Tier 2 capital of Odea Bank; it was eliminated on a consolidated level, along with other intra-group adjustments. In the first half of 2015, the Bank securitised this loan (through the issuance of certificates of participation) with third party investors subscribing for USD 138 million (accounted for as consolidated Tier 2 equity in accordance with applicable regulations). Bank Audi Egypt subscribed for USD 8 million and Audi Capital (KSA) subscribed for USD 4 million. On 1 August 2017, Odea Bank issued its USD 300 million 7.625% notes due in 2027, which are Basel III compliant, replacing the USD 150 million subordinated loan extended by the Bank to Odea Bank.

On 27 March 2014, the Bank entered into 2 subordinated loans with the IFC and the IFC Capitalisation Fund in an aggregate amount of USD 150 million. The repayment date for the loans is 11 April 2024, subject to early redemption or acceleration (which is, in turn, subject to Central Bank approval). The loans bear interest at a rate of 6.55% over six-month LIBOR and certain fees are payable, in each case, on a bi-annual basis, subject to the availability of free profits in accordance with the Central Bank's Basic Circular No. 6830, as applicable at the time of entry into the loans.

In September 2013, the Bank issued USD 350 million of subordinated unsecured bonds. The repayment date for the bonds is 16 October 2023, subject to early redemption or acceleration. The bonds carry an annual interest rate of 6.75% payable on a quarterly basis, and are subject to the same conditions as mentioned above.

The above two issuances are accounted for as regulatory Tier 2 capital (see Note 36 to the 2017 financial statements in the 2017 Annual Report).

Shareholders' Equity

As at end-December 2018, the capital of Bank Audi amounted to USD 450 million, of which USD 443 of common capital and USD 6.6 million of preferred capital.

In details, the Bank's share capital consists of:

- 399,749,204 common shares (BSE: AUDI), each with a nominal value of LBP 1,670, of which 119,924,761 were represented by Global Depositary Receipts (London Stock Exchange: BQAD; BSE: AUSR).
- 750,000 series "H" preferred shares (BSE: AUPRH), each with a par value of LBP 1,670 and which were issued at a price of, and may (subject to certain conditions) be redeemed by the Bank at USD 100 per series "H" preferred share.
- 2,500,000 series "I" preferred shares (BSE: AUPRI), each with a par value of LBP 1,670 and which were issued at a price of, and may (subject to certain conditions) be redeemed by the Bank at USD 100 per series "I" preferred share.
- 2,750,000 series "J" preferred shares (BSE: AUPRJ), each with a par value of LBP 1,670 and which were issued at a price of, and may (subject to certain conditions) be redeemed by the Bank at USD 100 per series "J" preferred share.

All of the common shares and preferred shares were issued and fully paid-up.

At the same date, consolidated shareholders' equity amounted to USD 3,886 million as compared to USD 4,188 million as at end-December 2017. The table below sets out the movement in shareholders' equity as at end-December 2018 compared to as at end-December 2017:

BREAKDOWN OF SHAREHOLDERS' EQUITY AT END-DECEMBER 2018 & 2017 (USD MILLION)

	Dec-17	Dec-18	Change
Nominal value of common share change	1,290	1,286	-4
Preferred share "G" redemption	750	600	-150
Change in net profits	559	501	-58
FCTR	-906	-1,157	-251
Reserves	1,426	1,561	134
Derivatives	-8	-16	-9
Treasury shares	-63	-6	57
Revaluation of real estate	237	237	0
Retained earnings	851	835	-16
Other Items	52	46	-6
Total	4,188	3,886	-302

The decrease in shareholders' equity by USD 302 million was hence predominantly due to the negative impact of the FX translation reserves following the depreciation of the Turkish Lira against the USD by 28% during the year. It was also driven by the redemption, in September 2018, of the series "G" preferred shares amounting to USD 150 million which was not replaced. Given the prevailing market conditions, as well as the Bank's capital adequacy ratios, Management does not foresee any issuance of a new series of preferred shares in the short term.

Capital Adequacy

The following table sets out the Bank's capital adequacy ratios as at end-December 2018 and end-December 2017:

CAPITAL ADEQUACY RATIO (USD MILLION)

	Dec-17	Dec-18	Change
Risk-weighted assets	25,977	23,132	-2,845
o.w. Credit risk	22,603	20,046	-2,557
o.w. Market risk	821	333	-488
o.w. Operational risk	2,553	2,753	200
Tier 1 capital (including net profit less proposed dividends)	3,534	3,242	-292
o.w. common Tier 1	2,730	2,630	-100
Tier 2 capital	864	1,133	269
Total regulatory capital	4,398	4,375	-23
Common Tier 1 ratio	10.5%	11.4%	0.9%
+ Additional Tier 1 ratio	3.1%	2.6%	-0.5%
= Tier 1 ratio	13.6%	14.0%	0.4%
Tier 2 ratio	3.3%	4.9%	1.6%
Total ratio	16.9%	18.9%	2.0%

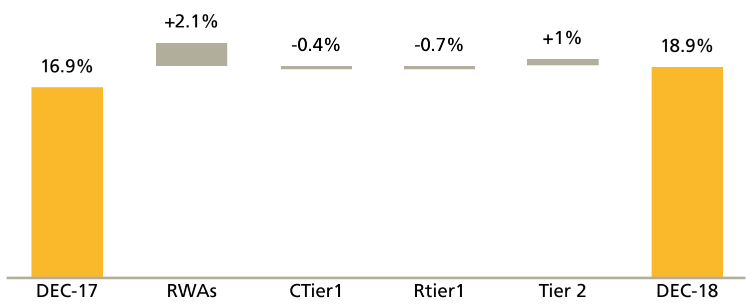
As at end-December 2018, regulatory equity stood at USD 4,375 million, almost the same level as at end-December 2017. Nonetheless, the stability in the overall movement does not reflect the change at the level of its various components. Regulatory core equity Tier 1 capital decreased by USD 100 million, reflecting principally the aforementioned negative foreign currency translation impact totally offsetting the internal capital generation achieved during the year. Taking into account the redemption of the series "G" preferred shares, Tier 1 capital decreases by USD 292 million.

This was offset by an increase in Tier 2 capital predominantly justified by the inclusion of USD 119 million of Stage 1 provisions and USD 120 million of general provisions into capital ratios pursuant to the Central Bank of Lebanon's Intermediary Circular No. 512 dated December 2018.

In parallel, risk-weighted assets contracted from USD 26 billion as at end-December 2017 to USD 23.1 billion as at end-December 2018, decreasing by USD 2.8 billion or 11%. This reflects predominantly the deleveraging and rationalisation policy in Turkey and Lebanon within a FX translation impact of USD 1 billion totally offsetting the impact of the increase in portfolio securities.

As a result, the Bank's core equity Tier 1 ratio (CET1) as per Basel III stood at 11.4% as at end-December 2018, compared to 10.5% as at end-December 2017 and 10% minimum regulatory ratio. Capital adequacy ratio also improved from 16.9% to 18.9% over the same period.

EVOLUTION OF CAPITAL ADEQUACY RATIO IN 2018



In parallel, the capital adequacy ratio of Odea Bank reached 21.4% of which 14.2% of CET1 ratio, one of the highest levels in the Turkish banking sector. Bank Audi Egypt also continued to display comfortable ratios with a CET1 ratio of 13% as at end-December 2018, and a total capital adequacy ratio of 19.6%.

Internal Capital Adequacy Assessment

The Bank conducts yearly Internal Capital Adequacy Assessments (ICAAP) on a consolidated basis and on an individual basis for material entities to ensure that capital levels remain adequate. The Bank views the ICAAP as an important internal initiative rather than just a regulatory one. This is reflected by how the ICAAP has become an integral part of Bank Audi's decision-making process and an essential tool used by Management and the Board for budgeting and capital planning. The ICAAP reports for material entities, as well as on a consolidated basis, are prepared annually and submitted to Senior Management, the Board Group Risk Committee, and the Board of Directors.

ICAAP also acts as an important exercise that drives the Bank to develop and use better risk measurement techniques. Bank Audi continues to build on the approaches used in previous ICAAP submissions to further develop and refine various risk methodologies, and include more sensitive risk measures able to capture risk more adequately. For internal use, the Bank calculates credit risk capital charges using the IRB approach for certain asset classes. This approach allows the Bank to measure credit risk and the corresponding capital charge in a more sensitive way than the standardised approach. Bank Audi also continues to improve the stress tests and scenario analyses prepared in the ICAAP, covering a variety of plausible scenarios of different levels of severity.

4.4. | RESULTS OF OPERATIONS

Bank Audi reported USD 501 million of recurrent consolidated net profits after provisions and taxes in 2018, rising by 7.9% compared to the net profits before discontinued operations in 2017 and amounting to USD 464 million. This performance is even more significant when considering that it was achieved amid the allocation of Odea Bank's operating results to loan loss provisions (compared to a contribution to consolidated net profits of USD 88 million in 2017) and within an increase in taxes on income and interest in Lebanon by USD 106 million.

The following table sets out the Bank's consolidated financial results in 2018 and 2017:

SUMMARISED CONSOLIDATED INCOME STATEMENT (USD MILLION)

	2017	2018	YOY 2018/2017	
Interest income[*]	1,050.8	1,175.3	124.4	11.8%
Non-interest income	458.2	319.1	-139.1	-30.4%
Total income	**1,509.0**	**1,494.3**	**-14.7**	**-1.0%**
Operating expenses	772.2	691.4	-80.8	-10.5%
Credit expense	143.8	175.9	32.2	22.4%
Income tax	129.2	126.4	-2.8	-2.1%
Total expenses	**1,045.2**	**993.8**	**-51.4**	**-4.9%**
Net profits after tax	**463.8**	**500.6**	**37**	**7.9%**
Results of discontinued operations	95.1		-95	-100.0%
Profit after tax & discontinued operations	**559.0**	**500.6**	**-58**	**-10.4%**

[*] Includes interest revenues from financial assets at fair value through profit and loss.

The increase in the Bank's net income after tax resulted predominantly from a decrease in total costs, comprising of net loan loss provisions, income tax expenses and general operating expenses by 4.9%, amid stable operating income. A detailed analysis reveals that the evolution of net income after tax in 2018 relative to 2017 is actually driven by an increase in interest income by 11.8% within a contraction of general operating expenses by 11%.

Interest Income

In 2018, consolidated interest income, including interest revenues from financial assets at fair value through profit and loss, achieved USD 1,175 million as compared to USD 1,051 million in 2017, increasing by USD 124 million or a growth of 11.8%. The increase in net interest income included additional new taxes on financial investments in Lebanon adopted in October 2017 for USD 85 million over the same period (reaching USD 96 million in 2018 compared to USD 12 million in 2017). Excised directly at the source, these new taxes include and are not limited to Lebanese taxes on investments in Treasury bills and certificates of deposit issued by the Central Bank of Lebanon, as well as on placements with the Central Bank of Lebanon and money market placements (see section "One-off Developments in 2018").

With average assets growing by 2.1%, the increase in net interest income was predominantly due to a price effect, following the improvement in consolidated spread by 23 basis points from 2.39% in 2017 to 2.62% in 2018, with the increase stemming principally from Lebanese entities and to a lesser extent from Bank Audi Egypt amid a relative increase by 17 basis points in Odea Bank. The expansion of the interest income results from effective asset utilisation policies, in particular in Lebanese entities and Bank Audi Egypt, which benefitted from market opportunities totally offsetting rising costs of deposits and the aforementioned new taxes. In 2018, the average cost of deposits on consolidated basis increased by 78 basis points to 5.35% from 4.57% in 2017.

Non-interest Income

Consolidated non-interest income decreased from USD 458 million in 2017 to USD 319 million in 2018. This contraction by USD 139 million is mainly attributed to USD 89 million of less other operating income. In 2017, other operating income included a gain on loss of control of a subsidiary of USD 49 million recorded following the sale of the Bank's Electronic Payment and Card Services processing and acquiring activity to M1 Financial Technologies sal (the sole owner of Areeba sal), as well as income related to the disposal of CBS in Dubai (USD 28 million) and one-off income from European subsidiaries (USD 12 million).

In parallel, consolidated net fees and commissions decreased by USD 22 million in 2018 relative to 2017 driven mainly by a similar decrease in net fees and commissions in Odea Bank because of the FX translation impact and the deleveraging policy underway. Net commissions represented 0.49% of average assets in 2018 as compared to 0.55% in 2017. In parallel, non-interest income accounted for 0.71% of average assets in 2018 as compared to 1.04% of average assets in 2018.

Cost of Credit

In 2018, the Bank recognised net loan loss provisions of USD 176 million compared to USD 144 million in 2017, representing an increase by USD 32 million. Following the allocation of its operating profits into loan loss provision, Odea Bank accounted for USD 125 million of the loans loss provisions recognised in 2018. The remaining USD 51 million was apportioned as follows: USD 37 million in Lebanese entities, USD 16 million in Bank Audi Egypt and USD 2 million in Bank Audi Qatar within net recoveries in Bank Audi France and Bank Audi Jordan Network by respectively USD 1.5 million and 1.9 million.

In 2018, net loan loss provisions consumed 21.9% of pre-provisions pre-tax profits compared to 19.5% in 2017, while consolidated cost of risk, calculated as the ratio of net loan loss provision over net loans, increased to 1.3% in 2018 from 0.9% in 2017.

General Operating Expenses

Consolidated general operating expenses decreased year-on-year by USD 80.8 million, from USD 772 million in 2017 to USD 691 million in 2018. Consolidated staff expenses decreased over the same period by USD 53 million, broken down mainly over a decrease of USD 37 million in Odea Bank, half of which results from a currency translation impact and USD 19 million resulting from the discontinuation of CBS amid relatively stable staff costs across all other entities. Similarly, other operating expenses decreased by USD 19 million, while depreciation and amortisation charges decreased by USD 9 million.

The contraction in general operating expenses by 11% compared to a stable revenue generation produced a positive jaws effect by 10%, with the Bank's cost to income ratio improving from 51.2% in 2017 to 46.3% in 2018, witnessing to an enhancement of the overall efficiency of the Group.

Income Tax

Consolidated income taxes achieved USD 126 million in 2018 as compared to USD 129 million in 2017, decreasing by USD 2.8 million. Notwithstanding, owing to the new tax measures imposed by the Ministry of Finance in Lebanon starting October 2017 (see section "One-off Developments in 2018"), income tax of Lebanese entities increased by USD 9.8 million while the income tax of Bank Audi Egypt increased year-on-year by USD 6.6 million. The net decrease in income tax stems mainly from the allocation in 2018 of Odea Bank's operating profits to loan loss provisions.

Net Profits from Discontinued Operations

In 2017, Bank Audi's Management had resolved to sell the Bank's Cards and Electronic Payment business, adopting a common practice in big corporations, particularly in this sector (see section 4.2. of the MD&A in the 2017 Annual Report). The consideration was set at USD 184 million. Simultaneously the Group had an option that grants it the right to buy back 30% of M1 Financial Technology over the next 3 years for a total consideration of USD 55 million, allowing for potential exercisable voting rights in M1 Financial Technology. The transaction resulted in a gain from discontinued operations amounting to USD 95 million (net of taxes), along with a gain on loss of control of a subsidiary of USD 49 million recorded under other operating income.

Distribution of Net Income after Tax by Geography

The table below sets out the distribution of the components of net income after tax over Lebanon and abroad in 2018 and 2017:

	Total Revenues			Operating Expenses			Net Profits			Net Profits after Tax and Discontinued Operations		
	FY-17	**FY-18**	Change	FY-17	**FY-18**	Change	FY-17	**FY-18**	Change	FY-17	**FY-18**	Change
By region												
Lebanon	48.8%	**58.5%**	9.6%	49.8%	**56.4%**	6.6%	55.3%	**74.5%**	19.2%	62.9%	**74.5%**	11.6%
Abroad	51.2%	**41.5%**	-9.6%	50.2%	**43.6%**	-6.6%	44.7%	**25.5%**	-19.2%	37.1%	**25.5%**	-11.6%

COMPONENTS OF ROAA AND ROAE

Net income represented 1.12% of average assets as at end-December 2018 as compared to 1.06% as at end-December 2017, driven by an increase in net income after tax by 8%, faster than the 2% increase in average assets. Net common income represented 14% of average common equity compared to 13.4% as at end-December 2017.

The table below sets a breakdown of key performance indicators in 2018 and 2017:

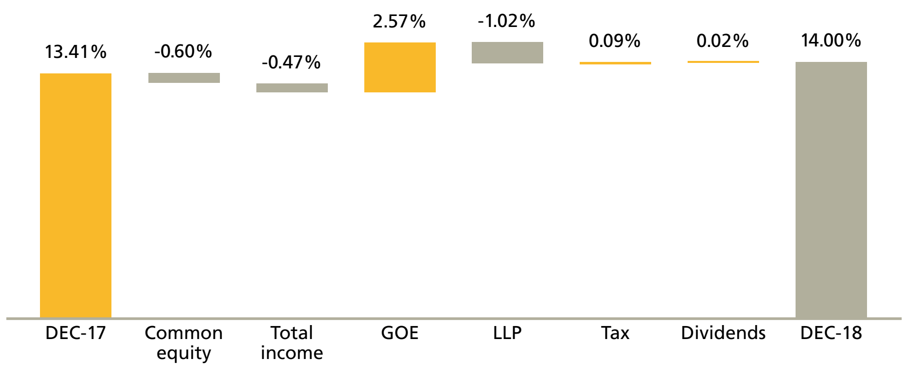
KEY PERFORMANCE METRICS

	2017[1]	2018	Change
Spread	**2.39%**	**2.62%**	**0.23%**
+ Non-interest income/AA	1.04%	0.71%	-0.33%
= Asset utilisation	**3.44%**	**3.34%**	**-0.10%**
X Net operating margin	**30.74%**	**33.50%**	**2.76%**
o.w. Cost to income	51.18%	46.27%	-4.91%
o.w. Provisons	9.53%	11.77%	2.25%
o.w. Tax cost	8.56%	8.46%	-0.10%
= ROAA	**1.06%**	**1.12%**	**0.06%**
X Leverage	**11.62**	**11.18**	**-0.45**
= ROAE	**12.28%**	**12.49%**	**0.21%**
ROACE	**13.41%**	**14.00%**	**0.59%**

[1] Excluding net profits from discontinued operations.

The following chart details the contribution of the various components to the movement in the return on average common equity ratio in 2018:

EVOLUTION OF ROACE IN 2018



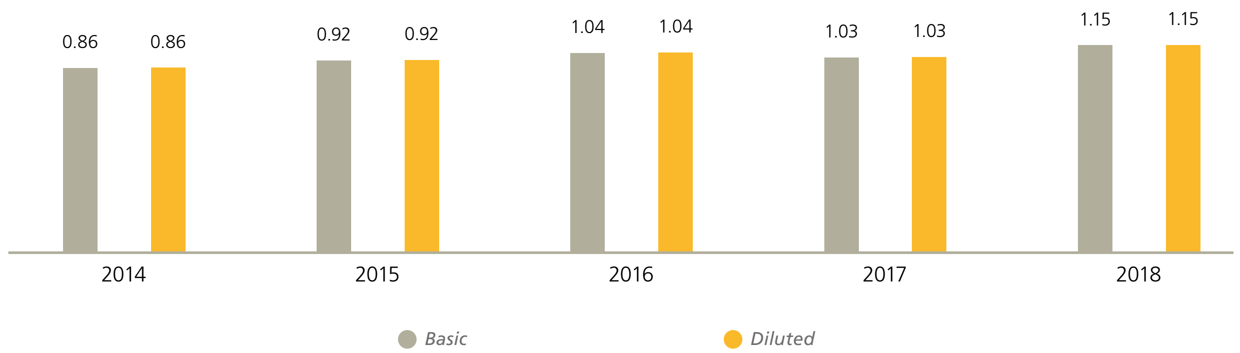
EARNINGS PER COMMON SHARE AND COMMON BOOK PER SHARE

Basic earnings per common share are calculated based on the weighted number of common shares in issue over the period and net profits after tax. For a comparison on equal basis, we exclude from the calculation net profits from discontinued operations in 2017.

Basic earnings per common share reached USD 1.15 in 2018, rising from USD 1.03 in 2017, corresponding to a growth by 12.2%. Based on an ordinary share price of USD 4.90 as at 31 December 2018, this corresponds to a price to earnings multiple of 4.2 times, a very low level when compared to peer regional banks' averages in relation to the average growth rate of its earnings per share over the past 5 years.

The graph below sets out the evolution of common earnings per share, including net profits from discontinued operations over the past 5 years.

EARNINGS PER COMMON SHARE GROWTH (USD)



Common equity corresponds to total shareholders' equity less minority share less preferred shares. Common equity per share is calculated based on the outstanding number of common shares net of Treasury stock as the end of the period.

The table below sets out the common book per share as at end-December 2018 as compared to end-December 2017:

EQUITY METRICS (USD MILLION)

	Dec-17	Dec-18	Change	Percent
Shareholders' equity	**4,188**	**3,886**	**-302**	**-7.2%**
- Minority shares	247	144	-103	-41.7%
= Shareholders' equity group share	**3,941**	**3,742**	**-199**	**-5.0%**
- Preferred stock (including dividends)	792	642	-151	-19.0%
= Common shareholders' equity	**3,148**	**-3,101**	**-48**	**-1.5%**
Outstanding number of shares (net of Treasury stock)	**389,286**	398,597	**9,310**	**2.4%**
Common book per share (USD)	**8.09**	7.78	**-0.31**	**-3.8%**
Share price at end-December (USD)	**5.75**	4.90	**-0.85**	**-14.8%**
P/Common book	**0.71**	0.63	**-0.08**	**-11.3%**

The common book per share decreased from USD 8.09 as at end-December 2017 to USD 7.78 in 2018, mainly resulting from a negative foreign currency translation impact. Based on an ordinary share price of USD 4.90 as at 31 December 2018, this corresponds to a price to book multiple of 0.63 times, a very low level when compared to peer regional banks' averages in relation to the Group's profitability.

4.5. | RESULTS ACROSS MAIN DEVELOPMENT PILLARS

The Bank's activity and earnings growth in 2018 were driven by the Group's main development pillars

What follows is a brief discussion of the overall growth trends across main development pillars:

LEBANESE ENTITIES

Assets of the Bank's Lebanese entities (excluding Audi Private Bank and consolidation adjustments) increased by USD 5.8 billion, from USD 29.6 billion at end-December 2017 to USD 35.4 as at end-December 2018, corresponding to a growth by 19.4% mainly driven by the Bank's participation in the financings transactions with the Central Bank of Lebanon. Customers' deposits increased by USD 597 million, mainly in Lebanese pounds, from USD 19.9 billion as at end-December 2017 to USD 20.5 billion as at end-December 2018, i.e. a growth by 3%.

(USD Million)	Dec-17	Dec-18	Change
Balance sheet data			
Assets	**29,650**	**35,407**	**5,756**
Deposits	**19,875**	**20,472**	**597**
Loans	**6,724**	**6,111**	**-612**
Equity	**4,231**	**4,307**	**77**
Outstanding LCs + LGs	**1,049**	**817**	**-232**
Earnings data	2017	**2018**	Change
Total income	**682.2**	**818.3**	**136.1**
Net profits	**229.4**	**343.6**	**114.2**
Net profits after discontinued operations	**324.5**	**343.6**	**19.1**
Spread	**1.8%**	2.2%	**0.4%**
= ROAA(*)	**0.8%**	1.1%	**0.3%**
RORRC(*)	**14.0%**	20.2%	**6.2%**

(*) 2017 before discontinued operations.

Over the same period, lending activity of Lebanese entities was subdued, mirroring the sluggish economic activity in Lebanon during this year, registering net loans settlements and exposure reduction by USD 612 million, and reaching USD 6.1 billion as at end-December 2018 from USD 6.7 billion at the end of the previous year. This evolution is in line with tight control direction on loans favouring improving conditions over growth.

Post adoption of IFRS 9, the credit-impaired loans to gross loans ratio of Lebanese entities reached 5.0% as at end-December 2018 compared to 4% as at 1 January 2018. Credit-impaired loans coverage increased from 60.5% as at 1 January 2018 to 69.5% as at end-December 2018. In parallel, allowance for ECL Stage 1 & 2 on loans reached USD 71.6 million, representing 1.17% of net loans.

Net income after tax of Lebanese entities increased by 50% in 2018 relative to the net income stated in 2017 before discontinued operations, rising by USD 114 million. This increase is almost exclusively driven by an expansion in interest income, with net spread on assets moving from 1.8% in 2017 to 2.2 % in 2018. Subsequently, Lebanese entities' profitability ratios improved as the return on average assets rose from 0.8% in 2017 to 1.1% in 2018. In turn, the return on required regulatory Tier 1 capital increased from 14.0% to 20.2% over the same period.

ODEA BANK

The performance of Odea Bank in 2018 underscores the ongoing deleveraging policy favouring further enhancing the Bank's liquidity and solvency within a tight control on credit quality. Assets of Odea Bank moved from TRY 32.9 billion as at end-December 2017 to TRY 32.0 billion as at end-December 2018. Loans to customers at Odea Bank contracted by TRY 3.7 billion in 2018, from TRY 22.2 billion as at end-December 2017 to TRY 18.5 billion as at end-December 2018, driven by net loan settlements and exposure reductions amid an adverse environment. In parallel, deposits of Odea Bank decreased from TRY 24 billion as at end-December 2017 to TRY 20.9 billion, representing a reduction by TRY 3 billion. As a result, the loans to deposits ratio decreased from 92.8% as at end-December 2017 to 88.6% as at end-December 2018, still ranking among the lowest levels in the Turkish banking sector. In parallel, total primary liquidity represented 35% of deposits, of which 36% in foreign currencies, while capital ratios were further reinforced, with a CET1 ratio of 14.2% and a total capital adequacy ratio of 21.4%.

(TRY Million)	Dec-17	Dec-18	Change
Balance sheet data			
Assets	32,891	31,982	-909
Deposits	23,961	20,929	-3,032
Loans	22,242	18,540	-3,702
Equity	3,920	3,220	-700
Outstanding LCs + LGs	2,264	2,366	103
Earnings data	2017	2018	Change
Total income	1480.6	1,247.0	-233.6
Net profits	320.5	17.1	-303.3
Spread	2.9%	3.1%	0.2%
ROAA	0.9%	0.1%	-0.8%
ROACE	8.6%	0.4%	-8.2%

At the loan quality level, Odea Bank adopted a conservative approach to IFRS 9 classification. The credit-impaired loans to gross loans ratio increased from 4.7% as at 1 January 2018 to 8.6% as at end-December 2018. This 4.0% increase is accounted, to the extent of 3.2%, by the contraction in gross loans by 37% over the year. The operating profits of Odea Bank were fully allocated to loans loss provisions hampering its contribution to the consolidated position, particularly when compared to a contribution by USD 88 million in 2017. Notwithstanding, this measure allowed improving the credit-impaired loans coverage ratio, standing at 53% on Stage 3 loans (excluding collaterals) and 5.2% of Stage 1 & 2 loans as at end-December 2018, compared to 41% and 5.2% respectively as at 1 January 2018.

BANK AUDI sae (EGYPT)

On the back of improving macroeconomic conditions in Egypt, Bank Audi Egypt has resumed its growth, launching a new development plan and investing in innovative channels boasting latest technologies. Assets of Bank Audi Egypt grew in 2018 by 21.7%, reaching EGP 68.4 billion at end-December 2018. Asset growth was driven by an increase in deposits by EGP 11.8 billion, reaching EGP 58.8 billion as at end-December 2018. In parallel, loans to customers increased by a mere EGP 1.8 billion to EGP 31.2 billion, with the assets differential placed in Egyptian Treasury bill investments to benefit from lucrative market conditions ahead of an imminent increase in applicable taxes on those investments.

(EGP Million)	Dec-17	Dec-18	Change
Balance sheet data			
Assets	56,189	68,401	12,212
Deposits	46,910	58,757	11,848
Loans	29,396	31,182	1,786
Equity	5,563	6,730	1,167
Outstanding LCs + LGs	4,857	5,222	365
Earnings data	2017	2018	Change
Total income	2401.9	3,022.3	620.4
Net profits	1020.9	1,267.4	246.5
Spread	3.4%	4.0%	0.6%
ROAA	1.8%	2.1%	0.3%
ROACE	20.3%	20.7%	0.4%

As per local standard.

In terms of loan quality, the ratio of credit-impaired loans to gross loans moved from 1.5% as at 1 January 2018 to 2.4% as at end-December 2018, still below that of the sector. Credit-impaired loans coverage improved and continued to stand at 77%, while allowance for ECL Stage 1 & 2 accounted for 1.3% of net loans.
Primary liquidity of Bank Audi sae (Egypt) comprising of cash, Central Bank, banks and money market placements represented at end-December 2018 26% of total deposits (compared to 22% as at end-December 2017), while capital adequacy ratio expanded to 19.6% and core equity Tier 1 ratio to 15.7% from 16.6% and 12.6% respectively the previous year.

On the profitability level, Bank Audi Egypt registered net profits of EGP 1,267 million in 2018, rising by 24.1% relative to 2017, translating into solid profitability ratios with a ROAA of 2.1% and ROACE of 20.7%.

PRIVATE BANKING ENTITIES

At Bank Audi, the Private Banking business operates under the new legal structure, BAPB Holding, which owns 3 banks: Banque Audi (Suisse) SA, Audi Private Bank sal, and Audi Capital (KSA), and operates sales platforms in Monaco, the UAE and Jordan. BAPB also covers Sub-Saharan Africa and Latin America through dedicated desks.

(USD Million)	Dec-17	Dec-18	Change
Balance sheet data			
On-balance sheet assets	3,551	3,124	-427
Total client assets	11,005	10,973	-32
o.w. AuMs (off-balance sheet)	5,608	5,443	-165
o.w. Deposits (on-balance sheet)	2,935	2,457	-478
o.w. Fiduciary deposits (off-balance sheet)	2,463	3,074	611
Client loans	968	949	-19
Equity	378	384	6
Earnings data	2017	2018	Change
= Total income	144.7	144.6	-0.1
= Net profits	53.7	59.3	5.6
Spread (on AA + AAuMs)	0.5%	0.5%	0.0%
= ROAA + AAuMs	0.5%	0.5%	0.0%
= ROACE	12.9%	15.7%	2.7%

Client assets (comprising of client deposits as well as off-balance sheet AuMs including AuMs, fiduciary deposits and custody accounts) at Bank Audi Private Bank stabilised at USD 11 billion at end-December 2018. In 2018, Private Banking entities generated net profits of USD 59.3 million, as compared to USD 53.7 million in 2017, corresponding to a growth of 10.4%.

4.6. | PRINCIPAL BUSINESS ACTIVITIES

COMMERCIAL AND CORPORATE BANKING

Bank Audi caters to the needs of its Corporate and Commercial Banking clientele via its vast network of branches and entities by offering a wide array of solutions through its teams of experts, ranging from project and acquisition finance to general corporate facilities and trade finance.

Equipped with its solid balance sheet, expertise and regional reach, Bank Audi has been successful in attracting a diversified portfolio of clients across all the major sectors, while adopting a structured credit policy based on the unique characteristics of the markets it is present in.

During 2018, and on the backdrop of the Bank's overall strategy to contain its credit portfolio, total lending by Corporate and Commercial Banking decreased by 19%, from USD 13 billion as at end-December 2017 to USD 10.5 billion as at end-December 2018.

Despite this significant decrease in the credit portfolio, total revenues generated by the Corporate and Commercial Banking reached USD 419 million in 2018 as compared to USD 452 million in 2017, translating to a reduction by 7%.

In Lebanon – With a portfolio of USD 4.2 billion, Bank Audi remains the largest contributor to the corporate and commercial lending segment in the Lebanese banking sector, with a market share reaching circa 11%. The Bank's lending activity is directed towards (i) supporting sustainable investments promoting Lebanon's transition to a green economy, (ii) playing a key role in structuring and funding Lebanon's pipeline of infrastructure projects with an increased emphasis on the power sector, and (iii) maintaining key strategic relationships with top tier corporates.

USD 200 Million Financing for Green Projects
Bank Audi and the EBRD have joined forces to support Lebanon's transition to a green economy by providing a USD 200 million green financing envelope to the private sector. The program addresses critical issues for Lebanon's sustainable development, such as diversifying energy supply, reducing the use of limited natural resources, and improving energy efficiency, thus decreasing pollution levels, conserving resources and contributing to a better environment. The program includes the USD 100 million Green Economy Financing Facility "GEFF" provided by the EBRD and Taiwan ICDF to Bank Audi for on-lending, and an additional USD 100 million provided by Bank Audi, bringing the total size of the green facility to USD 200 million. This GEFF facility to Bank Audi is the first offered to a commercial bank in Lebanon and the largest ever granted to a single bank in the region. Bank Audi remains the largest lender of green loans in Lebanon, with a green loan portfolio of USD 138 million representing a 24% market share of Lebanon's green loans.

Financing Lebanon's Energy Projects
Lebanon is currently facing significant energy challenges which are hampering economic growth and weighing heavily on national finances. The new government has placed the reform of the energy sector as a top priority, and Bank Audi has mobilised its teams, leveraging its strong relationships with investors, international financial institutions and the public sector to support the execution of the government's energy sector reform plan.
To that end, Bank Audi took the lead on arranging the financing of the first two wind farms in Akkar, Lebanon with a total capacity of 159 MW. As part of its role, Bank Audi led the negotiation of Lebanon's first power purchase agreement between the project companies and the Lebanese government for 20 years, according to international bankability standards. The agreement will also serve as the basis for future planned projects in the renewable and conventional energy sectors being executed under a PPP model. This success has led to the recognition of Bank Audi as Lebanon's Energy Ambassador for the year 2018.

In Turkey – As at December 2018, the corporate and commercial loan portfolio at Odea Bank reached USD 3.2 billion, down by 38% when compared to USD 5.2 billion as at December 2017, out of which 28% is attributed to the devaluation of the Turkish Lira. This decrease is in line with the Bank's continued strategy to concentrate on the anchor relationships with cross-selling opportunities.

In Egypt – For the third consecutive year, the loan portfolio was maintained at around USD 1.4 billion as at December 2018, representing 13% of the overall corporate and commercial lending portfolio of the Bank.

RETAIL BANKING

In 2018, the retail business line reinforced the Bank's positioning as an innovative and technology-driven bank, since the aim was to offer a full banking experience across all physical and digital channels.

Bank Audi offers the largest network of 478-advanced Omni-channel ATMs & ITMs capable of conducting all types of day-to-day banking operations including instant cash and check deposits. Today, this network conducts over 93% of cash withdrawals and 42% of cash deposits. The Bank expanded its network of Interactive Teller Machines to 36 machines, the largest ITM network regionally, supporting customers via video conferencing (pioneer in remote/video advisory capability) and operating 365 days a year including holidays, offering all types of transactions even for non-card holders.

In 2018, the retail business line continued to operate within the Group's conservative retail credit policy, favouring asset quality enhancement and profitability over size, especially with the prevailing vulnerability in the economic and political environment across the region. Translated in USD, consolidated retail loans decreased from USD 3.3 billion at end-December 2017 to USD 2.8 billion at end-December 2018. The contraction is mainly driven by limiting the retail portfolio of Odea Bank in Turkey across all products, whereby it reflects the Bank's new strategy focusing on efficiency and asset quality.

As at end-December 2018, housing loans backed by mortgages made up 43.9% of the consolidated retail loan portfolio, followed by personal loans with 32.7%, credit cards with 13.7%, and car loans with 8.4%, in addition to 1.3% of small/multipurpose loans.

The ratio of credit-impaired loans retail loans to gross retail loans increased in 2018 to 5.1% as at end-December 2018, from 4.5% the previous year. The ratio takes into account fully provided for bad debt or loans identified as subject to write-off, but not written off due to regulatory requirements and/or market practices. Excluding these loans, the ratio of credit-impaired loans retail loans would drop to 2.4% of gross retail loans as at end-December 2018. 83% of credit-impaired loans retail loans are covered by allowance for ECL Stage 3 (excluding collaterals), while allowance for ECL Stage 1 & 2 amounted to USD 22.8 million.

The following analysis highlights the Group's Retail Banking activity and its evolution in 2018 across main geographical development pillars:

Bank Audi Lebanon's main focus in 2018 was on moving forward with customer-centricity. The main objective is to enhance customers' experience by offering suitable products depending on their profile, behaviour and needs. With that being said, the strategy consisted in segmenting customers by focusing on three main pillars: liabilities, services and credit cards.

On the digital front, and to further enhance and unify the user experience across digital channels, Bank Audi launched the Omni ATM in Q1 2018. Bank Audi's Omni-channel experience allows customers to use the same interface and functionalities to bank anywhere and anytime via the internet, the Bank's Mobile App, and most recently, Omni ATMs.

The number of active Audi Online and Mobile users reached 114,000 at end-2018, which represents an 18% year-on-year increase. Since Q2 2018, monthly logins have exceeded 1 million – logins grew by 34% year-on-year. Our customers digitally conducted 56% of the Bank's movable transfers (63% of internal transfers and 20% of external transfers). 70% of transactions were conducted on the Audi Mobile App (versus 30% on the online platform), which represents a 15% increase from 2017 and shows an increasing preference for mobile.

On another note, 2018 was an exciting year for Bank Audi Jordan which expanded its services and programs, striving to provide great customer experience to a diverse clientele and meet its long-term vision. Being a niche player in the Jordanian market, Bank Audi Jordan continued to offer excellent services and prestigious products to increase its market penetration.

Bank Audi Egypt succeeded in grabbing the loyalty of its clients and increase its retail lending portfolio to reach EGP 6.2 billion as of December 2018.

Committing to customer relationships, Bank Audi Egypt introduced new services through the ATM network, such as credit card payment and cardless services such as mobile wallet load, cash out and "Fawry" payment, in addition to enhancing "Audi Online" features and discounted services. Furthermore, enhancing the "Audi 2 Pay" wallet application with a new unified QR code to be ready for the new merchant payment method which will be introduced to the market very soon, together with the introduction of Arabic language.

In Turkey, Odea Bank's Retail Banking operates in 18 cities and 45 retail branches, with an experienced staff base. Odea Bank's target is to be the first recalled deposit and investment bank. In 2018, the first step of this change was completed. The "Oksijen" account, one of the main product offerings, generates strong deposit both in TRY and foreign currencies. The total "Oksijen" account balance reached TRY 3.5 billion in all currencies, with more than 40K active customers.

On the retail business line, credit cards optimisation was the main objective during the year. 243,000 of Odea Bank credit cards customers are served in all channels. Furthermore, an increasing of the non-interest income growth of Retail Banking operations reached a record of TRY 106 million. In addition, a variety of bancassurance products and services were conceived and offered in collaboration with AvivaSA Emeklilik ve Hayat A.Ş., AXA Sigorta A.Ş., and MetLife Emeklilik ve Hayat A.Ş. Odea Bank offered the most efficient and swift solutions to customers, with life and non-life insurance policies, and private pension plans through the branch and telesales channels.

On the digital front, Direct Banking activities focused on sales activities. In 2018, over 40,000 Odea Bank clients performed 20 million transactions worth TRY 16 billion via the Direct Banking channels which include Internet, Mobile, ATM and Contact Center. Moreover, as of year-end 2018, Odea Bank has 170,000 followers on Facebook, 27,000 on Twitter, 2,800 on Instagram and 9,800 on LinkedIn.

PRIVATE BANKING

The restructuring of the Private Banking business line reached a new milestone in 2018, with the Private Banking entities and related business now under one legal operating holding, namely BAPB Holding, based in Cyprus. Going forward, all entities will progressively have the same management structure to ensure better synergy and accountability, effective management, corporate governance, and alignment of business objectives, while serving Private Banking clients within their jurisdiction with one overall product offering.

BAPB provides services to high net worth individuals through its network in Europe (Geneva and Monaco) and the Middle East (Beirut, Riyadh, Abu Dhabi and Amman), and comprises three main booking entities, namely Audi Private Bank, Banque Audi (Suisse) and Audi Capital (KSA).

BAPB offers a full and diversified range of services, with access to major markets worldwide and global investment products, including discretionary portfolio management, investment advisory and trade execution services in all asset classes, structuring and management of Saudi and regional funds, and other Private Banking services. Its main customers are high net worth individuals in Lebanon, Europe and the Gulf region, as well as the Lebanese diaspora in Sub-saharan Africa and Latin America.

BAPB has consolidated assets under management (comprising of assets under management, fiduciary deposits and custody accounts) at circa USD 11 billion at end-December 2018. In Switzerland, Banque Audi (Suisse) represents the main Private Banking arm of the Group, with over USD 6.5 billion in AuMs, while in Lebanon, Audi Private Bank is the largest wholly-owned Private Banking entity, with circa USD 3.5 billion in AuMs. In Saudi Arabia, Audi Capital (KSA) serves as the Group's main Private Banking hub for GCC markets, with AuMs of USD 1.0 billion.

TREASURY AND CAPITAL MARKETS

The Bank offers Capital Markets and Investment Banking products and services, including securities trading activities. Since 1996, the Bank has developed a substantial Capital Markets franchise. It is active in the equities markets, as well as in fixed income markets. In Lebanon, the Bank is a market maker on the Beirut Stock Exchange and had a 51.25% market share of Beirut Stock Exchange equities trading volumes by value as at end-December 2017. The Bank also has a significant share of the government's Eurobond and Treasury notes markets, with an annual trading volume exceeding USD 8.2 billion in 2018 as compared to USD 8 billion in 2017. In Lebanon and the MENA region, the Bank's activities are supported by the Bank's sovereign, fixed income and corporate research coverage businesses.

Through the Bank's institutional fixed income desk, which was established in 2012, the Bank continues to develop and maintain new and existing coverage of Lebanese securities for international non-bank financial institutions in order to cater to international appetite for higher yielding instruments.

Assets of the Treasury and Capital Markets segment reached USD 31.1 billion as at end-December 2018, as compared to USD 24.6 billion as at end-December 2017. In parallel, those activities generated net revenues of USD 378 million in 2018 as compared to USD 370 million in 2017.

5.0. | DIVIDEND POLICY

At the ordinary general meeting of the Bank's shareholders held on 10 April 2018, the Bank's shareholders approved the distribution of dividends out of the Bank's net income in 2017, of USD 6.00 per series "G" preferred share, USD 6.50 per series "H" preferred share, USD 7.00 per series "I" preferred share, USD 4.00 per series "J" preferred share, and LBP 829.125 per common share, after deduction of withholding tax, where applicable. Total dividends paid in respect of 2017 represented 46.9% of the Bank's net earnings for 2017.

Payment of Dividends
Since 1996, the Board of Directors of the Bank has recommended the distribution to holders of common shares of a dividend payment of at least 30% of after-tax profits in each year.

Pursuant to the Bank's by-laws, subject to the requirements of Lebanese law, the Bank's net income in each financial year shall be allocated in the following order of priority:

- To the allocation of 10% of net income to the legal reserve until such reserve reaches one-third of the Bank's share capital. The legal reserve is distributable only upon the liquidation of the Bank.
- To the allocation of amounts required for the establishment of legal regulatory reserves.
- To the payment of distributions in respect of any outstanding series "G" preferred shares, series "H" preferred shares, series "I" preferred shares and series "J" preferred shares, as and when approved by the shareholders of the Bank pursuant to a resolution adopted at the general meeting of shareholders during which the most recent annual audited financial statements of the Bank are approved.
- To the holders of common shares.
- To the establishment of additional special or general reserves or to the allocation of amounts to be carried forward to the following year, in accordance with a decision of the Bank's shareholders pursuant to a resolution adopted at a general meeting.

Pursuant to Central Bank decision No. 7129, the Bank was legally required to set aside a minimum of 0.2% and a maximum of 0.3% of its risk-weighted assets as a reserve for general banking risks, which forms an integral part of the Bank's Tier 1 capital. The accumulated reserve for general banking risks must be equivalent to 1.25% of risk-weighted assets within 10 years from Decision 7129's issuance and 2.0% of risk-weighted assets within 20 years from such date. The Bank has already reached the regulatory 2.0% threshold and transferred the outstanding balance to non-distributable general reserves, as required by Central Bank Decision No. 12713 issued on 7 November 2017. Starting 2018, the Bank discontinued the yearly allocation previously required by Central Bank Decision No. 7129.

In addition, Central Bank decision No. 7740, dated 21 December 2000, as amended, provides that banks are required to establish a special reserve for properties acquired in satisfaction of debts and not liquidated within the required delays. BCC circular No. 4/2008 provides that banks must establish such special reserve at the end of the fiscal year during which the acquired property should have been liquidated. This special reserve shall be withheld from the annual profits and shall not be accounted for as an expense in the profit and loss account, in accordance with IFRS. Pursuant to Central Bank decision No. 12116, dated 26 October 2015, as amended, the special reserve should be constituted over a period of 20 years.

In accordance with BCC Circular No. 296 dated 4 June 2018, the Bank was required to allocate the value of gross unrealised profits on financial assets at fair value through profit or loss as a special reserve. This reserve is not available for dividend distributions until such profits are realised and released to the Bank's general reserves.

No dividends or other distributions in respect of the common shares may be made unless and until the full amount of distributions in respect of any outstanding series "G" preferred shares, series "H" preferred shares, series "I" preferred shares and series "J" preferred shares, and any future series of preferred shares of the Bank at the time outstanding and ranking pari passu with the existing preferred shares, in each case, then due and payable shall have been paid or declared and set aside.

Payment of dividends to holders of common shares must be made annually on the dates specified by the general meeting (or any other shareholders' meeting) at which the relevant annual audited financial statements of the Bank are approved. Under Lebanese law, dividends not claimed within five years of the date of payment become barred by statute of limitations; half of these unclaimed dividends revert to the Bank, while the balance is paid over to the government.

The table below highlights the dividends' distribution practices at Bank Audi over the past 5 years:

CONSOLIDATED PAYOUT RATIO (USD MILLION)

	2013	2014	2015	2016	2017
Common earnings	278.7	320.0	380.3	439.7	516.6
Dividends on common shares	139.9	159.7	159.9	199.9	219.9
Dividends per common shares (USD)	0.40	0.40	0.40	0.50	0.55
Payout ratio on common shares	50.2%	49.9%	42.1%	45.5%	42.6%
Dividends on preferred shares	25.9	30.4	22.9	30.4	42.4
Total dividends	165.8	190.1	182.8	230.2	262.2
Net earnings	304.6	350.3	403.1	470.1	559.0
Total payout ratio	54.4%	54.3%	45.3%	49.0%	46.9%

Pursuant to the decision of the Ministry of Finance in Lebanon late 2017 (law No. 64 published in the Official Gazette on 26 October 2017), the withholding tax on dividends of listed companies have increased from 5% to a current 10%.

6.0. | RISK MANAGEMENT

Sound risk management remained a top strategic priority at Bank Audi in 2018. During the year, the Bank essentially reaped the rewards of its strategic risk and finance common programs, while still working on enhancements.

The Bank maintained close risk oversight on its various entities, especially regarding its exposures in Turkey following the continued depreciation of the Turkish Lira, in particular during the high volatility episode of the third quarter and the ensuing stress on bank asset quality and rating downgrades, and the continued economic stagnation in Lebanon. The Bank aims to ensure that its risk profile remains within the overall risk appetite framework, as approved by the Group's Board of Directors.

6.1. | STRENGTHENING THE RISK MANAGEMENT FRAMEWORK

In 2018, Bank Audi fine-tuned its risk and finance management infrastructure and processes, in conformity with its commitment to constantly protect the interest of its stakeholders and ensure optimal risk and reward balance that is in line with the Bank's risk appetite.

IFRS 9

Starting 1 January 2018, the Group started applying the IFRS9 standard on a consolidated basis. This has necessitated the development of an Expected Credit Loss (ECL) engine, as well as the estimation of the Probability of Default (PD) and Loss Given Default (LGD) for each portfolio by country of operation and segment. The Group, to the most extent possible, has relied on its own historical information to estimate PDs and LGDs, and when such information was not available internally and for selective portfolios, the Group has used external information such as the PDs and LGDs reported by various external rating agencies for ratings mapping to its own. The Group estimates ECL and allocates provisions for its various asset classes including sovereign exposures in foreign currency, banks and financial institutions, fixed income securities and loan portfolios. Given that ECL estimation includes a forward-looking component, the Group relies on its Research Department to provide forward-looking economic views on three scenarios: Base, Upside and Downside, including an assigned probability of occurrence for each scenario. In order to ensure adequate implementation of the IFRS9 standard, the Group has mandated an external consultant to conduct an independent review of its framework including the conceptual approach and policy, ECL engine and results. From a governance perspective, a Group IFRS9 Impairment Committee at the executive level was set up to oversee credit asset quality and trends, review ECL results, and approve both staging classification and forward-looking economic scenarios, among others.

Recovery Plans

In line with the Central Bank of Lebanon directive (basic circular No. 141 issued in 2017) requiring banks operating in Lebanon to submit recovery plans for material entities of a banking group, Bank Audi submitted to the Lebanese supervisory authority an update of the recovery plan it has presented in 2017. The revised plan featured enhanced governance framework including revised indicators and trigger levels, more comprehensive severe stress tests covering both systemic and idiosyncratic risks, and a more elaborate communication plan.

The purpose of the recovery plan is to prepare recovery actions that can be triggered to facilitate the response of the Bank to a crisis. In order to identify the recovery actions' trigger points, the Bank has set quantitative indicators related to solvency, liquidity, profitability and asset quality that are closely linked to the Bank's risk appetite. The plan also includes identifications of core business lines and critical functions around which the recovery actions are set, and takes into account interconnectedness and possible contagion effect among entities of the Group.

Risk Adjusted Profitability Framework

RAROC is a forward-looking risk-based profitability measurement framework aiming at ensuring proper risk-reward balance that is cascaded down from the legal entity level to the transaction level.

Eight golden rules have been set for RAROC revolving around transparency, fairness, creating a strong bridge between finance, risk and business lines, and other rules.

ICAAP

During 2018, the Internal Capital Adequacy Assessment Process (ICAAP) was further integrated in the budgeting and capital planning process. ICAAP, which is performed on a yearly basis, complements Pillar 1 regulatory capital calculations and allows Management and the Board of Directors to assess the capital adequacy of the Group by taking into account all material risks that the Bank is facing under normal, but also severe stress scenarios. It also enables the use and reporting of economic capital, which reflects the Bank's own views of capital requirements. The ICAAP exercise is conducted annually on a consolidated basis and at the level of our subsidiaries in Turkey, Egypt, Saudi Arabia, as well as the Jordanian branch network.

Risk Data Governance

In the spirit of BCBS 239 "Principles for Effective Risk Data Aggregation and Risk Reporting" and in line with the implementation of the Integrated Finance and Risk Management System (IFRMS) initiative, the Bank continued to put significant efforts on risk data governance.

During 2018, the Risk function continued to work on addressing the completeness of IFRS 9 data in various entities of the Group given the importance of ensuring accurate Expected Credit Loss calculations.

Interest Risk in the Banking Book

The Bank continues to calculate the Interest Rate Risk in the Banking Book (IRRBB) capital charge as per the Basel III approach. IRRBB is being rolled out on our automated dashboards and, for selected entities, it is calculated on a daily basis.

Stress Testing

Stress testing continues to be an integral part of the risk management framework, and events that occurred during 2018. In particular, the severe volatility in the USD/TRY exchange rate and its effect on asset quality have been integrated into our scenarios. Stress testing is used to measure the Bank's vulnerability to severe and plausible events, and its impact on solvency, profitability, liquidity and franchise.

The selection of stress testing scenarios is the result of the discussion between Risk, Finance, and business lines, in consultation with the Research Department. The results, which are reported to the Group's Executive Committee, the Board Group Risk Committee, and the Group's Board of Directors, are increasingly becoming an integral part of Management's decision-making process.

6.2. | PRIORITIES FOR 2019

In 2019, the priorities, from a risk perspective, include further tightening our underwriting criteria for credit risk and strengthening our cybersecurity resilience. These two types of risk, in addition to compliance risk, remain at the centre of the preoccupations of Bank Audi's Management.

In order to maintain good asset quality, the Bank will continue to increase its efforts on collection of delinquent loans, as well as on following up with borrowers that are exhibiting increased credit risk due to, among other reasons, delinquent or restructured status. From a credit risk framework perspective, the Bank will continue its strengthening efforts by ensuring consistency between IFRS9 staging and provisioning requirements, as well as forward-looking IFRS9 staging supporting Management in its timely identification of problematic borrowers.

On strengthening cybersecurity resilience, please refer to the corresponding section below.

6.3. | CREDIT RISK

CORPORATE CREDIT RISK

The consolidated corporate net loan portfolio contracted by 19% in 2018, from USD 13 billion as at 31 December 2017 to USD 10.5 billion as at 31 December 2018. Half of this contraction is driven by the reduction of 38% of Odea Bank's corporate portfolio, from USD 5.2 million as at 31 December 2017 to USD 3.2 million as at 31 December 2018 as a result of de-risking, increased allowances and credit-impaired loans, and the FX translation impact. On the whole, asset quality remains healthy, with all key related risk indicators broadly within their respective internal risk limits (see section "Loan Quality" on Page 51).

RETAIL CREDIT RISK

The development and deployment of application scorecards continued and was finalised throughout 2018, covering various consumer products in all entities. With this development, Bank Audi has largely completed the transition of credit decision platforms to reliably consistent ones which enhance the predictability of risk. The Bank has finalised building behavioural scorecards for Lebanon to upgrade the management of portfolios (retention, collection, cross-sell, up-sell, etc.) which will be integrated in decision processes.

In addition to scorecards, and following the development and assessment of IFRS9-compliant retail impairment models in 2016 and after testing them during 2017, the Bank used these models during 2018 to calculate provisioning requirements.

LENDING IN THE PRIVATE BANK

Banque Audi (Suisse) engages in Lombard lending – lending against highly liquid and diversified collateral – with very conservative loan to value criteria that are further adjusted to take into account mismatches and unusual concentrations. A special purpose software is used – Finboard – that revalues portfolios and exposures on a real-time basis, allows simulations and stress testing, and generates margin call alerts. This lending discipline, together with very tight and automated monitoring standards, ensures the portfolio's extremely high quality, with essentially zero credit-impaired loans.

6.4. | OPERATIONAL RISK

Operational risk is the loss or damage that may result from inadequate or failed internal processes, people, systems and external events. Legal risk is also covered in the definition of operational risk, which excludes strategic and reputational risks. Still, these types of risks are indirectly mitigated when the operational risks that are at the source of their instigation are mitigated. The first pillar upon which the mitigation of operational risk rests is a robust Board-approved framework that sets a sound governance, along with high-level standards and guidelines for managing operational risks, while ensuring compliance with laws, regulations and best practices. The second pillar is the effective implementation of this framework, which should be subject to periodic reviews to maintain its relevance given the Bank's operating environment and the overall strategy of the Group. At Bank Audi, the management of operational risk is decentralised and based on a three-line-of-defense approach. Business line managers act as a first line of defense by managing operational risks arising from their daily activities. The second line of defense is assumed by several support functions that mainly include: Operational Risk, Corporate Information Security and Business Continuity, Compliance, Regulatory Compliance and Internal Control. Internal Audit, which constitutes the third line of defense, provides an independent assurance on the effectiveness and relevance of the operational risk framework, through audits carried out according to local regulatory requirements and standard industry practices. Operational risks are identified, assessed, monitored and controlled through risk and control assessments, key risk indicators, incident reporting, and risk sign-offs on new or major changes in products, services, processes, systems and outsourced activities. All these activities constitute the key elements of the Board-approved Group Operational Risk framework. To support a sound, efficient, consistent and standardised group-wide adoption of operational risk management practices, the Bank uses a centralised operational risk solution across entities. As an additional layer of mitigation against operational risk events, the Bank purchases insurance coverage against risks such as cybercrime, computer crime, infidelity, professional indemnity, property, political violence, external fraud on credit cards, etc.

Business Continuity and Information Security Risk

Bank Audi is constantly committed to protect the interest of its stakeholders and to maintain a high quality of service to its customers with minimum disruption. Several initiatives were implemented during the past year to enhance the Bank's Information Security posture, improve crisis management and handling of security incidents, and ensure the continuity of business operations.

Information Security

The Bank adopts a proactive risk management approach to protect its information assets, prevent data loss, reduce its vulnerability to cyberattacks, and improve the security of its systems, networks and underlying IT infrastructure. Accordingly, risk and vulnerability assessments are conducted on regular basis to identify threats and vulnerabilities to information assets, and appropriate measures are implemented to reduce identified risks to an acceptable level. Necessary measures are also taken on a continuous basis to ensure compliance with Information Security regulatory requirements and to raise the awareness level of staff and Management, to enhance the governance framework and improve the monitoring of critical activities, as well as the effectiveness of information security controls, especially those pertaining to cybersecurity, data leak prevention, data privacy, asset classification, change management, and logical and physical access.

Cyber Resilience

Bank Audi is aware of the increasing effects of cybercrime globally, especially in the banking sector. It has therefore taken several technical and non-technical measures to minimise the risk of a cyberattack and to strengthen its cyber resilience posture. External expert support is sought on a continuous basis to stay abreast of the latest cyber security trends, threats, countermeasures, technologies and tools.

Business Continuity

Bank Audi's Business Continuity framework was designed to ensure the continuity of critical business activities in the event of an unforeseen event possibly disrupting the operations of the Bank. Therefore, the Bank has established a world-class business continuity site, along with a disaster recovery site that was awarded the Tier 4 – Fault Tolerant Certification of Design Documents and Constructed Facility. Additionally, a Business Continuity Plan (BCP) was developed and implemented to counteract interruptions to business activities and to protect critical business processes from the effects of major failures of information systems or disasters, and to ensure their timely resumption. This plan identifies business continuity teams and the role of each, calling trees, emergency procedures, vital records, assembly points among other items. The BCP is updated on an annual basis and upon major changes. Several tests are conducted on a yearly basis to evaluate the effectiveness of the Bank's Business Continuity readiness. In addition, the Bank is updating the evacuation procedures and conducting fire drills for its headquarters' locations on a regular basis to ensure the safety of its personnel in the event of fire or other emergencies.

6.5. | ALM AND LIQUIDITY RISK MANAGEMENT

Each entity being largely self-sufficient from a funding point of view, liquidity and funding are managed by currency at the entity level. Monitoring liquidity in hard currencies, however, is coordinated with the parent, taking into account both best practice and regulatory requirements.

Liquidity management at the parent level takes into account regulatory restrictions that limit the extent to which bank subsidiaries may extend credit to the parent and vice versa, and to other non-bank subsidiaries.

Although considered as a source of available liquidity, the Bank does not view borrowing capacity at central bank discount windows in the jurisdictions it operates in as a primary source of funding, but rather as a secondary one.

In addition, depending on jurisdiction, the Bank either relies on holding high-quality marketable securities or uses short-term placements with banks (including the domestic Central Bank) to deploy its liquidity which may be needed urgently in a period of stress.

Liquidity Adequacy

Management considers the Bank's liquidity position to remain strong, based on its liquidity metrics as at 31 December 2018, and believes that the Bank's funding capacity is sufficient to meet its on and off-balance sheet obligations.

The Bank's funding strategy is intended to ensure sufficient liquidity and diversity in its funding sources to meet actual and contingent liabilities in both normal and stressed periods.

The Bank continues to source funds by relying on a stable customers' deposits base constituting 67% of its funding (Liabilities + Equity). The Bank maintains its franchise in Retail/Personal Banking at nearly 73% of deposits, while about 25% are corporate/SME. The large Retail/Personal Banking base highlights the Bank's reliance on sources of funding that are considered among the most stable.

All entities are compliant with their jurisdictional minimum Liquidity Coverage Ratio (LCR) requirements.

The Bank's consolidated short-term liquidity ratios (defined as current accounts and maturing placements with central banks, plus banks and financial institutions relative to maturing deposits and funding over 1-month and 3-month horizons) are at healthy levels. For instance, the 1-month ratio is 36%.

The Bank maintains pools of liquid unencumbered securities and short-term placements with highly rated bank counterparts or the central bank in the relevant jurisdiction, and engages in short-term reverse repo agreements whose underlying securities' risk-weighting is equal or better than the counterparty where the liquidity risk is placed. The Bank also actively monitors the availability of funding across various geographic regions and in various currencies. Its ability to generate funding from a range of sources in a variety of geographic locations and in a range of tenors is intended to enhance financial flexibility, as well as limit funding concentration risk.

The Bank monitors its liquidity position daily. Its liquidity risk management ability in Turkey, Egypt and Lebanon has been tried and tested in several instances during unsettled periods including, most recently, the third quarter market turbulence in Turkey, and the political stalemate in Lebanon.

Interest Rate Risk in the Banking Book (IRRBB)
Interest rate risk in the banking book arises out of the Bank's interest-sensitive asset, liability and derivative positions. The mismatch in the repricing dates of these positions creates interest rate risk for the Bank, which is inherent in its banking activities.

It is important to note that interest rates on liabilities are not fully correlated with asset rates. The stickiness of customers' deposits rates in Lebanon, an observed phenomenon in the Lebanese market, has been incorporated in our assessment of IRRBB. It has been quantified for the Lebanese USD customers' deposits market whereby a relationship between changes in deposit rates has proven statistically reliable and reflects historical behaviour. This relationship is applied for customers' deposits in Lebanese entities only, whereas other entities are calculated on purely contractual terms. It is worth noting that the relationship also incorporates the lag in the response of deposit rate changes to changes in market rates. These relationships are reviewed annually to ensure they still hold.

The interest rate risk profile of the Bank is within acceptable bounds.

Interest rate hedging activities are undertaken through natural balance sheet hedges or derivatives where appropriate.

ALM Risk Governance
The Bank's governance process is designed to ensure that its liquidity and ALM positions remain strong at both entity and parent levels. The entities' Asset-Liability Committees (ALCO) formulate and oversee the execution of the Bank's ALM strategy (which essentially lays down the Bank's liquidity management strategy). The liquidity risk and interest rate risk policies for identifying, measuring, monitoring, and reporting of said risks, and the contingency funding plan are recommended by Risk Management, reviewed by ALCO, approved by the Executive Committee, and finally ratified by the Board of Directors. Measurement, monitoring and reporting are performed for the most part by either Treasury or Risk Management, each of whom inform and may escalate to ALCO based on key risk indicators and both regulatory and internal limits.

Treasury is responsible for executing the Bank's liquidity and ALM policy, as well as maintaining the Bank's risk profile according to ALCO directives, all within the risk appetite set by the Board of Directors.

The Group's Treasury and Capital Markets Division communicates with entity Treasury departments to ensure adequate liquidity conditions at the group level.

Liquidity and IRRBB Monitoring and Risk Appetite
Monitoring and setting of risk appetite for liquidity and IRRBB are set at each entity. While the Group aims to harmonise measurement approaches and methodologies, a small margin is given to allow for local market intricacies. For IRRBB, entity exposures are aggregated to obtain a group-wide IRRBB exposure.

The Bank employs a variety of metrics to monitor and manage liquidity under different conditions, such as:
- Cash flow gap analysis: the timing of cash inflow vs. cash outflow.
- Ratios of funding and liquid assets/collateral (e.g. measurements of the Bank's reliance on short-term unsecured funding as a percentage of total liabilities, as well as analyses of the relationship of short-term unsecured funding to high quality liquid assets, the loan-to-deposit ratio, and other balance sheet measures).
- Net cash flow coverage to deposit ratios over a given horizon.
- Variants of Basel's Liquidity Coverage Ratio.

As for IRRBB, the following measurements are used, in addition to others, to enable greater understanding of:
- Changes in the Bank's net interest income to given interest rate scenarios.
- Changes in the Bank's economic value of equity to given interest rate scenarios.

Measures and metrics are not confined to regulatory metrics, but are also meant to reflect economic risks the Bank is exposed to.

The Bank performs liquidity stress tests as part of its liquidity monitoring. The purpose is to ensure sufficient liquidity for the Bank under both idiosyncratic and systemic market stress conditions. They are produced for the parent and major bank subsidiaries.

6.6. | MARKET RISK MANAGEMENT

Market risk is defined as the potential loss in both on and off-balance sheet positions resulting from movements in market risk factors, such as foreign exchange rates, interest rates and equity prices.

The Bank maintains a very low appetite to market risk stemming from changes in equity prices and foreign exchange rates. However, operations in Turkey present revenue-generating opportunities from trading activities in FX and interest rates which the Bank is willing to make limited use of.

The Bank's main exposure to changes in FX rates as at 31 December 2018 stems mainly from its structural FX positions resulting from its equity investments in banking subsidiaries in currencies that cannot be hedged against, except for the Turkish Lira where derivatives can be used.

Stress tests conducted in the course of 2018 have shown limited impact on the Bank's capital ratios from changes in the TRY or EGP (the largest non-hard currency exposures).

7.0. | DEPLOYED RESOURCES

7.1. | INFORMATION TECHNOLOGY

Bank Audi continued its journey towards innovation and change, inspired by its strong belief in the country's future despite the persisting challenging environment, and relying on its deep-rooted legacy and values.

Constantly striving for successfully achieving its strategic roadmap, Bank Audi pursued its endeavors to maintain excellence in its services and to provide its customers with a comprehensive, secure and up-to-date banking experience.

Moreover, and in order to better comply and cope with today's business standards, and favourably stand up to the current worldwide economic and business challenges, Bank Audi persisted in its transformation vision, bringing it closer, through big leaps, to its desired targets.

In that respect, confirming once again its place as a complete strategic partner in this roadmap, the Information Technology (IT) department played an intrinsic role, notably in the achievements of 2018.

The IT developments and progress in both Lebanon and the Bank's entities were numerous, whereby many of the existing IT systems underwent upgrades and enhancements to better support the Bank's business growth goals.

However, the highlight was undoubtedly the successful implementation of a new core banking system, Flexcube, in Bank Audi Lebanon. The end of 2018 witnessed the closure of this ambitious project initiated 3 years ago, and completed in a rather record duration, whereas similar projects would require, on average, no less than 5 years. This state-of-the-art banking platform will undeniably serve as a business enabler by way of its many features, and would make doors wide open for further business services and functionalities. The IT Department's full involvement, especially in the past year, was a key element in this major achievement.

Bank Audi Jordan completed in 2018 the project of revamping their current Online Banking solution.

As for Bank Audi Iraq, 2018 saw the installation of a network of ATMs, marking a milestone in its continued efforts to better serve its customers and market.

Bank Audi France, from its side, accomplished in 2018 its transformation roadmap and modernisation projects that were initiated in previous years.

7.2. | HUMAN RESOURCES DEVELOPMENT

BANK AUDI sal (LEBANON)

With the first Employee Engagement Survey administered in Lebanon in the last quarter of 2017, 2018 was the year of "Employee Experience" (EX) dedicated to the improvement of the drivers of "Engagement" while supporting the Bank in times of major transformation. Given the weight of "EX and Engagement" and given the challenge set at the Group level for its continuous growth and enhancement across borders, HR joined forces with the HR departments of Jordan and Egypt for the launch of the same Employee Engagement survey towards the end of the year. The latter paved the way for a similar course of action in the remaining entities of the Group in the years to come.

Having said that, the primary focus of the HR team in Lebanon was to extensively communicate the Engagement Survey results to all managers during the first half of 2018, and implement targeted initiatives in priority areas for improvement under "HR Support", "Rewards", "Collaboration", "Communication", as well as "Training and Development".

Consequently, and in order to support the branches in delivering the ultimate service to the Bank's clients, the HR team reengineered the branches' capacity model. Potential head office employees were identified and reassigned to various relative positions in branches. Over 40 branch field visits were conducted by the HR team to ensure the smooth transition and integration of employees, guaranteeing an overall healthy environment. In total, 821 employee vertical and horizontal moves were achieved during 2018, including different appointments at branches and head office departments.

As identified in the survey results, upgrading EX extends to the factors that would affect employees' financial situation and overall wellbeing. As such, some of their financial burdens were eased through the increase of the School Tuition Allowance and through the 3-month salary interest-free loan offered to employees over a period of 30 months.
Moreover, other services related to self-service, food, mystery shoppers and uniforms were revisited and enhanced. All such initiatives were undertaken under the umbrella of efficiency and employee health and safety.

While focusing on EX and Engagement, Bank Audi was going through a very challenging and demanding transformation of its core banking system, Flexcube, requiring massive cross-organisational collaboration and communication.
HR acted as a main change agent in this program and in the building of the technical capabilities of its employees in preparation for a successful transition to the new system, Flexcube. Therefore, the HR team's other focal activity during 2018 consisted in successfully integrating its Human Resources Management System (HRMS) with the new Core Banking System, aiming at having a solid technical process for payroll executions and on setting the grounds for user access management. For that, extensive and numerous rounds of testing phases, in coordination with concerned stakeholders, took place throughout the year.
Rigorous efforts were simultaneously put on Flexcube end-user trainings targeting concerned branch and head office employees, and making sure, along the way, tha they are fully equipped for the Go-Live. As such, 4,111 participations for 1,786 employees totaled up to 74,550 training hours, and several e-surveys and process video tutorials were completed for that matter. The HR team also provided on-the-ground support by catering to all the needs of the project team and employees going through the testing phases, be it during regular workdays or on weekends and holidays.

Going back to Training and Development and in addition to building capabilities for the efficient navigation of the new Core Banking System, efforts remained centered on the development and growth of employees' technical and behavioural skills by offering over 120,440 training hours during 2018. Similar to previous years, adherence to the Central Bank of Lebanon's certification requirements remained consistent by enrolling employees in specific certifications related to regulatory banking functions.

Managers and subject matter experts were also exposed to international best practices and trends through the registration of several employees to overseas trainings spanning over 14 various topics related to their areas of expertise.

Over 1,440 employee participations were logged in the Training Academy, totaling up to over 24,900 training hours of specialised technical and behavioural courses.

The Branch Management Program kept its momentum for the fourth consecutive year. This will allow the qualified employees the opportunity to fill senior branch positions following a rigorous learning path for a period ranging between one to three years.

Bank Audi also sponsored 23 employees, allowing them to pursue higher education in local top-tiered universities, among which 7 were registered to acquire professional certifications and banking studies related to their line of work.

Furthermore, 513 students from local and international universities and 20 high school local students were offered the opportunity to carry out internships and get involved in the various banking sector activities. HR also took part in several job fairs and hosted the traditional lunch for international students for the eighth consecutive year.

The chart below sets out the breakdown of training activities in 2018 by topic:

TRAINING IN 2018

ODEA BANK

With the common understanding of "putting people first", Odea Bank's HR team maintained, during 2018, its role as strategic partner for the different business lines and functions by supporting their needs and providing guidance at both executive and employee levels. HR has continuously been the internal force to increase cross-organisational cooperation and synergy. It remains well recognised by its close positioning to employees, and is labelled as a team who is "always possible to reach" and "always ready to guide".

Along with the Bank's CEO, the Head of HR conducted several branch visits which contributed positively to employees' motivation and engagement, and facilitated the creation of synergies within the Bank.

In parallel, HR kept on effectively managing employees' careers with the aim to improve their performance towards achieving the Bank's strategic targets. As such, and within the Odea Bank career management framework, HR offered employees job rotations, as well as vertical and horizontal movement opportunities based on their competencies and the responsibilities they can assume.

Within the context of a transparent, fair, objective and efficient reward management policy, HR carried out salary review and bonus studies. The latter take into consideration the general economic developments in the country, the market benchmark and positioning of the job, along with the performance ratings of individuals, while adhering to the Bank's set annual targets and budget.

HR kept on incorporating and leveraging technology within its practices while integrating relevant processes into its HR system. This aimed at providing effective tools that best meet employee needs, and establishing permanent solutions to the issues faced. For that, self-service modules have been introduced, thus decreasing employee dependence to HR for daily operational processes. "Maker-Checker" steps have also been added within internal HR system workflows to reinforce the HR's well-established risk awareness framework.

Employee training and development is a critical area in which Odea Bank's HR continuously invests. During 2018, HR planned and conducted a comprehensive range of activities for employee advancement and development. Employees were supported by both online and classroom learning activities to enhance their various qualifications. 2018 training activities included, but were not limited to, exclusive leadership programs, legal trainings, external trainings, meetings and conferences. HR pursued its efforts to support the development of the employees through on-line platforms and applications, namely the "e-Odea HR Training Platform" and "Vide'O", with a wide range of on-line trainings.

BANK AUDI sae (EGYPT)

Throughout 2018, the HR team in Bank Audi sae sustained its focus on maximising the value of Human Capital through its alignment with the Bank's strategy and values, as well as through the design and implementation of up-to-date policies, systems and schemes.

HR hired 263 employees during 2018, focusing screening efforts on over 1,000 competency-based interviews, while reducing the recruitment cycle through digital initiatives. 112 employee moves were also managed under the job enrichment and job rotation umbrellas.

Furthermore, a review of allowances per grade was carried out to ensure competitive positioning in the market and a new salary structure for fresh graduates was developed based on the level of education.

On a different note, the new branch model project was finalised. This included structure re-engineering, capacity planning, assessment, allocation and recruitment, and proper job evaluation. Field visits were conducted to properly share the purpose behind the new model implementation.

HR also made sure to enhance the Retail Credit payout as well as the Direct Sales payout and incentive scheme in order to lead the market in assets sales. It also introduced the Profit Share Scheme for branch roles in order to head the branch sales area in the market.

As for Training and Development activities, they totaled over 13,712 hours and were delivered to 994 employees, mostly covering selling skills and risk awareness courses.

Towards the end of the year, a full-fledged Talent Review exercise was launched and implemented in close collaboration with Lebanon's HR and concerned heads of functions, using the 9-box methodology. As a result, HR will be allocating a special training budget and working on the development of a fast track promotion and special compensation scheme for high performing and high potential employees, thus allowing better motivation and retention purposes.

8.0. | COMPLIANCE

The Board of Directors and Senior Management of Bank Audi Group consider sustaining the integrity, reputation and international standing of the Group's franchise as a key priority. Compliance and Business functions are entrusted with preserving these assets and principles, constantly identifying new requirements, improvement areas, and rising up to the challenges imposed by compliance requirements. The Group considers this a matter of sound banking practices and reflects its commitment to remain compliant with all applicable laws and regulations, staying abreast of industry standards and best practices observed by the global banking community, whether at international or local levels.

All business lines are therefore required to have a good understanding of compliance with the letter, spirit and intent of applicable laws, regulations and standards in each of the jurisdictions in which the Group operates, as well as of the ongoing implementation of and adherence to Group compliance policies. Their contents are mandatory and represent minimum standards that apply throughout the Group. They are, of course, adapted at local level to be in line with local requirements, the general principle being that the stricter requirement applies as long as it does not contradict local laws and regulations.

Moreover, it is within the Group's policy, for all its entities and businesses, to be fully informed of the laws and regulations governing their foreign correspondents, and deal with the latter in conformity with these laws, regulations, procedures, sanctions and restrictive measures imposed by their respective governments.

Enterprise-wide Compliance Program

The Enterprise-wide Compliance Program at Bank Audi Group was designed with the objective of continuously verifying that risks deriving from heightened regulatory scrutiny over the various areas of financial crime compliance, at both local and global levels, are appropriately monitored, tested and managed with suitable mitigating measures effectively implemented. The Group expects the trend of increasing compliance requirements facing the banking industry globally to continue in the coming period.

To achieve this mission, Compliance seeks to:

1. Understand the regulatory environment, requirements and expectations to which group activities are subject. Compliance coordinates with Legal and other independent control functions, as appropriate, to identify, communicate and document key regulatory requirements and changes.

2. Assess the compliance risks of business activities and the state of mitigating controls, including the risks and controls in group entities in which activity is conducted. To facilitate the identification and assessment of compliance risk, Compliance works with the businesses and other independent control functions to review and provide adequate advice, corrective actions and/or recommendations for improvement regarding significant compliance and regulatory issues, and the results of testing, monitoring, and internal and external examinations and audits.

3. Define the Group's appetite, in coordination with Senior Management and the Board of Directors, for prudent compliance and regulatory risk, consistent with its culture of compliance and control. The Group develops a compliance risk appetite framework designed to identify, measure, monitor, mitigate and control compliance risk.

4. Develop controls and execute programs reasonably designed to promote conduct that is consistent with the Group's compliance risk appetite, and promptly detect and mitigate behaviour that is inconsistent with this appetite. Compliance has programs that focus on broad Regulatory Compliance, Anti-money Laundering and Combating the Financing of Terrorism, Sanctions Compliance, Capital Markets Compliance, Tax Compliance and Anti-Bribery & Corruption. Each of these programs aims at mitigating the Group's exposure to conduct that is inconsistent with its compliance risk appetite.

5. Detect, report on, escalate and remediate key compliance and franchise risks and control issues; test controls for design and operating effectiveness; promptly address issues and track remediation efforts. Compliance designs and implements policies, standards, procedures, guidelines, monitoring reports and other solutions for use by business and Compliance to promptly detect, address and remediate issues, test controls for design and operating effectiveness, and track remediation efforts.

6. Engage with the Board of Directors, Senior Management and business heads, Board and Management committees, and regulators to foster effective global governance. Compliance provides regular reports on emerging risks and other issues and their implications, as well as the performance of the compliance program, to the Group's Board of Directors, including the Board Compliance & AML/CFT Committee, as well as other committees of the Board. Compliance also engages with business management on an ongoing basis through various mechanisms, and supports and advises the businesses and other functions in managing regulatory expectations.

7. Advise and train group employees across businesses, functions and entities in conforming to laws, regulations and other relevant compliance standards. Compliance helps promote a strong culture of compliance and control by increasing awareness and capability across the Group on key compliance issues through training and communication programs.

8. Enhance the compliance program. Compliance fulfills its obligation to enhance the compliance program by using results from compliance risk assessments, testing, monitoring, and internal and external examinations and audits to shape future program enhancements.

In 2018, Compliance further strengthened its enterprise-wide compliance management framework through:

1. Issuing an enhanced version of its Charter and working on its implementation with group entities. This entailed improvement of compliance governance, policies, procedures, and measurement methods with the aim of effectively maintaining the balance between business and compliance objectives of the Group.

2. Continuing the implementation of its Target Operating Model across the Group (as documented in the Group Compliance Charter) while verifying that Compliance Departments at all group entities have adequate resources, processes, systems and tools to efficiently and effectively discharge their duties.

3. Increasing its interaction with the Group's Board of Directors (through the Board Compliance & AML/CFT Committee, and other committees of the Board) through improved reporting of compliance risks and follow-up on corrective/improvement actions across the Group.

4. Effectively engaging with the Group Executive Committee, Senior Management at group and entity levels, and business heads in various areas for the purpose of strengthening existing compliance controls and implementing new risk-based controls.

5. Setting a framework for the assessment of AML/CFT risks and mitigating controls at group level, and working on its implementation.

6. As part of oversight over compliance activities across the Group, introducing enhanced key performance indicators in various business and control areas, developed to monitor the status of implementation of the Enterprise-wide Compliance Program at group level.

7. Enhancing the Compliance Training and Awareness Program managed and executed at group level.

8. Improving coordination with the Internal Audit function to complement compliance testing activities across the Group.

The desired objective is to avoid failures or mistakes with adverse impact on the Group on the one hand, and missing out on good business opportunities on the other, while operating in high-risk geographies. Compliance is keen on remaining successful in maintaining this balance, promoting a compliance culture at group level, consolidating its position as a trusted and skilled business partner, and helping achieve durable earnings. Current arrangements have proven to be satisfactory, as witnessed by results of internal/external audit reports and regulatory examinations that showed no major breaches or violations. The Group has succeeded in maintaining very positive relationships with regulators and correspondent banks alike (both local and international). These are considered as valuable assets and testimonies of the soundness of our compliance practices that translate into continuous Board and Senior Management involvement in Compliance, a clear, risk-based approach to fighting financial crime, compliance policies embedded within the business, compliance procedures applied consistently, a robust procedure for reporting suspicious transactions, and a clear lack of complacency. This places the Group today in a leadership position in the Middle East region in terms of efficiency and effectiveness of its Compliance program.

9.0. | ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM

For information on commitments, procedures, organisational capacity and performance associated with Environmental and Social (E&S) Risk Management; please refer to Bank Audi Lebanon's 2014-2017 CSR and Annual Reports.

Reinforcing our Commitment to ESMS and Embracing Transformational Finance

At Bank Audi, we are committed to working towards reducing any negative impacts to the environment and communities that may arise from any activities that we finance. Throughout 2018, we therefore continued the implementation of our Environmental & Social Management System (ESMS) which is aligned to international standards. The Bank's ESMS, which is fully integrated into core credit decisions and supported by Top Management, allows us to assess, mitigate and monitor Environmental & Social (E&S) risks in the Bank's lending portfolio.

2018 marked an important year for the Bank's ESMS. Following the EBRD's successful completion of an equity share in the Bank, this partnership reinforced the Bank's commitment to managing E&S risks associated with lending activities, such as expanding the list of industries that we decline to finance on the basis of E&S issues and improving the depth and quality of ESMS information and reporting. This will provide greater insight into the Bank's aggregate exposure to E&S risks, and forms part of the Bank's commitment to continuously review and improve our ESMS.

Additionally, 2018 was the year in which our ESMS progressed from being predominantly focused on addressing E&S risks at the transaction level and the operational aspects of the ESMS itself, to considering how the Bank can leverage its ESMS to positively influence E&S outcomes. We have engaged in strategic partnerships in order to support Lebanon's transition into a low carbon economy, most notably with a joint USD 200 million commitment under EBRD and the Green Economic Financing Facility (GEFF) to finance green solutions. The Bank has also played an important role in advising clients on the E&S standards required on large infrastructure projects, in order to secure financing from international lenders with stringent E&S requirements. This has been instrumental in ensuring that such projects will go above and beyond local rules and regulations, by implementing globally recognised frameworks for sound E&S risk management, such as the IFC Performance Standards and EBRD performance requirements.

Transaction E&S Risk Reviews

During 2018, 521 transactions across Bank Audi Group were subject to E&S Risk Review, as per requirements set out by our ESMS. A breakdown of E&S risk categorisations for these transactions is provided below.

E&S Risk Categorisation(*)	Number of Reviews
A	103
B	161
C	257
Total	521

(*) *As per IFC definitions for E&S risk categorisation.*

Enhanced Review and Escalation

In 2018, we commissioned an independent review by an international E&S consultant of a prospective (still ongoing) project's compliance with the IFC performance standards and EBRD performance requirements. This was done in order to ensure that the prospective project would fulfill all Bank Audi E&S requirements, but also in an effort to attract required financing from international financial institutions.

One transaction was referred to the Bank's Executive Committee for discussion and consideration, in line with the Bank's internal E&S standards and procedures. It was subsequently approved subject to E&S conditions set by the Group ESMS Office.

10.0. | CORPORATE SOCIAL RESPONSIBILITY

The need to improve the lives of communities around us is a serious commitment in the ever-changing world we are living in today, which reflects more specifically on our region where the impacts of extreme social and political events are significant to our evolution.

During times of uncertainty, having a clearly defined purpose matters. At Bank Audi, we are united behind common values that translate into a unique focus: helping our clients thrive and our communities prosper. Our principle-led approach entrenches our values of integrity, accountability and commitment to diversity and inclusion in the decisions we make every day.

IN LEBANON

In 2018, Bank Audi sustained its compliance to ISO 26000 Social Responsibility standards and reporting according to internationally recognised Global Reporting Initiative (GRI) Standards where we are pioneers and part of the Gold Community setting regional benchmarks in knowledge and reporting. The Bank maintains its position as the first and only Lebanese institution to join the GRI Organizational Stakeholders Network. Additionally, it upholds the pledge of its commitment to the ten principles of the United Nations Global Compact (UNGC), and actively participates in the UNGC Lebanon Steering Committee, with the objective of encouraging other institutions to adhere and implement accordingly.

At the local network level, Bank Audi is, since 2017, goalkeeper for SDG 8 – "Decent Work and Economic Growth". We also maintain our pledge to all 5 Sustainable Development Goals (SDGs) including Quality Education (SDG 4), Gender Equality (SDG 5), Industry, Innovation and Infrastructure (SDG 9), and Climate Action (SDG13). These goals are perfectly matched and aligned to our five CSR pillars which embrace transparency and the application of environmental and social management systems across our compliance. Our Economic Development impact had an extensive outreach towards SMEs which play a major role in the Lebanese economy and whose empowerment has been a top priority coupled with various initiatives over the past years. Various economic collaborations with the likes of the Arab Economic Forum and the Beirut International Franchise Forum and Exhibition, among others, aimed at enhancing investments in Lebanon and boosting its economy. Under infrastructure investments, particularly with regards to innovation, the promotion of our adoption of digital solutions through hackathons, as well as empowering the youth, are also essential for us.

Furthermore, Community and Human Development projects helped maintain the Bank's position as a non-discriminatory and equal opportunity employer of choice in the Lebanese private sector, with special empowerment to youth and entrepreneurs. Our gender parity of 47% female and 53% male employment, coupled with 18% female representation at Board level, are valid proofs of our inclination in this sphere. Similarly, and with the objective of engaging stakeholders, Bank Audi's CSR Unit organised a competition aiming to initiate university students to the concept of Social Responsibility within corporations in general, and to Bank Audi's CSR strategy, with a focus on environmental protection. This inspired this particular stakeholder group to explore their creativity and innovative minds in order to set impactful CSR initiatives. With that, the Responsible Millennial competition was held for the fifth consecutive year, inviting the students to formulate suggestions or potential implementable initiatives related to environmental protection, that Bank Audi could eventually implement. Pursuing our Climate Action commitment was furthered by mentoring new members to the Lebanon Climate Act, in addition to the measurement and reporting of our own carbon footprint for the seventh consecutive year and the successful internal recycling initiative. This pillar was further reinforced at year-end, with a joint commitment with EBRD to lead on green financing products.

Economic empowerment, philanthropic initiatives and numerous pledged causes are also revealed in the Annual CSR Report under the Economic Development, Community Development and Human Development pillars. Examples of such initiatives include the hosting of 970 eleventh graders for the Global Money Week which introduced them, for the fourth consecutive year, to the world of banking, CSR, career guidance, compliance, saving tips, and the bank of the future under the theme "Learn, Earn. Save.". "Let's Talk Money" is another financial literacy module consisting of a six-module game on our website, where one can get certified for properly acquiring the needed information to become financially knowledgeable.

Another example is the employees' community engagement through the corporate Volunteer Program which reached out to 4,362 beneficiaries in 2018 and extended a helpful hand to eighteen NGOs. 2018 also saw the outreach of our "Spring" clientele, ages 18 to 24, to others through our corporate volunteer culture. The Bank Also encourages its interns to participate in its Volunteer Program every summer, with 100 of them on average joining our programs to encourage pro-bono giving back.

To top the above achievements and continuously create stakeholder value, Bank Audi organised, yet again, an annual stakeholders panel grouping industry representatives, suppliers, regulatory bodies, correspondents, managers, employees and competitors, to benchmark the Bank's CSR strategies, propose ideas to enhance CSR on a national level, and identify room for future collaboration between the various domestic stakeholders. Within that scope, Bank Audi's CSR Unit continues to participate in major national and regional CSR conferences and workshops, thus becoming a benchmark among CSR practitioners and mentoring several institutions. In addition, Bank Audi's CSR Case Study, "Bank Audi: Leading through Sustainability", written by Professor MP Dima Jamali and published by Ivey Publishing, won the CSR category award of the latter in 2018.

At Bank Audi, our motivation is relentless in backing people and businesses, helping them grow beyond their potential, building confidence, and supporting communities to shape a more prosperous tomorrow. More information is available on Bank Audi's online interactive 2018 CSR Report.

IN TURKEY

As a financial institution, we believe we are contributing to communities' economic wellbeing by supporting individuals and commercial enterprises, which drives sustainable development and growth. In order to create a true positive impact in society and communities, we tailor our decisions through a precise, responsible, sincere and conscious framework which helps us build a sustainable future for next generations.

Since Odea Bank's foundation, we are pressing ahead actively and authentically to integrate the principles of corporate citizenship into our business applications.

Odea Bank's mission is to invest in the best, aim for the total satisfaction of its stakeholders, and offer them a concept of banking that places their lives at the center of its operations.

Transparency, respect for people, speed, quality, environmental and social awareness, and innovation are the prominent aspects of the Bank.

In this respect, Odea Bank aims to encourage a sound and sustainable environmental and social development through all banking operations. This means minimising the environmental and social impacts that may arise directly or indirectly from its activities. From this point of view, and taking the best practices of international financial institutions as an example, the Bank has developed and implemented the "Environmental and Social Management System" in 2014. We believe that our ESMS activities contribute to reducing the negative environmental and social effects which may occur as a result of the Bank's activities.

Odea Bank is also environmentally responsible in its activities:

- In an effort to build an optimal service area with the right technical equipment to provide the best services to its customers, it carefully evaluates its customers' journey at the Bank.
- It prioritises environmental practices in its premises, with all meetings held on Apple TV and using "whiteboard" technology and no paper.
- It adopts eco-friendly business processes that do not make use of paper and utilise "business intelligence" applications to analyse data. At the same time, it saves all documents related to its customers in digital form, using a document management system which allows business processes to flow quickly between departments.
- Its branches only use paper for certificates that require signatures, and documents kept in branches are presented in an electronic environment.
- Another "green approach" of Odea Bank's branches is the mobile "Q-matic" application which allocates queue numbers to customers without using paper.
- Odea Bank also protects the environment and broadens its customer service network by offering the SMS or e-mail option instead of receipts to its customers after ATM transactions.
- Because greenhouse gases sourced by fossil have a high impact on climate change and in order to minimise our carbon footprint, we strongly support video calls for off-site meetings. All of our employees are trained to and have access to this technology to it.
- The Bank launched the "Odea Bank Secures the Oxygen of the Future" project with TEMA Foundation. Through this initiative and thanks to the Bank's "Oksijen" Account, customers who perform banking transactions can ask the Bank to plant a tree or provide education on nature to a child every month. Aiming to raise social awareness on the environment, Odea Bank planted 12,466 trees and provided nature education to 5,493 children within two years.

As an institution, Odea Bank ensures that all people feel respected and have equal access to resources, services and opportunities to succeed. The Bank makes sure that discrimination based on sex, age, condition, pregnancy, race, religion or disability is not allowed within its premises, and guarantees equal treatment and equal career opportunities to all employees alike. Throughout 2018, it continued to provide the appropriate guidance, training and supervision to all its employees for ultimate efficiency and success at work, by implementing advanced learning and development methods, in line with its values and culture.

In addition, the Bank continues to support health services and conduct "First Aid Certification" trainings to increase know-how and awareness. In parallel, the Bank's in-house doctor shares seasonal medical information with its employees to privilege their wellness.

Furthermore, in an effort to spread the sports culture among the young generation, a basketball school managed by a team of basketball professionals was set in-house in 2014, with the objective of training employees' children. Over and above, and in collaboration with the Turkish Foundation for Children in Need of Protection, the school has trained 251 children, of which 121 are in need, since 2014.

Odea Bank's Art Platform, "O'Art" was re-opened to host contemporary artists with the mission to provide an art platform for art students and make art more accessible for everyone. Odea Bank is the first bank to have an exhibition center within one of its branches.

Odea Bank is grateful to all its stakeholders who work hand in hand with it every day to help create stronger and more resilient communities.

IN EGYPT

In 2018, Bank Audi sae (BAEGY) continued its CSR activities which aim to "give back" to the community through different initiatives, and reinforced its responsibility towards its employees through engaging them in various activities.

Building on what was done in previous years, BAEGY affirmed its commitment to Egypt's economic development by carrying on the financial inclusion initiative which was launched in 2017. In 2018, the Bank proceeded to :

- Launch an awareness campaign in its branches to educate employees and customers about financial inclusion and its importance for economic development.

- Waive off admin fees on new accounts through an awareness booth manned by the Bank's Social/Family club, and encouraging passers-by to open accounts.

Other CSR activities were also achieved as follows:

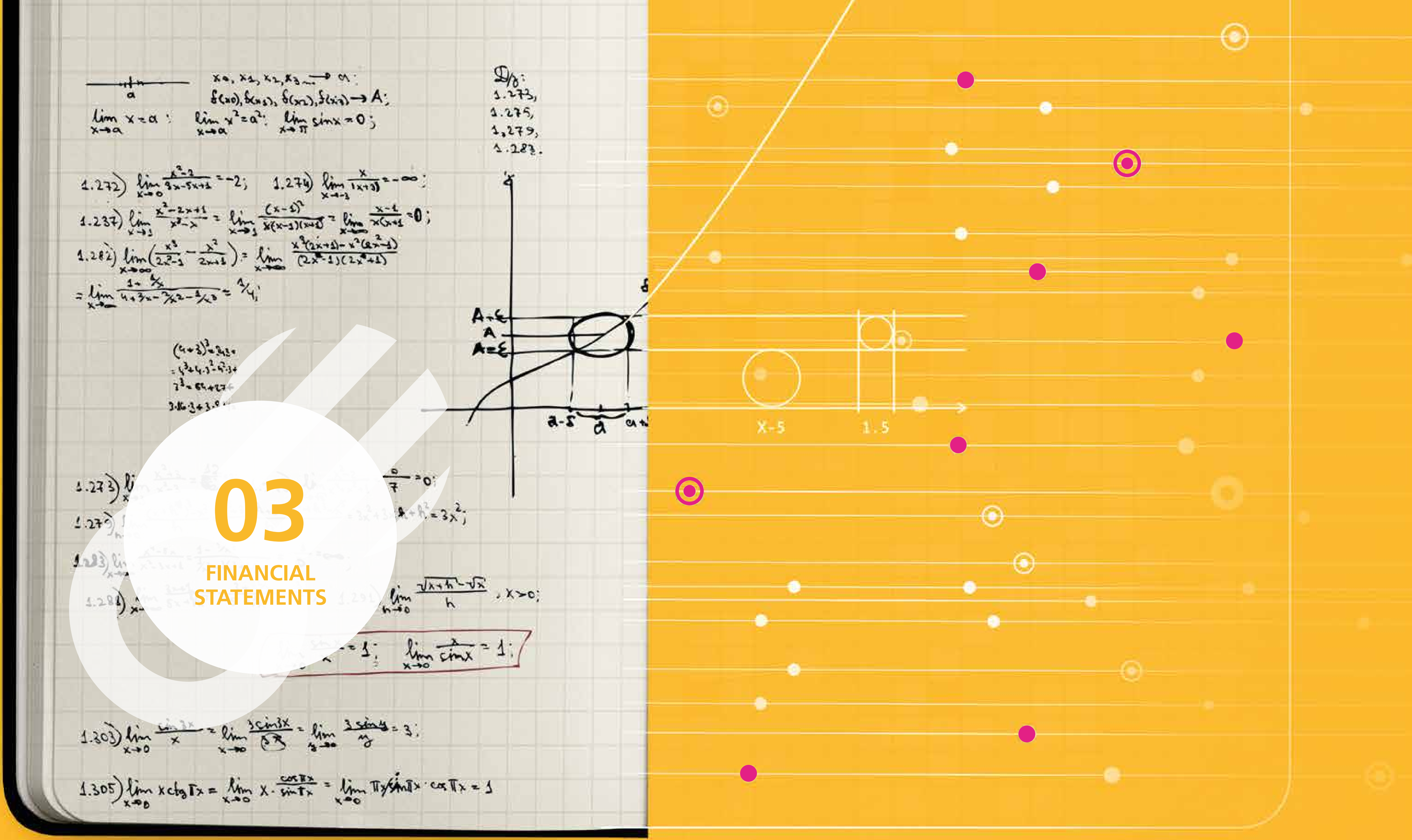
- For the first year, BAEGY directed late penalty fees on Islamic facilities in Islamic Banking, with the referral of these fees to charity through donations to MEK (Misr El Kheir) NGO.

- In an attempt to support causes in Egypt, BAEGY continued its collaboration with the Baheya Breast Cancer Foundation, donating up to 1% of customers' transactions to the foundation.

- BAEGY also sustained its commitment to Egypt's economic development by participating in and sponsoring economic forums and conferences.

- Donations were also made by BAEGY to "Tahya Misr" fund which is dedicated to Egypt's economic development.

- Like in the past years, , BAEGY pursued its initiative of encouraging employees to donate blood to the National Blood Transfusion Center.



03 FINANCIAL STATEMENTS

Sharing challenges

Always helps accomplish positive progress and top results, knowing first that it is important to have human creativity and then understand profit and efficiency, in an individual and collective existence.

RESOLUTIONS PROPOSED BY THE BOARD OF DIRECTORS TO THE ANNUAL GENERAL ASSEMBLY OF SHAREHOLDERS OF 12 APRIL 2019

On 20 March 2019, the Board of Directors of the Bank adopted the following proposals to the Annual General Assembly of shareholders relating to the approval of the financial statements and the appropriation of profits:

Proposal No. 1

The Ordinary General Assembly of shareholders of the Bank is invited to approve the Bank's accounts, in particular the balance sheet and the Profit and Loss Statement as at and for the year ended on 31 December 2018, and to grant full discharge to the Chairman and members of the Board of Directors in respect of their management of the Bank's activities during the year 2018.

Proposal No. 2

The Ordinary General Assembly of shareholders of the Bank is invited to appropriate the 2018 profits in accordance with the proposal of the Board of Directors, encompassing distributions to holders of preferred shares and dividends to holders of common shares as follows:

- To holders of 750,000 series "H" preferred shares on the basis of USD 6.50 per share at the exchange rate of LBP 1,507.50 per USD;
- To holders of 2,500,000 series "I" preferred shares on the basis of USD 7.00 per share at the exchange rate of LBP 1,507.50 per USD;
- To holders of 2,750,000 series "J" preferred shares on the basis of USD 7.00 per share at the exchange rate of LBP 1,507.50 per USD;
- To holders of 399,749,204 common shares on the basis of LBP 829.125 per common share.

Proposal No. 3

In line with the aforementioned proposed resolutions, the Ordinary General Assembly of shareholders of the Bank is invited to announce distributions and dividends subject to the withholding of distribution tax, and is invited to resolve that all distributions and dividends will be paid starting 18 April 2019, to the holders of shares on record as at 17 April 2019 ("Record Date") as per the records of Midclear sal.

Proposal No. 4

In Compliance with applicable regulations of Banque du Liban and of the Banking Control Commission of Lebanon, and in consideration of the sale by the Bank of certain assets previously acquired in settlement of debts, the Ordinary General Assembly of shareholders is invited to approve the transfer of reserves appropriated against such sold assets, and amounting to LBP 131,303,250, from the account of "Reserves for foreclosed assets" to the account of "Reserves appropriated for capital increase".

Other proposals to the General Assembly

The Board of Directors of the Bank also adopted other proposals to the Annual General Assembly of shareholders to the effect of: (i) ratifying loans and transactions that are subject to the approval of the Ordinary General Assembly of shareholders; (ii) authorising the entry into similar loans and transactions during the year 2019; (iii) electing a new Board of Directors and determining the remuneration of its members; (iv) appointing the external auditors; and (v) other matters falling within the prerogatives of the Ordinary General Assembly, all as more fully described in the present Annual Report, in the enclosed financial statements, and in the other supporting documents addressed to the General Assembly and published separately.

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INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF BANK AUDI sal

Qualified Opinion

We have audited the consolidated financial statements of Bank Audi sal (the "Bank") and its subsidiaries (the "Group"), which comprise the Consolidated Statement of Financial Position as at 31 December 2018, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

As disclosed in note 22 to the consolidated financial statements, due to regulatory requirements enacted since 2016, the Group carried excess impairment allowances of LBP 377,833 million (the "excess allowances") as at 31 December 2017. This caused us to qualify our opinion on the consolidated financial statements relating to previous years affected by these regulatory requirements as these transactions constitute a departure from International Financial Reporting Standards (IFRS). Our audit opinion for the current year is also modified due to the effect of these prior years transactions on the consolidated financial statements as at 31 December 2018. As disclosed in note 2.3 and in accordance with regulatory instructions, the Group used an amount of LBP 107,640 million from the excess allowances to provide for additional amounts resulting from the first-time adoption of IFRS 9 Expected Credit Losses (ECL) model on 1 January 2018, instead of recognizing the impact within opening "Retained earnings" (as required by IFRS). The Group also reclassified an amount of LBP 185,588 million out of these excess allowances to "Provisions for risks and charges" as at 31 December 2018. The remaining excess impairment allowances, net of certain immaterial reversals, foreign currency translations and deferred tax adjustments, amounting to LBP 32,181 million as at 31 December 2018 were classified under "Loans and advances to customers at amortised cost".

Accordingly, as at 31 December 2018, "Provisions for risks and charges" was overstated by LBP 185,588 million, "Loans and advances to customers at amortised cost" were understated by LBP 32,181 million (2017: LBP 377,833 million) and the shareholders' equity was understated by LBP 217,769 million (2017: LBP 377,833 million).

Our opinion on the prior year's consolidated financial statements was modified due to an overstatement in other comprehensive income amounting to LBP 78,300 million for the year ended 31 December 2017 as a result of an accounting performed on regulatory instructions which departed from IFRS requirements. Our opinion on the current year's consolidated financial statements is modified due to effect of this matter on the comparability of the current period's consolidated financial statements and the corresponding prior year.

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We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Lebanon, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other Information Included in The Group's 2018 Annual Report

Other information consists of the information included in the Annual Report, other than the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard, except for the effect on other information included in the Group's 2018 Annual Report of the matters described in the *Basis for qualified opinion* section above.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2018. In addition to the matter described in the *Basis for qualified opinion section*, we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditors' responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our qualified audit opinion on the accompanying consolidated financial statements.

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Key Audit Matters (continued)

(a) Allowances for expected credit losses

Refer to note 2.5 of the consolidated financial statements for a description of the accounting policy and note 53 for analysis of credit risk.

Due to the inherently judgmental nature of the computation of expected credit losses ("ECL") for financial assets, there is a risk that the amount of ECL may be misstated. On adoption, the Group has applied the requirements of IFRS 9 retrospectively without restating the comparatives.

The key areas of judgement include:

1. The identification of exposure with a significant deterioration in credit quality.
2. Assumptions used in the ECL model such as financial condition of counterparty, expected future cash flows, forward looking macroeconomic factors etc.
3. The need to apply additional overlays to reflect current or future external factors that might not be captured by the expected credit loss model.

How the matter was addressed during our audit:
We performed the following procedures:

1. We assessed the modelling techniques and methodology against the requirements of IFRS 9.
2. We tested the data, both current and historical, used in determining the ECL.
3. We tested the expected credit loss models including build, validation and governance of models.
4. We tested the material modelling assumptions in addition to any overlays.
5. We examined a sample of exposures and performed procedures to determine whether significant increase in credit risk had been identified on a timely basis.
6. We re-performed the ECL computation for sample of credit facilities.
7. We assessed the adequacy of disclosures in the consolidated financial statements.

Responsibilities of Management and those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

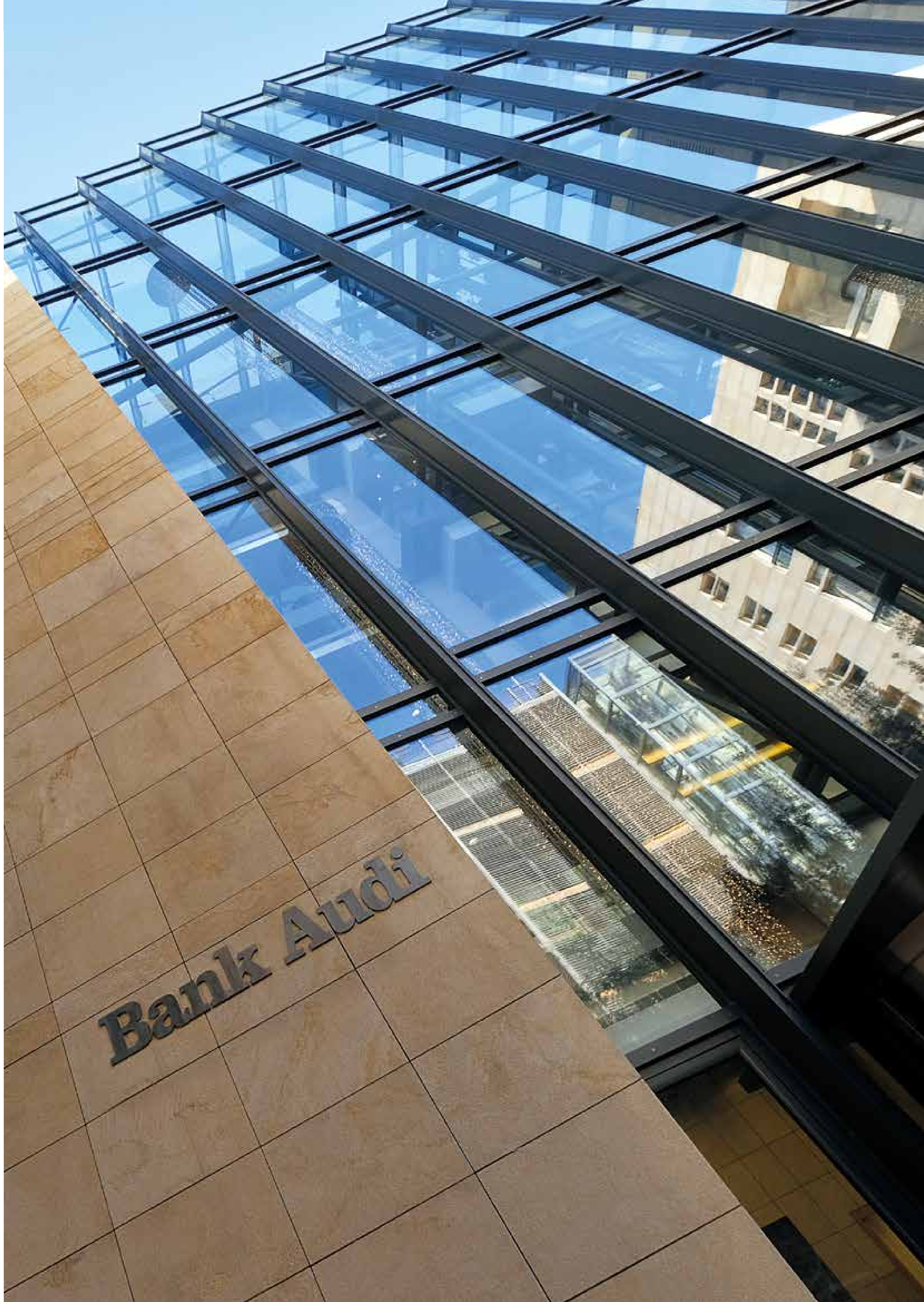
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partners in charge of the audit resulting in this independent auditors' report are Ramzi Ackawi for Ernst & Young and Antoine Gholam for BDO, Semaan, Gholam & Co.

Ernst & Young

BDO, Semaan, Gholam &Co.

20 March 2019
Beirut, Lebanon



CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 LBP Million	2017 LBP Million
CONTINUING OPERATIONS			
Interest and similar income	4	4,720,920	4,252,849
Interest and similar expense	5	(2,973,394)	(2,655,435)
Net interest income		**1,747,526**	1,597,414
Fee and commission income	6	388,074	441,600
Fee and commission expense	7	(55,737)	(75,793)
Net fee and commission income		**332,337**	365,807
Net gain on financial assets at fair value through profit or loss	8	123,521	95,634
Net gain on sale of financial assets at amortised cost	9	505	23,655
Revenues from financial assets at fair value through other comprehensive income		3,770	21,454
Share of profit of associates under equity method	26	831	3,047
Other operating income	10	43,800	167,092
Total operating income		**2,252,290**	2,274,103
Net impairment loss on financial assets	11	(265,241)	(216,716)
Net operating income		**1,987,049**	2,057,387
Personnel expenses	12	(550,771)	(630,727)
Other operating expenses	13	(407,603)	(436,062)
Depreciation of property and equipment	27	(61,397)	(74,397)
Amortisation of intangible assets	28	(22,541)	(22,968)
Total operating expenses		**(1,042,312)**	(1,164,154)
Operating profit		**944,737**	893,233
Net gain on disposal of fixed assets		436	734
Profit before tax from continuing operations		**945,173**	893,967
Income tax	14	(190,583)	(194,737)
Profit after tax from continuing operations		**754,590**	699,230
DISCONTINUED OPERATIONS			
Profit from discontinued operations, net of tax	15	-	143,394
Profit for the year		**754,590**	842,624
Attributable to:			
Equity holders of the parent:		**753,260**	811,217
Profit for the year from continuing operations		*753,260*	*667,823*
Profit for the year from discontinued operations	15	-	*143,394*
Non-controlling interests:		**1,330**	31,407
Profit for the year from continuing operations		*1,330*	*31,407*
		754,590	842,624
Earnings per share:			
		LBP	LBP
Basic and diluted earnings per share	16	1,739	1,919
Basic and diluted earnings per share from continuing operations		1,739	1,550

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 LBP Million	2017 LBP Million
Profit for the year from continuing operations		754,590	699,230
Profit for the year from discontinued operations		-	143,394
Profit for the year		754,590	842,624
Other comprehensive income that will be reclassified to the income statement in subsequent periods			
Foreign currency translation			
Exchange differences on translation of foreign operations		(380,162)	(72,369)
Loss reclassified to income statement		6,607	-
Net gain on hedge of net investments	20	(5,066)	(24,658)
Net deferred income taxes	14	527	1,890
Net foreign currency translation	45	**(378,094)**	(95,137)
Cash flow hedge			
Hedging net gains/(losses) arising during the year	20	(31,508)	-
Net deferred income taxes	14	6,802	-
Net change in cash flow hedge		**(24,706)**	-
Time value of hedging			
Change in fair value of the time value of an option	20	5,816	31,946
Amortisation to profit or loss of cumulative (gain)/Loss arising on changes in fair value of the time value of option	20	6,899	23,236
Net deferred income taxes	14	(991)	(9,193)
Net change in time value of hedging		**11,724**	45,989
Debt instruments at fair value through other comprehensive income			
Change in fair value during the year	25	(9,697)	-
Gain reclassified to income statement		(564)	-
Net deferred income taxes	14	1,120	-
Net gain on debt instruments at fair value through other comprehensive income	45	**(9,141)**	-
Total other comprehensive loss that will be reclassified to the income statement in subsequent periods		**(400,217)**	(49,148)
Other comprehensive income that will not be reclassified to the income statement in subsequent periods			
Remeasurement gains (losses) on defined benefit plans			
Actuarial (loss) gain on defined benefits plans	38	(335)	(9,852)
Net deferred income taxes	14	68	1,299
Net remeasurement (losses) gains on defined benefit plans		**(267)**	(8,553)
Equity instruments at fair value through other comprehensive income			
Net unrealised gains (losses)	25	4,007	(1,450)
Net deferred income taxes	14	487	34
Net unrealised gains (losses) on equity instruments at fair value through other comprehensive income	45	**4,494**	(1,416)
Other gains			
Net gain from sale of financial assets	37 & 41	-	78,300
Share of other comprehensive income from associates		918	-
Net other gains		**918**	78,300
Total other comprehensive income that will not be reclassified to the income statement in subsequent periods		**5,145**	68,331
Other comprehensive income for the year, net of tax		**(395,072)**	19,183
Total comprehensive income for the year, net of tax		**359,518**	861,807
Attributable to:			
Equity holders of the parent		**452,985**	854,006
Non-controlling interests		**(93,467)**	7,801
		359,518	861,807

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 LBP Million	2017 LBP Million
ASSETS			
Cash and balances with central banks	17	24,793,682	19,846,859
Due from banks and financial institutions	18	3,843,626	1,454,753
Loans to banks and financial institutions and reverse repurchase agreements	19	266,645	1,208,536
Derivative financial instruments	20	419,749	398,084
Financial assets at fair value through profit or loss	21	220,122	1,495,450
Loans and advances to customers at amortised cost	22	19,846,966	24,400,781
Loans and advances to related parties at amortised cost	23	153,671	161,814
Debtors by acceptances		414,625	226,896
Financial assets at amortised cost	24	18,003,797	14,822,345
Financial assets at fair value through other comprehensive income	25	1,257,435	158,027
Investments in associates	26	144,865	134,457
Property and equipment	27	877,701	884,400
Intangible assets	28	68,476	76,243
Non-current assets held for sale	29	193,721	144,058
Other assets	30	499,552	396,228
Deferred tax assets	14	108,879	104,253
Goodwill	31	42,413	42,713
TOTAL ASSETS		71,155,925	65,955,897
LIABILITIES			
Due to central banks	32	11,919,990	3,971,498
Due to banks and financial institutions	33	2,183,687	2,626,173
Due to banks under repurchase agreements	33	1,304	218,922
Derivative financial instruments	20	408,253	205,384
Customers' deposits	34	47,777,071	49,677,857
Deposits from related parties	35	396,114	750,222
Debt issued and other borrowed funds	36	1,293,689	1,235,268
Engagements by acceptances		414,625	226,896
Other liabilities	37	404,851	427,391
Current tax liabilities	14	114,960	94,702
Deferred tax liabilities	14	39,819	66,592
Provisions for risks and charges	38	342,794	141,731
TOTAL LIABILITIES		65,297,157	59,642,636
SHAREHOLDERS' EQUITY – GROUP SHARE			
Share capital – common shares	39	667,581	664,783
Share capital – preferred shares	39	10,020	12,472
Issue premium – common shares	39	883,582	883,582
Issue premium – preferred shares	39	894,480	1,118,153
Warrants issued on subsidiary shares	39	12,629	12,629
Cash contribution to capital	40	72,586	72,586
Non-distributable reserves	41	1,919,796	1,719,917
Distributable reserves	42	430,685	430,592
Treasury shares	44	(9,073)	(94,532)
Retained earnings		1,249,915	1,249,004
Other components of equity	45	(1,244,056)	(939,745)
Result of the year		753,260	811,217
		5,641,405	5,940,658
NON-CONTROLLING INTERESTS	46	217,363	372,603
TOTAL SHAREHOLDERS' EQUITY		5,858,768	6,313,261
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		71,155,925	65,955,897

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 LBP Million	2017 LBP Million
OPERATING ACTIVITIES			
Profit before tax from continuing operations		945,173	893,967
Profit before tax from discontinued operations		-	159,275
Adjustments for non-cash items:			
Depreciation and amortisation	27 & 28	83,938	97,365
Impairment of assets acquired in settlement of debt	29	-	75
Net gain on financial instruments at amortised cost	9	(505)	(23,655)
Net impairment losses on financial assets	11	265,241	216,716
Share of net profit of associates	26	(831)	(3,047)
Net gain on disposal of assets acquired in settlement of debt	10	(7,567)	(324)
Net gain on sale or disposal of fixed assets		(436)	(734)
Provision for risks and charges		38,190	32,281
Write-back of provisions for risks and charges	10	(2,162)	(5,759)
Gain on revaluation of interest retained	10	(12,289)	(74,943)
Effect of entities deconsolidated during the year		-	(164,163)
		1,308,752	1,127,054
Changes in operating assets and liabilities:			
Balances with the central banks, banks and financial institutions maturing in more than 3 months		2,951,595	7,325,356
Change in derivatives and financial assets held for trading		1,455,140	(877,750)
Change in loans and advances to customers and related parties		4,046,041	1,172,129
Change in other assets		12,801	(121,687)
Change in deposits from customers and related parties		(2,254,894)	(3,774,687)
Change in other liabilities		(18,634)	20,706
Cash from operations		7,500,801	4,871,121
Provisions for risks and charges paid		(29,530)	(53,741)
Taxation paid		(135,606)	(333,991)
Net cash from operating activities		7,335,665	4,483,389
INVESTING ACTIVITIES			
Change in financial assets – other than trading		(4,371,103)	(767,541)
Purchase of property and equipment and intangibles	27 & 28	(93,046)	(116,150)
Change in investments under equity method and related loans		-	(118,077)
Proceeds from sale of property and equipment and intangibles		26,029	5,138
Proceed from sale of subsidiaries	15	-	276,640
Net cash used in investing activities		(4,438,120)	(719,990)
FINANCING ACTIVITIES			
Issuance of preferred shares	39	-	411,616
Cancellation of preferred shares series "F"	39	-	(226,124)
Cancellation of preferred shares series "G"	39	(226,125)	-
Dividends paid	39	(395,322)	(339,935)
Treasury shares transactions		92,192	(290)
Debt issued and other borrowed funds	36	58,421	261,733
Change in non-controlling interests		-	23,450
Other		-	671
Net cash (used in) from financing activities		(470,834)	131,121
CHANGE IN CASH AND CASH EQUIVALENTS		2,426,711	3,894,520
Net foreign exchange difference		(322,320)	(40,080)
Cash and cash equivalents at 1 January		7,311,554	3,457,114
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	47	9,415,945	7,311,554
Operational cash flows from interest and dividends			
Interest paid		(2,857,676)	(2,618,233)
Interest received		4,464,066	4,244,913
Dividends received		3,206	21,935

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Attributable to the equity holders of the Parent														
	Share Capital - Common Shares	Share Capital - Preferred Shares	Issue Premium - Common Shares	Issue Premium - Preferred Shares	Warrants Issued on Subsidiary Shares	Cash Contribution to Capital	Non-distributable Reserves	Distributable Reserves	Treasury Shares	Retained Earnings	Other Components of Equity	Result of the Year	Total	Non-controlling Interests	Total Shareholders' Equity
	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million
Balance at 1 January 2018	**664,783**	**12,472**	**883,582**	**1,118,153**	**12,629**	**72,586**	**1,719,917**	**430,592**	**(94,532)**	**1,249,004**	**(939,745)**	**811,217**	**5,940,658**	**372,603**	**6,313,261**
Impact of IFRS 9 at 1 January	-	-	-	-	-	-	-	-	-	(201,073)	(1,220)	-	(202,293)	(58,945)	**(261,238)**
Restated balance at 1 January 2018	**664,783**	**12,472**	**883,582**	**1,118,153**	**12,629**	**72,586**	**1,719,917**	**430,592**	**(94,532)**	**1,047,931**	**(940,965)**	**811,217**	**5,738,365**	**313,658**	**6,052,023**
Net profits for the year	-	-	-	-	-	-	-	-	-	-	-	753,260	753,260	1,330	**754,590**
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	(300,275)	-	(300,275)	(94,797)	**(395,072)**
Total comprehensive income	-	-	-	-	-	-	-	-	-	-	**(300,275)**	**753,260**	**452,985**	**(93,467)**	**359,518**
Appropriation of 2017 profits	-	-	-	-	-	-	194,304	-	-	221,591	-	(415,895)	-	-	-
Redemption of preferred share series "G"'	-	(2,494)	-	(223,631)	-	-	-	-	-	-	-	-	(226,125)	-	**(226,125)**
Distribution of dividends on ordinary shares	-	-	-	-	-	-	-	-	-	-	-	(331,442)	(331,442)	-	**(331,442)**
Distribution of dividends on preferred shares	-	-	-	-	-	-	-	-	-	-	-	(63,880)	(63,880)	-	**(63,880)**
Capital increase	2,798	42	-	(42)	-	-	(2,798)	-	-	-	-	-	-	-	-
Sale of financial assets at FVTOCI	-	-	-	-	-	-	-	-	-	2,816	(2,816)	-	-	-	-
Treasury shares transactions	-	-	-	-	-	-	6,640	93	85,459	-	-	-	92,192	-	**92,192**
Transfer between reserves	-	-	-	-	-	-	1,608	-	-	(1,608)	-	-	-	-	-
Other movements	-	-	-	-	-	-	125	-	-	(20,815)	-	-	(20,690)	(2,828)	**(23,518)**
Balance at 31 December 2018	**667,581**	**10,020**	**883,582**	**894,480**	**12,629**	**72,586**	**1,919,796**	**430,685**	**(9,073)**	**1,249,915**	**(1,244,056)**	**753,260**	**5,641,405**	**217,363**	**5,858,768**
Balance at 1 January 2017	661,985	10,350	883,582	931,837	12,629	72,586	1,456,141	624,501	(94,026)	875,244	(872,818)	672,095	5,234,106	341,352	5,575,458
Net profits for the year	-	-	-	-	-	-	-	-	-	-	-	811,217	811,217	31,407	842,624
Other comprehensive income	-	-	-	-	-	-	78,300	-	-	-	(35,511)	-	42,789	(23,606)	19,183
Total comprehensive income	-	-	-	-	-	-	78,300	-	-	-	(35,511)	811,217	854,006	7,801	861,807
Appropriation of 2016 profits	-	-	-	-	-	-	129,078	1,631	-	201,451	-	(332,160)	-	-	-
Issuance of series "J" preferred shares	-	4,573	-	409,989	-	-	-	(2,946)	-	-	-	-	411,616	-	411,616
Redemption of preferred share series "F"	-	(2,484)	-	(223,640)	-	-	-	-	-	-	-	-	(226,124)	-	(226,124)
Distribution of dividends on common shares	-	-	-	-	-	-	-	-	-	-	-	(294,145)	(294,145)	-	(294,145)
Distribution of dividends on preferred shares	-	-	-	-	-	-	-	-	-	-	-	(45,790)	(45,790)	-	(45,790)
Capital increase	2,798	33	-	(33)	-	-	(51,528)	(13,328)	-	62,058	-	-	-	-	-
Treasury shares transactions	-	-	-	-	-	-	-	216	(506)	-	-	-	(290)	-	(290)
Sale of financial assets at FVTOCI	-	-	-	-	-	-	-	-	-	36,382	(29,774)	-	6,608	-	6,608
Transfers	-	-	-	-	-	-	107,926	(181,795)	-	73,869	-	-	-	-	-
Other movements	-	-	-	-	-	-	-	2,313	-	-	(1,642)	-	671	23,450	24,121
Balance at 31 December 2017	664,783	12,472	883,582	1,118,153	12,629	72,586	1,719,917	430,592	(94,532)	1,249,004	(939,745)	811,217	5,940,658	372,603	6,313,261

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2018

NOTES' INDEX

1.0. | CORPORATE INFORMATION

Bank Audi sal (the Bank) is a Lebanese joint stock company registered since 1962 in Lebanon under No. 11347 at the Register of Commerce and under No. 56 on the banks' list at the Bank of Lebanon ("BDL"). The Bank's head office is located in Bank Audi Plaza, Omar Daouk Street, Beirut, Lebanon. The Bank's shares are listed on the Beirut Stock Exchange and London SEAQ.

The Bank, together with its subsidiaries (collectively "the Group"), provides a full range of Retail, Commercial, Investment and Private Banking activities through its headquarters as well as its branches in Lebanon, and its presence in Europe, the Middle East and North Africa.

The consolidated financial statements were authorised for issue in accordance with the Board of Directors' resolution on 20 March 2019.

2.0. | ACCOUNTING POLICIES

2.1. BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis except for: a) the revaluation of land and buildings pursuant to the adoption of the revaluation model of IAS 16 for this asset class, and b) the measurement at fair value of derivative financial instruments, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income.

The consolidated financial statements are presented in Lebanese Pounds (LBP), which is the Bank's functional currency, and all values are rounded to the nearest million, except when otherwise indicated.

STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and the regulations of the Central Bank of Lebanon and the Banking Control Commission ("BCC").

PRESENTATION OF FINANCIAL STATEMENTS

The Group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within one year after the statement of financial position date (current) and more than one year after the statement of financial position date (non-current) is presented in the notes.

Financial assets and financial liabilities are generally reported gross in the consolidated statement of financial position. They are offset and the net amount is reported only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis – or to realise the assets and settle the liability simultaneously – in all of the following circumstances: a) the normal course of business, b) the event of default, and c) the event of insolvency or bankruptcy of the Group and/or its counterparties. Only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement. This is not generally the case with master netting agreements, therefore the related assets and liabilities are presented gross in the consolidated statement of financial position. Income and expense will not be offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

2.2. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of Bank Audi sal and its subsidiaries as at 31 December 2018. Details of the principal subsidiaries are given in Note 46.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:
- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. However, under individual circumstances, the Group may still exercise control with less than 50% shareholding or may not be able to exercise control even with ownership over 50% of an entity's shares. When assessing whether it has power over an investee and therefore controls the variability of its returns, the Group considers all relevant facts and circumstances, including:
- The purpose and design of the investee;
- The relevant activities and how decisions about those activities are made and whether the Group can direct those activities;
- Contractual arrangements such as call rights, put rights and liquidation rights; and
- Whether the Group is exposed, or has rights, to variable returns from its involvement with the investee, and has the power to affect the variability of such returns.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.
When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interests and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value at the date of loss of control.

Where the Group loses control of a subsidiary but retains an interest in it, then such interest is measured at fair value at the date that control is lost with the change in carrying amount recognised in profit or loss. Subsequently, it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. As such, amounts previously recognised in other comprehensive income are transferred to consolidated income statement.

NON-CONTROLLING INTERESTS

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned by the Group. The Group has elected to measure the non-controlling interests in acquirees at the proportionate share of each acquiree's identifiable net assets. Interests in the equity of subsidiaries not attributable to the Group are reported in consolidated equity as non-controlling interests.

Profit or loss and each component of OCI are attributed to the equity holders of the Parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

The Group treats transactions with non-controlling interests as transactions with equity holders of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.3. NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2018. The nature and the impact of each amendment is described below:

IFRS 9 *FINANCIAL INSTRUMENTS*

In July 2014, the IASB issued the final version of IFRS 9 "Financial Instruments" that replaces IAS 39 Financial Instruments and all previous versions of IFRS 9 (2009, 2010 and 2013). The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The new version, IFRS 9 (2014) is effective for annual periods beginning on or after 1 January 2018. The Group adopted the new standard on the required effective date, along with the provisions of the Central Bank of Lebanon basic circular No. 143 and the Banking Control Commission circular No. 293.

The Group has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9 (2014). Therefore, the comparative information for 2017 is reported under IFRS 9 (2009, 2010 and 2013) and IAS 39 impairment requirements and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 (2014) have been recognised directly in retained earnings or reserves (as applicable) as of 1 January 2018 and are disclosed in V below.

I. Classification and Measurement

The Group has early adopted classification and measurement requirements as issued in IFRS 9 (2009) and IFRS 9 (2010). In the July 2014 publication of IFRS 9, the new measurement category fair value though other comprehensive income was introduced for financial assets that satisfy the contractual cash flow characteristics (SPPI test). This category is aimed at portfolio of debt instruments for which amortised cost information, as well as fair value information is relevant and useful.

A debt financial asset is measured at fair value through OCI if:
- It is held in a business model whose objective is achieved by both holding assets to collect contractual cash flows and selling the assets, and
- It satisfies the contractual cash flow characteristics (SPPI test).

At the date of application of IFRS 9 (2014), the Group reassessed the classification and measurement category for all financial assets debt instruments that satisfy the contractual cash flow characteristics (SPPI test) and classified them within the category that is consistent with the business model for managing these financial assets on the basis of facts and circumstances that existed at that date.

The classification and measurement requirements for financial assets that are equity instruments or debt instruments that do not meet the contractual cash flow characteristics (SPPI test) and financial liabilities remain unchanged from previous versions of IFRS 9.

The Group's classification of its financial assets and liabilities is explained in Note 2.5. The impact on the classification of the Group's financial assets and their carrying values and equity is discussed in V below.

II. Expected Credit Losses

The adoption of IFRS 9 has fundamentally changed the Group's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. Equity instruments are not subject to impairment under IFRS 9.

Details of the Group's impairment method are disclosed in Note 2.5. The impact of the adoption of IFRS 9 impairment provisions on the Group's financial assets and their carrying values and equity is discussed in V below.

III. IFRS 7 Disclosures

IFRS 7 financial instruments: Disclosures, which was updated to reflect the differences between IFRS 9 and IAS 39, was also adopted by the Group together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in V below, detailed qualitative and quantitative information about the ECL calculations such as assumptions and inputs used.

IV. Hedge Accounting

The Group has early adopted hedge accounting requirements as issued in IFRS 9 (2013). These requirements were first published in November 2013 and remain unchanged in the July 2014 publication of IFRS 9, except to reflect the addition of the FVOCI measurement category to IFRS 9.

There is no impact on the financial statements as the Group does not have hedged items measured at FVOCI.

V. Transition

In accordance with the transition provisions of IFRS 9 (2014), the Group applied this standard retrospectively. The following tables set out the impact of adopting IFRS 9 (2014) on the consolidated statement of financial position, and retained earnings including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs.

Except for the financial statement captions listed in the below table, there have been no changes in the carrying amounts of assets and liabilities on application of IFRS 9 (2014) as at 1 January 2018.

	Classification under IFRS 9 (2010) (31 December 2017)		Re-measurement			Classification under IFRS 9 (2014) (1 January 2018)	
	Category LBP Million	Amount LBP Million	Reclassification LBP Million	ECL LBP Million	Other LBP Million	Category LBP Million	Amount LBP Million
Financial assets							
Cash and balances with central banks	Amortized cost	19,846,859	-	(51,533)	-	Amortized cost	**19,795,326**
Due from banks and financial institutions	Amortized cost	1,454,753	-	(104)	-	Amortized cost	**1,454,649**
Loans to banks and financial institutions and reverse repurchase agreements	Amortized cost	1,208,536	-	(1,063)	-	Amortized cost	**1,207,473**
Financial assets at fair value through profit or loss	FVPL	1,495,450	-	-	-	FVPL	**1,495,450**
Loans and advances to customers at amortised cost	Amortized cost	24,400,781	-	(331,964)	-	Amortized cost	**24,068,817**
Loans and advances to related parties at amortised cost	Amortized cost	161,814	-	(170)	-	Amortized cost	**161,644**
Financial assets at amortised cost	Amortized cost	14,822,345	(559,043)	(44,273)	-	Amortized cost	**14,219,029**
Financial assets at fair value through other comprehensive income	FVOCI	158,027	559,043	-	(1,220)	FVOCI	**715,850**
			-	**(429,107)**	**(1,220)**		
Non-financial liabilities							
Provisions for ECL on financial guarantees and commitments			-	(4,296)	-		
Total impact of adoption of IFRS 9 (2014)			-	**(433,403)**	**(1,220)**		
Less: amount covered by excess provisions available on 1 January 2018			-	107,640	-		
Less: impact on deferred tax assets			-	65,745	-		
Net impact on equity			-	**(260,018)**	**(1,220)**		

The increase in impairment allowances when measured in accordance with IFRS 9 expected credit losses model compared to IAS 39 incurred loss model amounts to LBP 433,403 million and was covered partly by the Group's excess provision. Accordingly, the impact on the Group's equity from the adoption of the IFRS 9 impairment requirements amounted to LBP 260,018 million, out of which the share of non-controlling interests of LBP 58,945 million. Total adjustments related to classification and measurements other than impairment will reduce opening other components of equity by LBP 1,220 million.

The following table reconciles the aggregate opening loan loss provision allowances under IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provision Contingent Liabilities and Contingent Assets to the ECL allowance under IFRS 9.

	At 31 December 2017					At 1 January 2018		
	Impairment Allowance under IAS 39/IAS 37	Excess Provisions (Regulatory Requirements)	Total	Re-measurement Impact of IFRS 9	Amount Covered by Excess Provisions	ECLs under IFRS 9	Excess Provisions (Regulatory Requirements)	Total
	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million
Impairment allowance for								
Cash and balances with central banks	-	-	-	51,533	-	51,533	-	51,533
Due from banks and financial institutions	949	-	949	104	-	1,053	-	1,053
Loans to banks and financial institutions and reverse repurchase agreements	-	-	-	1,063	-	1,063	-	1,063
Loans and advances to customers at amortised cost	832,307	377,833	1,210,140	331,964	(107,640)	1,164,271	270,193	1,434,464
Loans and advances to related parties at amortised cost	-	-	-	170	-	170	-	170
Financial assets at amortised cost	-	-	-	44,273	-	44,273	-	44,273
	833,256	377,833	1,211,089	**429,107**	**(107,640)**	**1,262,363**	**270,193**	**1,532,556**
Provision for ECL on financial guarantees and other commitments	16,982	-	16,982	4,296	-	21,278	-	21,278
	850,238	377,833	1,228,071	**433,403**	**(107,640)**	**1,283,641**	**270,193**	**1,553,834**

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and Related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. There were no significant impacts from the adoption of IFRS 15 on the consolidated financial statements of the Group.

AMENDMENTS TO IFRS 2 CLASSIFICATION AND MEASUREMENT OF SHARE-BASED PAYMENT TRANSACTIONS

The IASB issued amendments to IFRS 2 "Share-based Payment" that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. These amendments did not have a significant impact on the Group's consolidated financial statements.

IFRIC INTERPRETATION 22 FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATIONS

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of transaction for each payment or receipt of advance consideration. This interpretation did not have a significant impact on the Group's consolidated financial statements.

2.4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2018, with the Group not opting for early adoption. These have therefore not been applied in preparing these consolidated financial statements. The most significant of these new standards, amendments and interpretations are as follows:

IFRS 16 *LEASES*

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases for the period beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of "low-value" assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.
The Group is currently assessing the impact of adopting IFRS 16 and expects an increase in its assets and liabilities with no material impact on its retained earnings.

IFRIC INTERPRETATION 23 *UNCERTAINTY OVER INCOME TAX TREATMENT*

IFRIC 23 clarifies the application of IAS 12 to accounting for income tax treatments that have yet to be accepted by tax authorities, in scenarios where it may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept an entity's tax treatment. The effective date is 1 January 2019. The Group is currently assessing the impact of IFRIC 23 and does not expect it to have a material impact on the Group's financial statements.

IAS 12 – INCOME TAXES *AMENDMENTS TO IAS 12*

As part of the Annual Improvements to IFRS Standards 2015-2017 Cycle, the IASB amended IAS 12 in order to clarify the accounting treatment of the income tax consequences of dividends. Effective from 1 January 2019 the tax consequences of all payments on financial instruments that are classified as equity for accounting purposes, where those payments are considered to be a distribution of profit, will be included in, and will reduce, the income statement tax charge. The Group does not expect the adoption of this improvement will have a significant impact on the Group's financial statements.

IAS 19 – EMPLOYEE BENEFITS *AMENDMENTS TO IAS 19*

The IASB issued amendments to the guidance in IAS 19 Employee Benefits, in connection with accounting for plan amendments, curtailments and settlements. The amendments must be applied to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019. Adoption of the amendments is not expected to have significant impact on the Group.

2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group measures the non-controlling interest in the acquiree at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group makes an acquisition meeting the definition of a business under IFRS 3, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value at the acquisition date through the consolidated income statement. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured until it is finally settled within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 "Financial Instruments", is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs) or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment in accordance with IFRS 8 "Operating Segments".

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

INVESTMENTS IN ASSOCIATES

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associates are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor separately tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the associates. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of associates are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss in the consolidated income statement.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is transferred to consolidated income statement where appropriate. Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

FOREIGN CURRENCIES

The consolidated financial statements are presented in Lebanese Pound (LBP) which is also the Bank's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The Bank uses the step-by-step method of consolidation.

(i) Transactions and Balances

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the date of the statement of financial position. All differences are taken to "net gain on financial assets at fair value through profit or loss" in the consolidated income statement, except for monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

(ii) Group Companies

On consolidation, the assets and liabilities of subsidiaries and overseas branches are translated into the Bank's presentation currency at the rate of exchange as at the reporting date, and their income statements are translated at the monthly average exchange rates for the year. Exchange differences arising on translation are recognised in OCI. On disposal of a foreign entity, the deferred cumulative amount recognised in OCI relating to that particular foreign operation is reclassified to the consolidated income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the exchange rate on the reporting date.

The table below presents the exchange rates of the currencies used to translate assets, liabilities and statement of income items of foreign branches and subsidiaries:

	2018		2017	
	Year-end Rate LBP	Average Rate LBP	Year-end Rate LBP	Average Rate LBP
US Dollar	1,507.5	1,507.5	1,507.50	1,507.50
Euro	1,724.73	1,780.96	1,806.56	1,704.73
Swiss Franc	1,529.68	1,544.12	1,545.04	1,531.52
Turkish Lira	286.12	327.34	399.92	415.53
Jordanian Dinar	2,123.84	2,124.49	2,126.23	2,125.57
Egyptian Pound	84.26	84.64	84.79	84.61
Saudi Riyal	401.86	401.94	401.99	401.96
Qatari Riyal	414.03	414.03	414.03	413.03
Iraqi Dinar	1.29	1.29	1.26	1.29

FINANCIAL INSTRUMENTS – INITIAL RECOGNITION

(i) Date of Recognition

All financial assets and liabilities are initially recognised on the settlement date. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(ii) Initial Measurement of Financial Instruments

Financial instruments are initially measured at their fair value, plus or minus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument. In the case of a financial instrument measured at fair value, with the change in fair value being recognised in profit or loss, the transaction costs are recognised as revenue or expense when the instrument is initially recognised.

When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described below.

(iii) Day 1 Profit or Loss

When the transaction price differs from the fair value at origination and the fair value is based on a valuation technique using only observable inputs in market transactions, the Group immediately recognises the difference between the transaction price and fair value (a "Day 1" profit or loss) in the consolidated income statement. In cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in the consolidated income statement when the inputs become observable, or when the instrument is derecognised.

FINANCIAL ASSETS – CLASSIFICATION AND MEASUREMENT

On initial recognition, financial assets are classified as measured at: amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of two criteria:

(i) The business model within which financial assets are measured; and
(ii) Their contractual cash flow characteristics (whether the cash flows represent "solely payments of principal and interest" (SPPI)).

Financial assets measured at amortised cost if they are held within a business model whose objective is to hold assets to collect contractual cash flows, and their contractual cash flows represent SPPI.

Financial assets measured at fair value through other comprehensive income if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and their contractual cash flows represent SPPI.

All other financial assets are classified as measured at fair value through profit or loss.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

On initial recognition, the Group may irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an "accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Group is required to disclose such financial assets separately from those mandatorily measured at fair value.

Business Model

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to Management.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel.
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking "worst case" or "stress case" scenarios into account.

The Group's business model can be to hold financial assets to collect contractual cash flows even when sales of financial assets occur. However, if more than an infrequent number of sales are made out of a portfolio, the Group needs to assess whether and how such sales are consistent with an objective of collecting contractual cash flows. If the objective of the Group's business model for managing those financial assets changes, the Group is required to reclassify financial assets.

The SPPI Test

As a second step of its classification process, the Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

"Principal" for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at fair value though profit and loss.

Financial Assets at Amortised Cost

Balances with Central Banks, Due from Banks and Financial Institutions, Loans to Banks and Financial Institutions and Reverse Repurchase Agreements, and Loans and Advances to Customers and Related Parties – at Amortised Cost, and Financial Assets at Amortised Cost.

These financial assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributed to the acquisition are also included in the cost of investment. After initial measurement, these are subsequently measured at amortised cost using the EIR, less expected credit losses. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in "interest and similar income" in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement in "net impairment losses on financial assets". Gains and losses arising from the derecognition of financial assets measured at amortised cost are reflected under "net gain on sale of financial assets at amortised cost" in the consolidated income statement.

Financial Assets at Fair Value through Other Comprehensive Income

These financial assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributed to the acquisition are also included in the cost of investment. After initial measurement, these are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in other comprehensive income. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. The ECL calculation for debt instruments at fair value through other comprehensive income is explained below. On derecognition, cumulative gains or losses previously recognised in other comprehensive income are reclassified from other comprehensive income to profit or loss.

Equity Instruments at Fair Value through Other Comprehensive Income

Upon initial recognition, the Group can elect to classify irrevocably some of its investments in equity instruments at fair value through other comprehensive income when they are not held for trading. Such classification is determined on an instrument-by-instrument basis.

These financial assets are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated under equity. The cumulative gain or loss will not be reclassified to the consolidated income statement on disposal of the investments.

Dividends on these investments are recognised under "revenue from financial assets at fair value through other comprehensive income" in the consolidated income statement when the Group's right to receive payment of dividend is established in accordance with IFRS 15 "Revenue from Contracts with Customers", unless the dividends clearly represent a recovery of part of the cost of the investment. Equity instruments at fair value through other comprehensive income are not subject to an impairment assessment.

Financial Assets at Fair Value through Profit or Loss

Included in this category are those debt instruments that do not meet the conditions in "financial assets at amortised cost" and "financial assets at fair value through other comprehensive income" above, debt instruments designated at fair value through profit or loss upon initial recognition, and equity instruments at fair value through profit or loss. Management only designates a financial asset at fair value through profit and loss upon initial recognition when the designation eliminates, significantly reduces, the inconsistent treatment that would otherwise arise from measuring assets or recognising gains and losses on them on a different basis.

Debt Instruments at Fair Value through Profit or Loss and Loans and Advances at Fair Value

These financial assets are recorded in the consolidated statement of financial position at fair value. Transaction costs directly attributable to the acquisition of the instrument are recognised as revenue or expense when the instrument is initially recognised. Changes in fair value and interest income are recorded under "net gain on financial assets at fair value through profit or loss" in the consolidated income statement. Gains and losses arising from the derecognition of debt instruments and other financial assets at fair value through profit or loss are also reflected under "net gain on financial assets at fair value through profit or loss" in the consolidated income statement, showing separately those related to financial assets designated at fair value upon initial recognition from those mandatorily measured at fair value.

Equity Instruments at Fair Value through Profit or Loss

Investments in equity instruments are classified at fair value through profit or loss, unless the Group designates at initial recognition an investment that is not held for trading as at fair value through other comprehensive income. These financial assets are recorded in the consolidated statement of financial position at fair value. Changes in fair value and dividend income are recorded under "net gain on financial assets at fair value through profit or loss" in the consolidated income statement. Gains and losses arising from the derecognition of equity instruments at fair value through profit or loss are also reflected under "net gain from financial assets at fair value through profit or loss" in the consolidated income statement.

FINANCIAL LIABILITIES (OTHER THAN FINANCIAL GUARANTEES, LETTERS OF CREDIT AND LOAN COMMITMENTS) – CLASSIFICATION AND MEASUREMENT

Liabilities are initially measured at fair value plus, in the case of a financial liability not at fair value through profit or loss, particular transaction costs. Liabilities are subsequently measured at amortised cost or fair value.

The Group classifies all financial liabilities as subsequently measured at amortised cost using the effective interest rate method, except for:
- Financial liabilities at fair value through profit or loss (including derivatives);
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
- Contingent consideration recognised in a business combination in accordance with IFRS 3.

The Group may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when:
- Doing so results in more relevant information, because it either eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- A group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Group is provided internally on that basis to the Group's Key Management Personnel; or
- A group of financial liabilities contains one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by contract, or it is clear with little or no analysis when a similar instruments is first considered that separation of the embedded derivatives is prohibited.

Financial liabilities at fair value through profit and loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at fair value through profit and loss due to changes in the Group's own credit risk. Such changes in fair value are recognised in other comprehensive income, unless such recognition would create an accounting mismatch in the consolidated income statement. Changes in fair value attributable to changes in credit risk do not get recycled to the consolidated income statement.

Interest incurred on financial liabilities designated at fair value through profit or loss is accrued in interest expense using the EIR, taking into account any discount/premium and qualifying transaction costs being an integral part of instrument.

Debt Issued and Other Borrowed Funds

Financial instruments issued by the Group, which are not designated at fair value through profit or loss, are classified under "debt issued and other borrowed funds" where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method.

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on the quoted market prices for similar debt instruments). The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the debt component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component is included in the debt component.

Due to Central Banks, Banks and Financial Institutions, Banks under Repurchase Agreements and Customers' and Related Parties' Deposits

After initial measurement, due to central banks, banks and financial institutions, bonds under repurchase agreements, customers' and related parties' deposits are measured at amortised cost less amounts repaid using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method. Customers' deposits which are linked to the performance of indices or commodities are subsequently measured at fair value through profit or loss Financial guarantees are initially recognised in the consolidated financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated income statement, and an ECL provision. The premium received is recognised in the income statement in "net fees and commission income" on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments are not recorded in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in the notes.

DERIVATIVES RECORDED AT FAIR VALUE THROUGH PROFIT OR LOSS

A derivative is a financial instrument or other contract with all three of the following characteristics:
a) Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (also known as the "underlying").
b) It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
c) It is settled at a future date.

The Group enters into derivative transactions with various counterparties. These include interest rate swaps, futures, credit derivatives, cross-currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities.

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. The notional amount and fair value of such derivatives are disclosed separately in the notes. Changes in the fair value of derivatives are recognised in "net gain on financial assets at fair value through profit or loss" in the consolidated income statement, unless hedge accounting is applied, which is discussed in under "hedge accounting policy" below.

EMBEDDED DERIVATIVES

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

An embedded derivative is separated from the host and accounted for as a derivative if, and only if:
(a) The hybrid contract contains a host that is not an asset within the scope of IFRS 9;
(b) The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host;
(c) A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
(d) The hybrid contract is not measured at fair value with changes in fair value recognised in profit or loss.

FINANCIAL GUARANTEES, LETTERS OF CREDIT AND UNDRAWN LOAN COMMITMENTS

Financial guarantees are initially recognised in the consolidated financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated income statement, and an ECL provision. The premium received is recognised in the income statement in "net fees and commission income" on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments are not recorded in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in the notes.

RECLASSIFICATION OF FINANCIAL ASSETS

The Group reclassifies financial assets if the objective of the business model for managing those financial assets changes. Such changes are expected to be very infrequent and are determined by the Group's Senior Management as a result of external or internal changes when significant to the Group's operations and demonstrable to external parties.

If financial assets are reclassified, the reclassification is applied prospectively from the reclassification date, which is the first day of the first reporting period following the change in business model that results in the reclassification of financial assets. Any previously recognised gains, losses or interest are not restated.

If a financial asset is reclassified so that it is measured at fair value, its fair value is determined at the reclassification date. Any gain or loss arising from a difference between the previous carrying amount and fair value is recognised in profit or loss. If a financial asset is reclassified so that it is measured at amortised cost, its fair value at the reclassification date becomes its new carrying amount.

DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial Assets

(i) Derecognition Due to Substantial Modification of Terms and Conditions

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- Fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- Other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below).

If the modification of a financial asset measured at amortised cost or fair value through other comprehensive income does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

(ii) Derecognition Other than for Substantial Modification

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Group also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Group has transferred the financial asset if, and only if, either:

- The Group has transferred its contractual rights to receive cash flows from the financial asset; or
- The Group retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement.

Pass-through arrangements are transactions whereby the Group retains the contractual rights to receive the cash flows of a financial asset (the "original asset"), but assumes a contractual obligation to pay those cash flows to one or more entities (the "eventual recipients"), when all of the following three conditions are met:

- The Group has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates;
- The Group cannot sell or pledge the original asset other than as security to the eventual recipients;
- The Group has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Group is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Group has transferred substantially all the risks and rewards of the asset; or
- The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Group considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Group has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Group's continuing involvement, in which case the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Group could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Group would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in the consolidated income statement, as "other operating income" or "other operating expenses".

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

REPURCHASE AND REVERSE REPURCHASE AGREEMENTS

Securities sold under agreements to repurchase at a specified future date are not derecognised from the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding consideration received (cash collateral provided) is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within "due to banks under repurchase agreements", reflecting the transaction's economic substances as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the EIR. When the counterparty has the right to sell or repledge the securities, the Group reclassifies those securities in its statement of financial position to "financial assets given as collateral".

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the consolidated statement of financial position. The consideration paid (cash collateral provided), including accrued interest is recorded in the consolidated statement of financial position within "loans to banks and financial institutions and reverse repurchase agreements", reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in "net interest income" and is accrued over the life of the agreement using the EIR. If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within "financial liabilities at fair value through profit or loss" and measured at fair value with any gains or losses included in "net gain on financial instruments at fair value through profit or loss" in the consolidated income statement.

IMPAIRMENT OF FINANCIAL ASSETS (POLICY APPLICABLE FROM 1 JANUARY 2018)

(i) Overview of the ECL Principles

As described in Note 2.3., the adoption of IFRS 9 has fundamentally changed the Group's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Group has been recording the allowance for expected credit losses for all loans and other financial assets not held at fair value through profit or loss, together with loan commitments and financial guarantee contracts, in this section all referred to as "financial instruments". Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss), unless there has been no significant increase in credit risk since origination, in which cases, the allowance is based on the 12 months' expected credit loss (12m ECL). The 12m ECL is the portion of lifetime ECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

(ii) Measurement of ECLs

The Group measures ECLs based on a three probability-weighted scenario to measure the expected cash shortfalls, discounted at an approximation to the EIR as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amount that the Group expects to recover.

They key inputs into the measurements of ECL are:

- PD: the Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD: the Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, and expected drawdowns on committed facilities.
- LGD: the Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

These parameters are generally derived from statistical models and other historical data. Forward looking information are incorporated in ECL measurements.

The Group measures ECLs using a three-stage approach based on the extent of credit deterioration since origination:
- Stage 1 – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12-months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For these instruments with a remaining maturity of less than 12 months, probability of default corresponding to remaining term to maturity is used.
- Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be impaired, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.
- Stage 3 – Financial instruments that are considered to be impaired are included in this stage, the allowance for credit losses captures the lifetime expected credit losses, similar to Stage 2.

(iii) Forborne and Modified Loans

The Group sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Group considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Group's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

From 1 January 2018, when the loan has been renegotiated or modified but not derecognised, the Group also reassesses whether there has been a significant increase in credit risk. The Group also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 12-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:
- At least a 12-month probation period has passed;
- Three consecutive payments under the new repayment schedule have been made;
- The borrower has no past dues under any obligation to the Group;
- All the terms and conditions agreed to as part of the restructuring have been met.

If modifications are substantial, the loan is derecognised, as explained above.

(iv) Credit-impaired Financial Assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at fair value through other comprehensive income, and finance lease receivables are credit-impaired (referred to as "Stage 3 financial assets"). A financial asset is "credit impaired" when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable information:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

(v) Write-offs

The Group's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to "net impairment losses on financial assets".

(vi) Debt Instruments at Fair Value through Other Comprehensive Income

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

(vii) Collateral Repossessed

The Group's accounting policy under IFRS 9 remains the same as it was under IAS 39. The Group occasionally acquires properties in settlement of loans and advances. Upon initial recognition, those assets are measured at fair value as approved by the regulatory authorities. Subsequently, these properties are measured at the lower of carrying value or net realisable value.

Upon sale of repossessed assets, any gain or loss realised is recognised in the consolidated income statement under "other operating income" or "other operating expenses". Gains resulting from the sale of repossessed assets are transferred to "reserves appropriated for capital increase" in the following financial year.

IMPAIRMENT OF FINANCIAL ASSETS (POLICY APPLICABLE BEFORE 1 JANUARY 2018)

The Group assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation default or delinquency in interest or principal payments, and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial Assets at Amortised Cost

For financial assets carried at amortised cost (such as due from banks and financial institutions, debt instruments at amortised cost, loans and advances to customers and related parties), the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not the foreclosure is probable.

Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised; the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to "net credit losses" in the consolidated income statement.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Renegotiated Loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(iii) Collateral Repossessed

The Group occasionally acquires properties in settlement of loans and advances. Upon initial recognition, those assets are measured at fair value as approved by the regulatory authorities. Subsequently, these properties are measured at the lower of carrying value or net realisable value.

Upon sale of repossessed assets, any gain or loss realised is recognised in the consolidated income statement under "other operating income" or "other operating expenses". Gains resulting from the sale of repossessed assets are transferred to "reserves appropriated for capital increase" in the following financial year.

FAIR VALUE MEASUREMENT

The Group measures financial instruments, such as derivatives, and non-financial assets, namely land and building and building improvements, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in the notes.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
• In the principal market for the asset or liability; or
• In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
• Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
• Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
• Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Management determines the policies and procedures for both recurring and non-recurring fair value measurement. At each reporting date, Management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, Management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

HEDGE ACCOUNTING

In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria. The Group makes use of derivative instruments to manage exposures to foreign currency risk and interest rate fluctuations. The process starts with identifying the hedging instrument and hedged item and preparing hedge documentation detailing the risk management strategy and objective.

Setting the Risk Management Strategy and Objectives
At inception of the hedge relationship, the Group formally documents its risk management the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge, and the method that will be used to assess the effectiveness of the hedging relationship.

The risk management strategy is established at the level of Executive Management and identifies the risks to which the Group is exposed and whether and how the risk management activities should address those risks. The strategy is typically maintained for a relatively long period of time. However, it may include some flexibility to react to changes in circumstances. The risk management strategy is set out in general documentation and is cascaded down through policies containing more specific guidelines.

The Group sets risk management objectives at the level of individual hedging relationships and defines how a particular hedging instrument is designated to hedge a particular hedged item. As such, a risk management strategy would usually be supported by many risk management objectives.

Qualifying Hedging Relationships
The Group applies hedge accounting for qualifying hedging relationships. A hedging relationship qualifies for hedge accounting only if: (a) the hedging relationship consists only of eligible hedging instruments and eligible hedged items; (b) at the inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge; and (c) the hedging relationship meets all of the hedge effectiveness requirements.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis in order to qualify for hedge accounting. The effectiveness test can be performed qualitatively or quantitatively. A formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item, both at inception and semi-annually on an ongoing basis. A hedge is expected to be highly effective if:
- There is an economic relationship between the hedged item and the hedging instrument;
- The effect of credit risk does not dominate the value changes that result from that economic relationship; and
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

Hedge ineffectiveness is recognised in the consolidated income statement in "net gain on financial assets at fair value through profit or loss".

When a group separates the intrinsic value and time value of an option contract and designates as the hedging instrument only the change in intrinsic value of the option, it shall account for the time value of the option as follows:
(a) An entity shall distinguish the time value of options by the type of hedged item that the option hedges:
    (i) A transaction related hedged item; or
    (ii) A time-period related hedged item.
(b) The change in fair value of the time value shall be recognised in other comprehensive income to the extent that it relates to the hedged item and shall be accumulated in a separate component of equity. The cumulative change in fair value shall be accounted for as follows:
    (i) If the hedged item subsequently results in the recognition of a non-financial asset or a non-financial liability, or a firm commitment for a non-financial asset or a non-financial liability for which fair value hedge accounting is applied, the entity shall remove the amount from the separate component of equity and include it directly in the initial cost or other carrying amount of the asset or the liability. This is not a reclassification adjustment and hence does not affect other comprehensive income.
    (ii) For hedging relationships other than those covered by (i), the amount shall be reclassified from the separate component of equity to profit or loss as a reclassification adjustment in the same period or periods during which the hedged expected future cash flows affect profit or loss.
    (iii) However, if all or a portion of that amount is not expected to be recovered in one or more future periods, the amount that is not expected to be recovered shall be immediately reclassified into profit or loss as a reclassification adjustment.
(c) The change in fair value of the time value of an option that hedges a time-period related hedged item shall be amortised on a systematic and rational basis over the period during which the hedge adjustment for the option's intrinsic value could affect profit or loss (or other comprehensive income, if the hedged item is an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income). However, if hedge accounting is discontinued for the hedging relationship that includes the change in intrinsic value of the option as the hedging instrument, the net amount (i.e. including cumulative amortisation) that has been accumulated in the separate component of equity shall be immediately reclassified into profit or loss as a reclassification adjustment (see IAS 1).

When a group separates the forward element and the spot element of a forward contract and designates as the hedging instrument only the change in the value of the spot element of the forward contract, or when an entity separates the foreign currency basis spread from a financial instrument and excludes it from the designation of that financial instrument as the hedging instrument, the entity may account for the forward element of the forward contract or for the foreign currency basis spread in the same manner as for the time value of an option.

(i) Fair Value Hedges

For qualifying fair value hedges, the gain or loss on the hedging instrument is recognised in the consolidated income statement under "net gain on financial assets at fair value through profit or loss". Hedging gain or loss on the hedged item adjusts the carrying amount of the hedged item and is recognised in the consolidated income statement also under "net gain on financial assets at fair value through profit or loss". If the hedged item is an equity instrument for which the Group has elected to present changes in fair value in other comprehensive income, those amounts remain in other comprehensive income.

(ii) Cash Flow Hedges

For qualifying cash flow hedge, a separate component of equity associated with the hedged item (cash flow hedge reserve) is adjusted to the lower of the following (in absolute amounts):
a) The cumulative gain or loss on the hedging instrument from inception of the hedge; and
b) The cumulative change in fair value (present value) of the hedged item from inception of the hedge.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge (the portion that is offset by the change in the cash flow hedge reserve described above) shall be recognised in other comprehensive income. Any remaining gain or loss on the hedging instrument is hedge ineffectiveness that shall be recognised in the consolidated income statement. The amount that has been accumulated in the cash flow hedge reserve and associated with the hedged item is treated as follows:

a) If a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the Group removes that amount from the cash flow hedge reserve and includes it directly in the initial cost or other carrying amount of the asset or the liability without affecting other comprehensive income.

b) For cash flow hedges other than those covered by a), that amount is reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment in the same period or periods during which the hedged expected future cash flows affect profit or loss. However, if that amount is a loss and the Group expects that all or a portion of that loss will not be recovered in one or more future periods, it immediately reclassifies the amount that is not expected to be recovered into profit or loss as a reclassification adjustment.

Within its risk management and hedging strategies, the Group differentiates between micro and macro cash-flow hedging strategies as set out in the following subsections:

Micro Fair Value Hedge
Micro cash flow hedge relationships relate to distinctly identifiable assets or liabilities, hedged by one, or a few, hedging instruments.

The Group's micro cash flow hedges consist principally of interest rate swaps that are used to protect against exposures to variability in future interest cash flows due to changes in interest rate risk. The hedging ratio is established by matching the notional of the derivatives against the principal of the hedged item.

Macro Fair Value Hedge
It is the Group's strategy to apply macro cash flow hedge accounting to minimise the variability in future interest cash flows on non-trading variable rate financial assets and liabilities and to keep fluctuations within its established limits. The amounts and timing of future hedged cash flows represent both the interest and principal based on contractual terms with adjustments for expected defaults, and/or prepayments based on the Group's projected consolidated balance sheet including forecasted transactions. The hedged items are designated as the gross asset or liability positions allocated to time buckets based on projected re-pricing and interest profiles. The Group aims to set the hedging ratio at 100% by matching the notional of the designated hedged items to the notional amount of the corresponding interest rate swaps used as the hedging instruments. The hedge accounting relationship is reviewed on a monthly basis and the hedging instruments and hedged items are de-designated and re-designated, if necessary, based on the effectiveness test results and changes in the hedged exposure.

(iii) Hedge of Net Investments
Hedges of net investments in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the consolidated income statement. On disposal or partial disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in the foreign currency translation reserve is transferred to the consolidated income statement as a reclassification adjustment.

LEASES

The determination of whether an arrangement is a lease or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset, even if that asset is not explicitly specified in an arrangement.

Group as a Lessee
Leases which do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight line basis over the lease term. Contingent rental payables are recognised as an expense in the period in which they are incurred.

Group as a Lessor
Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) Interest and Similar Income and Expense
The Effective Interest Rate
Interest income and expense are recognised in the income statement applying the EIR method for all financial instruments measured at amortised cost, financial instruments designated at fair value through profit or loss and interest bearing financial assets measured at fair value through other comprehensive income.

The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability. When calculating the EIR for financial instruments other than purchased or originated credit impaired, an entity shall take into account all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but shall not consider the expected credit losses. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows and expected credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Interest Income and Interest Expense
The effective interest rate of a financial asset or a financial liability is calculated on initial recognition of the financial asset or financial liability. In determining interest income and expense, the EIR is applied to the gross carrying amount of the financial asset (unless the asset is credit-impaired) or the amortised cost of a financial liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts, unless the financial instrument is measured at fair value, with the change in fair value being recognised in profit or loss. In those cases, the fees are recognised as revenue or expense when the instrument is initially recognised.

When a financial asset becomes credit-impaired after initial recognition, interest income is determined by applying EIR to the net amortised cost of the instrument. If the financial asset cures and is no longer credit-impaired, the Group reverts back to calculating interest income on a gross basis. Furthermore, for financial assets that were credit-impaired on initial recognition, interest is determined by applying a credit-adjusted EIR to the amortised cost of the instrument. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation
Interest income calculated using the effective interest method presented in the consolidated income statement includes:
- Interest on financial assets at amortised cost;
- Interest on debt instruments measured at fair value through other comprehensive income;
- The effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- The effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest expense presented in the consolidated income statement includes:
- Financial liabilities measured at amortised cost; and
- The effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense.

Interest income and expense on financial instruments measured at fair value through profit or loss are presented under "Net gain on financial assets at fair value through profit or loss" in the consolidated income statement.

(ii) Fee and Commission Income
The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee Income Earned from Services that Are Provided over a Certain Period of Time
Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan be drawn down, the loan commitment fees are recognised as revenues on expiry.

Fee Income from Providing Transaction Services
Fee arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fee or components of fee that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(iii) Dividend Income
Dividend income is recognised when the right to receive the payment is established.

(iv) Net gain on Financial Assets at Fair Value through Profit or Loss
Net income from financial instruments at fair value through profit or loss comprises gains and losses related to trading assets and liabilities, non-trading derivatives held for risk management purposes that do not form part of qualifying hedging relationships, financial assets and financial liabilities designated as at fair value through profit or loss and, also non-trading assets mandatorily measured at fair value through profit or loss. The line item includes fair value changes, interest, dividends and foreign exchange differences.

CASH AND CASH EQUIVALENTS

"Cash and cash equivalents" as referred to in the cash flow statement comprises balances with original maturities of a period of three months or less including cash and balances with central banks, deposits with banks and financial institutions, deposits due to banks and financial institutions, and repurchase and reverse repurchased agreements.

PROPERTY AND EQUIPMENT

"Property and equipment", except for land and buildings, is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment. When significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the consolidated income statement as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised since the date of revaluation. Valuations are performed by internal or external valuers with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

A revaluation surplus is recorded in other comprehensive income and credited to the real estate revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation is calculated using straight line method to write down the cost of property and equipment to their residual value over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

• Buildings	40-50 years
• Freehold improvements	5-10 years
• Leasehold improvements	5-10 years
• Motor vehicles	5-7 years
• Office equipment and computer hardware	5-10 years
• Office machinery and furniture	10 years

Any item of property and equipment and any significant part initially recognised are derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement when the asset is derecognised.

INTANGIBLE ASSETS

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.
The Group does not have intangible assets with indefinite economic life.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

• Computer software	5 years
• Key money	70 years

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition, Management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification.

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale, and: a) represents a separate major line of business or geographical area of operations; b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or c) is a subsidiary acquired exclusively with a view to resale.

In the consolidated income statement of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the loss of control. The resulting profit or loss (after taxes) is reported separately in the income statement.

IMPAIRMENT OF NON-FINANCIAL ASSETS

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement, unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.
Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

PROVISIONS FOR RISKS AND CHARGES

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, the Bank determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the consolidated income statement net of any reimbursement.

The Group operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory investigations and proceedings both in Lebanon and in other jurisdictions, arising in the ordinary course of the Group's business.

When the Group can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Group records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Group is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Group does not include detailed, case-specific disclosers in its financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Group takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents.

PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

The Group provides retirement benefits obligation to its employees under defined benefit plans, which requires contributions to be made to separately administered funds. The cost of providing these benefits is determined using the projected unit credit method which involves making actuarial assumptions about discount rates and future salary increases. Those assumptions are unbiased and mutually compatible.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest and the return on plan assets (excluding net interest), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:
- The date of the plan amendment or curtailment; and
- The date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "personnel expenses" in consolidated statement of income:
- Service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements.
- Net interest expense or income.

TAXES

Taxes are provided for in accordance with regulations and laws that are effective in the countries where the Group operates.

(i) Current Tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(ii) Deferred Tax

Deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Current tax and deferred tax relating to items recognised directly in other comprehensive income are also recognised in other comprehensive income and not in the consolidated income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

WARRANTS ISSUED ON SUBSIDIARY SHARES

The value of warrants issued on subsidiary shares is reported as part of Group share of equity and is based on the issuance date fair value. Subsequently, the carrying amount of those warrants is reduced by the cost of warrants acquired pursuant to trading transactions. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of those warrants.

DIVIDENDS ON COMMON SHARES

Dividends on common shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

TREASURY SHARES

Own equity instruments of the Group which are acquired by it or by any of its subsidiaries (Treasury shares) are deducted from equity and accounted for at cost. Consideration paid or received on the purchase sale, issue or cancellation of the Group's own equity instruments is recognised directly in equity. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

When the Group holds own equity instruments on behalf of its clients, those holdings are not included in the Group's consolidated statement of financial position.

Contracts on own shares that require physical settlement of a fixed number of own shares for a fixed consideration are classified as equity and added to or deducted from equity. Contracts on own shares that require net cash settlement or provide a choice of settlement are classified as trading instruments and changes in the fair value are reported in the consolidated income statement.

ASSETS UNDER MANAGEMENT AND ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

The Group provides custody and administration services that result in the holding or investing of assets on behalf of its clients. Assets held in trust, under management or under custody or under administration, are not treated as assets of the Group and, accordingly, are recorded as off-balance sheet items.

CUSTOMERS' ACCEPTANCES

Customers' acceptances represent term documentary credits which the Group has committed to settle on behalf of its clients against commitments by those clients (acceptances). The commitments resulting from these acceptances are stated as a liability in the statement of financial position for the same amount.

2.6. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires Management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

JUDGMENTS

In the process of applying the Group's accounting policies, Management has made the following judgments, apart from those involving estimations, which have the most significant effect in the amounts recognised in the financial statements:

Impairment of Goodwill

Management judgment is required in estimating the future cash flows of the CGUs. These values are sensitive to cash flows projected for the periods for which detailed forecasts are available, and to assumptions regarding the term sustainable pattern of cash flows thereafter. While the acceptable range within which underlying assumptions can be applied is governed by the requirement for resulting forecasts to be compared with actual performance and verifiable economic data in future years, the cash flow forecasts necessarily and appropriately reflect Management's view of future business prospects.

Business Model

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows, the Group considers:

- Management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- How Management evaluates the performance of the portfolio;
- Whether Management's strategy focuses on earning contractual interest revenues;
- The degree of frequency of any expected asset sales;
- The reason for any asset sales; and
- Whether assets that are sold are held for an extended period of time relative to their contractual maturity.

Contractual Cash Flows of Financial Assets

The Group exercises judgment in determining whether the contractual terms of financial assets it originates or acquires give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding, and so may qualify for amortised cost measurement. In making the assessment, the Group considers all contractual terms, including any prepayment terms or provisions to extend the maturity of the assets, terms that change the amount and timing of cash flows and whether the contractual terms contain leverage.

Going Concern

The Group's Management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, Management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

ESTIMATES AND ASSUMPTIONS

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, estimation is required to establish fair values. The judgments and estimates include considerations of liquidity and model inputs such as credit risk (both own and counterparty) funding value adjustments, correlation and volatility.

Impairment Losses on Financial Instruments (Applicable after 1 January 2018)

The measurement of impairment losses across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs. Elements of the ECL models that are considered accounting judgments and estimates include:

- The Group's internal credit rating model;
- The Group's criteria for assessing if there has been a significant increase in credit risk;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and economic inputs and their impact on ECL calculation; and
- Selection of forward-looking macroeconomic scenarios and their probability of occurrence, to derive the the ECL models.

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

Impairment Losses on Loans and Advances (Applicable before 1 January 2018)

The Group reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the consolidated income statement. In particular, judgment by Management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgments about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.), concentrations of risks and economic data (including levels of unemployment, real estate price indices, country risk and the performance of different individual groups).

Impairment of Non-financial Assets

Impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model, as well as the expected future cash inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the Group.

Revaluation of Property and Equipment

The Group carries its land and buildings and building improvements at fair value, with changes in fair value being recognised in other comprehensive income. These were valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

Pensions Obligation

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are highly sensitive to changes in these assumptions.

3.0. | SEGMENT REPORTING

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segments are evaluated based on information relating to net operating income and financial position. Income taxes and operating expenses are managed on a group basis and are not allocated to operating segments.

Interest income is reported net, since Management monitors net interest income as a performance measure and not the gross income and expense amounts. Net interest income is allocated to the business segment based on the assumption that all positions are funded or invested via a central funding unit. An internal Funds Transfer Pricing (FTP) mechanism was implemented between operating segments. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The assets and liabilities that are reported in the segments are net from inter-segments' assets and liabilities since they constitute the basis of Management's measures of the segments' assets and liabilities and the basis of the allocation of resources between segments.

A. BUSINESS SEGMENTS

The Group operates in four main business segments which are Corporate and Commercial Banking, Retail and Personal Banking, Treasury and Capital Markets, and Group Functions and Head Office.

Corporate and Commercial Banking provides diverse products and services to the corporate and commercial customers including loans, deposits, trade finance, exchange of foreign currencies, as well as all regular Corporate and Commercial Banking activities.

Retail and Personal Banking provides individual customers' deposits and consumer loans, overdrafts, credit cards, and funds transfer facilities, as well as all regular Retail and Private Banking activities.

Treasury and Capital Markets provides Treasury services including transactions in money and capital markets for the Group's customers, manages investment and trading transactions (locally and internationally), and manages liquidity and market risks. This segment also offers Investment Banking and brokerage services, and manages the Group's own portfolio of stocks, bonds, and other financial instruments.

Group Functions and Head Office consists of capital and strategic investments, exceptional profits and losses, as well as operating results of subsidiaries which offer non-banking services.

The following tables present net operating income information and financial position information.

NET OPERATING INCOME INFORMATION

	2018				
	Corporate and Commercial Banking LBP Million	Retail and Personal Banking LBP Million	Treasury and Capital Markets LBP Million	Group Functions and Head Office LBP Million	**Total LBP Million**
Net interest income	**487,927**	**609,468**	**534,968**	**115,163**	**1,747,526**
Non-interest income					
Net fee and commission income	137,549	185,916	11,327	(2,455)	332,337
Foreign exchange operations	3,504	25,764	7,571	(321)	36,518
Financial operations	-	9,389	68,926	12,963	91,278
Share of profit of associates	-	-	-	831	831
Other operating income	3,048	8,062	2,014	30,676	43,800
Total non-interest income	**144,101**	**229,131**	**89,838**	**41,694**	**504,764**
Total operating income	**632,028**	**838,599**	**624,806**	**156,857**	**2,252,290**
Net impairment loss on financial assets	(191,074)	(78,163)	3,996	-	(265,241)
Net operating income	**440,954**	**760,436**	**628,802**	**156,857**	**1,987,049**

	2017				
	Corporate and Commercial Banking LBP Million	Retail and Personal Banking LBP Million	Treasury and Capital Markets LBP Million	Group Functions and Head Office LBP Million	Total LBP Million
Net interest income	531,567	442,774	469,678	153,395	1,597,414
Non-interest income					
Net fee and commission income	156,356	200,704	10,097	(1,350)	365,807
Foreign exchange operations	(6,695)	40,985	(14,296)	716	20,710
Financial operations	-	7,499	92,882	19,652	120,033
Share of profit of associates	-	-	-	3,047	3,047
Other operating income	522	6,543	108	159,919	167,092
Total non-interest income	150,183	255,731	88,791	181,984	676,689
Total operating income	681,750	698,505	558,469	335,379	2,274,103
Net impairment loss on financial assets	(143,398)	(73,318)	-	-	(216,716)
Net operating income	538,352	625,187	558,469	335,379	2,057,387

FINANCIAL POSITION INFORMATION

	2018				
	Corporate and Commercial Banking LBP Million	Retail and Personal Banking LBP Million	Treasury and Capital Markets LBP Million	Group Functions and Head Office LBP Million	**Total LBP Million**
Investments in associates	-	-	-	144,865	**144,865**
Total assets	14,793,480	7,405,678	46,812,624	2,144,143	**71,155,925**
Total liabilities	12,654,494	35,239,448	15,435,321	1,967,894	**65,297,157**

	2017				
	Corporate and Commercial Banking LBP Million	Retail and Personal Banking LBP Million	Treasury and Capital Markets LBP Million	Group Functions and Head Office LBP Million	Total LBP Million
Investments in associates	-	-	-	134,457	134,457
Total assets	17,966,923	8,953,739	37,034,222	2,001,013	65,955,897
Total liabilities	13,271,945	37,285,138	7,663,725	1,421,828	59,642,636

Capital expenditures amounting to LBP 93,046 million for the year 2018 (2017: LBP 116,150 million) are allocated to the Group Functions and Head Office business segment.

B. GEOGRAPHICAL SEGMENTS

The Group operates in three geographical segments: Lebanon, Middle East and North Africa, and Turkey (MENAT) and Europe. As such, is subject to different risks and returns. The following tables show the distribution of the Groups' net external operating income, assets and liabilities allocated based on the location of the subsidiaries reporting the results or advancing the funds. Transactions between segments are carried at market prices and within pure trading conditions.

NET OPERATING INCOME INFORMATION

	2018			
	Lebanon LBP Million	MENAT LBP Million	Europe LBP Million	**Total LBP Million**
Net interest income	**1,083,982**	**592,089**	**71,455**	**1,747,526**
Non-interest income				
Net fee and commission income	139,721	127,260	65,356	332,337
Foreign exchange operations	16,974	6,468	13,076	36,518
Financial operations	42,669	39,439	9,170	91,278
Share of profit or loss of associates	831	-	-	831
Other operating income	21,910	16,456	5,434	43,800
Total non-interest income	**222,105**	**189,623**	**93,036**	**504,764**
Total external operating income	**1,306,087**	**781,712**	**164,491**	**2,252,290**
Net impairment loss on financial assets	(55,720)	(211,796)	2,275	(265,241)
Net external operating income	**1,250,367**	**569,916**	**166,766**	**1,987,049**

	2017			
	Lebanon LBP Million	MENAT LBP Million	Europe LBP Million	Total LBP Million
Net interest income	747,758	775,589	74,067	1,597,414
Non-interest income				
Net fee and commission income	157,410	150,317	58,080	365,807
Foreign exchange operations	21,351	(27,328)	26,687	20,710
Financial operations	89,213	26,119	4,701	120,033
Share of profit or loss of associates	3,338	(291)	-	3,047
Other operating income	152,306	9,505	5,281	167,092
Total non-interest income	423,618	158,322	94,749	676,689
Total external operating income	1,171,376	933,911	168,816	2,274,103
Net impairment loss on financial assets	(44,652)	(167,053)	(5,011)	(216,716)
Net external operating income	1,126,724	766,858	163,805	2,057,387

FINANCIAL POSITION INFORMATION

	2018			
	Lebanon LBP Million	MENAT LBP Million	Europe LBP Million	**Total LBP Million**
Capital expenditures	48,137	43,466	1,443	**93,046**
Investments in associates	144,865	-	-	**144,865**
Total assets	52,834,119	14,456,857	3,864,949	**71,155,925**
Total liabilities	46,799,501	15,216,315	3,281,341	**65,297,157**

	2017			
	Lebanon LBP Million	MENAT LBP Million	Europe LBP Million	Total LBP Million
Capital expenditures	33,927	80,690	1,533	116,150
Investments in associates	131,734	2,723	-	134,457
Total assets	44,413,246	17,489,692	4,052,959	65,955,897
Total liabilities	38,448,785	17,597,815	3,596,036	59,642,636

4.0. | INTEREST AND SIMILAR INCOME

	2018 LBP Million	2017 LBP Million
Balances with central banks	1,204,651	729,391
Due from banks and financial institutions	73,967	79,603
Loans to banks and financial institutions and reverse repurchase agreements	34,688	110,250
Loans and advances to customers at amortised cost	2,128,756	2,375,573
Loans and advances to related parties at amortised cost	7,883	6,584
Financial assets classified at amortised cost	1,137,070	951,448
Debt instruments classified at fair value through other comprehensive income	133,905	-
	4,720,920	4,252,849

Withholding taxes amounting to LBP 146,112 million were deducted from interest and similar income (2017: LBP 18,832 million).

The components of interest and similar income from loans and advances to customers at amortised cost are detailed as follows:

	2018 LBP Million	2017 LBP Million
Corporate and SME	1,603,162	1,818,584
Retail and Personal Banking	492,775	511,796
Public sector	32,819	45,193
	2,128,756	2,375,573

The components of interest and similar income from financial assets classified at amortised cost are detailed as follows:

	2018 LBP Million	2017 LBP Million
Lebanese sovereign and Central Bank of Lebanon	976,260	738,428
Other sovereign	152,666	193,615
Private sector and other securities	8,144	19,405
	1,137,070	951,448

The components of interest and similar income from financial assets classified at fair value through other comprehensive income are detailed as follows:

	2018 LBP Million	2017 LBP Million
Lebanese sovereign and Central Bank of Lebanon	6,493	-
Other sovereign	127,412	-
	133,905	-

5.0. | INTEREST AND SIMILAR EXPENSE

	2018 LBP Million	2017 LBP Million
Due to central banks	190,747	30,102
Due to banks and financial institutions	122,706	88,824
Due to banks under repurchase agreement	6,739	2,338
Customers’ deposits	2,526,235	2,423,821
Deposits from related parties	26,756	29,914
Debt issued and other borrowed funds	100,211	80,436
	2,973,394	2,655,435

The components of interest and similar expense from customers’ deposits are detailed as follows:

	2018 LBP Million	2017 LBP Million
Corporate and SME	469,910	618,058
Retail and Personal Banking	1,922,380	1,703,883
Public sector	133,945	101,880
	2,526,235	2,423,821

6.0. | FEE AND COMMISSION INCOME

	2018 LBP Million	2017 LBP Million
Credit-related fees and commissions	78,147	79,274
Brokerage and custody income	87,171	75,866
Commercial Banking income	67,898	68,950
Electronic Banking	43,765	68,859
Trade finance income	56,347	65,640
Corporate finance fees	26,546	45,908
Trust and fiduciary activities	16,427	21,796
Insurance brokerage income	8,849	11,480
Other fees and commissions	2,924	3,827
	388,074	441,600

7.0. | FEE AND COMMISSION EXPENSE

	2018 LBP Million	2017 LBP Million
Electronic Banking	20,012	37,637
Brokerage and custody fees	16,708	17,867
Commercial Banking expenses	10,113	9,557
Insurance brokerage fees	1,024	1,063
Other fees and commissions	7,880	9,669
	55,737	75,793

8.0. | NET GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018			2017		
	Trading Gain (Loss) LBP Million	Interest Income LBP Million	Total LBP Million	Trading Gain (Loss) LBP Million	Interest Income LBP Million	Total LBP Million
a) Net gain on financial instruments						
Lebanese sovereign and Central Bank of Lebanon						
Certificates of deposit	272	1,985	2,257	97,208	26,571	123,779
Treasury bills	(2,233)	3,648	1,415	(9,201)	40,825	31,624
Eurobonds	(1,796)	1,720	(76)	(8,820)	11,959	3,139
	(3,757)	7,353	3,596	79,187	79,355	158,542
Other sovereign						
Treasury bills	(1,458)	348	(1,110)	151	126	277
Eurobonds	37	-	37	106	-	106
	(1,421)	348	(1,073)	257	126	383
Private sector and other securities						
Banks and financial institutions debt instruments	144	6	150	319	151	470
Loans and advances	(4,142)	1,599	(2,543)	-	1,261	1,261
Corporate debt instruments	19	-	19	37	-	37
Funds	(720)	-	(720)	1,046	-	1,046
Equity instruments	11,018	-	11,018	445	-	445
	6,319	1,605	7,924	1,847	1,412	3,259
b) Other trading income						
Foreign exchange	36,518	-	36,518	20,710	-	20,710
Currency swaps and forwards	43,827	-	43,827	(73,345)	-	(73,345)
Currency options	(9,445)	-	(9,445)	(30,528)	-	(30,528)
Credit derivatives	34,672	-	34,672	8,225	-	8,225
Other derivatives	7,502	-	7,502	7,907	-	7,907
Dividends	-	-	-	481	-	481
	113,074	-	113,074	(66,550)	-	(66,550)
	114,215	9,306	123,521	14,741	80,893	95,634

Trading gain on financial assets at fair value through profit or loss includes the results of trading in the above classes of securities, as well as the result of the change in their fair values.

Currency derivatives include gains and losses from spot transactions, forward and swap currency contracts, and amortisation of time value of options designated for hedging purposes.

Foreign exchange includes the result of the revaluation of the daily open foreign currency positions.

For the year ended 31 December 2018, derivatives include a gain of LBP 34,672 million (2017: gain of LBP 8,225 million) representing the change in fair value of the credit derivatives related to the Lebanese sovereign risk and embedded in some of the Group's deposits, as discussed in Note 34 to these consolidated financial statements.

9.0. | NET GAIN ON SALE OF FINANCIAL ASSETS AT AMORTISED COST

The Group derecognises some debt instruments classified at amortised cost due to the following reasons:

- Deterioration of the credit rating below the ceiling allowed in the Group's investment policy;
- Liquidity gap and yield management;
- Exchange of certificates of deposit by the Central Bank of Lebanon; or
- Currency risk management as a result of change in the currency base of deposits.

The schedule below details the gains and losses arising from the derecognition of these financial assets:

	2018			2017		
	Gains LBP Million	Losses LBP Million	Net LBP Million	Gains LBP Million	Losses LBP Million	Net LBP Million
Lebanese sovereign and Central Bank of Lebanon						
Certificates of deposit	8,434	(7,619)	815	16,923	(187)	16,736
Treasury bills	3,137	(3,474)	(337)	6,470	(596)	5,874
Eurobonds	33	(6)	27	4,106	(3,776)	330
	11,604	(11,099)	505	27,499	(4,559)	22,940
Other sovereign						
Treasury bills	-	-	-	8,100	(7,657)	443
Other governmental securities	-	-	-	880	-	880
Eurobonds	-	-	-	-	(342)	(342)
	-	-	-	8,980	(7,999)	981
Private sector and other securities						
Banks and financial institutions debt instruments	-	-	-	1	(239)	(238)
Corporate and other debt instruments	-	-	-	-	(28)	(28)
	-	-	-	1	(267)	(266)
	11,604	(11,099)	505	36,480	(12,825)	23,655

10.0. | OTHER OPERATING INCOME

	2018 LBP Million	2017 LBP Million
Revenue from non-banking activities[(*)]	-	43,706
Recovery from insurance claim	-	9,870
Safe rental	1,611	1,660
Release of provision for risks and charges (Note 38)	2,162	1,347
Gain on revaluation of interest retained (Notes 15 and 26)	12,289	74,943
Income from disposal of assets acquired against debts	7,567	324
Release of provision for end-of-service benefits (Note 38)	-	4,412
Other income	20,171	30,830
	43,800	167,092

[(*)] Revenue from non-banking activities represents software license and IT-services revenue earned by a former non-material subsidiary of which the Group lost control during 2018 (Note 26).

11.0. | NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

	2018 LBP Million	2017 LBP Million
New and increased impairment allowances:		
Due from banks and financial institutions	33	-
Loans and advances to customers at amortised cost	368,404	276,618
Financial assets at amortised cost	1,313	-
Financial guarantees and other commitments	2,818	-
	372,568	276,618
Recoveries:		
Cash and balances with central banks	(4,248)	-
Due from banks and financial institutions	(150)	-
Loans to banks and financial institutions and reverse repurchase agreements	(944)	-
Loans and advances to customers at amortised cost	(100,995)	(48,753)
Loans and advances to related parties at amortised cost	(154)	-
	(106,491)	(48,753)
Net direct recoveries	(836)	(11,149)
	265,241	216,716

12.0. | PERSONNEL EXPENSES

	2018 LBP Million	2017 LBP Million
Salaries and related benefits	439,802	499,873
Social security contributions	43,885	53,057
End-of-service benefits (Note 38)	13,388	17,705
Transportation	16,388	20,091
Schooling	11,863	10,165
Medical expenses	6,951	6,440
Food and beverage	6,054	7,332
Training and seminars	3,248	5,043
Others	9,192	11,021
	550,771	630,727

13.0. | OTHER OPERATING EXPENSES

	2018 LBP Million	2017 LBP Million
Operating leases	61,311	67,938
Professional fees	24,269	36,854
Board of Directors' fees	4,400	5,241
Advertising fees	31,632	43,779
Taxes and similar disbursements	32,653	31,868
Outsourcing services	26,271	31,545
Premium for guarantee of deposits	23,722	27,860
Information technology	48,673	46,856
Donations and social aids	13,784	4,771
Provisions for risks and charges (Note 38)	16,546	2,843
Travel and related expenses	8,680	14,829
Telephone and mail	10,240	13,816
Electricity, water and fuel	10,566	10,483
Maintenance	10,532	12,877
Insurance premiums	7,395	7,931
Facilities services	9,650	12,549
Subscription to communication services	9,412	10,530
Office supplies	4,272	5,344
Receptions and gifts	3,312	4,481
Electronic cards expenses	6,592	9,548
Regulatory charges	8,425	9,216
Documentation and miscellaneous subscriptions	2,765	3,678
Others	32,501	21,225
	407,603	436,062

14.0. | INCOME TAX

The components of income tax expense for the year ended 31 December are detailed as follows:

	2018 LBP Million	2017 LBP Million
Current tax		
Current income tax	166,887	167,434
Adjustment in respect of current income tax of prior years	1,354	851
Other taxes treated as income tax	8,693	26,516
	176,934	194,801
Deferred tax		
Relating to origination and reversal of temporary differences	**13,649**	(64)
	190,583	194,737

The components of operating profit before tax, and the differences between income tax expense reflected in the financial statements and the calculated amounts, are shown in the table below:

	2018 LBP Million	2017 LBP Million
Operating profit before tax	**945,173**	893,967
At applicable tax	**218,748**	214,107
Non-deductible expenses:		
Non-deductible expenses	10,233	17,815
Non-deductible provisions	3,544	12,496
Unrealised losses on financial instruments	1,123	47,402
Other non-deductibles	14,888	16,210
	29,788	93,923
Income not subject to tax:		
Revenues previously subject to tax	17,098	86,172
Provision recoveries previously subject to tax	8,498	1,228
Exempted revenues	429	25
Unrealised gains on financial instruments	5,860	20,635
Other deductibles	49,764	32,536
	81,649	140,596
Income tax	**166,887**	167,434
Effective income tax rate	**17.66%**	18.73%

The tax rates applicable to the parent and subsidiaries vary from 8.5% to 39% in accordance with the income tax laws of the countries where the Group operates. For the purpose of determining the taxable results of the subsidiaries for the year, the accounting results have been adjusted for tax purposes. Such adjustments include items relating to both income and expense, and are based on the current understanding of the existing tax laws and regulations and tax practices.

Effective October 2017, the applicable tax rates for entities operating in Lebanon increased from 15% to 17%. Furthermore, tax on interest increased from 5% to 7% and is no longer allowed as a tax credit. Instead, it became a deductible expense for the purpose of calculation of taxable profit.

The movement of current tax liabilities during the year is as follows:

	2018 LBP Million	2017 LBP Million
Balance at 1 January	**94,702**	224,762
Charges for the year	176,934	194,801
Taxes on discontinued operations	-	15,881
Transfer from deferred tax assets	(8,884)	-
Taxes on gain recognised directly in other comprehensive income	-	9,979
Transfer to tax regularisation accounts	(15,369)	(15,770)
Other transfers	3,906	(209)
	156,587	204,682
Less taxes paid:		
Current year tax liability(*)	(57,213)	(116,819)
Prior year tax liabilities	(78,393)	(217,172)
	(135,606)	(333,991)
Foreign exchange difference	(723)	(751)
Balance at 31 December	**114,960**	94,702

(*) Represents taxes paid on interest received on Treasury bills and the Central Bank's certificates of deposit.

Deferred taxes recorded in the consolidated statement of financial position result from the following items:

2018	Deferred Tax Assets LBP Million	Deferred Tax Liabilities LBP Million	Income Statement LBP Million	Other Comprehensive Income LBP Million
Provisions	20,650	15,427	10,659	-
Impairment allowance on financial assets	73,107	-	(29,319)	-
Financial instruments at FVTOCI	2,020	796	-	1,607
Difference in depreciation rates	(813)	6,785	2,291	-
Defined benefit obligation	3,387	96	-	68
Revaluation of real estate	-	6,909	-	-
Financial instruments at FVTPL	4,271	9,073	3,147	-
Foreign currency translation reserve	-	605	318	527
Net gain on hedge of net investment	-	-	-	(991)
Cash flow hedge reserve	6,802	-	-	6,802
Other temporary differences	(545)	128	(745)	-
	108,879	**39,819**	**(13,649)**	**8,013**

2017	Deferred Tax Assets LBP Million	Deferred Tax Liabilities LBP Million	Income Statement LBP Million	Other Comprehensive Income LBP Million
Provisions	10,729	16,030	9,163	-
Impairment allowance for loans and advances	62,054	-	8,313	-
Financial instruments at FVTOCI	3,276	2,717	-	34
Difference in depreciation rates	(2,928)	5,666	(2,945)	-
Defined benefit obligation	3,327	75	-	1,299
Revaluation of real estate	-	6,960	-	-
Financial instruments at FVTPL	(7,671)	-	(15,165)	-
Foreign currency translation reserve	16,762	25,823	3,027	1,890
Net gain on hedge of net investment	10,185	9,193	-	(9,193)
Other temporary differences	8,519	128	(2,329)	-
	104,253	66,592	64	(5,970)

15.0. | PROFIT FROM DISCONTINUED OPERATIONS

DISCONTINUED OPERATIONS DURING 2017

During 2017, the Group disposed its investment in Areeba sal (previously known as Audi Investment House sal) to a third party for a total consideration of USD 183.5 million (equivalent to LBP 276,640 million). Simultaneously, the Group obtained the right to buy back 30% in M1 Financial Technologies Holding sal (the sole owner of Areeba sal) during the next 3 years for a total consideration of USD 55 million (equivalent to LBP 82,920 million).

This fact gave the Group exercisable potential voting rights in M1 Financial Technologies Holding sal that represent in substance an existing ownership in an associate. As such, the Group recognised USD 55 million (equivalent to LBP 82,920 million) as an investment in associate (refer to Note 26).

The disposal of this subsidiary resulted in a gain from discontinued operations amounting to USD 95 million (equivalent to LBP 143,394 million), representing the gain on interest disposed, and which was recorded under "profit from discontinued operations, net of tax" in the consolidated income statement. The disposal of this subsidiary resulted as well in a gain on loss of control of a subsidiary amounting to USD 49 million (equivalent to LBP 74,943 million), representing the gain on the revaluation of indirect interest retained, and which was recorded under "other operating income" in the consolidated income statement (Note 10).

	2018 LBP Million	2017 LBP Million
Fee and commission income	-	20,071
Fee and commission expense	-	(13,696)
Net fee and commission income	-	6,375
Other operating income	-	18
Total operating income	-	6,393
Total operating expenses	-	(11,281)
Operating profit	-	(4,888)
Gain on derecognition of discontinued operations	-	164,163
Tax attributable to discontinued operations	-	(15,881)
Gain for the period from discontinued operations	-	143,394
Cash inflow from sale:		
Total consideration received	-	276,640
	LBP	LBP
Earnings per share:		
Basic and diluted, from discontinued operations	-	369

The net cash flows from discontinued operations are as follows:

	2018 LBP Million	2017 LBP Million
Operating activities	-	20,561
Investing activities	-	(263,730)
Financing activities	-	268,702
Net cash inflows	-	25,533

16.0. | EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of common shares outstanding during the year. The Bank does not have arrangements that might result in dilutive shares. As such, diluted earnings per share was not separately calculated.

The following table shows the income and share data used to calculate earnings per share:

	2018 LBP Million	2017 LBP Million
Profit attributable to equity holders of the Bank	753,260	811,217
Less: dividends attributable to preferred shares	(62,750)	(63,880)
Profit available to holders of common shares	690,510	747,337
Weighted average number of shares outstanding	396,968,691	389,528,435
Basic and diluted earnings per share	1,739	1,919

There were no transactions involving common shares or potential common shares between the reporting date and the date of the completion of these consolidated financial statements which would require the restatement of earnings per share.

17.0. | CASH AND BALANCES WITH CENTRAL BANKS

	2018 LBP Million	2017 LBP Million
Cash on hand	515,370	456,331
Central Bank of Lebanon		
Current accounts	911,019	581,358
Time deposits	19,877,186	15,401,211
Accrued interest	466,636	154,684
	21,254,841	16,137,253
Other central banks		
Current accounts	1,523,999	1,531,604
Time deposits	1,537,486	1,713,286
Accrued interest	9,255	8,385
	3,070,740	3,253,275
	24,840,951	19,846,859
Less: allowance for expected credit losses	(47,269)	-
	24,793,682	19,846,859

Obligatory Reserves:

- In accordance with the regulations of the Central Bank of Lebanon, banks operating in Lebanon are required to deposit with the Central Bank of Lebanon an obligatory reserve calculated on the basis of 25% of sight commitments and 15% of term commitments denominated in Lebanese Pounds. This is not applicable for investment banks which are exempted from obligatory reserve requirements on commitments denominated in Lebanese Pounds. Additionally, all banks operating in Lebanon are required to deposit with the Central Bank of Lebanon interest-bearing placements representing 15% of total deposits in foreign currencies regardless of nature.
- Subsidiary banks operating in foreign countries are also subject to obligatory reserve requirements determined based on the banking regulations of the countries in which they operate.

The following table summarises the Group's placements in central banks available against the obligatory reserves as of 31 December:

	2018			2017		
	Lebanese Pounds LBP Million	Foreign Currencies LBP Million	Total LBP Million	Lebanese Pounds LBP Million	Foreign Currencies LBP Million	Total LBP Million
Central Bank of Lebanon						
Current accounts	743,069	-	743,069	417,617	-	417,617
Time deposits	7,958	3,816,574	3,824,532	12,938	3,937,015	3,949,953
	751,027	3,816,574	4,567,601	430,555	3,937,015	4,367,570
Other central banks						
Current accounts	-	302,488	302,488	-	355,851	355,851
Time deposits	-	618,256	618,256	-	1,596,055	1,596,055
	-	920,744	920,744	-	1,951,906	1,951,906
	751,027	4,737,318	5,488,345	430,555	5,888,921	6,319,476

18.0. | DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2018 LBP Million	2017 LBP Million
Current accounts	1,369,987	916,790
Time deposits	2,341,400	362,985
Checks for collection	106,614	143,100
Other amounts due	25,102	32,537
Accrued interest	1,463	290
	3,844,566	1,455,702
Less: allowance for expected credit losses/Impairment allowance	(940)	(949)
	3,843,626	1,454,753

19.0. | LOANS TO BANKS AND FINANCIAL INSTITUTIONS AND REVERSE REPURCHASE AGREEMENTS

	2018 LBP Million	2017 LBP Million
Loans and advances	68,945	111,127
Reverse repurchase agreements	197,423	1,095,781
Accrued interest	396	1,628
	266,764	1,208,536
Less: allowance for expected credit losses	(119)	-
	266,645	1,208,536

The Group purchased Turkish Treasury bills under a commitment to resell them (reverse repurchase agreements). The securities are not included in the balance sheet as the Group does not acquire the risks and rewards of ownership. Consideration paid (or cash collateral provided) is accounted for as a loan and amounted to LBP 197,423 million at 31 December 2018, including accrued interest (2017: LBP 1,095,781 million).

20.0. | DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into derivatives for trading and for risk management purposes. The table below shows the fair values of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount, recorded gross, is the quantity of the derivative contracts' underlying instrument (being an equity instrument, commodity product, reference rate or index, etc.). The notional amounts indicate the volume of transactions outstanding at year-end and are not indicative of either the market risk or credit risk.

FORWARDS AND FUTURES

Forwards and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements.

OPTIONS

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or to sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

SWAPS

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate, commodity index or equity index.

Interest rate swaps relate to contracts taken out by the Group with other counterparties (customers and financial institutions) in which the Group either receives or pays a floating rate of interest, respectively, in return for paying or receiving a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

Credit derivatives are contractual agreements between two parties to make payments with respect to defined credit events, based on specified notional amounts. The Group purchases credit derivatives in order to mitigate the risk of default by the counterparty on the underlying security referenced. The notional amount of credit derivatives represents the carrying value of certain time deposits held by the Group as of 31 December 2018 and 2017.

The Group has positions in the following types of derivatives:

31 December 2018	Positive Fair Value LBP Million	Negative Fair Value LBP Million	Notional Amount LBP Million
Derivatives held for trading			
Forward foreign exchange contracts	34,747	20,151	**2,056,327**
Forward precious metals contracts	-	68	**1,523**
Currency swaps	186,686	178,532	**5,559,155**
Precious metals swaps	-	2,582	**144,037**
Currency options	106,018	75,163	**4,385,864**
Interest rate swaps	16,808	28,470	**5,663,214**
Interest rate options	-	-	**216,267**
Credit derivatives	54,486	-	**1,488,087**
Equity options	15,908	15,907	**20,909**
	414,653	**320,873**	**19,535,383**
Derivatives held as fair value hedge			
Interest rate swaps	-	50,644	**1,507,500**
Derivatives held to hedge net investments in foreign operations			
Currency swaps	4,300	-	**100,897**
Derivatives held as cash flow hedge			
Interest rate swaps	796	36,736	**265,198**
Total	**419,749**	**408,253**	**21,408,978**

31 December 2017	Positive Fair Value LBP Million	Negative Fair Value LBP Million	Notional Amount LBP Million
Derivatives held for trading			
Forward foreign exchange contracts	9,805	3,425	884,945
Forward precious metals contracts	-	143	5,899
Currency swaps	157,763	161,225	10,023,434
Precious metals swaps	12	2,152	67,158
Currency options	28,382	16,274	3,453,083
Interest rate swaps	15,122	8,584	4,992,274
Interest rate options	-	-	173,660
Credit derivatives	19,813	-	2,687,493
Equity options	18,120	6,699	79,677
	249,017	198,502	22,367,623
Derivatives held to hedge net investments in foreign operations			
Currency swaps	-	6,882	191,977
Currency options	149,067	-	603,000
	149,067	6,882	794,977
Total	398,084	205,384	23,162,600

DERIVATIVE FINANCIAL INSTRUMENTS HELD FOR TRADING PURPOSES

Most of the Group's derivative trading activities relate to deals with customers which are normally offset by transactions with other counterparties. Also included under this heading are any derivatives entered into for risk management purposes which do not meet the IFRS 9 hedge accounting criteria.

DERIVATIVE FINANCIAL INSTRUMENTS HELD FOR HEDGING PURPOSES

The Group uses derivatives for hedging purposes in order to reduce its exposure to credit and market risks. This is achieved by hedging specific financial instruments, portfolios of fixed rate financial instruments and forecast transaction, as well as strategic hedging against overall financial position exposures.

HEDGES OF NET INVESTMENTS IN FOREIGN OPERATIONS

At 31 December 2017, the Group had USD 400 million of its net investment in Odea Bank A.Ş. hedged through currency option contracts (capped calls) with a notional amount of USD 400 million (LBP 603,000 million) which matured during April 2018. The Group had designated only the intrinsic value of these options as the hedging instrument.

At 31 December 2017, the Group had currency swap contracts designated to hedge the net investment in its subsidiaries in Cyprus, France, Kingdom of Saudi Arabia and Qatar. During 2018, the contracts for subsidiaries in Cyprus, Kingdom of Saudi Arabia and Qatar matured and were not renewed. As at 31 December 2018, the Group had only currency swap contracts designated to hedge its net investment in its subsidiary in France.

The table below illustrates the amounts relating to the items designated as the hedging instruments. Hedges of net investments in foreign operations are considered as time period-related hedges. No ineffectiveness from these hedges was recognised in profit or loss during the year as the hedging instrument and the hedged item are closely aligned (2017: the same). Amounts reclassified from deferred cost of hedging (time value) to profit or loss were reflected under net gain on financial assets at fair value through profit or loss in the consolidated income statement.

The amounts relating to items designated as hedging instruments were as follows (the amounts are gross of tax):

				Fair Value			Time Value		
(LBP Million)		Currency	Notional Amount	Positive	Negative	Change in Value of Hedging Instrument Recognised in OCI	Change in Time Value Recognised in OCI	Amount Reclassified to Profit or Loss	Time Value at 31 December
31 December 2018									
Odea Bank A.Ş.	Capped calls	TRY	-	-	-	(9,982)	5,816	6,899	-
Other subsidiaries									
Bank Audi France sa	Currency swap	EUR	100,897	4,300	-	4,785	-	-	-
Bank Audi LLC (Qatar)	Currency swap	QAR	-	-	-	131	-	-	-
				4,300	-	(5,066)	5,816	6,899	-
31 December 2017									
Odea Bank A.Ş.	Capped calls	TRY	603,000	149,067	-	(11,118)	31,946	23,236	(12,715)
Other subsidiaries									
Bank Audi France sa	Currency swap	EUR	105,686	-	5,229	(12,292)	-	-	-
Banaudi Holding	Currency swap	EUR	10,840	-	522	(1,262)	-	-	-
Audi Capital (KSA)	Currency swap	SAR	-	-	-	21	-	-	-
Bank Audi LLC (Qatar)	Currency swap	QAR	75,451	-	1,131	(7)	-	-	-
				149,067	6,882	(24,658)	31,946	23,236	(12,715)

HEDGES OF INTEREST RATE RISK

The Group's risk management strategy is to hedge interest rate risk with interest rate derivatives. The interest rate risk management strategy is to reduce the Group's exposure to interest rate risk to within approved risk limits. The Group uses interest rate swaps to hedge mismatches between fixed interest rates and floating interest rates. The hedging instruments share the same risk exposures as the hedged items. Hedge ineffectiveness is assessed with reference to the shared risks, but to the extent hedging instruments are exposed to different risks than the hedged items, this could result in ineffectiveness. The Group establishes a hedge ratio of 100% by aligning the par amount of the hedged item and the notional amount of the interest rate swap designated as a hedging instrument.

In these hedging relationships, the Group uses benchmark interest rate as a component of interest rate risk. Using the benchmark interest rate results in other risks such as credit risk and liquidity risk which are excluded from the hedge accounting relationship.

Sources of ineffectiveness affecting hedge accounting are as follows:

- The effect of the counterparty and the Group's own credit risk on the fair value of the swap, which is not reflected in the fair value of the hedged item attributable to the change in interest rate; and
- Differences in maturities or timing of cash flows of the swap and the hedged items.

There were no other sources of ineffectiveness in these hedge relationships.

FAIR VALUE HEDGES OF INTEREST RATE RISK

At 31 December 2018, the Group held the following interest rate swaps as hedging instruments in fair value hedges of interest rate risk (2017: nil):

Nominal amount – LBP million	1,507,500
Average fixed interest rate	3.01%
Maturity	More than 5 years

As at 31 December 2018, the amounts relating to the hedging instruments were as follows (2017: nil):

		Fair Value		
	Notional Amount LBP Million	Positive LBP Million	Negative LBP Million	Change in Fair Value Used for Calculating Hedge Ineffectiveness LBP Million
Interest rate swaps	**1,507,500**	**-**	**50,644**	**39,769**

As at 31 December 2018, the amounts relating to the hedged items were as follows (2017: nil):

	Carrying Value LBP Million	Change in Fair Value Used for Calculating Hedge Ineffectiveness LBP Million
Time deposits with Central Bank of Lebanon	**1,547,705**	**40,205**

Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item amounted to LBP 40,205 million as at 31 December 2018 (2017: nil). No ineffectiveness from these hedges was recognised in profit or loss during the year as the hedging instrument and the hedged item are closely aligned. There were no accumulated amounts of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses.

Cash Flow Hedges of Interest Rate Risk

As of 31 December 2018, the interest rate swaps held as hedging instruments against customers' deposits had a notional amount of TRY 400 million (equivalent to LBP 114,448 million), maturing in September 2028 and paying an average fixed interest rate of 19.96%. Besides, hedging instruments against borrowing from banks and financial institutions had a notional amount of USD 100 million (equivalent to LBP 150,750 million), maturing in October 2025 and paying an average fixed interest rate of 3.15%.

As at 31 December 2018, the amounts relating to the hedging instruments were as follows (2017: nil):

		Fair Value			
31 December 2018	Notional Amount LBP Million	Assets LBP Million	Liabilities LBP Million	Change in Fair Value Used for Calculating Hedge Ineffectiveness LBP Million	Changes in the Value of the Hedging Instrument Recognised in OCI LBP Million
Interest rate swaps	265,198	796	36,736	31,508	31,508

As at 31 December 2018, the amounts relating to the hedged items were as follows (2017: nil):

Description	Change in Value Used for Calculating Hedge Ineffectiveness LBP Million	Cash Flow Hedge Reserves(*) LBP Million
Customers' deposits	28,898	28,898
Due to banks and financial institutions	2,610	2,610
	31,508	**31,508**

(*) Includes share of non-controlling interests of LBP 7,325 million.

No ineffectiveness from these hedges was recognised in profit or loss during the year as the hedging instrument and the hedged item are closely aligned. There are no accumulated balances remaining in the cash flow hedge reserve from hedging relationships form which hedge accounting is no longer applied.

21.0. | FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 LBP Million	2017 LBP Million
Lebanese sovereign and Central Bank of Lebanon		
Certificates of deposit	-	797,414
Treasury bills	149	357,021
Eurobonds	5,094	163,030
	5,243	1,317,465
Other sovereign		
Treasury bills	**935**	306
Private sector and other securities		
Banks and financial institutions	69,681	68,991
Loans and advances to customers	37,233	47,658
Mutual funds	58,295	61,030
Equity instruments	48,735	-
	213,944	177,679
	220,122	1,495,450

22.0. | LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST

	2018 LBP Million	2017 LBP Million
Corporate and SME	14,573,054	18,074,665
Retail and Personal Banking	6,109,569	7,117,336
Public sector	366,948	418,920
	21,049,571	25,610,921
Less: allowance for expected credit losses/Impairment allowance	(1,202,605)	(1,210,140)
	19,846,966	24,400,781

The table for the movement in allowances for expected credit losses of loans and advances to customers at amortised cost under IFRS 9 is presented in the Credit Risk section (Note 53).

An analysis of the allowance for impairment losses under IAS 39 for loans and advances, by class, for the year ended 31 December 2017 is as follows:

	2017			
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	Public Sector LBP Million	Total LBP Million
Balance at 1 January	808,376	271,265	4,113	1,083,754
Add:				
Charges for the year (Note 11)	172,137	102,301	2,180	276,618
Unrealised interest applied on non-performing loans	18,101	9,412	-	27,513
Transfers	(11,913)	7,510	4,403	-
Less:				
Recoveries (Note 11)	(27,813)	(9,657)	(1,096)	(38,566)
Unrealised interest recovered (Note 11)	(9,682)	(505)	-	(10,187)
Write-offs	(75,620)	(38,197)	-	(113,817)
Foreign exchange difference	(7,278)	(8,075)	178	(15,175)
Balance at 31 December	866,308	334,054	9,778	1,210,140
Individual impairment	340,876	202,970	3,314	547,160
Collective impairment	525,432	131,084	6,464	662,980
	866,308	334,054	9,778	1,210,140

As at 31 December 2017, allowances for expected credit losses include provisions constituted to comply with regulatory requirements amounting to LBP 377,833 million in excess of the provisioning requirements of IAS 39. Effective 1 January 2018, the Group used an amount of LBP 107,640 million to cover the increase in impairment allowances calculated in line with IFRS 9 expected credit losses model. The remaining balance of this excess, after difference of exchange, was reallocated and an amount of LBP 185,588 million was transferred to Provision for Risks and Charges (Note 38).

23.0. | LOANS AND ADVANCES TO RELATED PARTIES AT AMORTISED COST

	2018 LBP Million	2017 LBP Million
Corporate and SME	13,970	17,928
Retail and Personal Banking	139,718	143,886
	153,688	161,814
Less: allowance for expected credit losses	(17)	-
	153,671	161,814

24.0. | FINANCIAL ASSETS AT AMORTISED COST

	2018 LBP Million	2017 LBP Million
Lebanese sovereign and Central Bank of Lebanon		
Certificates of deposit	9,848,117	8,633,915
Treasury bills	3,332,290	2,613,727
Eurobonds	2,999,814	755,495
	16,180,221	12,003,137
Other sovereign		
Treasury bills	1,030,235	2,027,312
Eurobonds	461,036	314,909
Other governmental securities	63,200	77,248
	1,554,471	2,419,469
Private sector and other securities		
Banks and financial institutions debt instruments	203,665	252,658
Corporate debt instruments	109,701	147,081
	313,366	399,739
	18,048,058	14,822,345
Less: allowance for expected credit losses	(44,261)	-
	18,003,797	14,822,345

Effective 1 January 2018, upon adoption of IFRS 9, financial assets at amortised cost with a carrying amount of LBP 559,043 million and a fair value of LBP 557,823 million were reclassified at fair value through comprehensive income (Notes 2 and 25).

25.0. | FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 LBP million	2017 LBP million
Debt instruments		
Other sovereign		
Treasury bills	1,183,790	-
	1,183,790	-
Equity instruments		
Quoted	1,520	319
Unquoted	72,125	157,708
	73,645	158,027
	1,257,435	158,027

DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Effective 1 January 2018, upon adoption of IFRS 9, financial assets held at amortised cost with a carrying amount of LBP 559,043 million and a fair value of LBP 557,823 million were reclassified to debt instruments at fair value through other comprehensive income (Notes 2 and 24).

The change in fair value on debt instruments at fair value through other comprehensive income amounted to a loss of LBP 9,697 million during 2018 (2017: nil).

EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The Group classified the following instruments in private sector securities at fair value through other comprehensive income as it holds them for strategic reasons. The tables below list those equity instruments, dividends received, and the changes in fair value net of applicable taxes:

	2018		
	Fair Value LBP Million	Cumulative Changes in Fair Value LBP Million	Dividends LBP Million
Quoted	1,520	-	-
Unquoted:	72,125	2,554	3,206
Phoenicia – Aer Rianta Co. sal	10,729	-	-
Banque de l'Habitat sal	16,350	10,095	-
Other equity instruments	45,046	(7,541)	3,206
	73,645	2,554	3,206

	2017		
	Fair Value LBP Million	Cumulative Changes in Fair Value LBP Million	Dividends LBP Million
Quoted	319	-	-
Unquoted:	157,708	877	21,454
LIA Insurance sal	36,253	3,649	2,501
Mass Global Energy (SUL) ltd	37,688	-	-
Phoenicia – Aer Rianta Co. sal	10,729	-	15,467
Banque de l'Habitat sal	21,914	15,364	434
Other equity instruments	51,124	(18,136)	3,052
	158,027	877	21,454

26.0. | INVESTMENTS IN ASSOCIATES

	Country of Incorporation	Activity	Ownership %	2018 LBP Million	2017 LBP Million
GlobalCom Holding sal	Lebanon	Communication	31.00%	40,320	37,856
M1 Financial Technologies Holding sal	Lebanon	Services	30.00%	82,920	82,920
Other associates				21,625	13,681
				144,865	134,457

During 2017, the Group acquired 31.00% interest in GlobalCom Holding sal for a consideration of USD 23,900,000 (LBP 36,029 million) from a third party.

As disclosed in Note 15, during 2017 the Group acquired exercisable potential voting rights in M1 Financial Technologies Holding sal, that represent in substance an existing ownership in an associate. As such, the Group recognised USD 55 million (equivalent to LBP 82,920 million) as an investment in associate.

The Group's investments accounted for under the equity method are not listed on public exchanges.

INDIVIDUALLY MATERIAL ASSOCIATES

GlobalCom Holding sal and M1 Financial Technologies Holding sal are the only individually material investments in associates held by the Group. The following table illustrates the summarised financial information of the all material associates. The information disclosed reflects the amounts presented in the financial statements of the relevant associates and not the Group's share of those amounts. They have been amended to reflect adjustments made by the Group when using the equity method, including fair value adjustments and modifications for differences in accounting policies. Profit and loss information of M1 Financial Technologies Holding sal were not significant during 2018 and 2017.

	2018		2017	
	GlobalCom Holding sal LBP Million	M1 Financial Technologies Holding sal LBP Million	GlobalCom Holding sal LBP Million	M1 Financial Technologies Holding sal LBP Million
Current assets	79,223	58,034	47,806	58,034
Non-current assets	55,404	22,465	43,558	22,465
Current liabilities	(85,034)	(38,015)	(42,477)	(38,015)
Non-current liabilities	(6,438)	(26,447)	(13,678)	(26,447)
Equity	**43,155**	**16,037**	35,209	16,037
Group's share of equity	13,379	4,811	10,915	4,811
Goodwill	26,941	78,109	26,941	78,109
	40,320	**82,920**	37,856	82,920
Revenues	83,050	-	69,518	-
Expenses	(73,854)	-	(60,610)	-
Profit for the period	9,196	-	8,908	-
	2,851	-	2,762	-

GlobalCom Holding sal and M1 Financial Technologies Holding sal had no contingent liabilities or capital commitments as at 31 December 2018 (2017: the same).

OTHER ASSOCIATES

The aggregate amount of the Group's share of profit of its individually immaterial associates amounted to a loss of LBP 2,020 million for the year ended 31 December 2018 (2017: a profit of LBP 285 million). Other associates have contingent liabilities of LBP 3,181 million of which LBP 3,100 million related to guarantees issued in accordance with regulatory requirements (2017: the same).

During 2018, the Group sold 14% of its interest in Capital B Solutions Holding sal to a third party, which resulted in loss of control of this former subsidiary. The Group recognised the investment retained at its fair value under "other associates". Gain recognised from this transaction amounted to LBP 12,289 million reflected under other operating income (Note 10).

27.0. | PROPERTY AND EQUIPMENT

	Land LBP Million	Buildings and Freehold Improvements LBP Million	Leasehold Improvements LBP Million	Motor Vehicles LBP Million	Office Equipment and Computer Hardware LBP Million	Office Machinery and Furniture LBP Million	Other LBP Million	**Total LBP Million**
Cost or revaluation:								
At 1 January 2018	197,506	597,101	156,716	2,906	219,438	102,415	8,969	1,285,051
Additions	169	45,000	6,051	377	15,914	1,441	15	68,967
Disposals	-	(9,622)	(3,114)	(27)	(9,152)	(3,812)	(17)	(25,744)
Transfer	(9,805)	9,805	-	-	(2,894)	2,894	-	-
Foreign exchange difference	(79)	(2,378)	(15,260)	(1)	(16,335)	(2,961)	(85)	(37,099)
At 31 December 2018	**187,791**	**639,906**	**144,393**	**3,255**	**206,971**	**99,977**	**8,882**	**1,291,175**
Depreciation:								
At 1 January 2018	-	54,245	106,147	1,615	157,160	74,500	6,984	400,651
Depreciation during the year	-	22,654	11,673	358	20,341	6,256	115	61,397
Disposals	-	(9,144)	(3,114)	(27)	(9,109)	(3,800)	-	(25,194)
Transfer	-	-	-	-	(2,533)	2,533	-	-
Foreign exchange difference	-	(547)	(9,447)	(4)	(11,512)	(1,799)	(71)	(23,380)
At 31 December 2018	-	**67,208**	**105,259**	**1,942**	**154,347**	**77,690**	**7,028**	**413,474**
Net book value:								
At 31 December 2018	**187,791**	**572,698**	**39,134**	**1,313**	**52,624**	**22,287**	**1,854**	**877,701**

	Land LBP Million	Buildings and Freehold Improvements LBP Million	Leasehold Improvements LBP Million	Motor Vehicles LBP Million	Office Equipment and Computer Hardware LBP Million	Office Machinery and Furniture LBP Million	Other LBP Million	Total LBP Million
Cost or revaluation:								
At 1 January 2017	195,912	551,601	150,091	2,264	216,073	103,561	8,610	1,228,112
Additions	1,517	40,979	11,262	787	21,756	2,849	43	79,193
Disposals	-	(262)	(2,359)	(178)	(16,433)	(3,779)	(10)	(23,021)
Foreign exchange difference	77	4,783	(2,278)	33	(1,958)	(216)	326	767
At 31 December 2017	197,506	597,101	156,716	2,906	219,438	102,415	8,969	1,285,051
Depreciation:								
At 1 January 2017	-	32,291	88,527	1,417	146,808	70,964	6,604	346,611
Depreciation during the year	-	21,428	21,179	343	24,223	7,110	114	74,397
Disposals	-	(25)	(2,359)	(163)	(12,666)	(3,506)	-	(18,719)
Foreign exchange difference	-	551	(1,200)	18	(1,205)	(68)	266	(1,638)
At 31 December 2017	-	54,245	106,147	1,615	157,160	74,500	6,984	400,651
Net book value:								
At 31 December 2017	197,506	542,856	50,569	1,291	62,278	27,915	1,985	884,400

REVALUATION OF LAND AND BUILDINGS

Pursuant to the decision of the Board of Directors held on 3 September 2014, the Group changed its accounting policy for measuring land and buildings and related improvements from the cost model to the revaluation model. Management determined that each constitutes a single class of asset under IFRS 13, based on the nature, characteristics and risks of the property. These assets are classified under Level 3 in the fair value hierarchy.

Fair value of the land and buildings and freehold improvements was determined using the market comparable method. This means that valuations performed by the valuers are based on market prices and significantly adjusted for differences in the nature, location or condition of the specific property. As at the date of revaluation, the properties' fair values are based on valuations carried out by independent valuers accredited by the local regulators in the countries in which the properties are situated.

SIGNIFICANT UNOBSERVABLE VALUATION INPUT

Significant increase (decrease) in the fair value estimation within a range of 5% relative to the adopted fair value measurement would result in a higher (lower) value of revaluation recognised in other comprehensive income by LBP 32,369 million before the effect of applicable taxes (2017: LBP 32,785 million). The reconciliation of fair value between 1 January and 31 December is provided in the property and equipment table presented above.

The Group changed the accounting policy with respect to measurement of land and buildings and freehold improvements during 2014. If land, buildings, and related improvements were measured using the cost model, the carrying amounts as of 31 December would have been as follows:

	2018	
	Land LBP Million	Buildings and Freehold Improvements LBP Million
Cost	70,566	545,977
Accumulated depreciation	-	(188,953)
Net book value	**70,566**	**357,024**

	2017	
	Land LBP Million	Buildings and Freehold Improvements LBP Million
Cost	70,414	514,542
Accumulated depreciation	-	(181,881)
Net book value	70,414	332,661

28.0. | INTANGIBLE ASSETS

	Computer Software LBP Million	Other LBP Million	Total LBP Million
Cost:			
At 1 January 2018	187,620	328	187,948
Additions	24,079	-	24,079
Disposals	(5,064)	-	(5,064)
Foreign exchange difference	(23,701)	(223)	(23,924)
At 31 December 2018	**182,934**	**105**	**183,039**
Amortisation:			
At 1 January 2018	111,456	249	111,705
Amortisation during the year	22,541	-	22,541
Disposals	(5,064)	-	(5,064)
Foreign exchange difference	(14,475)	(144)	(14,619)
At 31 December 2018	**114,458**	**105**	**114,563**
Net book value:			
At 31 December 2018	**68,476**	**-**	**68,476**

	Computer Software LBP Million	Other LBP Million	Total LBP Million
Cost:			
At 1 January 2017	155,637	319	155,956
Additions	36,927	30	36,957
Disposals	(1,079)	-	(1,079)
Foreign exchange difference	(3,865)	(21)	(3,886)
At 31 December 2017	187,620	328	187,948
Amortisation:			
At 1 January 2017	91,108	227	91,335
Amortisation during the year	22,951	17	22,968
Disposals	(977)	-	(977)
Foreign exchange difference	(1,626)	5	(1,621)
At 31 December 2017	111,456	249	111,705
Net book value:			
At 31 December 2017	76,164	79	76,243

29.0. | NON-CURRENT ASSETS HELD FOR SALE

The Group occasionally takes possession of assets in settlement of loans and advances. The Group is in the process of selling these assets which are, as such, included in non-current assets held for sale. Gains or losses on disposal are recognised in the consolidated income statement for the year.

	2018			2017
	Financial Instruments LBP Million	Properties LBP Million	Total LBP Million	Properties LBP Million
Cost:				
At 1 January	-	146,758	146,758	83,616
Additions	40,390	38,708	79,098	82,680
Disposals	-	(17,786)	(17,786)	(16,469)
Foreign exchange difference	-	(12,054)	(12,054)	(3,069)
At 31 December	**40,390**	**155,626**	**196,016**	**146,758**
Impairment:				
At 1 January	-	2,700	2,700	2,589
Impairment for the year	-	-	-	75
Disposals	-	(310)	(310)	(14)
Foreign exchange difference	-	(95)	(95)	50
At 31 December	**-**	**2,295**	**2,295**	**2,700**
Net book value:				
At 31 December	**40,390**	**153,331**	**193,721**	**144,058**

30.0. | OTHER ASSETS

	2018 LBP Million	2017 LBP Million
Advances on acquisition of property and equipment	28,299	64,050
Advances on acquisition of intangible assets	38,048	33,947
Prepaid charges	67,200	76,196
Electronic cards and regularisation accounts	23,806	37,836
Receivables related to non-banking operations	25,482	44,363
Advances to staff	21,172	3,240
Hospitalisation and medical care under collection	39,581	34,697
Interest and commissions receivable	4,921	5,386
Funds management fees	104	87
Fiscal stamps, bullions and commemorative coins	1,646	1,972
Management and advisory fees receivable	1,386	733
Tax regularisation account	27,156	12,456
Other debtor accounts	220,751	81,265
	499,552	396,228

As at 31 December 2018, other debtors accounts include an amount of LBP 131,494 million representing collateral under process of being repossessed against settlement of loans by a subsidiary (2017: LBP 31,685 million).

31.0. | GOODWILL

	2018 LBP Million	2017 LBP Million
Cost:		
At 1 January	200,280	198,332
Foreign exchange difference	(300)	1,948
At 31 December	**199,980**	200,280
Impairment:		
At 1 January	157,567	156,505
Foreign exchange difference	-	1,062
At 31 December	**157,567**	157,567
Net book value:		
At 31 December	**42,413**	42,713

Testing goodwill for impairment involves a significant amount of judgment. This includes the identification of independent CGUs and the allocation of goodwill to these units based on which units are expected to benefit from the acquisition. The allocation is reviewed following business reorganisations. Cash flow projections necessarily take into account changes in the market in which a business operates including the level of growth, competitive activity, and the impacts of regulatory change. The Group performed its annual impairment test in December 2018 and 2017.

As at 31 December, the carrying amount of goodwill was allocated to the following CGUs:

	2018 LBP Million	2017 LBP Million
Private Banking – Switzerland	**42,413**	42,713

These CGUs do not carry on their statement of financial position any intangible assets with indefinite lives, other than goodwill.

RECOVERABLE AMOUNT

The Private Banking CGU in Switzerland is a separate legal entity offering Private Banking activities to its customers and is reported mainly under the Retail and Personal Banking business segment and the Europe geographical segment. The recoverable amount of this CGU was determined based on a value in use calculation using cash flow projections from financial budgets approved by Senior Management covering a five-year period, with a terminal growth rate of 2.00% (2017: 2.00%). The forecast cash flows were discounted at a pre-tax rate of 10% (2017: 10.00%). Based on these assumptions, the recoverable amount exceeds the carrying amount including goodwill by LBP 396,415 million (2017: LBP 372,128 million).

KEY ASSUMPTIONS USED IN VALUE IN USE CALCULATIONS AND SENSITIVITY TO CHANGES IN ASSUMPTIONS

The calculation of value in use for the Private Banking – Switzerland CGU is most sensitive to interest rate margins, cost of equity and the projected growth rates used to extrapolate cash flows beyond the budget period.

The cost of equity assigned to an individual CGU and used to discount its future cash flows can have a significant effect on its valuation. The cost of equity percentage is generally derived from an appropriate capital asset pricing model, which itself depends on inputs reflecting a number of financial and economic variables including the risk rate in the country concerned and a premium to reflect the inherent risk of the business being evaluated. Projected terminal growth rates used are in line with, and do not exceed, the projected growth rates in GDP and inflation rate forecasts for the jurisdictional area where the operations reside.

Management performed a sensitivity analysis to assess the changes to key assumptions that could cause the carrying value of the units to exceed their recoverable amount. These are summarised in the table below, which shows the details of the sensitivity of the above measures on the Bank's CGU's value in use (VIU):

Private Banking – Switzerland		
Interest margins	Interest margins are based on current fixed interest yields.	A decrease of 0.10% causes a decrease in the value in use by 1.28% (LBP 9,461 million) (2017: 2.05% (LBP 14,620 million)).
Cost of equity	The cost of equity is the return required for an investment to meet capital return requirements; it is often used as a capital budgeting threshold for required rate of return.	A decrease of 0.25% causes an increase in the value in use by 2.16% (LBP 16,504 million) (2017: 2.11% (LBP 15,691 million)).
Growth rate	Growth rate is the percentage change of the compounded annualised rate of growth of revenues, earnings, dividends and even including macro concepts such as GDP and the economy as a whole.	A decrease of 0.5% causes a decrease in the value in use by 2.92% (LBP 21,279 million) (2017: 2.85% (LBP 20,168 million)).

The following table presents the sensitivity of each input by showing the change required to individual current assumptions to reduce headroom to nil (breakeven) for the Private Banking CGU in Switzerland:

	2018	2017
Interest margin	(4.19%)	(2.55%)
Cost of equity	20.11%	19.18%

No reasonable change in the long-term growth rate will result in a headroom of nil.

32.0. | DUE TO CENTRAL BANKS

	2018 LBP Million	2017 LBP Million
Central Bank of Lebanon		
Subsidised loans	891,641	905,373
Term borrowings	10,760,998	3,052,687
Accrued interest	68,562	13,438
Other central banks		
Term loan	198,789	-
	11,919,990	3,971,498

SUBSIDISED LOANS

As at 31 December 2018, subsidised loans consist of utilised amounts on facilities granted by the Central Bank of Lebanon for the purpose of lending to customers at subsidised rates in accordance with decision No. 6116 dated 7 March 1996. Principals are repayable on monthly basis and based on the amounts withdrawn by the customers.

TERM BORROWINGS

Term borrowings from the Central Bank of Lebanon bear an interest rate ranging between 2.00% and 8.00% and maturing between 2019 and 2031 (2017: ranging between 2.00% and 8.00% and mature in 2018). Financial assets blocked/pledged against term borrowings were as follows:

	2018 LBP Million	2017 LBP Million
Time deposits with Central Bank of Lebanon	4,772,032	2,431,840
Lebanese Treasury bills at amortised cost	1,979,141	620,847
Certificates of deposit with Central Bank of Lebanon at amortised cost	2,638,000	-

33.0. | DUE TO BANKS AND FINANCIAL INSTITUTIONS AND REPURCHASE AGREEMENTS

	2018 LBP Million	2017 LBP Million
Current accounts	448,597	554,421
Term loans	1,357,236	1,562,400
Time deposits	357,193	509,014
Accrued interest	20,661	338
	2,183,687	2,626,173
Repurchase agreements	1,304	218,922
	2,184,991	2,845,095

Included in term loans above an amount of LBP 460,802 million (2017: LBP 616,008 million) representing loans granted from various supranational entities for the purpose of financing small and medium-size enterprises in the private sector, with annual interest rates ranging from 0.83% to 5.68% (2017: same).

The commitments arising from bank facilities received are disclosed in Note 49 to these consolidated financial statements.

REPURCHASE AGREEMENTS

The Group sells government bonds subject to a commitment to repurchase them (repurchase agreement). The consideration received (or cash collateral provided) is accounted for as a financial liability reflecting the transaction's economic substance as a borrowing to the Group. As the Group retains substantially all the risks and rewards of ownership, the securities transferred are retained on balance sheet under:

	2018 LBP Million	2017 LBP Million
Financial assets at fair value through profit or loss	-	77,719
Financial assets at amortised cost	1,304	299,673
	1,304	377,392

34.0. | CUSTOMERS' DEPOSITS

	2018			
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	Public Sector LBP Million	Total LBP Million
Sight deposits	3,099,778	5,177,092	194,326	8,471,196
Time deposits	8,155,689	23,744,468	1,128,300	33,028,457
Saving accounts	3,335	4,784,192	-	4,787,527
Certificates of deposit	53,972	832,557	1,365	887,894
Margins on LC's and LG's	285,609	28,932	614	315,155
Other margins	24,580	90,515	-	115,095
Other deposits	112,289	59,458	-	171,747
	11,735,252	34,717,214	1,324,605	47,777,071
Deposits pledged as collateral				3,594,333

	2017			
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	Public Sector LBP Million	Total LBP Million
Sight deposits	2,940,716	5,577,229	150,730	8,668,675
Time deposits	8,902,364	22,786,097	1,166,149	32,854,610
Saving accounts	10,528	6,750,653	-	6,761,181
Certificates of deposit	53,995	628,868	1,481	684,344
Margins on LC's and LG's	265,057	47,798	875	313,730
Other margins	72,648	106,936	-	179,584
Other deposits	74,215	141,240	278	215,733
	12,319,523	36,038,821	1,319,513	49,677,857
Deposits pledged as collateral				4,825,484

Sight deposits include balances of bullion amounting to LBP 98,431 million (2017: LBP 90,637 million) which were carried at fair value through profit or loss.

Time deposits include balances amounting to LBP 1,488,087 million as at 31 December 2018 (2017: LBP 2,687,493 million), whereby the principal is settled at maturity according to the full discretion of the Group either in cash or in Lebanese government Eurobonds denominated in US Dollars and having the same nominal amount. As these deposits are linked to the credit risk of the Lebanese Republic, the Group separated the embedded derivative and accounted for it at fair value through profit or loss (Note 20).

35.0. | DEPOSITS FROM RELATED PARTIES

	2018		
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	Total LBP Million
Sight deposits	6,928	37,216	44,144
Time deposits	6,491	344,355	350,846
Other deposits and margin accounts	482	642	1,124
	13,901	382,213	396,114
Deposits pledged as collateral			117,569

	2017		
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	Total LBP Million
Sight deposits	3,188	111,009	114,197
Time deposits	948	627,494	628,442
Saving accounts	-	590	590
Other deposits and margin accounts	482	6,511	6,993
	4,618	745,604	750,222
Deposits pledged as collateral			186,370

36.0. | DEBT ISSUED AND OTHER BORROWED FUNDS

	2018 LBP Million	2017 LBP Million
USD 350,000,000 due 16 October 2023 – 6.75%	527,625	527,625
USD 112,500,000 due 11 April 2024 – 6.55% + Libor 6m	169,594	169,594
USD 37,500,000 due 11 April 2024 – 6.55% + Libor 6m	56,531	56,531
USD 300,000,000 due 1 August 2027 – 7.625%	453,724	455,381
TRY 215,556,000 due 11 March 2019 – 23.50%	58,834	-
Accrued interests	27,381	26,137
	1,293,689	1,235,268

The principal of the loans is to be repaid at maturity. Any principal amount of the loans prepaid may not be re-borrowed. Prepayment on the loans is applicable as follows:

USD 350,000,000 Due 16 October 2023 – 6.75%

The Group, at its sole discretion and after obtaining approval of the Central Bank of Lebanon, has the right to prepay all outstanding amounts (entirely and not partially) according to the following:

- First time, after five years from issuance and upon payment of interest thereafter.
- Without regard to the dates set above and according to the following:
  - At any time after one year from the date of issuance, in the event of amendments to local and international laws and regulations, the subordinated bonds cannot be computed within the private funds of the Group (Tier 2);
  - At any time after one year from the date of issuance for reasons related to the amendment of Lebanese taxation laws.

USD 112,500,000 Due 11 April 2024 – 6.55% + Libor 6m and
USD 37,500,000 Due 11 April 2024 – 6.55% + Libor 6m

The Group shall, on any interest payment date or not less than 30 days' prior written notice, have the right to prepay the entire outstanding principal amount of the loan, in whole but not in part, together with accrued but unpaid interest thereon, and all other amounts payable, and subject to the approval of the Central Bank of Lebanon:

- In the event of a change in Lebanese law or regulation resulting in an increase in the withholding tax rate applicable to payments of interest on the loans to more than 5.00% above the rate in effect on the date of the disbursement. No penalty or premium shall be payable in connection with any prepayment following changes in taxation; or
- Subject to the payment of a premium of 2.00% of the outstanding principal amount of the loans to be prepaid, at the option of the Group, on any interest payment date at any time after the fifth anniversary of the date on which the loan is disbursed.

USD 300,000,000 Due 1 August 2027 – 7.625%

On 1 August 2017, Odea Bank A.Ş. issued subordinated unsecured notes in the amount of USD 300 million to third parties. These notes mature on 1 August 2027 and pay semi-annual interest of 7.625%. The notes are listed on the Main Securities Market of the Irish Stock Exchange. Odea Bank A.Ş. shall repay the notes at maturity and may repay the notes in whole, but not in part (1) starting from the fifth anniversary of the subordinated debt issuance date, or (2) due to changes in BRSA regulation if the loan ceases to be treated as Tier 2 capital under the applicable BRSA regulation.

TRY 215,556,000 Due 11 March 2019 – 23.50%
Bonds issued at discount by Odea Bank A.Ş. maturing on 11 March 2019 with effective interest rate of 23.50% (2017: nil).

Cash and Non-cash Changes in Debt Issued and Other Borrowed Funds
All changes in debt issued and other borrowed funds arise mainly from cash flows. Non-cash changes such as foreign exchange gains and losses were not significant during 2018 (2017: the same).

37.0. | OTHER LIABILITIES

	2018 LBP Million	2017 LBP Million
Accrued expenses	145,240	142,354
Miscellaneous suppliers and other payables	53,448	41,545
Operational taxes	100,089	75,122
Employee accrued benefits	3,409	13,288
Electronic cards and regularisation accounts	35,812	62,694
Social security dues	5,139	6,598
Other credit balances	61,714	85,790
	404,851	427,391

38.0. | PROVISIONS FOR RISKS AND CHARGES

	2018 LBP Million	2017 LBP Million
Provisions for risks and charges	222,571	24,173
Provisions for ECL on financial guarantees and commitments	28,446	16,982
End-of-service benefits	91,777	100,576
	342,794	141,731

A. PROVISIONS FOR RISKS AND CHARGES

	2018 LBP Million	2017 LBP Million
General provision	185,588	-
Provision for legal claims	8,235	2,531
Other provisions	28,748	21,642
	222,571	24,173

As at 31 December 2018, other provisions include provisions allowed under regulatory acts amounting to LBP 185,588 million which do not meet the accounting criteria of IAS 37. During 2018, these provisions were transferred from Impairment Allowances on Loans and Advances to Customers (Note 22).

The movement of provision for risks and charges is as follows:

	2018 LBP Million	2017 LBP Million
Balance at 1 January	**24,173**	33,792
Add:		
Charge reflected under operating expenses (Note 13)	16,546	2,843
Charge reflected under other expenses	8,256	11,733
Less:		
Paid during the year	(7,865)	(21,513)
Write-off	-	(1,495)
Net provisions recoveries (Note 10)	(2,162)	(1,347)
Foreign exchange difference	(1,965)	160
Balance at 31 December	**36,983**	24,173

B. END-OF-SERVICE BENEFITS

Banking entities operating in Lebanon have two defined benefit plans covering all their employees. The first requires contributions to be made to the National Social Security Fund whereby the entitlement to and level of these benefits depend on the employees' length of service, the employees' salaries and contributions paid to the fund among other requirements. Under the second plan, no contributions are required to be made, however a fixed end-of-service lump sum amount should be paid for long service employees. The entitlement to and level of these end-of-service benefits provided depend on the employees' length of service, the employees' salaries and other requirements outlined in the Workers' Collective Agreement. The first plan described above also applies to non-banking entities operating in Lebanon. Defined benefit plans for employees at foreign subsidiaries and branches are set in line with the laws and regulations of the respective countries in which these subsidiaries are located. The movement of provision for staff retirement benefit obligation is as follows:

	2018		
	Lebanon LBP Million	Foreign Countries LBP Million	**Total LBP Million**
Balance at 1 January 2018	82,216	18,360	100,576
Charge for the year (Note 12)	10,313	3,075	13,388
Paid during the year	(17,425)	(4,240)	(21,665)
Actuarial loss (gain) on obligation-experience	563	1,536	2,099
Actuarial (gain) loss on obligation-economic assumptions	-	(1,764)	(1,764)
Foreign exchange difference	-	(857)	(857)
Balance at 31 December 2018	**75,667**	**16,110**	**91,777**

	2017		
	Lebanon LBP Million	Foreign Countries LBP Million	Total LBP Million
Balance at 1 January 2017	86,253	21,542	107,795
Charge for the year (Note 12)	11,330	6,375	17,705
Paid during the year	(27,083)	(903)	(27,986)
Actuarial loss (gain) on obligation – experience	12,238	208	12,446
Actuarial (gain) loss on obligation – economic assumptions	-	(1,190)	(1,190)
Actuarial (gain) loss on obligation – demographic assumptions	-	(1,404)	(1,404)
Provision no more required (Note 10)	(111)	(4,301)	(4,412)
Advances paid	-	(2,336)	(2,336)
Transfers	(411)	-	(411)
Foreign exchange difference	-	369	369
Balance at 31 December 2017	82,216	18,360	100,576

The charge for the year is broken down as follows:

	2018 LBP Million	2017 LBP Million
Past service cost	309	-
Current service cost	7,268	14,798
Interest on obligation	5,811	2,907
	13,388	17,705

Defined benefit plans in Lebanon constitute more than 75% of the Group's required obligation. The key assumptions used in the calculation of Lebanese retirement benefit obligation are as follows:

	2018	2017
Economic assumptions		
Discount rate (p.a.)	8.00%	8.00%
Salary increase (p.a.)		
Employees	4.00%	4.00%
Senior Managers	6.00%	6.00%
Expected annual rate of return on NSSF contributions	5.00%	5.00%
Treatment of bonus	3-year average as a % of basic	3-year average as a % of basic
Demographic assumptions		
Retirement age	Earliest of age 64 or completion of 20 contribution years	Earliest of age 64 or completion of 20 contribution years
Pre-termination mortality	None	None
Pre-termination turnover rates (age related with average of)	2.00% – 4.00%	2.00% – 4.00%

A quantitative sensitivity analysis for significant assumptions is shown as below:

	Discount Rate		Future Salary Increase	
	% Increase LBP Million	% Decrease LBP Million	% Increase LBP Million	% Decrease LBP Million
Impact on net defined benefit obligation – 2018	(4,119)	4,891	4,288	(3,642)
Impact on net defined benefit obligation – 2017	(4,125)	4,883	4,711	(4,022)

The sensitivity analysis above was determined based on a method that extrapolates the impact on the defined benefit obligation as a result of 50 basis point changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis is based on a change in significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation from one another.

39.0. | SHARE CAPITAL AND WARRANTS ISSUED ON SUBSIDIARY CAPITAL

SHARE CAPITAL

The share capital of Bank Audi sal as at 31 December is as follows:

	2018			2017		
	Number of Shares	Share Capital LBP Million	Issue Premium LBP Million	Number of Shares	Share Capital LBP Million	Issue Premium LBP Million
Common shares	399,749,204	667,581	883,582	399,749,204	664,783	883,582
Preferred shares series "G"	-	-	-	1,500,000	2,495	223,631
Preferred shares series "H"	750,000	1,252	111,811	750,000	1,247	111,815
Preferred shares series "I"	2,500,000	4,175	372,700	2,500,000	4,157	372,718
Preferred shares series "J"	2,750,000	4,593	409,969	2,750,000	4,573	409,989
	6,000,000	**10,020**	**894,480**	7,500,000	12,472	1,118,153
	405,749,204	**677,601**	**1,778,062**	407,249,204	677,255	2,001,735

LISTING OF SHARES

		2018	2017
	Stock Exchange	Number of Shares	Number of Shares
Ordinary shares	Beirut	279,824,443	279,824,443
Global depository receipts	London SEAQ and Beirut	119,924,761	119,924,761
Preferred shares	Beirut	6,000,000	7,500,000
		405,749,204	407,249,204

1. In its meeting dated 27 July 2018, the Extraordinary General Assembly of shareholders decided to cancel the series "G" preferred shares totaling 1,500,000 shares which have a nominal value of LBP 2,495 million and to simultaneously replenish the share capital accounts by transferring the same amount from general reserves. As a result and for the avoidance of decimals in the share nominal value, the Bank increased its capital up to LBP 677,581 million, by transferring an amount of LBP 2,798 million from free reserves, so that the nominal value per share after the cancellation and capital increase amounted to LBP 1,670. The Bank had issued preferred shares series "G" pursuant to the resolution of the Extraordinary General Assembly held on 15 April 2013, under the following terms:

Preferred shares series "G"

- Number of shares:	1,500,000.
- Share's issue price:	USD 100.
- Share's nominal value:	LBP 1,299 (later became LBP 1,663 upon increasing the nominal value).
- Issue premium :	Calculated in USD as the difference between USD 100 and the counter value of the par value per share based on the exchange rate at the underwriting dates.
- Benefits:	Annual non-cumulative dividends of USD 4 per share for the year 2013, and USD 6 for each subsequent year.
- Repurchase right:	The Bank has the right to repurchase the shares in 5 years after issuance, as well as to call them off by that date.

2. Pursuant to the resolution of the Extraordinary General Assembly of shareholders held on 15 April 2013, the Bank issued series "H" preferred shares under the following terms:

Preferred shares series "H"

- Number of shares:	750,000.
- Share's issue price:	USD 100.
- Share's nominal value:	LBP 1,299 (later became LBP 1,670 upon increasing the nominal value).
- Issue premium :	Calculated in USD as the difference between USD 100 and the counter value of the par value per share based on the exchange rate at the underwriting dates.
- Benefits:	Annual non-cumulative dividends of USD 4.5 per share for the year 2013, and USD 6.5 for each subsequent year.
- Repurchase right:	The Bank has the right to repurchase the shares in 7 years after issuance, as well as to call them off by that date.

The Extraordinary General Assembly of shareholders held on 21 June 2013 validated and ratified the capital increases according to the aforementioned terms for preferred shares series "H".

3. Pursuant to the resolution of the Extraordinary General Assembly of shareholders held on 29 November 2016, the Bank issued preferred shares series "I" under the following terms:

Preferred shares series "I"

- Number of shares:	2,500,000.
- Share's issue price:	USD 100.
- Share's nominal value:	LBP 1,656 (later became LBP 1,670 upon increasing the nominal value).
- Issue premium:	Calculated in USD as the difference between USD 100 and the counter value of the par value per share based on the exchange rate at the underwriting dates.
- Benefits:	Annual non-cumulative dividends of USD 3 per share for the year 2016, and USD 7 for each subsequent year.
- Repurchase right:	The Bank has the right to repurchase the shares in 5 years after issuance, as well as to call them off by that date.
- Conversion:	Mandatorily convertible into 15 common shares in case: 1) common equity Tier 1 to risk-weighted assets falls below 66.25% of minimum required by the Central Bank of Lebanon; or 2) the Bank is deemed non-viable by the Central Bank of Lebanon without such a conversion.

The Extraordinary General Assembly of shareholders held on 21 December 2016 validated and ratified the capital increase according to the aforementioned terms.

5. Pursuant to the resolution of the Extraordinary General Assembly of shareholders held on 21 July 2017, the Bank issued preferred shares series "J" under the following terms:

Preferred shares series "J"

- Number of shares:	2,750,000.
- Share's issue price:	USD 100.
- Share's nominal value:	LBP 1,663 (later become LBP 1,670 upon increasing the nominal value).
- Issue premium:	Calculated in USD as the difference between USD 100 and the counter value of the par value per share based on the exchange rate at the underwriting dates.
- Benefits:	Annual non-cumulative dividends of USD 4 per share for the year 2017, and USD 7 for each subsequent year.
- Repurchase right:	The Bank has the right to repurchase the shares in 5 years after issuance, as well as to call them off by that date.
- Conversion:	Mandatorily convertible into 15 common shares in case: 1) common equity Tier 1 to risk-weighted assets falls below 66.25% of minimum required by the Central Bank of Lebanon; or 2) the Bank is deemed non-viable by the Central Bank of Lebanon without such a conversion.

The Extraordinary General Assembly of shareholders held on 27 October 2017 validated and ratified the capital increase according to the aforementioned terms.

WARRANTS ISSUED ON SUBSIDIARY SHARES

During 2014, and in conjunction with the capital increase held during that year, the Bank issued 172.5 million warrants entitling the holders, during the exercise period, to purchase Odea Bank's shares at an exercise price of USD 0.95 per share. The exercise period is expected to be the 30-day period commencing on 15 May 2019. The warrants are in registered form, detachable and freely tradable.

A warrant holder may exercise any or all of the warrants held during the exercise period. The shares to be made available for delivery by the Bank pursuant to the exercise of the warrants shall be fully paid and shall rank pari passu with shares of the same class in issue on the exercise date, including the right to participate in full in all dividends payable on or after the exercise date.

	2018		2017	
	Number of Warrants Outstanding	**Cost LBP Million**	Number of Warrants Outstanding	Cost LBP Million
Balance at 31 December	124,872,304	12,629	124,872,304	12,629

PAID DIVIDENDS

In accordance with the resolution of the General Assembly of shareholders held on 10 April 2018, dividends were distributed as follows:

	2018		
	Number of Shares	Distribution per Share LBP	**Total LBP million**
Preferred shares series "G"	1,500,000	9,045	13,568
Preferred shares series "H"	750,000	9,799	7,349
Preferred shares series "I"	2,500,000	10,553	26,380
Preferred shares series "J"	2,750,000	6,030	16,583
Common shares	399,749,204	829	331,442
			395,322

In accordance with the resolution of the General Assembly of shareholders held on 10 April 2017, dividends were distributed as follows:

	2017		
	Number of Shares	Distribution per Share LBP	Total LBP Million
Preferred shares series "F"	1,500,000	9,045	13,568
Preferred shares series "G"	1,500,000	9,045	13,568
Preferred shares series "H'	750,000	9,798	7,349
Preferred shares series "I"	2,500,000	4,522	11,305
Common shares	399,749,204	754	301,311
			347,101
Less: dividends on Treasury shares			(7,166)
			339,935

40.0. | CASH CONTRIBUTION TO CAPITAL

In previous years, agreements were entered between the Bank and its shareholders whereby the shareholders granted cash contributions to the Bank amounting to USD 48,150,000 (equivalent to LBP 72,586 million) subject to the following conditions:

- These contributions will remain placed as a fixed deposit as long as the Bank performs banking activities;
- If the Bank incurs losses and has to reconstitute its capital, these contributions may be used to cover the losses if needed;
- The shareholders have the right to use these contributions to settle their share in any increase of capital;
- No interest is due on the above contributions;
- The above cash contributions are considered as part of Tier 1 capital for the purpose of determining the Bank's capital adequacy ratio; and
- The right to these cash contributions is for the present and future shareholders of the Bank.

41.0. | NON-DISTRIBUTABLE RESERVES

	Legal Reserve LBP Million	Reserves Appropriated for Capital Increase LBP Million	Gain on Sale of Treasury Shares LBP Million	Reserve for General Banking Risks LBP Million	Unrealised Gain on Fair Value through Profit or Loss LBP Million	Reserve for Foreclosed Assets LBP Million	Other Reserves LBP Million	**Total LBP Million**
Balance at 1 January 2018	**562,016**	**420,046**	**-**	**665,397**	**43,023**	**11,021**	**18,414**	**1,719,917**
Appropriation of 2017 profits	95,752	2,460	-	71,666	14,211	10,215	-	194,304
Capital increase	-	(2,798)	-	-	-	-	-	(2,798)
Treasury share transaction	-	-	6,640	-	-	-	-	6,640
Other movements	(10)	-	-	135	-	-	-	125
Transfers between reserves	1,608	(258,730)	-	(628,717)	-	(2,273)	889,720	1,608
Balance at 31 December 2018	**659,366**	**160,978**	**6,640**	**108,481**	**57,234**	**18,963**	**908,134**	**1,919,796**

	Legal Reserve LBP Million	Reserves Appropriated for Capital Increase LBP Million	Gain on Sale of Treasury Shares LBP Million	Reserve for General Banking Risks LBP Million	Unrealised Gain on Fair Value through Profit or Loss LBP Million	Reserve for Foreclosed Assets LBP Million	Other Reserves LBP Million	Total LBP Million
Balance at 1 January 2017	546,625	240,254	140	609,126	39,150	9,338	11,508	1,456,141
Appropriation of 2016 profits	51,105	9,240	-	56,271	3,873	1,683	6,906	129,078
Other comprehensive income	-	78,300	-	-	-	-	-	78,300
Capital increase	(35,417)	(16,111)	-	-	-	-	-	(51,528)
Transfers	(297)	108,363	(140)	-	-	-	-	107,926
Balance at 31 December 2017	562,016	420,046	-	665,397	43,023	11,021	18,414	1,719,917

LEGAL RESERVE

The Lebanese Commercial Law and the Bank's articles of association stipulate that 10% of the net annual profits be transferred to legal reserve. In addition, subsidiaries and branches are also subject to legal reserve requirements based on the rules and regulations of the countries in which they operate. This reserve is not available for dividend distribution.

The Bank and different subsidiaries transferred to legal reserve an amount of LBP 95,752 million (2017: LBP 51,105 million) as required by the laws applicable in the countries in which they operate.

During 2017, an amount of LBP 35,417 million was distributed by a subsidiary to the parent and immediately reinvested by the latter in the capital of the subsidiary. Accordingly, at group level, this transaction was reflected as a transfer from this reserve to retained earnings.

RESERVES APPROPRIATED FOR CAPITAL INCREASE

During 2017, the Bank recognised directly in reserves appropriated for capital increase an amount of LBP 78,300 million equivalent to 30% of net gains realised from trading sovereign financial instruments entered with the Central Bank of Lebanon in 2016.

The Group transferred LBP 2,460 million (2017: LBP 9,240 million) to reserves appropriated for capital increase. This amount represents the net gain on the disposal of fixed assets acquired in settlement of debt, in addition to reserves on recovered provisions for doubtful loans and debts previously written off, whenever recoveries exceed booked allowances.

During 2017, an amount of LBP 13,312 million was distributed by a subsidiary to the Parent and immediately reinvested by the latter in the capital of the subsidiary. Accordingly, at group level, this transaction was reflected as a transfer from this reserve to retained earnings. In addition, the Group transferred an amount of LBP 2,798 million to increase the nominal value per share to LBP 1,663 (Note 39).

GAIN ON SALE OF TREASURY SHARES

These gains arise from the Global Depository Receipts (GDRs) owned by the Group. Based on the applicable regulations, the Group does not have the right to distribute these gains.

OTHER RESERVES

According to the Central Bank of Lebanon main circular 143, Banks in Lebanon are required to transfer to Other Reserves, the balance of Reserves for General Banking Risks and General Reserves for Loans and Advances (totalling LBP 889,720 million) previously appropriated in line with the requirements of decision 7129 and decision 7776 respectively. This reserve is part of the Group's equity and is not available for distribution.

RESERVE FOR UNREALISED REVALUATION GAINS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As per the Banking Control Commission circular No. 296 dated 4 June 2018, banks operating in Lebanon are required to appropriate in a special reserve from their annual net profits the value of gross unrealised profits on financial assets at fair value through profit or loss. This reserve is not available for dividend distribution until such profits are realised and released to general reserves.

RESERVE FOR FORECLOSED ASSETS

The reserve for foreclosed assets represents appropriation against assets acquired in settlement of debt in accordance with the circulars of the Lebanese Banking Control Commission. Appropriations against assets acquired in settlement of debt shall be transferred to unrestricted reserves upon the disposal of the related assets.

42.0. | DISTRIBUTABLE RESERVES

	General Reserves LBP Million	Loss on Sale of Subsidiary Warrants LBP Million	Cost of Capital Issued LBP Million	**Total LBP Million**
Balance at 1 January 2018	**447,029**	**(1,345)**	**(15,092)**	**430,592**
Treasury shares transactions	93	-	-	93
Balance at 31 December 2018	**447,122**	**(1,345)**	**(15,092)**	**430,685**

	General Reserves LBP Million	Loss on Sale of Subsidiary Warrants LBP Million	Cost of Capital Issued LBP Million	Total LBP Million
Balance at 1 January 2017	637,992	(1,345)	(12,146)	624,501
Appropriation of 2016 profits	1,631	-	-	1,631
Capital increase	(13,328)	-	-	(13,328)
Cost of issuance of shares	-	-	(2,946)	(2,946)
Treasury shares transactions	216	-	-	216
Transfers	(181,795)	-	-	(181,795)
Other movements	2,313	-	-	2,313
Balance at 31 December 2017	447,029	(1,345)	(15,092)	430,592

43.0. | PROPOSED DIVIDENDS

In its meeting held on 20 March 2019, the Board of Directors of the Bank resolved to propose to the annual Ordinary General Assembly the distribution of dividends of LBP 829.125 per common share. Proposed dividends related to preferred shares amounted to LBP 62,750 million. These dividends are subject to the General Assembly's approval.

44.0. | TREASURY SHARES

	2018		2017	
	Number of Shares	Cost LBP Million	Number of Shares	Cost LBP Million
Balance at 1 January	**10,463,036**	**94,532**	10,377,888	94,026
Purchase of Treasury shares	1,274,605	10,141	418,679	3,690
Sale of Treasury shares	(10,585,047)	(95,694)	(333,531)	(3,184)
Gain	-	94	-	-
Balance at 31 December	**1,152,594**	**9,073**	10,463,036	94,532

45.0. | OTHER COMPONENTS OF EQUITY

	2018							
	Real Estate Revaluation Reserve LBP Million	Cumulative Changes in Fair Value LBP Million	Foreign Currency Translation Reserve LBP Million	Actuarial Loss on Defined Benefit Obligation LBP Million	Group Share of Associates' Other Comprehensive Income LBP Million	Change in Time Value of Hedging Instruments LBP Million	Cash Flow Hedge Reserve LBP Million	**Total LBP Million**
Balance at 1 January 2018	**357,137**	**877**	**(1,277,774)**	**(12,807)**	**4,546**	**(11,724)**	**-**	**(939,745)**
Impact of adoption of IFRS 9	-	(1,220)	-	-	-	-	-	(1,220)
Restated balance at 1 January	**357,137**	**(343)**	**(1,277,774)**	**(12,807)**	**4,546**	**(11,724)**	**-**	**(940,965)**
Other comprehensive income	-	(3,160)	(290,143)	(223)	918	11,724	(19,391)	(300,275)
Sale of financial assets at FVTOCI	-	(2,816)	-	-	-	-	-	(2,816)
Balance at 31 December 2018	**357,137**	**(6,319)**	**(1,567,917)**	**(13,030)**	**5,464**	**-**	**(19,391)**	**(1,244,056)**

	2017							
	Real Estate Revaluation Reserve LBP Million	Cumulative Changes in Fair Value LBP Million	Foreign Currency Translation Reserve LBP Million	Actuarial Loss on Defined Benefit Obligation LBP Million	Group Share of Associates' Other Comprehensive Income LBP Million	Change in Time Value of Hedging Instruments LBP Million	Cash Flow Hedge Reserve LBP Million	Total LBP Million
Balance at 1 January 2017	358,713	32,154	(1,206,264)	(4,254)	4,546	(57,713)	-	(872,818)
Other comprehensive income	66	(1,503)	(71,510)	(8,553)	-	45,989	-	(35,511)
Sale of financial assets at FVOCI	-	(29,774)	-	-	-	-	-	(29,774)
Other movements	(1,642)	-	-	-	-	-	-	(1,642)
Balance at 31 December 2017	357,137	877	(1,277,774)	(12,807)	4,546	(11,724)	-	(939,745)

REAL ESTATE REVALUATION RESERVE

Effective 31 December 2014, the Group made a voluntary change in its accounting policy for subsequent measurement of two classes of property and equipment being i) Land and ii) Building and Building Improvements from cost to revaluation model. The revaluation surplus amounted to LBP 383,096 and was booked net of deferred taxes of LBP 49,332 million.

CUMULATIVE CHANGES IN FAIR VALUE

The cumulative changes as at 31 December represent the fair value differences from the revaluation of financial assets measured at fair value through other comprehensive income. The movement during the year can be summarised as follows:

	Change in Fair Value LBP Million	Deferred Tax LBP Million	**Net LBP Million**
Balance at 1 January 2018	**318**	**559**	**877**
Impact of adoption of IFRS 9	(1,220)	-	(1,220)
Other comprehensive income	(4,767)	1,607	(3,160)
Sale of financial assets at FVOCI	(2,607)	(209)	(2,816)
Adjustments	733	(733)	-
Balance at 31 December 2018	**(7,543)**	**1,224**	**(6,319)**
Balance at 1 January 2017	37,436	(5,282)	32,154
Other comprehensive income	(1,450)	34	(1,416)
Non-controlling interest share of reserves	(87)	-	(87)
Sale of financial assets at FVOCI	(35,112)	5,338	(29,774)
Adjustments	(469)	469	-
Foreign exchange	37,436	(5,282)	32,154
Balance at 31 December 2017	318	559	877

CHANGE IN THE FAIR VALUE OF TIME VALUE OF HEDGING INSTRUMENTS

IFRS 9 (2013) stipulates that the Group may separate the intrinsic value and the time value of a purchased option contract and designate only the change in the intrinsic value as the hedging instrument. The Group adopted this option with a view to enhance hedge effectiveness. The changes in fair value of the time value of the option in relation to a time-period related hedged item are amortised to profit or loss on a rational basis over the term of the hedging relationship consistent with the Group's accounting policy (refer to Note 20).

46.0. | GROUP SUBSIDIARIES

A. LIST OF SIGNIFICANT SUBSIDIARIES

The following table shows information related to the significant subsidiaries of the Bank.

	Percentage of Ownership		Country of Incorporation	Principal Activity	Functional Currency
	2018	2017			
Bank Audi (France) sa	100.00	100.00	France	Banking (Commercial)	EUR
Audi Investment Bank sal	100.00	100.00	Lebanon	Banking (Investment)	LBP
Audi Private Bank sal	100.00	100.00	Lebanon	Banking (Private)	LBP
Banque Audi (Suisse) SA	100.00	100.00	Switzerland	Banking (Private)	CHF
Bank Audi sae	100.00	100.00	Egypt	Banking (Commercial)	EGP
Audi Capital (KSA)	99.99	99.99	Saudi Arabia	Financial Services	SAR
Bank Audi LLC (Qatar)	100.00	100.00	Qatar	Banking Services	QAR
Société Libanaise de Factoring sal	100.00	100.00	Lebanon	Factoring	LBP
Odea Bank A.Ş.	76.42	76.42	Turkey	Banking (Commercial)	TRY
Audi Investments Holding sal	100.00	100.00	Lebanon	Investment	USD

B. SIGNIFICANT RESTRICTIONS

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate. The supervisory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group, and comply with other ratios.

C. NON-CONTROLLING INTERESTS

Odea Bank A.Ş is the only subsidiary of the Group that has a material non-controlling interest with 23.58% equity interests held by non-controlling interests as at 31 December 2018 (2017: the same).

MATERIAL PARTIALLY-OWNED SUBSIDIARIES

	Odea Bank A.Ş.	
	2018 %	2017 %
Proportion of equity interests held by non-controlling interests	**23.58%**	23.58%

Financial information relating to Odea Bank A.Ş. are provided below:

SUMMARISED STATEMENT OF PROFIT OR LOSS

	Odea Bank A.Ş.	
	2018 LBP Million	2017 LBP Million
Net interest income	341,183	446,433
Net fee and commission income	53,259	85,909
Net (loss) gain on financial assets	(2,345)	74,344
Revenues from financial assets at fair value through other comprehensive income	6	-
Other operating income	16,090	8,532
Total operating income	**408,193**	**615,218**
Net credit losses	(188,007)	(143,123)
Total operating expenses	(214,742)	(306,852)
Profit before tax	**5,444**	**165,243**
Income tax	170	(32,077)
Profit for the period	**5,614**	**133,166**
Attributable to non-controlling interests	1,324	31,401
Dividends paid to non-controlling interests	-	-

SUMMARISED STATEMENT OF FINANCIAL POSITION

	Odea Bank A.Ş.	
	2018 LBP Million	2017 LBP Million
ASSETS		
Cash and balances with central banks	1,164,786	1,492,429
Due from banks and financial institutions	714,368	175,014
Loans to banks and financial institutions and reverse repurchase agreements	197,557	1,096,928
Derivative financial instruments	310,526	168,413
Financial assets at fair value through profit or loss	935	310,016
Loans and advances to customers at amortised cost	5,309,313	8,895,011
Debtors by acceptances	186,280	56,889
Financial assets at amortised cost	767,145	685,186
Financial assets at fair value through other comprehensive income	87,237	3,160
Property and equipment	24,842	41,599
Intangible assets	18,009	35,963
Non-current assets held for sale	68,247	68,511
Other assets	306,101	124,455
TOTAL ASSETS	**9,155,346**	13,153,574
LIABILITIES		
Due to central banks	198,789	-
Due to banks and financial institutions	867,377	1,195,326
Due to banks under repurchase agreement	29	-
Derivative financial instruments	341,232	161,756
Due to head office, sister, related banks and financial institutions	15,677	18,285
Customers' deposits	5,986,751	9,581,844
Deposits from related parties	1,396	462
Debt issued and other borrowed funds	527,354	469,903
Engagements by acceptances	186,280	56,889
Other liabilities	73,120	89,180
Provisions for risks and charges	36,086	12,296
TOTAL LIABILITIES	**8,234,091**	11,585,941
TOTAL SHAREHOLDERS' EQUITY	**921,255**	1,567,633
Of which: non-controlling interest	*217,232*	*369,647*
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**9,155,346**	13,153,574

SUMMARISED CASH FLOW INFORMATION

	2018 LBP Million	2017 LBP Million
Operating activities	(305,602)	(658,282)
Investing activities	198,126	(5,786)
Financing activities	61,793	243,671
	(45,683)	(420,397)

47.0. | CASH AND CASH EQUIVALENTS

	2018 LBP Million	2017 LBP Million
Cash and balances with central banks	6,276,022	5,938,220
Due from banks and financial institutions	3,787,428	1,385,927
Loans to banks and financial institutions and reverse repurchase agreements	197,797	1,111,706
Due to central banks	(198,709)	(227,783)
Due to banks and financial institutions	(646,593)	(896,516)
	9,415,945	7,311,554

48.0. | FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values in this note are stated at a specific date and may be different from the amounts which will actually be paid on the maturity or settlement dates of the instrument. In many cases, it would not be possible to realise immediately the estimated fair values given the size of the portfolios measured. Accordingly, these fair values do not represent the value of these instruments to the Group as a going concern. Financial assets and liabilities are classified according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below:

QUOTED MARKET PRICES – LEVEL 1

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

VALUATION TECHNIQUE USING OBSERVABLE INPUTS – LEVEL 2

Financial instruments classified as Level 2 have been valued using models whose most significant inputs are derived directly or indirectly from observable market data. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets, and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads.

VALUATION TECHNIQUE USING SIGNIFICANT UNOBSERVABLE INPUTS – LEVEL 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs).

48.1. FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

Fair value measurement hierarchy of the financial assets and liabilities carried at fair value

	2018			
	Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million	Total LBP Million
FINANCIAL ASSETS				
Derivative financial instruments				
Derivatives held for trading				
Forward foreign exchange contracts	34,747	-	-	34,747
Currency swaps	186,686	-	-	186,686
Currency options	-	106,018	-	106,018
Interest rate swaps	359	16,449	-	16,808
Credit derivatives	-	54,486	-	54,486
Equity options	15,908	-	-	15,908
Derivatives held to hedge net investments in foreign operations				
Currency swaps	4,300	-	-	4,300
Derivatives held as cash flow hedge				
Interest rate swaps	-	796	-	796
	242,000	177,749	-	419,749
Financial assets at fair value through profit or loss				
Lebanese sovereign and Central Bank of Lebanon				
Treasury bills	-	149	-	149
Eurobonds	5,094	-	-	5,094
Other sovereign				
Treasury bills and bonds	935	-	-	935
Private sector and other securities				
Banks and financial institutions	69,681	-	-	69,681
Loans and advances to customers	-	37,233	-	37,233
Mutual funds	2,284	14,224	41,787	58,295
Equity instruments	5	-	48,730	48,735
	77,999	51,606	90,517	220,122
Financial assets designated at fair value through other comprehensive income				
Debt instruments				
Other sovereign				
Treasury bills	84,463	1,099,327	-	1,183,790
Equity instruments				
Quoted	1,520	-	-	1,520
Unquoted	-	2,565	69,560	72,125
	85,983	1,101,892	69,560	1,257,435
	405,982	1,331,247	160,077	1,897,306
FINANCIAL LIABILITIES				
Derivative financial instruments				
Derivatives held for trading				
Forward foreign exchange contracts	20,151	-	-	20,151
Forward precious metals contracts	68	-	-	68
Currency swaps	178,532	-	-	178,532
Precious metals swaps	2,582	-	-	2,582
Currency options	-	75,163	-	75,163
Interest rate swaps	-	28,470	-	28,470
Equity options	15,907	-	-	15,907
Derivatives held as cash flow hedge				
Interest rate swaps	-	36,736	-	36,736
Derivatives held for fair value hedge				
Interest rate swaps	-	50,644	-	50,644
	217,240	191,013	-	408,253
Customers' deposits – sight	98,431	-	-	98,431
	315,671	191,013	-	506,684

	2017			
	Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million	Total LBP Million
FINANCIAL ASSETS				
Derivative financial instruments				
Derivatives held for trading				
Forward foreign exchange contracts	9,805	-	-	9,805
Currency swaps	157,763	-	-	157,763
Precious metals swaps	12	-	-	12
Currency options	-	28,382	-	28,382
Interest rate swaps	450	14,672	-	15,122
Credit derivatives	-	19,813	-	19,813
Equity options	18,120	-	-	18,120
Derivatives held to hedge net investments in foreign operations				
Currency options	-	149,067	-	149,067
	186,150	211,943	-	398,084
Financial assets at fair value through profit or loss				
Lebanese sovereign and Central Bank of Lebanon				
Central Bank's certificates of deposit	-	797,414	-	797,414
Treasury bills	-	357,021	-	357,021
Eurobonds	163,030	-	-	163,030
Other sovereign				
Treasury bills and bonds	306	-	-	306
Private sector and other securities				
Banks and financial institutions	66,410	2,581	-	68,991
Loans and advances to customers	-	47,658	-	47,658
Mutual funds	1,212	16,611	43,207	61,030
	230,958	1,221,285	43,207	1,495,450
Financial assets designated at fair value through other comprehensive income				
Equity instruments				
Quoted	319	-	-	319
Unquoted	-	18,955	138,753	157,708
	319	18,955	138,753	158,027
	417,427	1,452,174	181,960	2,051,561
FINANCIAL LIABILITIES				
Derivative financial instruments				
Derivatives held for trading				
Forward foreign exchange contracts	3,425	-	-	3,425
Forward precious metals contracts	143	-	-	143
Currency swaps	161,225	-	-	161,225
Precious metals swaps	2,152	-	-	2,152
Currency options	-	16,274	-	16,274
Interest rate swaps	-	8,584	-	8,584
Equity options	6,699	-	-	6,699
Derivatives held to hedge net investments in foreign operations				
Currency swaps	6,882	-	-	6,882
	180,526	24,858	-	205,384
Customers' deposits – sight	90,637	-	-	90,637
	271,163	24,858	-	296,021

VALUATION TECHNIQUES USED FOR MATERIAL CLASSES OF FINANCIAL ASSETS AND LIABILITIES CATEGORISED WITHIN LEVEL 2 AND LEVEL 3

Credit Derivatives

Credit derivatives comprise of the embedded derivatives in customer deposits that are linked to the credit risk of the Lebanese Republic. These contracts are valued using CDS contracts that are actively traded and generally considered observable and then discounted by yields appropriately reflecting the funding costs of the instruments. Single name instruments are generally classified as Level 2 on the basis that model inputs that are significant to their measurement (as a whole) are observable. When unobservable inputs that are significant to the measurement, on the whole, are used in measuring fair value, the Group classifies those instruments as Level 3. The Group does not have credit derivatives classified as Level 3.

Interest Rate Derivatives

Interest rate derivatives include interest rate swaps and interest rate options. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations by estimating future cash flows and discounting them with the appropriate yield curves incorporating funding costs relevant for the position. These contracts are generally Level 2 unless adjustments to yield curves or credit spreads are based on significant non-observable inputs, in which case, they are Level 3. The Group's does not have interest rate derivatives classified as Level 3.

Foreign Exchange Contracts

These are spots or derivatives linked to the foreign exchange (FX) market. This category includes FX forward contracts, FX swaps and FX options. The vast majority are traded as over the counter (OTC) derivatives. Exotic and non-exotic derivatives are valued using industry standard and bespoke models. Input parameters include FX rates, interest rates, FX volatilities, interest rate volatilities, FX interest rate correlations and others as appropriate. Unobservable model inputs are set by referencing liquid market instruments and applying extrapolation techniques to match the appropriate risk profile. When certain correlations, long dated forwards and volatilities are unobservable beyond liquid maturities, these instruments are classified level 3. The Group does not have foreign exchange derivatives classified as Level 3

Government Bonds, Certificates of Deposit and Other Debt Instruments

The Group values these unquoted debt securities using discounted cash flow valuation models using observable market inputs, comprising of interest rates and yield curves, implied volatilities, and credit spreads. The Group does not have Level 3 government bonds, certificates of deposits and other debt instruments.

Loans and Advances to Customers at Fair Value through Profit or Loss

The fair value of loans and advances to customers that fall in this category is estimated using discounted cash flows by applying current market rates for new loans with similar remaining maturities and to counterparties with similar credit risk. The Group does not have Level 3 loans and advances to customers at fair value through profit or loss.

Funds and Equity Shares of Non-listed Entities

Units held in funds are measured based on their net asset value (NAV), taking into account redemption and/or other restrictions. Classification between Level 2 and Level 3 is dependent on whether the NAV is observable or unobservable (i.e. recent and published by the fund administrator or not).

Equity shares of non-listed entities comprise mainly the Group's strategic investments are generally classified at fair value through other comprehensive income and are not traded in active markets. These are investments in private companies, for which there is no or only limited sufficient recent information to determine fair value. The Group determined that cost adjusted to reflect the investee's financial position and results since initial recognition represents the best estimate of fair value. Classification between Level 2 and Level 3 is based on whether the financial statements of the investee are recent and published or not. These instruments are fair valued using third-party information (NAV or financial statements of non-listed entities), without adjustment. Accordingly, quantitative information about significant unobservable inputs and sensitivity analysis cannot be developed by the Group in accordance with IFRS 13.93 (d).

The movement of items recurrently measured at fair value categorised within Level 3 during the year is as follows:

	2018		2017	
	Financial Instruments at Fair Value through Profit or Loss LBP Million	Financial Instruments at Fair Value through Other Comprehensive Income LBP Million	Financial Instruments at Fair Value through Profit or Loss LBP Million	Financial Instruments at Fair Value through Other Comprehensive Income LBP Million
FINANCIAL ASSETS				
Balance at 1 January	43,207	138,753	31,024	137,446
Re-measurement recognised in other comprehensive income	-	4,494	-	(1,630)
Re-measurement recognised in the income statement	10,851	-	1,046	-
Transfers	37,688	(37,688)	-	-
Purchases	-	6,569	11,143	6,961
Sales	(1,229)	(42,137)	(6)	(4,371)
Foreign exchange difference	-	(431)	-	347
Balance at 31 December	**90,517**	**69,560**	43,207	138,753

48.2. FAIR VALUE OF FINANCIAL INSTRUMENTS NOT HELD AT FAIR VALUE

COMPARISON OF CARRYING AND FAIR VALUES FOR FINANCIAL ASSETS AND LIABILITIES NOT HELD AT FAIR VALUE

The fair values included in the table below were calculated for disclosure purposes only. The fair valuation techniques and assumptions described below relate only to the fair value of the Group's financial instruments not measured at fair value. Other institutions may use different methods and assumptions for their fair value estimations, and therefore such fair value disclosures cannot necessarily be compared from one institution to another.

FAIR VALUE MEASUREMENT HIERARCHY OF THE FINANCIAL ASSETS AND LIABILITIES FOR WHICH FAIR VALUE IS DISCLOSED

	Carrying Value	Fair Value			
31 December 2018	LBP Million	Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million	Total LBP Million
FINANCIAL ASSETS					
Cash and balances with central banks	24,793,682	515,370	23,424,558	-	24,939,928
Due from banks and financial institutions	3,843,626	-	3,843,111	-	3,843,111
Loans to banks and financial institutions and reverse repurchase agreements	266,645	-	243,106	-	243,106
Net loans & advances to customers	19,846,966	-	-	19,604,773	19,604,773
Corporate and SME	*13,613,470*	-	-	*13,456,142*	*13,456,142*
Retail and Personal Banking	*5,873,160*	-	-	*5,791,600*	*5,791,600*
Public sector	*360,336*	-	-	*357,031*	*357,031*
Net loans & advances to related parties	153,671	-	-	153,364	153,364
Corporate and SME	*13,970*	-	-	*13,653*	13,653
Retail and Personal Banking	*139,701*	-	-	*139,711*	139,711
Financial assets classified at amortised cost	18,003,797	1,943,337	14,932,435	2,086	16,877,858
Lebanese sovereign and Central Bank	*16,140,058*	*972,406*	*14,044,868*	-	*15,017,274*
Other sovereign	*1,550,425*	*659,157*	*887,567*	-	*1,546,724*
Private sector and other securities	*313,314*	*311,774*	-	*2,086*	*313,860*
	66,908,387	**2,458,707**	**43,443,210**	**19,760,223**	**65,662,140**
FINANCIAL LIABILITIES					
Due to central banks	11,919,990	-	11,942,685	-	11,942,685
Due to banks and financial institutions	2,183,687	-	2,115,625	-	2,115,625
Due to banks under repurchase agreements	1,304	-	1,304	-	1,304
Customers' deposits	47,777,071	-	47,595,073	-	47,595,073
Deposits from related parties	396,114	-	396,132	-	396,132
Debt issued and other borrowed funds	1,293,689	349,528	825,576	-	1,175,104
	63,571,855	**349,528**	**62,876,395**	**-**	**63,225,923**

	Carrying Value	Fair Value			
31 December 2017	LBP Million	Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million	Total LBP Million
FINANCIAL ASSETS					
Cash and balances with central banks	19,846,859	456,333	19,387,170	-	19,843,503
Due from banks and financial institutions	1,454,753	-	1,454,824	-	1,454,824
Loans to banks and financial institutions and reverse repurchase agreements	1,208,536	-	1,208,539	-	1,208,539
Net loans & advances to customers	24,400,781	-	-	24,485,400	24,485,400
Corporate and SME	*17,208,357*	-	-	*17,300,791*	*17,300,791*
Retail and Personal Banking	*6,783,282*	-	-	*6,765,662*	*6,765,662*
Public sector	*409,142*	-	-	*418,947*	*418,947*
Net loans & advances to related parties	161,814	-	-	161,801	161,801
Corporate and SME	*17,928*	-	-	*17,928*	*17,928*
Retail and Personal Banking	*143,886*	-	-	*143,873*	*143,873*
Financial assets classified at amortised cost	14,822,345	1,666,505	13,151,710	3,057	14,821,272
Lebanese sovereign and Central Bank	*12,003,137*	*728,810*	*11,298,715*	-	*12,027,525*
Other sovereign	*2,419,469*	*539,099*	*1,852,995*	-	*2,392,094*
Private sector and other securities	*399,739*	*398,596*	-	*3,057*	*401,653*
	61,895,088	2,122,838	35,202,243	24,650,258	61,975,339
FINANCIAL LIABILITIES					
Due to central banks	3,971,498	-	3,969,985	-	3,969,985
Due to banks and financial institutions	2,626,173	-	2,624,785	-	2,624,785
Due to banks under repurchase agreements	218,922	-	218,919	-	218,919
Customers' deposits	49,587,220	-	49,596,310	-	49,596,310
Deposits from related parties	750,222	-	749,999	-	749,999
Debt issued and other borrowed funds	1,235,268	437,420	765,349	-	1,202,769
	58,389,303	437,420	57,925,347	-	58,362,767

VALUATION TECHNIQUES USED FOR MATERIAL CLASSES OF FINANCIAL ASSETS AND LIABILITIES CATEGORISED WITHIN LEVEL 2 AND LEVEL 3

Short-term Financial Assets and Liabilities

For financial assets and financial liabilities that have a short-term maturity (less than three months), the carrying amounts are a reasonable approximation of their fair value. Such instruments include: cash and balances with central banks; due to and from banks; demand deposits; and savings accounts without a specific maturity.

Deposits with Banks and Loans and Advances to Banks

For the purpose of this disclosure, there is minimal difference between fair value and carrying amount of these financial assets as they are short-term in nature or have interest rates that re-price frequently. The fair value of deposits with longer maturities is estimated using discounted cash flows applying market rates for counterparties with similar credit quality. Where market data or credit information on the underlying borrower is unavailable, a number of proxy/extrapolation techniques are employed to determine the appropriate discount rate.

Reverse Repurchase and Repurchase Agreements

The fair value of reverse repurchase agreements approximates carrying amount as these balances are generally short-dated and fully collateralised.

Government Bonds, Certificates of Deposit and Other Debt Securities

The Group values these unquoted debt securities using discounted cash flow valuation models using observable market inputs, comprising of interest rates and yield curves, implied volatilities, and credit spreads.

Loans and Advances to Customers

For the purpose of this disclosure, in many cases, the fair value disclosed approximates carrying value because these advances are short-term in nature or have interest rates that re-price frequently. The fair value of loans and advances to customers that do not fall in this category is estimated using discounted cash flows by applying current rates to new loans with similar remaining maturities and to counterparties with similar credit quality.

Deposits from Banks and Customers

In many cases, the fair value disclosed approximates carrying value because these financial liabilities are short-term in nature or have interest rates that re-price frequently. The fair value for deposits with long-term maturities, such as time deposits, is estimated using discounted cash flows, applying either market rates or current rates for deposits of similar remaining maturities. Where market data is unavailable, a number of proxy/extrapolation techniques are employed to determined the appropriate discount rate.

Debt Issued and Other Borrowed Funds

Fair values are determined using discounted cash flows valuation models where the inputs used are estimated by comparison with quoted prices in an active market for similar instruments.

49.0. | CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

CREDIT-RELATED COMMITMENTS AND CONTINGENT LIABILITIES

The Group enters into various commitments, guarantees and other contingent liabilities which are mainly credit-related instruments including both financial and non-financial guarantees and commitments to extend credit. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group. The table below discloses the nominal principal amounts of credit-related commitments and contingent liabilities. Nominal principal amounts represent the amount at risk should the contracts be fully drawn upon and clients default. As a significant portion of guarantees and commitments is expected to expire without being withdrawn, the total of the nominal principal amount is not indicative of future liquidity requirements.

	2018		
	Banks LBP Million	Customers LBP Million	**Total LBP Million**
Guarantees and contingent liabilities			
Financial guarantees	79,546	771,821	851,367
Other guarantees	15,128	1,277,842	1,292,970
	94,674	**2,049,663**	**2,144,337**
Commitments			
Documentary credits	-	420,241	420,241
Loan commitments	-	4,756,412	4,756,412
Of which revocable	-	*4,202,570*	*4,202,570*
Of which irrevocable	-	*553,842*	*553,842*
	-	**5,176,653**	**5,176,653**

	2017		
	Banks LBP Million	Customers LBP Million	Total LBP Million
Guarantees and contingent liabilities			
Financial guarantees	124,471	773,147	897,618
Other guarantees	98,276	1,478,244	1,576,520
	222,747	2,251,391	2,474,138
Commitments			
Documentary credits	-	752,363	752,363
Loan commitments	-	4,982,539	4,982,539
Of which revocable	-	*4,087,347*	*4,087,347*
Of which irrevocable	-	*895,192*	*895,192*
	-	5,734,902	5,734,902

GUARANTEES (INCLUDING STANDBY LETTERS OF CREDIT)

Guarantees are given as security to support the performance of a customer to third parties. The main types of guarantees provided are:

- Financial guarantees given to banks and financial institutions on behalf of customers to secure loans, overdrafts, and other banking facilities; and
- Other guarantees are contracts that have similar features to the financial guarantee contracts but fail to meet the strict definition of a financial guarantee contract under IFRS. These mainly include performance and tender guarantees.

DOCUMENTARY CREDITS

Documentary credits commit the Group to make payments to third parties, on production of documents which are usually reimbursed immediately by customers.

LOAN COMMITMENTS

Loan commitments are defined amounts (unutilised credit lines or undrawn portions of credit lines) against which clients can borrow money under defined terms and conditions.

Revocable loan commitments are those commitments that can be unconditionally cancelled at any time subject to notice requirements according to their general terms and conditions. Irrevocable loan commitments result from arrangements where the Group has no right to withdraw the loan commitment once communicated to the beneficiary.

INVESTMENT COMMITMENTS

The Group invested in funds pursuant to the provisions of decision No. 6116 dated 7 March 1996 of the Central Bank of Lebanon. In accordance with this resolution, the Group can benefit from facilities granted by the Central Bank of Lebanon to be invested in startup companies, incubators and accelerators whose objects are restricted to supporting the development, success and growth of startup companies in Lebanon or companies whose objects are restricted to investing venture capital in startup companies in Lebanon. These investments have resulted in future commitments on the Group of LBP 21,354 million as of 31 December 2018 (2017: LBP 26,358 million).

LEGAL CLAIMS

Litigation is a common occurrence in the banking industry due to the nature of the business. The Group has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year-end, the Group had several unresolved legal claims. Based on advice from legal counsel, Management believes that legal claims will not result in any material financial loss to the Group.

OPERATING LEASE AND CAPITAL EXPENDITURE COMMITMENTS

	2018 LBP Million	2017 LBP Million
Capital expenditure commitments	25,706	28,127
Operating lease commitments – Group as lessee	65,498	58,757
Within one year	*16,474*	*16,341*
One to five years	*30,660*	*22,079*
More than five years	*18,364*	*20,337*
	91,204	86,884

COMMITMENTS RESULTING FROM CREDIT FACILITIES RECEIVED

The Group has the following commitments resulting from the credit facilities received from non-resident financial institutions:

- The net past due loans (after the deduction of provisions) should not exceed 5 percent of the net credit facilities granted.
- The allowance for expected credit losses for past due loans should not fall below 70 percent of the past due loans.
- The net credit-impaired loans should not exceed 20 percent of the Tier 1 capital.
- Sustaining a liquidity ratio exceeding 115 percent.
- Sustaining a capital adequacy exceeding the minimum ratio as per the regulations applied by the Central Bank of Lebanon and the requirements of the Basel agreements to the extent it is applied by the Central Bank of Lebanon.

OTHER COMMITMENTS AND CONTINGENCIES

Certain areas of the Lebanese tax legislation and the tax legislations where the subsidiaries operate are subject to different interpretations in respect of the taxability of certain types of financial transactions and activities. The Bank's books in Lebanon for the years 2015 to 2017 (inclusive) are currently under review by the tax authorities. The outcome of this review cannot be determined yet. The Bank's books in Lebanon remain subject to the review of the tax authorities for the year 2018 and the review of the National Social Security Fund (NSSF) for the period from 30 September 2011 to 31 December 2018. In addition, the subsidiaries' books and records are subject to review by the tax and social security authorities in the countries in which they operate. Management believes that adequate provisions were recorded against possible review results to the extent that they can be reliably estimated.

50.0. | ASSETS UNDER MANAGEMENT

Assets under management include client assets managed or deposited with the Group. For the most part, the clients decide how these assets are to be invested.

	2018 LBP Million	2017 LBP Million
Assets under management	15,292,527	13,622,724
Fiduciary assets	3,097,179	2,944,813
	18,389,706	16,567,537

51.0. | RELATED-PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, or one other party controls both. The definition includes subsidiaries, associates, Key Management Personnel and their close family members, as well as entities controlled or jointly controlled by them.

SUBSIDIARIES

Transactions between the Bank and its subsidiaries meet the definition of related party transactions. However, where these are eliminated on consolidation, they are not disclosed in the Group's financial statements.

ASSOCIATES AND OTHER ENTITIES

The Group provides banking services to its associates and to entities under common directorships. As such, loans, overdrafts, interest and non-interest bearing deposits and current accounts are provided to these entities, as well as other services. These transactions are conducted on the same terms as third-party transactions. Summarised financial information for the Group's associates is set out in Note 26 to these financial statements.

Amounts included in the Group's financial statements are as follows:

	2018 LBP Million	2017 LBP Million
Loans and advances	153,671	161,814
Of which: granted to Key Management Personnel	*15,879*	*24,000*
Of which: Cash collateral received against loans	*115,068*	*111,856*
Indirect facilities	156	4,315
Deposits	396,114	750,222
Interest income on loans	7,883	6,584
Interest expense on deposits	26,756	29,914

KEY MANAGEMENT PERSONNEL

Key Management Personnel are those individuals who have the authority and responsibility for planning and exercising power to directly or indirectly control the activities of the Group and its employees. The Group considers the members of the Board of Directors (and it sub-committees) and Executive Committee, and persons and entities connected to them to be Key Management Personnel.

	2018 LBP Million	2017 LBP Million
Short-term benefits	39,272	46,359
Post-employment benefits	2,567	1,826

Short-term benefits comprise of salaries, bonuses, attendance fees and other benefits.

Provision for end-of-service benefits of Key Management Personnel amounted to LBP 4,190 million as of 31 December 2018 (2017: LBP 10,705 million).

52.0. | RISK MANAGEMENT

The Group is exposed to various types of risks, some of which are:
- Credit risk: the risk of default or deterioration in the ability of a borrower to repay a loan.
- Market risk: the risk of loss in balance sheet and off-balance sheet positions arising from movements in market prices. Movements in market prices include changes in interest rates (including credit spreads), exchange rates and equity prices.
- Liquidity risk: the risk that the Group cannot meet its financial obligations when they come due in a timely manner and at reasonable cost.
- Operational risk: the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.
- Other risks faced by the Group include concentration risk, reputation risk, legal risk and business/strategic risk.

Risks are managed through a process of ongoing identification, measurement, monitoring, mitigation and control and reporting to relevant stakeholders. The Group ensures that risk and rewards are properly balanced and in line with the risk appetite that is approved by the Board of Directors.

BOARD OF DIRECTORS

The Board of Directors (the Board) is ultimately responsible for setting the level of acceptable risks to which the Group is exposed, and as such, defines the risk appetite for the Group. In addition, the Board approves risk policies and procedures. Periodic reporting is made to the Board on existing and emerging risks in the Group. A number of Management committees and departments are also responsible for various levels of risk management, as set out below.

BOARD GROUP RISK COMMITTEE

The role of the Board's Group Risk Committee (BGRC) is to oversee the risk management framework and assess its effectiveness, review and recommend to the Board the group risk policies and risk appetite, monitor the Group's risk profile, review stress tests scenarios and results, and provide access for the Group Chief Risk Officer (CRO) to the Board. The BGRC meets at least every quarter in the presence of the Group CRO.

EXECUTIVE COMMITTEE

The mandate of the Group Executive Committee is to support the Board in the implementation of its strategy, to support the Group CEO in the day-to-day management of the Group, and to develop and implement business policies for the Group and issue guidance for the Group within the strategy approved by the Board. The Executive Committee is involved in reviewing and submitting to the Board the risk policies and risk appetite.

ASSET LIABILITY COMMITTEE

The Asset Liability Committee (ALCO) is a Management committee responsible in part for managing market risk exposures, liquidity, funding needs and contingencies. It is the responsibility of this committee to set up strategies for managing market risk and liquidity exposures and ensuring that Treasury implements those strategies so that exposures are managed in a manner consistent with the risk policy and limits approved by the Board.

INTERNAL AUDIT

All risk management processes are independently audited by the Internal Audit Department at least annually. This includes the examination of both the adequacy and effectiveness of risk control procedures. Internal audit discusses the results of its assessments with Management and reports its findings and recommendations to the Audit Committee of the Board.

RISK MANAGEMENT

Risk Management is a function independent from business lines and headed by the Chief Risk Officer. The function has the responsibility to ensure that risks are properly identified, measured, monitored, controlled, and reported to heads of business lines, Senior Management, ALCO, the Board Risk Committee and the Board. In addition, the function works closely with Senior Management to ensure that proper controls and mitigants are in place. The Risk function at the Group level has the responsibility of drafting risk policies and principles for adoption at the entity level. In addition, it is in charge of cascading risk appetite to entities and business lines monitoring and aggregating risks across the Group.

RISK APPETITE

The Risk appetite reflects the business strategy and market environment of the Group, as well as the level of risks that the Group is willing to accept.

Risk appetite is formalised in a document which is reviewed by the Executive Committee and the Board Group Risk Committee, and approved by the Board. This document comprises qualitative and quantitative statements of risk appetite that includes indicators for asset quality and concentration.

Information independently compiled from all business lines and risk-taking units is examined and processed in order to identify and measure the risk profile. The results are reported and presented on a regular basis to Management and to the Board.

53.0. | CREDIT RISK

Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations, including the full and timely payment of principal and interest. Credit risk arises from various balance sheet and off-balance sheet exposures including interbank, loans and advances, credit commitments, financial guarantees, letters of credit, acceptances, investments in debt securities (including sovereign) and derivative financial instruments. Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position. In the case of credit derivatives, the Group is also exposed to the risk of default of the derivative's counterparty.

CREDIT RISK MANAGEMENT

Credit risk appetite and limits are set at the Group level by the Board and are cascaded to the entities, which in turn formulate their own limits in line with the Group's risk appetite. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

Credit risk is monitored by the Credit Review and Credit Risk functions in each entity, which are independent from business lines. These functions ensure proper coverage of credit risk though the implementation of various processes, including but not limited to: providing independent opinions on credit files, reviewing and approving obligors risk ratings, conducting portfolio reviews, ensuring compliance with the Group's credit policy and limits, aggregating and reporting the credit risk profile to relevant stakeholders.

The Group has established various credit quality review processes to provide early identification of possible changes in the creditworthiness of counterparties, including regular revisions of credit files, including ratings and collateral quality. The credit quality review process allows the Group early detections of changes in assets quality, estimate the potential loss and take early corrective actions.

The Group has also established authorisation limit structure for the approval and renewal of credit facilities. Credit officers and credit committees are responsible for the approval of facilities up to the limits assigned to them, which depend on the size of the exposure. Once approved, facilities are disbursed when all the requirements set by the respective approval authority are met and documents intended as security are obtained and verified by the Credit Administration function.

EXPECTED CREDIT LOSSES

GOVERNANCE AND OVERSIGHT OF EXPECTED CREDIT LOSSES

The Group's IFRS 9 Impairment Committee, which is a committee composed of Executive Committee members, oversees the ECL estimation framework by: i) approving the IFRS 9 impairment policy, ii) reviewing key assumptions and estimations that are part of the ECL calculations; iii) approving the forward-looking economic scenarios; iv) approving staging classifications on a name-by-name basis for material exposures and v) reviewing ECL results.

Impairment policy requirements are set and reviewed regularly, at a minimum annually, to maintain adherence to accounting standards and evolving business models. Key judgments inherent in policy, including the estimated life of revolving credit facilities and the quantitative criteria for assessing the Significant Increase in Credit Risk (SICR), are assessed through a combination of expert judgment and data-driven methodologies.

ECL is estimated using a model that takes into account borrowers' exposure, internal obligor risk rating, facility characteristic, and collateral information, among others. Models are, by their nature, imperfect and incomplete representations of reality because they rely on assumptions and inputs, and so they may be subject to errors affecting the accuracy of their outputs. To manage the model risks, the Group has established a systematic approach for the development, validation, approval, implementation and on-going use of the models. Models are validated by a qualified independent party to the model development unit, before first use and at a minimum annually thereafter. Each model is designated an owner who is responsible for:
- Monitoring the performance of the model, which includes comparing estimated ECL versus actual ECL; and
- Proposing post-model development adjustments to enhance model's accuracy or to account for situations where known or expected risk factors and information have not been considered in the modelling process.

- Each model used in the estimation of ECL, including key inputs, are governed by a series of internal controls, which include the validation of completeness and accuracy of data, reconciliation with Finance data, and documentation of the calculation steps.

ECL estimation takes into account a range of future economic scenarios, which are set by economists within the Group's Research Department using independent models and expert judgment. Economic scenarios are prepared on a frequent basis, at a minimum annually, to align with the Group's medium-term planning exercise, but also in the event of significant change in the prevailing economic conditions. The scenario probability weights are also updated when the scenarios are updated.

DEFINITION OF DEFAULT AND CURE

The Group considers a financial asset to be in default when:
- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- The borrower is more than 90 days past due on any material credit obligation to the Group.
- It is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

As a part of a qualitative assessment of whether a customer is in default, the Group carefully considers whether the events listed above should result in classifying the exposures in Stage 3 for ECL calculations or whether Stage 2 is appropriate.

It is the Group's policy to consider a financial instrument as "cured" and therefore re-classified out of Stage 3 when none of the default criteria have been present for a specific period of time. The decision whether to classify an asset as Stage 2 or Stage 1 once cured is dependent on the absence of SICR criteria compared to initial recognition and is examined on a case by case basis. In case of forbearance under Stage 2, the borrower remains in this stage until all the following conditions have been met: i) at least a 12-month probation period has passed, ii) three consecutive payments under the new repayment schedule have been made, iii) the borrower has no past dues under any obligation to the Group, and iv) all the terms and conditions agreed to as part of the restructuring have been met.

THE GROUP'S INTERNAL RATING AND PD ESTIMATION PROCESS

Treasury (Including Sovereign) and Interbank Relationships

For non-loan exposures, external credit ratings are used and mapped to the corresponding PDs reported by credit rating agencies. These are continuously monitored and updated.

Non-retail Loans

The Risk function, which is independent from business lines, is responsible for the development of internal rating models, and for the estimation of Probability of Default (PD) and Loss Given Default (LGD). The Group uses an internal rating scale comprised of 19 performing grades and 3 non-performing grades. The grades generated by internal rating models are mapped to PDs using historical default observations that are specific to each country and loan portfolio. If historical default observations are not sufficient for a reliable PD estimation, than a low-default portfolio approach is adopted. The mapping of rating to PD, which is done initially on a through-the-cycle basis is then adjusted to a point-in-time basis in line with IFRS 9 requirements.

These internal rating models for the Group's key lending portfolios including Corporate and SME, and Private Banking obligors incorporate both qualitative and quantitative criteria such as:
- Historical and projected financial information including debt service coverage, operations, liquidity and capital structure.
- Account behaviour, repayment history and outside and other non-financial information such as management quality, company standing and industry risk.
- Any publicly available information related to the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports and other market disclosures.
- Any other objectively supportable information on the obligor's willingness and capacity of repayment.

Internal ratings are initially assigned by the credit origination functions (i.e. business lines) and are approved and validated by the Credit Review and Credit Risk function, which are independent from business lines. Credit Review and Credit Risk functions are responsible for ensuring that ratings assigned to obligors are accurate and updated at all times.

Retail Loans

Retail lending comprises mainly of personal loans, car loans, credit cards and housing loans. The Group utilises application scorecards to score retail applicants and for either, the automation of decisions according to a certain cut-off score or as a tool to support the approval or reject decision by specialised credit officers.

The Group also relies on behavioural scorecard to predict the probability of default within a specific timeframe. This scorecard is built primarily on the repayment history of retail borrowers, and include other predictive factors.

For the estimation of expected losses for retail products, the Group uses currently the loss approach by product based on the net flow of exposures from one days-past-due bucket to another. This estimation is adjusted by a forward looking component in line with the IFRS9 standard.

EXPOSURE AT DEFAULT

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable.

LOSS GIVEN DEFAULT

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD based on the history of recovery rates of claims against defaulted counterparties. It is estimated using information on the counterparty and collateral type including recovery costs. For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data.

SIGNIFICANT INCREASE IN CREDIT RISK

The Group continuously monitors all its credit risk exposures. In order to determine whether an instrument or a portfolio of instruments is subject to 12m ECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition, using reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment including forward-looking information. The Group assessment of significant increase in credit risk is being performed at least quarterly based on the following:

Non-retail
Migration of obligor risk rating by a certain number of notches from origination to reporting date as a key indicator of the change in the risk of default at origination with the risk of default at reporting date.

Retail
Thresholds have been based on historical default rates and historical payment behaviour to determine significant increase in credit risk.

Qualitative Criteria
For non-retail, the Group also considers in its assessment of significant increase in credit risk, various qualitative factors including significant adverse changes in the business condition, restructuring due to credit quality weakness during the past 12-months, classification of an exposure under the "Follow-up and regularisation" supervisory classification. For retail, the Group considers specific events that might be indicative of a significant increase in credit risk such as the event of restructuring.

Backstop
A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the instruments is more than 30 days past due on its contractual payments.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired at the reporting date.

EXPECTED LIFE

With the exception of credit cards and other revolving facilities, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Group has the legal right to call it earlier. With respect to credit cards and other revolving facilities, the Group does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Group's expectations of the customer behaviour, its likelihood of default and the Group's future risk mitigation procedures, which could include reducing or cancelling the facilities.

FORWARD-LOOKING INFORMATION

The Group incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Group formulates three economic scenarios: a base case, which is the median scenario assigned with a certain probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a specific probability of occurring. The base case is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The Group relies on economists within its Research Department for the forecast of these three scenarios including the weight attributable to each scenario. These are determined using a combination of expert judgment and model output. The Group reviews the methodologies and assumptions including any forecasts of future economic conditions on a regular basis.

The Group has identified the real GDP growth among other, as the key driver of ECL for several countries where it operates. Using an analysis of historical data, the Group has estimated relationships between this macro-economic variable and credit losses. The ECL estimates have been assessed for sensitivity to changes to forecasts of the macro-variable and also together with changes to the weights assigned to the scenarios. The impact on ECL is not material.

MODIFIED AND FORBORNE LOANS

From 1 January 2018
The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in the Summary of Significant Accounting Policies above.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit impaired at that time).

The Group renegotiates loans to customers in financial difficulties (referred to as "forbearance activities") to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms. The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk.

The table below includes Stage 2 and 3 assets that were modified and, therefore, treated as forborne during the period, with the related modification loss suffered by the Bank.

	2018 LBP Million
Amortised costs of financial assets modified during the period	895,215

There are no previously modified financial assets for which loss allowance has changed to 12m ECL measurement as at 31 December 2018. There are no previously modified financial assets for which loss allowance had changed to 12m ECL measurement and reverted to LTECL as at 31 December 2018.

Before 1 January 2018
Restructuring activity aims to manage customer relationships, maximise collection opportunities and, if possible, avoid foreclosure or repossession. Such activities include extended payment arrangements, deferring foreclosure, modification, loan rewrites and/or deferral of payments pending a change in circumstances.

Restructuring policies and practices are based on indicators or criteria, which, in the judgment of local Management, indicate that repayment will probably continue. The application of these policies varies according to the nature of the market and the type of the facility.

	2017 LBP Million
Corporate and SME	1,041,045
Retail and Personal Banking	113,392
	1,154,437

FINANCIAL ASSETS AND ECLs BY STAGE

The tables below present an analysis of financial assets at amortised cost by gross exposure and impairment allowance by stage allocation as at 31 December 2018 and 1 January 2018. The Group does not hold any material purchased or originated credit-impaired assets as at year-end.

	Gross Exposure				Impairment Allowance				
31 December 2018	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	**Total LBP Million**	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	**Total LBP Million**	**Net Exposure LBP Million**
Central banks	24,325,581	-	-	24,325,581	47,269	-	-	47,269	24,278,312
Due from banks and financial institutions	3,843,417	-	1,149	3,844,566	129	-	811	940	3,843,626
Loans to banks and financial institutions and reverse repurchase agreements	266,764	-	-	266,764	119	-	-	119	266,645
Loans and advances to customers at amortised cost	16,568,992	3,310,960	1,169,619	21,049,571	80,892	385,396	736,317	1,202,605	19,846,966
Corporate and SME	*10,742,286*	*2,905,826*	*924,942*	*14,573,054*	*64,958*	*360,077*	*534,549*	*959,584*	*13,613,470*
Retail and Personal Banking	*5,461,593*	*405,134*	*242,842*	*6,109,569*	*11,157*	*25,319*	*199,933*	*236,409*	*5,873,160*
Public sector	*365,113*	-	*1,835*	*366,948*	*4,777*	-	*1,835*	*6,612*	*360,336*
Loans and advances to related parties at amortised cost	153,688	-	-	153,688	17	-	-	17	153,671
Financial assets at amortised cost	18,048,058	-	-	18,048,058	44,261	-	-	44,261	18,003,797
Financial guarantees and other commitments	3,308,064	199,263	25,718	3,533,045	10,872	5,057	12,517	28,446	3,504,599
Total	**66,514,564**	**3,510,223**	**1,196,486**	**71,221,273**	**183,559**	**390,453**	**749,645**	**1,323,657**	**69,897,616**

	Gross Exposure				Impairment Allowance				
1 January 2018	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million	Net Exposure LBP Million
Central banks	19,390,528	-	-	19,390,528	51,533	-	-	51,533	19,338,995
Due from banks and financial institutions	1,454,412	-	1,290	1,455,702	104	-	949	1,053	1,454,649
Loans to banks and financial institutions and reverse repurchase agreements	1,208,536	-	-	1,208,536	1,063	-	-	1,063	1,207,473
Loans and advances to customers at amortised cost	21,046,341	3,563,871	1,000,709	25,610,921	101,917	512,906	549,448	1,164,271	24,446,650
Corporate and SME	*14,075,742*	*3,273,469*	*725,454*	*18,074,665*	*73,369*	*494,983*	*343,166*	*911,518*	*17,163,147*
Retail and Personal Banking	*6,554,993*	*290,402*	*271,941*	*7,117,336*	*22,083*	*17,923*	*202,968*	*242,974*	*6,874,362*
Public sector	*415,606*	-	*3,314*	*418,920*	*6,465*	-	*3,314*	*9,779*	*409,141*
Loans and advances to related parties at amortised cost	161,814	-	-	161,814	170	-	-	170	161,644
Financial assets at amortised cost	14,263,302	-	-	14,263,302	44,273	-	-	44,273	14,219,029
Financial guarantees and other commitments	4,235,104	95,533	17,952	4,348,589	2,018	2,278	16,982	21,278	4,327,311
Total	61,760,037	3,659,404	1,019,951	66,439,392	201,078	515,184	567,379	1,283,641	65,155,751

The following table represents a reconciliation of the opening to the closing balance of impairment allowances of loans and advances at amortised cost:

	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	**Total LBP Million**
At 1 January 2018	**101,917**	**512,906**	**549,448**	**1,164,271**
Net re-measurements and reallocations	(8,685)	(29,170)	473,983	436,128
Recoveries	-	-	(100,995)	(100,995)
Write-offs	-	-	(159,934)	(159,934)
Other movements	-	-	42,762	42,762
Foreign exchange difference	(12,340)	(98,340)	(68,947)	(179,627)
Balance at 31 December 2018	**80,892**	**385,396**	**736,317**	**1,202,605**

The contractual amount outstanding on loans that have been written off, but were still subject to enforcement activity, was LBP 847,449 million at 31 December 2018 (2017: LBP 725,421 million).

Net re-measurements and reallocations include re-measurements as a result of changes in the size of portfolios, reclassifications between stages and reallocations of provisions. The decrease in ECLs of Stage 1 and Stage 2 portfolio was driven by a decrease in the gross size of the portfolio.

53.3. ANALYSIS OF RISK CONCENTRATIONS

GEOGRAPHICAL LOCATION ANALYSIS

The Group controls credit risk by maintaining close monitoring credit of its assets exposures by geographic location. The distribution of financial assets by geographic region as of 31 December is as follows:

2018	Lebanon LBP Million	Turkey LBP Million	MENA LBP Million	Europe LBP Million	North America LBP Million	Asia LBP Million	Rest of Africa LBP Million	Central and South America LBP Million	Rest of the World LBP Million	**Total LBP Million**
Cash and balances with central banks	21,542,625	1,164,786	1,313,392	772,879	-	-	-	-	-	24,793,682
Due from banks and financial institutions	216,625	319,794	372,789	2,099,302	808,426	26,559	131	-	-	3,843,626
Loans to banks and financial institutions and reverse repurchase agreements	18,761	228,471	19,413	-	-	-	-	-	-	266,645
Derivative financial instruments	58,031	39,801	5,458	259,951	50,643	1,379	3,529	-	957	419,749
Financial assets at fair value through profit or loss	5,243	935	-	106,914	-	-	-	-	-	113,092
Loans and advances to customers at amortised cost	8,707,519	5,183,348	4,547,163	494,208	248,521	118,497	453,816	51,861	42,033	19,846,966
Loans and advances to related parties at amortised cost	153,077	-	406	183	5	-	-	-	-	153,671
Debtors by acceptances	157,068	186,374	45,844	10,189	-	2,473	4,792	-	7,885	414,625
Financial assets at amortised cost	16,143,493	557,514	1,075,151	90,140	46,064	75,320	-	-	16,115	18,003,797
Financial assets at fair value through other comprehensive income	-	84,463	1,099,327	-	-	-	-	-	-	1,183,790
	47,002,242	**7,765,486**	**8,478,943**	**3,833,766**	**1,153,659**	**224,228**	**462,268**	**51,861**	**66,990**	**69,039,643**

2017	Lebanon LBP Million	Turkey LBP Million	MENA LBP Million	Europe LBP Million	North America LBP Million	Asia LBP Million	Rest of Africa LBP Million	Central and South America LBP Million	Rest of the World LBP Million	Total LBP Million
Cash and balances with central banks	16,393,296	1,492,429	801,344	1,159,790	-	-	-	-	-	19,846,859
Due from banks and financial institutions	192,924	3,981	262,104	718,557	270,792	4,568	234	-	1,593	1,454,753
Loans to banks and financial institutions and reverse repurchase agreements	24,709	1,146,928	36,899	-	-	-	-	-	-	1,208,536
Derivative financial instruments	34,300	31,222	1,390	173,354	154,312	262	-	68	3,176	398,084
Financial assets at fair value through profit or loss	1,317,465	306	-	116,649	-	-	-	-	-	1,434,420
Loans and advances to customers at amortised cost	9,242,906	8,775,210	4,669,122	596,622	486,741	116,025	347,453	79,516	87,186	24,400,781
Loans and advances to related parties at amortised cost	152,913	-	7,895	999	7	-	-	-	-	161,814
Debtors by acceptances	135,197	57,263	15,267	6,115	1,660	2,693	8,701	-	-	226,896
Financial assets at amortised cost	12,006,192	476,890	2,035,670	97,232	50,161	116,615	-	-	39,585	14,822,345
	39,499,902	11,984,229	7,829,691	2,869,318	963,673	240,163	356,388	79,584	131,540	63,954,408

INDUSTRIAL ANALYSIS

The Group controls credit risk by maintaining close monitoring credit of its assets exposures by industry sector. The distribution of financial assets by industry sector as of 31 December is as follows:

2018	Financial Services and Brokerage LBP Million	Government LBP Million	Consumers LBP Million	Retail and Wholesale LBP Million	Construction and Materials LBP Million	Manufacturing LBP Million	Energy and Petroleum LBP Million	Services and Utilities LBP Million	Agriculture LBP Million	**Total LBP Million**
Cash and balances with central banks	515,370	24,278,312	-	-	-	-	-	-	-	24,793,682
Due from banks and financial institutions	3,843,626	-	-	-	-	-	-	-	-	3,843,626
Loans to banks and financial institutions and reverse repurchase agreements	266,645	-	-	-	-	-	-	-	-	266,645
Derivative financial instruments	382,234	-	-	6,109	3,077	16,578	-	11,745	6	419,749
Financial assets at fair value through profit or loss	106,909	6,178	-	-	5	-	-	-	-	113,092
Loans and advances to customers at amortised cost	1,540,080	92,990	6,131,617	1,877,713	2,465,420	1,775,933	997,618	4,854,797	110,798	19,846,966
Loans and advances to related parties at amortised cost	105,820	-	35,385	-	1	230	-	12,235	-	153,671
Debtors by acceptances	3,577	-	-	173,138	2,756	198,321	-	1,209	35,624	414,625
Financial assets at amortised cost	219,882	17,690,483	-	-	-	45,806	-	45,229	2,397	18,003,797
Financial assets at fair value through other comprehensive income	-	1,183,790	-	-	-	-	-	-	-	1,183,790
	6,984,143	**43,251,753**	**6,167,002**	**2,056,960**	**2,471,259**	**2,036,868**	**997,618**	**4,925,215**	**148,825**	**69,039,643**

2017	Financial Services and Brokerage LBP Million	Government LBP Million	Consumers LBP Million	Retail and Wholesale LBP Million	Construction and Materials LBP Million	Manufacturing LBP Million	Energy and Petroleum LBP Million	Services and Utilities LBP Million	Agriculture LBP Million	Total LBP Million
Cash and balances with central banks	456,331	19,390,528	-	-	-	-	-	-	-	19,846,859
Due from banks and financial institutions	1,454,753	-	-	-	-	-	-	-	-	1,454,753
Loans to banks and financial institutions and reverse repurchase agreements	1,208,536	-	-	-	-	-	-	-	-	1,208,536
Derivative financial instruments	348,780	-	-	28,070	2,637	12,077	-	6,307	213	398,084
Financial assets at fair value through profit or loss	116,649	1,317,771	-	-	-	-	-	-	-	1,434,420
Loans and advances to customers at amortised cost	1,933,735	12,408	6,909,473	2,387,419	3,519,582	3,111,168	1,617,792	4,783,483	125,721	24,400,781
Loans and advances to related parties at amortised cost	95,041	-	50,005	214	-	-	-	16,554	-	161,814
Debtors by acceptances	2,691	-	498	139,887	1,539	70,926	-	7,735	3,620	226,896
Financial assets at amortised cost	252,658	14,422,606	-	-	-	98,631	-	45,393	3,057	14,822,345
	5,869,174	35,143,313	6,959,976	2,555,590	3,523,758	3,292,802	1,617,792	4,859,472	132,611	64,954,488

53.4. CREDIT QUALITY

The Group assesses the quality of its credit portfolio using the following credit rating methodologies:

(i) External ratings from approved credit rating agencies for financial institutions and financial assets.

(ii) Internal rating models that take into account both financial as well as non-financial information such as management quality, operating environment and company standing. These internal rating models include a Corporate model, SME models, Project Finance and an Individual model.

(iii) Internally developed scorecards to assess the creditworthiness of retail borrowers in an objective manner and streamline the decision making process.

(iv) Supervisory ratings, comprising six main categories: (a) *Regular* includes borrowers demonstrating good to excellent financial condition, risk factors, and capacity to repay. These loans demonstrate regular and timely payment of dues, adequacy of cash flows, timely presentation of financial statements, and sufficient collateral/guarantee when required. (b) *Follow-up* represents a lack of documentation related to a borrower's activity, an inconsistency between facilities' type and related conditions. (c) *Follow-up and regularisation* includes credit worthy borrowers requiring close monitoring without being impaired. These loans might be showing weaknesses; insufficient or inadequate cash flows; highly leveraged; deterioration in economic sector or country where the facility is used; loan rescheduling more than once since initiation; or excess utilisation above limit. (d) *Substandard loans* include borrowers with incapacity to repay from identified cash flows. Also included under this category are those with recurrent late payments and financial difficulties. (e) *Doubtful loans* where full repayment is questioned even after liquidation of collateral. It also includes loans stagnating for over 6 months and debtors who are unable to repay restructured loans. Finally, (f) *Bad loans* with no or little expected inflows from business or assets. This category also includes borrowers with significant delays and deemed insolvent.

SOVEREIGN AND BANKS AND FINANCIAL INSTITUTIONS

Moody's Rating	Credit Quality Description
AA+, AA, AA-	High
A+, A, A-	High
BBB+, BBB, BBB-	Standard
BB+, BB, BB-	Standard
B+, B, B-	Weak
CCC+, CCC, CCC-	Weak
CC, C	Credit impaired

NON-RETAIL LOANS

Internal Rating Grade	Credit Quality Description
Performing	
1	High
2	High
3	High
4	Standard
5	Standard
6	Standard
7	Weak
Non-performing	
8	Credit impaired
9	Credit impaired
10	Credit impaired

RETAIL

Internal Rating Grade	Credit Quality Description
Performing	
B0 (0 days past due)	High
B1 (1 to 30 days past due)	Standard
B2 (31 to 60 days past due)	Standard
3 (61 to 90 days past due)	Weak
Non-performing	
B4 – B6 (91 to 180 days past due)	Credit impaired
B7 – B12 (181 days to 360 days past due)	Credit impaired
B13 (more than 360 days past due)	Credit impaired

The credit quality descriptions can be summarised as follows:

- High: there is a very high likelihood of the asset being recovered in full. The counterparty exhibits very high ability and willingness to meet its full obligation on due time.
- Standard: there is a high likelihood that the asset will be recovered in full. At the lower end of this scale, there are customers that are being more closely monitored, for example, corporate customers with some evidence of reduced financial strength or retail borrowers with payment delays not exceeding 60 days.
- Weak: there is concern over the obligor's ability to make payments when due. However, this has not materialised in an event of default. Under such a classification, the borrower is continuing to make payments on due time, albeit some and/or recurring delays. The counterparty is still expected to settle all outstanding amounts of principal and interest, however with a higher probability of default.

(*) The internal rating grade is based on the obligor risk rating (which is mapped to PD) and therefore does not incorporate facility risk characteristic and structure such as the availability of credit risk mitigant (impacting LGD). For this reason, an obligor risk rating can be mapped to different supervisory ratings for ratings 5, 6 and 7 depending on the expected loss level on the obligor's exposure.

The table below shows the credit quality of the Group's loans and advances to customers based on internal credit ratings and stage classification.

	2018				2017
	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	**Total LBP Million**	Total LBP Million
Loans and advances to customers at amortised cost	16,568,992	3,310,960	1,169,619	21,049,571	25,610,921
Corporate and SMEs	**10,742,286**	**2,905,826**	**924,942**	**14,573,054**	18,074,665
Performing					
High	*863,369*	*2,352*	-	*865,721*	*985,658*
Standard	*8,924,297*	*662,978*	-	*9,587,275*	*14,865,841*
Weak	*954,620*	*2,240,496*	-	*3,195,116*	*1,497,712*
Non-performing					
Credit impaired	-	-	*924,942*	*924,942*	*725,454*
Retail and Private Banking	**5,461,593**	**405,134**	**242,842**	**6,109,569**	7,117,336
Performing					
High	*4,899,059*	*5,364*	-	*4,904,423*	*5,874,563*
Standard	*562,403*	*327,782*	-	*890,185*	*872,376*
Weak	*131*	*71,988*	-	*72,119*	*98,456*
Non-performing					
Credit impaired	-	-	*242,842*	*242,842*	*271,941*
Public sector	**365,113**	-	**1,835**	**366,948**	418,920
Performing					
High	*365,113*	-	-	*365,113*	*415,606*
Non-performing					
Credit impaired	-	-	*1,835*	*1,835*	*3,314*
Loans and advances to related parties at amortised cost	153,688	-	-	153,688	161,814
Performing					
High	*153,688*	-	-	*153,688*	*161,814*
Off-balance sheet loan commitments and financial guarantee contracts	3,308,064	199,263	25,718	3,533,045	4,348,589
Performing					
High	*1,118,289*	*403*	-	*1,118,289*	*1,304,576*
Standard	*2,138,053*	*74,498*	-	*2,212,551*	*2,915,402*
Weak	*51,722*	*124,362*	-	*176,084*	*110,659*
Non-performing					
Credit impaired	-	-	*25,718*	*25,718*	*17,952*
Total	20,030,744	3,510,223	1,195,337	24,736,304	30,121,324

The table below shows the credit quality of the Group's financial instruments and balances due from banks and financial institutions as per external ratings.

2018	Sovereign and Central Banks					Non-sovereign					
	AAA to AA- LBP Million	A+ to BBB- LBP Million	BB+ to B- LBP Million	Unrated LBP Million	**Total LBP Million**	AAA to AA- LBP Million	A+ to BBB- LBP Million	BB+ to B- LBP Million	Unrated LBP Million	**Total LBP Million**	**Grand Total LBP Million**
Balances with central banks	770,434	-	23,507,878	-	24,278,312	-	-	-	-	-	**24,278,312**
Due from banks and financial institutions	-	-	-	-	-	1,264,289	1,705,214	633,027	241,096	3,843,626	**3,843,626**
Loans to banks and financial institutions and reverse repurchase agreements	-	-	-	-	-	-	-	266,645	-	266,645	**266,645**
Financial assets at fair value through profit or loss	-	-	6,178	-	6,178	-	106,914	-	-	106,914	**113,092**
Financial assets at amortised cost	78,398	14,598	17,597,487	-	17,690,483	181,342	129,576	2,396	-	313,314	**18,003,797**
Financial assets at fair value through other comprehensive income	-	-	1,183,790	-	1,183,790	-	-	-	-	-	**1,183,790**
	848,832	**14,598**	**42,295,333**	**-**	**43,158,763**	**1,445,631**	**1,941,704**	**902,086**	**241,096**	**4,530,499**	**47,689,262**

2017	Sovereign and Central Banks					Non-sovereign					
	AAA to AA- LBP Million	A+ to BBB- LBP Million	BB+ to B- LBP Million	Unrated LBP Million	Total LBP Million	AAA to AA- LBP Million	A+ to BBB- LBP Million	BB+ to B- LBP Million	Unrated LBP Million	Total LBP Million	Grand Total LBP Million
Balances with central banks	1,157,522	-	18,233,006	-	19,390,528	-	-	-	-	-	19,390,528
Due from banks and financial institutions	-	-	-	-	-	267,674	806,385	237,300	143,394	1,454,753	1,454,753
Loans to banks and financial institutions and reverse repurchase agreements	-	-	-	-	-	-	80,068	1,066,860	61,608	1,208,536	1,208,536
Financial assets at fair value through profit or loss	-	-	1,317,771	-	1,317,771	-	114,068	-	2,581	116,649	1,434,420
Financial assets at amortised cost	77,248	8,349	14,337,008	-	14,422,605	175,407	221,276	-	3,057	399,740	14,822,345
	1,234,770	8,349	33,887,785	-	35,130,904	443,081	1,221,797	1,304,160	210,640	3,179,678	38,310,582

53.5. MAXIMUM EXPOSURE TO CREDIT RISK AND COLLATERAL AND OTHER CREDIT ENHANCEMENTS

The following table shows the maximum exposure to credit risk by class of financial asset. It further shows the total fair value of collateral, capped to the maximum exposure to which it relates and the net exposure to credit risk.

	2018								
	Maximum Exposure LBP Million	Cash Collateral and Margins LBP Million	Securities LBP Million	Guarantees Received from Banks and Financial Institutions LBP Million	Real Estate LBP Million	Vehicles LBP Million	Other Guarantees LBP Million	Netting Agreements LBP Million	Net Credit Exposure LBP Million
Balances with central banks	24,278,312	-	-	-	-	-	-	4,772,032	19,506,280
Due from banks and financial institutions	3,843,626	-	-	-	-	-	-	-	3,843,626
Loans to banks and financial institutions and reverse repurchase agreements	266,645	-	-	197,423	-	-	-	-	69,222
Derivative financial instruments	419,749	-	-	-	-	-	-	-	419,749
Financial assets at fair value through profit or loss	113,092	-	-	-	-	-	-	-	113,092
Loans and advances to customers at amortised cost	19,846,966	2,390,625	1,683,899	99,861	6,095,879	305,808	509,520	3,559	8,757,815
Corporate and SME	*13,613,470*	*1,385,059*	*807,666*	*97,669*	*4,171,166*	*68,812*	*453,734*	*2,296*	*6,627,068*
Retail and Personal Banking	*5,873,160*	*1,002,354*	*876,233*	*2,192*	*1,924,713*	*236,996*	*55,786*	*1,263*	*1,773,623*
Public sector	*360,336*	*3,212*	-	-	-	-	-	-	*357,124*
Loans and advances to related parties at amortised cost	153,671	115,068	-	-	25,733	483	784	-	11,603
Debtors by acceptances	414,625	11,176	-	23	2,771	-	4,406	-	396,249
Financial assets at amortised cost	18,003,797	-	-	-	-	-	-	1,488,087	16,515,710
Financial assets at fair value through other comprehensive income	1,183,790	-	-	-	-	-	-	-	1,183,790
Contingent liabilities	1,271,608	181,739	41,575	20,231	39,181	729	45,836	-	942,317
Letters of credit	*420,241*	*85,863*	*571*	*6*	*4,079*	-	*7,425*	-	*322,297*
Financial guarantee given to banks and financial institutions	*79,546*	-	-	-	-	-	-	-	*79,546*
Financial guarantee given to customers	*771,821*	*95,876*	*41,004*	*20,225*	*35,102*	*729*	*38,411*	-	*540,474*
Total	69,795,881	2,698,608	1,725,474	317,538	6,163,564	307,020	560,546	6,263,678	51,759,453
Guarantees received from banks, financial institutions and customers									
Utilised collateral		2,698,608	1,725,474	317,538	6,163,564	307,020	560,546	-	11,772,750
Surplus of collateral before undrawn credit lines		1,013,294	4,050,579	19,855	14,823,357	398,031	2,661,686	-	22,966,802
		3,711,902	5,776,053	337,393	20,986,921	705,051	3,222,232	-	34,739,552

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LBP 4,756,412 million as at 31 December 2018.

	2017								
	Maximum Exposure LBP Million	Cash Collateral and Margins LBP Million	Securities LBP Million	Guarantees Received from Banks and Financial Institutions LBP Million	Real Estate LBP Million	Vehicles LBP Million	Other Guarantees LBP Million	Netting Agreements LBP Million	Net Credit Exposure LBP Million
Balances with central banks	19,390,528	-	-	-	-	-	-	2,431,840	16,958,688
Due from banks and financial institutions	1,454,753	-	-	-	-	-	-	-	1,454,753
Loans to banks and financial institutions and reverse repurchase agreements	1,208,536	-	-	1,095,781	-	-	-	-	112,755
Derivative financial instruments	398,084	-	-	-	-	-	-	-	398,084
Financial assets at fair value through profit or loss	1,434,420	-	-	-	-	-	-	-	1,434,420
Loans and advances to customers at amortised cost	24,400,781	2,288,133	1,701,444	85,406	7,730,169	426,287	631,182	10,108	11,528,052
Corporate and SME	*17,208,357*	*1,216,830*	*956,525*	*83,393*	*5,662,559*	*113,444*	*570,411*	*7,326*	*8,597,869*
Retail and Personal Banking	*6,783,282*	*1,068,432*	*744,919*	*2,013*	*2,067,610*	*312,843*	*60,771*	*2,782*	*2,523,912*
Public sector	*409,142*	*2,871*	-	-	-	-	-	-	*406,271*
Loans and advances to related parties at amortised cost	161,814	111,856	-	-	26,342	576	1,657	-	21,383
Debtors by acceptances	226,896	8,994	111	-	1,979	39	7,517	-	208,256
Financial assets at amortised cost	14,822,345	-	-	-	-	-	-	2,687,493	12,134,852
Contingent liabilities	1,649,981	158,667	24,763	21,035	57,839	1,150	88,380	-	1,298,147
Letters of credit	*752,363*	*71,814*	*522*	-	*2,106*	*111*	*39,795*	-	*638,015*
Financial guarantee given to banks and financial institutions	*124,471*	-	-	-	-	-	-	-	*124,471*
Financial guarantee given to customers	*773,147*	*86,853*	*24,241*	*21,035*	*55,733*	*1,039*	*48,585*	-	*535,661*
Total	65,148,138	2,567,650	1,726,318	1,202,222	7,816,329	428,052	728,736	5,129,441	45,549,390
Guarantees received from banks, financial institutions and customers									
Utilised collateral		2,567,650	1,726,318	1,202,222	7,816,329	428,052	728,736	-	14,469,307
Surplus of collateral before undrawn credit lines		2,444,204	3,136,909	32,399	15,845,237	391,508	1,691,682	-	23,541,939
		5,011,854	4,863,227	1,234,621	23,661,566	819,560	2,420,418	-	38,011,246

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LBP 4,982,539 million as at 31 December 2017.

COLLATERAL AND OTHER CREDIT ENHANCEMENTS

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

Management monitors the market value of collateral on a regular basis and requests additional collateral in accordance with the underlying agreement when deemed necessary.

The main types of collateral obtained are as follows:
- *Securities:* the balances shown represent the fair value of the securities.
- *Letters of credit/guarantees:* the Group holds in some cases guarantees, letters of credit and similar instruments from banks and financial institutions, which enable it to claim settlement in the event of default on the part of the counterparty. The balances shown represent the notional amount of these types of guarantees held by the Group.
- *Real estate (commercial and residential):* the Group holds, in some cases, a first-degree mortgage over residential property (for housing loans) and commercial property (for commercial loans). The value shown reflects the fair value of the property limited to the related mortgaged amount.
- *Netting agreements:* the Group makes use of master netting agreements and other arrangements not eligible for netting under IAS 32 Financial Instruments: presentation with its counterparties. Such arrangements provide for single net settlement of all financial instruments covered by the agreements in the event of default on any one contract. Although, these master netting arrangements do not normally result in an offset of balance sheet assets and liabilities (as the conditions for offsetting under IAS 32 may not apply), they nevertheless, reduce the Group's exposure to credit risk, as shown in the tables on the previous pages. Although master netting arrangements may significantly reduce credit risk, it should be noted that the credit risk is eliminated only to the extent of amounts due to the same counterparty.

In addition to the above, the Group also obtains guarantees from parent companies for loans to their subsidiaries, personal guarantees for loans to companies owned by individuals, second degree mortgages, and assignments of insurance or bills proceeds and revenues, which are not reflected in the above table.

54. MARKET RISK

Market risk is defined as the potential loss in both on balance sheet and off-balance sheet positions resulting from movements in market risk factors such as foreign exchange rates, interest rates and equity prices.

The Market Risk unit's responsibilities are to identify, measure, report, and monitor all potential and actual market risks to which the Group is exposed. The purpose is to introduce transparency around the Treasury, investment portfolio, and asset and liability risk profile through consistent and comprehensive risk measurements, aggregation, management and analysis. Policies are set and limits monitored in order to ensure the avoidance of large, unexpected losses and the consequent impact on the Group's safety and soundness.

Tools developed in-house by a centralised unit of specialists offer a holistic view of risk exposures and are customised to meet the requirements of all end users (Group Risk, Senior Management, business lines and Legal Compliance). Stress scenarios include the various manifestations of the credit crisis that are relevant to the Group's exposures, as well as scenarios related to the Group's environment.

A. CURRENCY RISK

Foreign exchange (or currency) risk is the risk that the value of a portfolio will fall as a result of changes in foreign exchange rates. The major sources of this type of market risk are imperfect correlations in the movements of currency prices and fluctuations in interest rates. Therefore, exchange rates and relevant interest rates are acknowledged as distinct risk factors.

In addition to regulatory limits, the Board has set limits on positions by currency. These positions are monitored to ensure they are maintained within established limits.

The following tables present the breakdown of assets and liabilities by currency:

	2018						
	LBP LBP Million	USD LBP Million	EUR LBP Million	TRY LBP Million	EGP LBP Million	Other LBP Million	**Total LBP Million**
Assets							
Cash and balances with central banks	11,985,037	9,199,139	1,465,589	292,588	863,022	988,307	24,793,682
Due from banks and financial institutions	32,493	2,251,373	659,471	319,832	1,010	579,447	3,843,626
Loans to banks and financial institutions and reverse repurchase agreements	18,777	7,589	23,308	197,557	19,414	-	266,645
Derivative financial instruments	35,596	304,745	36,308	25,654	80	17,366	419,749
Financial assets at fair value through profit or loss	149	142,887	4,065	935	2,404	69,682	220,122
Loans and advances to customers at amortised cost	2,303,760	9,691,478	2,653,094	2,413,361	1,770,573	1,014,700	19,846,966
Loans and advances to related parties at amortised cost	17,173	135,527	556			415	153,671
Debtors by acceptances	-	292,047	117,973	1,390	-	3,215	414,625
Financial assets at amortised cost	7,593,969	9,239,954	129,224	134,528	494,950	411,172	18,003,797
Financial assets at fair value through other comprehensive income	16,627	41,021	515	85,864	1,099,637	13,771	1,257,435
Investments in associates	94,483	50,382	-	-	-	-	144,865
Property and equipment	616,464	912	1,094	24,842	137,768	96,621	877,701
Intangible fixed assets	22,264	-	1,698	18,009	22,386	4,119	68,476
Non-current assets held for sale	2,721	121,976	535	68,247	242	-	193,721
Other assets	24,516	203,648	26,782	199,427	13,193	31,986	499,552
Deferred tax assets	12,938	(51)	14	77,872	-	18,106	108,879
Goodwill	-	42,413	-	-	-	-	42,413
Total assets	**22,776,967**	**31,725,040**	**5,120,226**	**3,860,106**	**4,424,679**	**3,248,907**	**71,155,925**
Liabilities and shareholders' equity							
Due to central banks	10,309,763	1,411,438	-	198,789	-	-	11,919,990
Due to banks and financial institutions	17,570	1,491,456	385,081	3,224	81,169	205,187	2,183,687
Due to banks under repurchase agreements	-	-	-	29	1,275	-	1,304
Derivative financial instruments	725	97,380	21,202	270,461	174	18,311	408,253
Customers' deposits	7,587,803	27,964,643	3,770,870	2,445,849	3,831,089	2,176,817	47,777,071
Deposits from related parties	32,446	334,829	22,769	1,106	-	4,964	396,114
Debt issued and other borrowed funds	-	1,234,431	-	59,258	-	-	1,293,689
Engagements by acceptances	-	292,047	117,973	1,390	-	3,215	414,625
Other liabilities	182,956	83,100	9,452	46,723	30,687	51,933	404,851
Deferred tax liabilities	9,933	17	-	-	27,164	2,705	39,819
Current tax liability	96,651	(3,328)	1,455	-	14,749	5,433	114,960
Provisions for risks and charges	267,801	4,189	5,275	36,086	11,953	17,490	342,794
Shareholders' equity	4,463,319	1,672,643	19,978	(715,689)	94,886	323,631	5,858,768
Total liabilities and shareholders' equity	**22,968,967**	**34,582,845**	**4,354,055**	**2,347,226**	**4,093,146**	**2,809,686**	**71,155,925**

	2017						
	LBP LBP Million	USD LBP Million	EUR LBP Million	TRY LBP Million	EGP LBP Million	Other LBP Million	Total LBP Million
Assets							
Cash and balances with central banks	6,059,534	10,341,227	1,215,863	595,930	381,421	1,252,884	19,846,859
Due from banks and financial institutions	39,428	755,194	475,991	3,917	1,693	178,530	1,454,753
Loans to banks and financial institutions and reverse repurchase agreements	24,709	50,000	-	1,096,928	36,899	-	1,208,536
Derivative financial instruments	359	222,058	14,370	149,750	137	11,410	398,084
Financial assets at fair value through profit or loss	840,726	557,650	4,920	304	2,152	89,698	1,495,450
Loans and advances to customers at amortised cost	2,591,204	10,654,569	3,534,557	4,760,289	1,787,221	1,072,941	24,400,781
Loans and advances to related parties at amortised cost	31,756	121,018	1,207	-	-	7,833	161,814
Debtors by acceptances	-	164,044	53,523	2,238	395	6,696	226,896
Financial assets at amortised cost	3,507,879	9,160,300	126,853	172,662	1,201,271	653,380	14,822,345
Financial assets at fair value through other comprehensive income	66,099	84,120	5,003	1,958	149	698	158,027
Investments in associates	93,878	37,856	-	-	-	2,723	134,457
Property and equipment	626,458	2,945	1,324	41,599	112,559	99,515	884,400
Intangible fixed assets	11,124	4,063	1,590	35,963	18,470	5,033	76,243
Non-current assets held for sale	2,707	72,036	560	68,511	244	-	144,058
Other assets	21,699	172,256	22,063	73,480	52,611	54,119	396,228
Deferred tax assets	16,893	28,331	15	36,130	-	22,884	104,253
Goodwill	-	-	(421)	-	-	43,134	42,713
Total assets	13,934,453	32,427,667	5,457,418	7,039,659	3,595,222	3,501,478	65,955,897
Liabilities and shareholders' equity							
Due to central banks	3,363,238	608,260	-	-	-	-	3,971,498
Due to banks and financial institutions	19,466	1,824,824	513,063	5,503	45,404	217,913	2,626,173
Due to banks under repurchase agreements	-	218,922	-	-	-	-	218,922
Derivative financial instruments	254	27,827	24,984	132,259	395	19,665	205,384
Customers' deposits	6,477,591	29,706,002	4,093,696	4,135,973	3,100,738	2,163,857	49,677,857
Deposits from related parties	170,538	513,590	28,822	395	-	36,877	750,222
Debt issued and other borrowed funds	-	1,235,268	-	-	-	-	1,235,268
Engagements by acceptances	-	164,044	53,523	2,238	395	6,696	226,896
Other liabilities	135,546	96,417	17,077	72,231	43,884	62,236	427,391
Deferred tax liabilities	3,048	34,087	-	-	26,725	2,732	66,592
Current tax liability	78,438	(22,656)	35	-	20,106	18,779	94,702
Provisions for risks and charges	95,820	3,578	6,240	12,296	7,594	16,203	141,731
Shareholders' equity	4,405,042	1,354,225	26,094	(69,127)	5,200	591,827	6,313,261
Total liabilities and shareholders' equity	14,748,981	35,764,388	4,763,534	4,291,768	3,250,441	3,136,785	65,955,897

THE GROUP'S EXPOSURE TO CURRENCY RISK

The Group is subject to currency risk on financial assets and liabilities that are denominated in currencies other than the Lebanese Pound. Most of these financial assets and liabilities are in US Dollars, Euros and Turkish Liras.

The table below shows the currencies to which the Group had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecast cash flows. The numbers represent the effect of a reasonably possible movement of the currency rate against the Lebanese Pound, with all other variables held constant, first on the income statement (due to the potential change in fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the impact of currency translation gains/losses of consolidated subsidiaries and the change in fair value of currency swaps used to hedge net investment in foreign subsidiaries). A negative amount reflects a potential net reduction in income or equity, while a positive amount reflects a net potential increase.

		2018		2017	
Currency	Increase in Currency rate %	Effect on Profit before Tax LBP Million	Effect on Equity LBP Million	Effect on Profit before Tax LBP Million	Effect on Equity LBP Million
USD	1%	(14,177)	(1,751)	(5,447)	(16,341)
EUR	1%	705	6,047	224	5,946
TRY	1%	(1,206)	4,865	(452)	19,046

HEDGING NET INVESTMENTS

A foreign currency exposure arises from net investments in subsidiaries that have a different functional currency from that of the Bank. The risk arises from the fluctuation in spot exchange rates between the functional currency of the subsidiaries and branches, and the Bank's functional and presentation currency which causes the amount of the net investment to vary. Such a risk may have a significant impact on the Group's financial statements. In order to mitigate this risk, the Group has entered into foreign currency derivative. The hedged risk in the net investment hedge is the risk of a weakening foreign currency against the Lebanese Pound that will result in a reduction in the carrying amount of the Group's investment in foreign subsidiaries.

ASSESSMENT OF HEDGE EFFECTIVENESS CRITERIA

The Group establishes that an economic relationship exists between the hedged item and the hedging instruments since the hedging instruments have fair value changes that offset the changes in the value of the net investment resulting from the hedged risk. The effect of credit risk does not dominate the value changes that result from that economic relationship. The analysis of the possible behaviour of the hedging relationship during its term indicates that it is expected to meet the risk management objective.

The hedge ratio is being designated based on actual amounts of the hedged item and hedging instrument. The notional amounts of the options and forward described above are on a par with the components of net investment hedged. Hence, the hedge ratio is 100%.

The details of the Group's hedging activities are disclosed in Note 20.

B. INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair value of financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities. Positions are monitored on a daily basis by Management and, whenever possible, hedging strategies are used to ensure positions are maintained within established limits.

The Group employs hedging activities, utilising derivative instruments to ensure positions are maintained within the established limits. The details of the Group's hedging activities are disclosed in Note 20.

INTEREST RATE SENSITIVITY

The table below shows the sensitivity of interest income to reasonably possible parallel changes in interest rates, all other variables being held constant.

The impact of interest rate changes on net interest income is due to assumed changes in interest paid and received on floating rate financial assets and liabilities and to the reinvestment or refunding of fixed rated financial assets and liabilities at the assumed rates. The result includes the effect of hedging instruments and assets and liabilities held at 31 December 2018 and 2017. The change in interest income is calculated over a 1-year period. The impact also incorporates the fact that some monetary items do not immediately respond to changes in interest rates and are not passed through in full, reflecting sticky interest rate behaviour. The pass-through rate and lag in response time are estimated based on historical statistical analysis and are reflected in the outcome.

Besides, the effect on equity resulting from the discount rate applied to defined benefit plan obligations is disclosed in Note 38 to these financial statements.

The effect of any future associated hedges made by the Group is not accounted for. The sensitivity of equity was calculated for an increase in basis points whereby a similar decrease has an equal and offsetting effect.

Sensitivity of Net Interest Income

		2018		2017	
	Change in Basis Points	LBP Million Increase	LBP Million Decrease	LBP Million Increase	LBP Million Decrease
LBP	± 100	13,151	(13,151)	8,095	(8,095)
USD	± 50	22,586	(22,586)	(2,744)	2,744
EUR	± 25	889	(889)	2,399	(2,399)
TRY	± 200	(4,905)	4,905	(11,943)	11,943

The Group's interest sensitivity position based on contractual repricing arrangements is shown in the table below. The expected repricing and maturity dates may differ significantly from the contractual dates, particularly with regard to the maturity of customers' demand deposits.

	2018								
	Up to 1 Month LBP Million	1 to 3 Months LBP Million	3 Months to 1 Year LBP Million	Total Less than 1 Year LBP Million	1 to 5 Years LBP Million	Over 5 Years LBP Million	Total More than 1 Year LBP Million	Non-interest Bearing LBP Million	**Total LBP Million**
Assets									
Cash and balances with central banks	5,813,015	4,788,992	939,151	11,541,158	476,725	11,283,848	11,760,573	1,491,951	24,793,682
Due from banks and financial institutions	3,180,209	77,721	-	3,257,930	-	-	-	585,696	3,843,626
Loans to banks and financial institutions and reverse repurchase agreements	207,326	32,037	26,923	266,286	-	-	-	359	266,645
Derivative financial instruments	54,117	85,894	89,462	229,473	90,965	47,084	138,049	52,227	419,749
Financial assets at fair value through profit or loss	69,681	17,717	685	88,083	19,576	5,021	24,597	107,442	220,122
Loans and advances to customers at amortised cost	7,057,910	4,224,032	4,175,663	15,457,605	3,532,605	620,188	4,152,793	236,568	19,846,966
Loans and advances to related parties at amortised cost	116,094	385	9,528	126,007	15,986	10,159	26,145	1,519	153,671
Financial assets at amortised cost	235,675	261,273	617,995	1,114,943	6,674,014	9,957,217	16,631,231	257,623	18,003,797
Financial assets at fair value through other comprehensive income	-	-	1,183,790	1,183,790	-	-	-	73,645	1,257,435
Total assets	**16,734,027**	**9,488,051**	**7,043,197**	**33,265,175**	**10,809,871**	**21,923,517**	**32,733,388**	**2,807,030**	**68,805,693**
Liabilities									
Due to central banks	211,977	611,557	830,747	1,654,281	459,185	9,737,902	10,197,087	68,622	11,919,990
Due to banks and financial institutions	782,399	273,471	598,690	1,654,560	261,602	218,841	480,443	48,684	2,183,687
Due to banks under repurchase agreements	1,295	-	-	1,295	-	-	-	9	1,304
Derivative financial instruments	33,050	28,913	58,300	120,263	146,482	88,299	234,781	53,209	408,253
Customers' deposits	26,206,558	7,437,826	8,371,832	42,016,216	4,657,085	14,486	4,671,571	1,089,284	47,777,071
Deposits from related parties	260,114	14,698	116,977	391,789	2,072	-	2,072	2,253	396,114
Debt issued & other borrowed funds	-	58,834	226,125	284,959	527,625	453,724	981,349	27,381	1,293,689
Total liabilities	**27,495,393**	**8,425,299**	**10,202,671**	**46,123,363**	**6,054,051**	**10,513,252**	**16,567,303**	**1,289,442**	**63,980,108**
Interest rate sensitivity gap	**(10,761,366)**	**1,062,752**	**(3,159,474)**	**-**	**4,755,820**	**11,410,265**			
Cumulative gap	**(10,761,366)**	**(9,698,614)**	**(12,858,088)**	**-**	**(8,102,268)**	**3,307,997**			

	2017								
	Up to 1 Month LBP Million	1 to 3 Months LBP Million	3 Months to 1 Year LBP Million	Total Less than 1 Year LBP Million	1 to 5 Years LBP Million	Over 5 Years LBP Million	Total More than 1 Year LBP Million	Non-interest Bearing LBP Million	Total LBP Million
Assets									
Cash and balances with central banks	5,424,470	1,675,623	2,331,379	9,431,472	4,301,631	5,083,427	9,385,058	1,030,329	19,846,859
Due from banks and financial institutions	933,466	167,892	174	1,101,532	-	-	-	353,221	1,454,753
Loans to banks and financial institutions and reverse repurchase agreements	1,119,620	48,649	25,613	1,193,882	1,800	-	1,800	12,854	1,208,536
Derivative financial instruments	39,699	54,555	235,775	330,029	36,023	2,550	38,573	29,482	398,084
Financial assets at fair value through profit or loss	68,855	156,126	144,722	369,703	50,901	993,689	1,044,590	81,157	1,495,450
Loans and advances to customers at amortised cost	6,224,818	6,381,138	5,682,434	18,288,390	5,007,140	763,062	5,770,202	342,189	24,400,781
Loans and advances to related parties at amortised cost	133,979	2,164	12,326	148,469	12,212	731	12,943	402	161,814
Financial assets at amortised cost	137,422	506,687	867,959	1,512,068	5,190,231	7,883,190	13,073,421	236,856	14,822,345
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	158,027	158,027
Total assets	14,082,329	8,992,834	9,300,382	32,375,545	14,599,938	14,726,649	29,326,587	2,244,517	63,946,649
Liabilities									
Due to central banks	13,792	243,340	1,949,758	2,206,890	633,944	1,117,227	1,751,171	13,437	3,971,498
Due to banks and financial institutions	954,718	389,167	674,421	2,018,306	407,689	145,720	553,409	54,458	2,626,173
Due to banks under repurchase agreements	-	218,588	-	218,588	-	-	-	334	218,922
Derivative financial instruments	53,579	35,588	51,369	140,536	62,862	1,393	64,255	593	205,384
Customers' deposits	30,513,886	8,052,325	6,806,188	45,372,399	3,019,468	893	3,020,361	1,285,097	49,677,857
Deposits from related parties	416,432	223,680	55,377	695,489	49,481	-	49,481	5,252	750,222
Debt issued & other borrowed funds	-	-	226,125	226,125	-	983,006	983,006	26,137	1,235,268
Total liabilities	31,952,407	9,162,688	9,763,238	50,878,333	4,173,444	2,248,239	6,421,683	1,385,308	58,685,324
Interest rate sensitivity gap	(17,870,078)	(169,854)	(462,856)		10,426,494	12,478,410			
Cumulative gap	(17,870,078)	(18,039,932)	(18,502,788)		(8,076,294)	4,402,116			

C. PREPAYMENT RISK

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rates fall.

Market risks that lead to prepayments are not material with respect to the markets where the Group operates. Accordingly, the Group considers prepayment risk on net profits as not material after considering any penalties arising from prepayments.

D. EQUITY PRICE RISK

Equity price risk is the risk that the value of a portfolio will fall as a result of a change in stock prices. Risk factors underlying this type of market risk are a whole range of various equity (and index) prices corresponding to different markets (and currencies/maturities) in which the Group holds equity-related positions.

The Group sets tight limits on equity exposures and the types of equity instruments that traders are allowed to take positions in. Nevertheless, depending on the complexity of financial instruments, equity risk is measured in first cash terms, such as the market value of a stock/index position, and also in price sensitivities, such as sensitivity of the value of a portfolio to changes in the underlying asset price. These measures are applied to an individual position and/or to a portfolio of equities.

55. LIQUIDITY RISK

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Group might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, Management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind, and of monitoring future cash flows and liquidity on a daily basis. The Group has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of marketable and diverse assets that can be liquidated in the event of an unforeseen interruption of cash flow. As per applicable regulations, the Group must retain obligatory reserves with the central banks where the Group entities operate.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. The Group maintains a solid ratio of highly liquid net assets in foreign currencies to deposits and commitments in foreign currencies taking market conditions into consideration.

The Liquidity Coverage Ratio (LCR) is calculated in accordance with Basel III liquidity standards as implemented by the Central Bank of each jurisdiction where the Group operates. It aims at ensuring that each entity has sufficient unencumbered high-quality-liquid assets (HQLA) to meet its liquidity needs in a 30 calendar day liquidity stress scenario during which the entity is assumed to experience outflows at a severe stress level. HQLA are determined in accordance with the central banks' regulations but in all cases they consist of assets that can be converted into cash at little or no loss value. As at 31 December 2018, the LCR ratios for Group financial entities is higher than the regulatory requirements (2017: the same).

The Group stresses the importance of customers' deposits as source of funds to finance its lending activities. This is monitored by using the advances to deposits ratio, which compares loans and advances to customers as a percentage of clients' deposits.

	Loans to Deposits	
	2018 %	2017 %
Year-end	42	49
Maximum	49	49
Minimum	42	47
Average	46	48

ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

The table below summarises the maturity profile of the Group's financial liabilities as of 31 December based on contractual undiscounted cash flows. The contractual maturities were determined based on the period remaining to reach maturity as per the statement of financial position actual commitments. Repayments which are subject to notice are treated as if notice were to be given immediately. Concerning deposits, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay.

The table does not reflect the expected cash flows indicated by the Group's deposit retention history.

	2018					
	Less than 1 Month LBP Million	1 to 3 Months LBP Million	3 to 12 Months LBP Million	1 to 5 Years LBP Million	Over 5 Years LBP Million	**Total LBP Million**
Financial liabilities						
Due to central banks	246,067	656,145	1,029,293	1,263,334	10,611,669	13,806,508
Due to banks and financial institutions	731,072	300,569	359,930	577,116	285,684	2,254,371
Due to banks under repurchase agreements	1,304	-	-	-	-	1,304
Derivative financial instruments	81,130	33,623	58,719	146,482	88,299	408,253
Customers' deposits	26,325,501	8,216,071	8,991,822	5,384,692	55,277	48,973,363
Deposits from related parties	261,729	15,593	119,502	27,928	-	424,752
Debt issued and other borrowed funds	9,574	59,258	51,038	763,409	704,716	1,587,995
Engagements by acceptances	124,032	170,369	120,065	-	159	414,625
Total financial liabilities	**27,780,409**	**9,451,628**	**10,730,369**	**8,162,961**	**11,745,804**	**67,871,171**

	2017					
	Less than 1 Month LBP Million	1 to 3 Months LBP Million	3 to 12 Months LBP Million	1 to 5 Years LBP Million	Over 5 Years LBP Million	Total LBP Million
Financial liabilities						
Due to central banks	22,379	248,747	1,998,532	742,195	1,207,441	4,219,294
Due to banks and financial institutions	1,072,920	384,450	364,957	582,034	379,244	2,783,605
Due to banks under repurchase agreements		2,149	220,983	-	-	223,132
Derivative financial instruments	13,841	45,402	32,639	49,903	63,601	205,386
Customers' deposits	30,760,180	9,197,129	6,930,464	3,198,251	946	50,086,970
Deposits from related parties	418,902	226,701	57,177	56,290	-	759,070
Debt issued and other borrowed funds	9,372	-	46,392	223,059	1,288,555	1,567,378
Engagements by acceptances	77,327	38,626	110,824	-	119	226,896
Total financial liabilities	32,374,921	10,143,204	9,761,968	4,851,732	2,939,906	60,071,731

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	2018					
	On Demand LBP Million	Less than 3 Months LBP Million	3 to 12 Months LBP Million	1 to 5 Years LBP Million	More than 5 Years LBP Million	**Total LBP Million**
Financial guarantees	658,247	73,273	57,619	49,993	12,235	851,367
Other guarantees	853,024	110,409	298,215	16,892	14,430	1,292,970
Documentary credits	201,426	140,035	77,036	1,744	-	420,241
Loan commitments	4,374,950	51,740	313,555	16,167	-	4,756,412
	6,087,647	**375,457**	**746,425**	**84,796**	**26,665**	**7,320,990**

	2017					
	On Demand LBP Million	Less than 3 Months LBP Million	3 to 12 Months LBP Million	1 to 5 Years LBP Million	More than 5 Years LBP Million	Total LBP Million
Financial guarantees	715,527	57,190	67,565	40,631	16,705	897,618
Other guarantees	1,241,831	22,294	290,097	22,298	-	1,576,520
Documentary credits	420,853	77,711	253,008	791	-	752,363
Loan commitments	4,667,727	39,824	244,741	27,590	2,657	4,982,539
	7,045,938	197,019	855,411	91,310	19,362	8,209,040

MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the Group's assets and liabilities according to when they are expected to be recovered or settled. Trading assets and liabilities including derivatives, but excluding derivatives held for hedging, have been classified to mature within 12 months, regardless of the actual contractual maturities of the products.

The maturity profile of the assets and liabilities at 31 December 2018 is as follows:

	Less than 1 Year LBP Million	More than 1 Year LBP Million	**Total LBP Million**
Assets			
Cash and balances with central banks	8,527,700	16,265,982	24,793,682
Due from banks and financial institutions	3,843,626	-	3,843,626
Loans to banks and financial institutions and reverse repurchase agreements	242,824	23,821	266,645
Derivative financial instruments	154,360	265,389	419,749
Financial assets at fair value through profit or loss	176,966	43,156	220,122
Loans and advances to customers at amortised cost	12,411,819	7,435,147	19,846,966
Loans and advances to related parties at amortised cost	119,917	33,754	153,671
Debtors by acceptances	414,467	158	414,625
Financial assets at amortised cost	1,075,583	16,928,214	18,003,797
Financial assets at fair value through other comprehensive income	1,115,725	141,710	1,257,435
Investments in associates	-	144,865	144,865
Property and equipment	-	877,701	877,701
Intangible fixed assets	-	68,476	68,476
Non-current assets held for sale	-	193,721	193,721
Other assets	137,111	362,441	499,552
Deferred tax assets	-	108,879	108,879
Goodwill	-	42,413	42,413
Total assets	**28,220,098**	**42,935,827**	**71,155,925**
Liabilities and shareholders' equity			
Due to central banks	1,722,903	10,197,087	11,919,990
Due to banks and financial institutions	1,372,154	811,533	2,183,687
Due to banks under repurchase agreements	1,304	-	1,304
Derivative financial instruments	173,472	234,781	408,253
Customers' deposits	42,952,153	4,824,918	47,777,071
Deposits from related parties	393,944	2,170	396,114
Debt issued and other borrowed funds	86,215	1,207,474	1,293,689
Engagements by acceptances	414,467	158	414,625
Other liabilities	390,691	14,160	404,851
Current tax liability	114,960	-	114,960
Deferred tax liabilities	3,639	36,180	39,819
Provision for risks and charges	-	342,794	342,794
Shareholders' equity	-	5,858,768	5,858,768
Total liabilities and shareholders' equity	**47,625,902**	**23,530,023**	**71,155,925**

The maturity profile of the assets and liabilities at 31 December 2017 is as follows:

	Less than 1 Year LBP Million	More than 1 Year LBP Million	Total LBP Million
Assets			
Cash and balances with central banks	7,885,059	11,961,800	19,846,859
Due from banks and financial institutions	1,454,753	-	1,454,753
Loans to banks and financial institutions and reverse repurchase agreements	1,175,138	33,398	1,208,536
Derivative financial instruments	211,393	186,691	398,084
Financial assets at fair value through profit or loss	379,967	1,115,483	1,495,450
Loans and advances to customers at amortised cost	11,477,140	12,923,641	24,400,781
Loans and advances to related parties at amortised cost	137,236	24,578	161,814
Debtors by acceptances	226,777	119	226,896
Financial assets at amortised cost	1,693,846	13,128,499	14,822,345
Financial assets at fair value through other comprehensive income	-	158,027	158,027
Investments in associates	-	134,457	134,457
Property and equipment	-	884,400	884,400
Intangible fixed assets	-	76,243	76,243
Non-current assets held for sale	-	144,058	144,058
Other assets	164,655	231,573	396,228
Deferred tax assets	-	104,253	104,253
Goodwill	-	42,713	42,713
Total assets	24,805,964	41,149,933	65,955,897
Liabilities and shareholders' equity			
Due to central banks	2,217,312	1,754,186	3,971,498
Due to banks and financial institutions	1,665,002	961,171	2,626,173
Due to banks under repurchase agreements	218,922	-	218,922
Derivative financial instruments	91,880	113,504	205,384
Customers' deposits	46,682,766	2,995,091	49,677,857
Deposits from related parties	700,117	50,105	750,222
Debt issued and other borrowed funds	11,615	1,223,653	1,235,268
Engagements by acceptances	226,777	119	226,896
Other liabilities	190,315	237,076	427,391
Current tax liability	94,702	-	94,702
Deferred tax liabilities	66,592	-	66,592
Provision for risks and charges	-	141,731	141,731
Shareholders' equity	-	6,313,261	6,313,261
Total liabilities and shareholders' equity	52,166,000	13,789,897	65,955,897

56. OPERATIONAL RISK

Operational risk is defined as the risk of loss or damage resulting from inadequate or failed internal processes, people, systems or external events. The Basel definition of operational risk includes legal risk, and excludes reputational and strategic risks. Still, the failure of operational risk controls may result in reputational damage, business disruptions, business loss, or non-compliance with laws and regulations that can lead to significant financial losses. Therefore, reputational and strategic risks are indirectly mitigated once the operational risks acting as their key drivers are well managed.

The operational risk management framework is implemented by an independent operational risk management team that operates in coordination with other support functions such as: Corporate Information Security and Business Continuity, Compliance, and Internal Control. The Internal Audit provides an independent assurance on the adequacy and effectiveness of this framework through annual reviews.

Operational risks are managed across the Group based on a set of principles and standards detailed in the Board-approved operational risk management framework. These principles and standards include at a minimum: redundancy of mission-critical systems, segregation of duties, four-eyes principle, independency of employees performing controls, reconciliations, mandatory vacations, awareness, training and job rotation of employees. Controls are also embedded within systems and formalised in policies and procedures.

Incidents are captured and analysed to identify their root causes. Corrective and preventive measures are recommended to prevent future reoccurrences. Risk and Control Assessments (RCAs) are conducted on an ongoing basis to identify risks and control vulnerabilities associated to existing or new products, processes, activities and systems. Key Risk Indicators are also developed continuously to detect breaches and alarming trends. Recommendations to improve the control environment are communicated to concerned parties and escalated to Management as deemed necessary.

Major incidents, RCA findings and operational losses are reported to the Board of Directors and Risk Committees periodically as per the governance framework set in the Group Operational Risk policy.

Insurance coverage is used as an additional layer of mitigation and is commensurate with the Group business activities, in terms of volume and nature.

57. CAPITAL MANAGEMENT

The Group maintains an actively managed capital base to cover risks inherent in the business, retain sufficient financial strength and flexibility to support new business growth, and meet national and international regulatory capital requirements at all times. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) as adopted by the Central Bank of Lebanon, which is the lead supervisor of the Group.

The following table shows the applicable regulatory capital ratios:

	Common Tier 1 Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio
Year ended 31 December 2018	**10.0%**	**13.0%**	**15.0%**

	2018 LBP Million	2017 LBP Million
Risk-weighted assets:		
Credit risk	30,219,261	34,073,921
Market risk	501,209	1,238,220
Operational risk	4,150,376	3,848,863
Total risk-weighted assets	**34,870,846**	39,161,004

The regulatory capital including net income for the year less proposed dividends as of 31 December is as follows:

	2018 LBP Million	2017 LBP Million
Tier 1 capital	4,886,738	5,327,346
Of which: common Tier 1	*3,965,452*	*4,115,243*
Tier 2 capital	1,707,936	1,302,582
Total capital	**6,594,674**	6,629,928

The capital adequacy ratio including net income for the year less proposed dividends as of 31 December is as follows:

	2018	2017
Capital adequacy – Common Tier 1	**11.37%**	10.51%
Capital adequacy – Tier 1	**14.01%**	13.60%
Capital adequacy – Total capital	**18.91%**	16.93%

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions, its business model and risk profile. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends payment to shareholders or issue capital securities.

04 MANAGEMENT

Learning platforms

Creates an accessible and seamless channel of knowledge from each individual source of determination, human awareness and consciousness, that yields success.

1.0. | GROUP MANAGEMENT

BANK AUDI sal

EXECUTIVE BOARD MEMBERS

Mr. Samir N. HANNA	Chairman & Group Chief Executive Officer
Dr. Freddie C. BAZ	Group Strategy Director
Dr. Imad I. ITANI	Group Head of Retail Banking
Mr. Aristidis I. VOURAKIS	Deputy Group Chief Executive Officer

SENIOR EXECUTIVES

Mr. Tamer M. GHAZALEH	Group Chief Financial Officer
Mr. Chahdan E. JEBEYLI	Group Chief Legal & Compliance Officer
Mr. Gaby G. KASSIS	Head of Regulatory Relations
Mr. Elia S. SAMAHA	Group Chief Credit Officer
Mr. Michel E. ARAMOUNI	Group Capital Markets
Mr. Khalil I. DEBS	Group Head of Corporate Banking
Dr. Marwan S. BARAKAT	Group Chief Economist & Head of Research
Mr. Khalil G. GEAGEA	Group Head of Financial Institutions & Correspondent Banking
Mrs. Bassima G. HARB	Head of Regional Corporate Banking & Structured Finance
Mr. Joseph I. KESROUANI	Head of Business Development – South America & Africa
Mr. Farid F. LAHOUD	Group Corporate Secretary
Mr. Antoine N. NAJM	Group Head of Corporate Credit Management
Mr. Elias L. ABOUSLEIMAN	Group Chief Risk Officer
Mr. Mahmoud M. MAJZOUB	Group Head of Internal Audit

ADVISOR TO THE GROUP CEO

Mr. Redouane G. BENHAMADI	

GROUP FINANCIAL INSTITUTIONS & CORRESPONDENT BANKING

Mr. Joseph A. NADER	Deputy Group Head of Financial Institutions & Correspondent Banking
	Tel: (961-1) 977644. Fax: (961-1) 989494.
	E-mail: joseph.nader@bankaudi.com.lb

ISLAMIC BANKING

Dr. Khaled R. AL-FAKIH	Head of Group Sharia Compliance
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	E-mail: khaled.al-fakih@bankaudi.com.lb

INVESTOR RELATIONS

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	E-mail: sana.sabra@bankaudi.com.lb

2.0. | ENTITIES' MANAGEMENT

2.1. | BANK AUDI sal
LEBANON

Mr. Marc J. AUDI	Executive Board Member – Country Manager
Mr. Hassan A. SALEH	Chief Operating Officer

MANAGEMENT – CENTRAL DEPARTMENTS

Mr. Antoine G. BOUFARAH	Chief Compliance Officer
Mr. Ibrahim M. SALIBI	Head of Corporate & Commercial Banking
Mr. Toufic S. ARIDA	Assistant Chief Operating Officer – Technology
Mrs. Marcelle R. ATTAR	Head of Information Technology
Mr. Georges J. BOUSTANY	Head of Remedial Management
Mrs. Grace E. EID	Head of Retail Banking
Mr. Karl A. HADDAD	Head of Corporate Credit Risk
Mr. Mahmoud A. KURDY	Chief Financial Officer
Mrs. Nayiri H. MANOUKIAN	Head of Human Resources
Mr. Assaad G. MEOUCHY	Head of Branch Network Management
Mrs. Rana S. NASSIF	Head of Internal Audit
Mr. Fadi A. OBEID	Assistant Chief Operating Officer – Operations
Mr. Hassan H. SABBAH	Head of SME Banking
Mr. Jean N. TRABOULSI	Head of Marketing & Communications

MANAGEMENT – BRANCHES NETWORK

Mrs. Ghina M. DANDAN	Network Manager
Mr. Salam G. NADDA	Network Manager
Mrs. Wafaa' S. YOUNES	Network Manager
Mr. Rabih E. BERBERY	Network Manager
Mr. Kamal S. TABBARA	Network Manager
Mr. Abdo M. ABI-NADER	Senior Regional Manager
Mrs. Carol S. ABOU JAOUDE	Regional Manager
Mr. Nagib A. CHEAIB	Regional Manager
Mr. Georges K. KARAM	Regional Manager
Mrs. Roula I. MIKHAEL	Regional Manager
Mr. Robert J. MOUBARAK	Regional Manager
Mrs. Joumana A. NAJJAR	Regional Manager
Mr. Fadi V. SAADE	Regional Manager

2.2. | ODEA BANK A.Ş.
TURKEY

BOARD OF DIRECTORS

		Member of the Credit Committee	Member of the Audit Committee	Member of the Risk Committee	Member of the Remuneration Committee	Member of the Corporate Governance Committee
Mr. Samir N. HANNA	Chairman				Chair	
Mr. Bülent T. ADANIR	Member		•	Chair	•	
Dr. Freddie C. BAZ	Member	Alternate			•	•
Mr. Khalil I. DEBS	Member	•				
Dr. Marwan M. GHANDOUR	Member					
Dr. Imad I. ITANI	Member	Alternate	Chair			
Mr. Philippe F. EL KHOURY	Member		Advisor			Chair
Mr. Mert R. ÖNCÜ	Member	•				
Mrs. Dragica N. PILIPOVIC-CHAFFEY	Member					•
Mr. Elia S. SAMAHA	Member	Chair				
Mr. Aristidis I. VOURAKIS	Member			•		

MANAGEMENT

Mr. Mert R. ÖNCÜ	General Manager – Chief Executive Officer
Mr. Yalçin F. AVCI	Assistant General Manager – Commercial Banking
Mr. Gökhan D. ERKIRALP	Assistant General Manager – Treasury & Capital Markets
Mr. Cem A. MURATOĞLU	Assistant General Manager – Retail Banking
Mr. Sinan Erdem S. ÖZER	Assistant General Manager – Information Technologies and Operations – CIOO
Mr. Mehmet Gökmen C. UÇAR	Assistant General Manager – Chief Financial Officer/in charge of Finance, Financial Control and Strategy
Mr. Alpaslan M. YURDAGÜL	Assistant General Manager – Credit Allocation – Deputy Chief Executive Officer

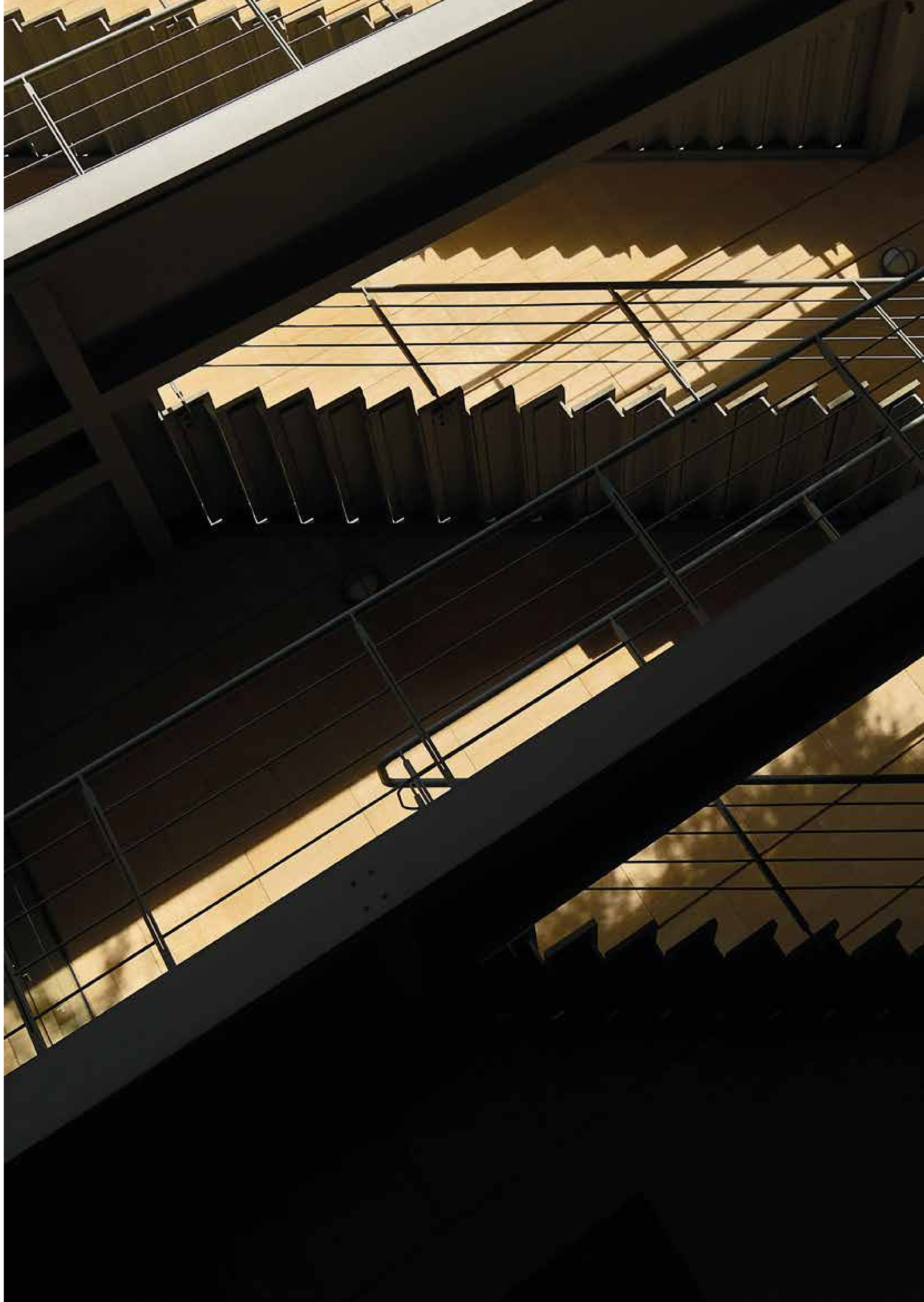
2.3. | BANK AUDI sae
EGYPT

BOARD OF DIRECTORS

		Member of the Audit Committee	Member of the Risk Committee	Member of the Corporate Governance & Nomination Committee	Member of the Remuneration Committee
Mr. Hatem A. SADEK	Chairman		•	Chair	
Mr. Mohamed A. FAYED	CEO & Managing Director				
Mr. Mohamed M. BEDEIR	Deputy Managing Director		•		
Mr. Mounir F. ABDELNOUR	Member	•		•	
Mr. Khalil I. DEBS	Member	•			
Mr. Tamer M. GHAZALEH *(since March 2019)*	Member				•
Mr. Samir N. HANNA	Member				
Dr. Imad I. ITANI	Member	Chair			•
Mr. Aristidis I. VOURAKIS	Member		Chair	•	Chair
Mr. Ahmed F. IBRAHIM	Secretary of the Board				

MANAGEMENT

Mr. Mohamed A. FAYED	CEO & Managing Director
Mr. Mohamed M. BEDEIR	Deputy Managing Director
Mr. Karim F. HOSNI	Chief Risk Officer
Mr. Mohamed R. LATIF	Chief Institutional & Islamic Banking Officer
Mr. Sherif M. SABRY	Chief Corporate Banking Officer
Mr. Mohamed A. SHAWKY	Chief Financial Officer



2.4. | BAPB HOLDING LIMITED

BOARD OF DIRECTORS

Mr. Marc J. AUDI	Member
Mr. Tamer M. GHAZALEH	Member
Mr. Philippe R. SEDNAOUI	Member
Mr. Chahdan E. JEBEYLI	Member
Mr. Farid F. LAHOUD	Member
Mr. Georgios V. ROLOGIS	Member
Mr. Alkis I. KAILOS	Member
Alter Domus Services Limited	Company Secretary

2.4.1. | BANQUE AUDI (SUISSE) SA
SWITZERLAND

BOARD OF DIRECTORS

H.E. Mr. Raymond W. AUDI	Honorary Chairman

		Member of the Audit Committee	Member of the Remuneration Committee
Mr. Philippe R. SEDNAOUI	Chairman		
Mr. Michel A. CARTILLIER	Vice-chairman	Chair	
Mr. Marc J. AUDI	Member		•
Mr. Pierre C. DE BLONAY	Member	•	
Mr. Samir N. HANNA	Member		•
Mr. Jean-Pierre R. JACQUEMOUD	Member	•	•
Mr. Pierre J. RESPINGER	Member		Chair

MANAGEMENT

Mr. Ragi J. BOUSTANY	General Manager
Mr. Elie J. BAZ	Head of Forex & Treasury
Mr. Jean-Marc S. CODORELLO	Head of Business Management
Mrs. Mireille L. GAVARD	Corporate Secretary
Mr. Joseph M. HALLIT	Head of Private Banking
Mr. Ian Gregor MACINTOSH	Chief Investment Officer
Mr. Gregory K. SATNARINE	Chief Operating Officer

Audi Capital Gestion SAM
MONACO

BOARD OF DIRECTORS

Mr. Philippe R. SEDNAOUI	Chairman
Mrs. Burcu R. BERKI	Managing Director
Mr. Fouad S. HAKIM	Member
Banque Audi (Suisse) SA *(represented by Mr. Philippe R. SEDNAOUI)*	Member

MANAGEMENT

Mrs. Burcu R. BERKI	Managing Director

2.4.2. | AUDI PRIVATE BANK sal
LEBANON

BOARD OF DIRECTORS

		Member of the Audit Committee	Member of the Risk Committee	Member of the Remuneration Committee	Member of the AML/CFT Committee
Mr. Philippe R. SEDNAOUI	Chairman				
Mr. Fady G. AMATOURY	Member	Chair		Chair	•
Mr. Toufic R. AOUAD	Member		•		
Dr. Khalil M. BITAR	Member		Chair	•	
Dr. Joe A. DEBBANE	Member				Chair
Mr. Salam G. NADDA	Member	•	•	•	•
Mrs. Wafaa' S. YOUNES	Member	•			
Bank Audi sal	Member				

MANAGEMENT

Mr. Philippe R. SEDNAOUI	Chairman & General Manager
Mr. Toufic R. AOUAD	General Manager

2.4.3. | AUDI CAPITAL (KSA) cjsc
KINGDOM OF SAUDI ARABIA

BOARD OF DIRECTORS

		Member of the Audit Committee	Member of the Nomination & Remuneration Committee
Mr. Abdullah I. AL HOBAYB	Chairman		Chair
Mr. Philippe R. SEDNAOUI	Vice Chairman – Member		•
Mr. Chahdan E. JEBEYLI	Member	Chair	
Mr. Youssef A. NIZAM	Member		•
Dr. Asem T. ARAB	Independent member	•	
Dr. Khalil A. KORDI	Independent member	•	

MANAGEMENT

Mr. Daniel R. ASMAR	General Manager (CEO) & Acting Head of Private Banking
Mr. Tony G. ABOU FAYSSAL	CFO
Mr. John S. GEBEILY	Head of Investment Office & Acting Head of Investment Banking
Mr. Waleed K. AL-NUKHAISH	Head of Asset Management
Mr. Raafat F. EL-ZOUHEIRY	Head of Corporate Governance

2.5. | OTHER ENTITIES

2.5.1. | BANK AUDI LLC
QATAR

BOARD OF DIRECTORS

		Member of the Executive Credit Committee
Mr. Fady G. AMATOURY	Chairman	
Mr. Khalil I. DEBS	Member	•
Mr. Rashed Nasser S. AL-KAABI	Member	
Mr. Elia S. SAMAHA	Member	•
Mr. Philippe R. SEDNAOUI	Member	•
Mrs. Ghina M. DANDAN	Member	

MANAGEMENT

Mr. Hani R. ZAOUK	General Manager	•

2.5.2. | BANK AUDI FRANCE sa
FRANCE

BOARD OF DIRECTORS

		Member of the Audit & Risk Committee
Dr. Freddie C. BAZ	Chairman	•
Ms. Sherine R. AUDI	Member & General Manager	
Mr. Antoine G. BOUFARAH	Member	•
Mr. Denis G. GILLET	Member	•
Bank Audi sal *(represented by Mr. Khalil I. DEBS)*	Member *(since March 2018)*	

MANAGEMENT

Ms. Sherine R. AUDI	General Manager – Chief Executive Officer
Mr. Noel J. HAKIM	Deputy General Manager – Chief Business Officer
Mr. Emile G. GHAZI	Assistant General Manager – Head of Corporate Banking

2.5.3. | AUDI INVESTMENT BANK sal
LEBANON

BOARD OF DIRECTORS

		Member of the Audit Committee	Member of the Risk Committee	Member of the Remuneration Committee
Dr. Imad I. ITANI	Chairman & General Manager			
Mr. Michel E. ARAMOUNI	Member		•	
Mr. Khalil I. DEBS	Member		•	
Mr. Farid F. LAHOUD	Member	•		•
Mr. Maurice H. SAYDE		Chair		Chair
Bank Audi sal				
Mrs. Marie-Josette A. AFTIMOS	Secretary of the Board			

MANAGEMENT

Dr. Imad I. ITANI	Chairman & General Manager

2.5.4. | SOLIFAC sal
LEBANON

BOARD OF DIRECTORS

		Member of the Risk & Audit Committee	Member of the ALCO Committee	Member of the Credit Committee	Member of the AML/CFT Committee
Mr. Khalil I. DEBS	Chairman	Chair	•	Chair	
Mr. Elie Y. KAMAR	Chief Executive Officer	•	•	•	
Mr. Tamer M. GHAZALEH	Member	•	Chair		
Mr. Hassan A. SALEH	Member	•	•		Chair
Mr. Ibrahim M. SALIBI	Member	•	•	•	

MANAGEMENT

Mr. Elie J. KAMAR	Chief Executive Officer
Mrs. Lina F. SALEM	Assistant Chief Executive Officer

2.5.5. | BANK AUDI sal – JORDAN BRANCHES
JORDAN

MANAGEMENT

Mr. Yousef A. ENSOUR	Regional Manager
Mr. Samer I. AL ALOUL	Deputy Regional Manager

2.5.6. | BANK AUDI sal – IRAQ BRANCHES
IRAQ

MANAGEMENT

Mr. Jamil R. CHOUCAIR	Country Manager
Mr. Akil A. EZZEDDINE	COO & Deputy Country Manager

05
ADDRESSES

Embracing changes

Stems from the belief of developing human connections that last a lifetime, building on them together through the aid of connected devices, and actively participating in goals that have a greater impact on a wider scale.

1.0. | LEBANON

BANK AUDI sal

Member of the Association of Banks in Lebanon
Capital: LBP 677,601,170,680 *(as at December 2018)*
Consolidated shareholders' equity:
LBP 5,858,768,274,032 *(as at December 2018)*
C.R. 11347 Beirut
List of Banks No. 56

HEADQUARTERS

Bank Audi Plaza, Bab Idriss.
P.O. Box 11-2560 Beirut - Lebanon
Tel: (961-1) 994000. Fax: (961-1) 990555.
Customer helpline: (961-1) 212120.
Swift: AUDBLBBX.
contactus@bankaudi.com.lb
bankaudigroup.com

COUNTRY MANAGEMENT LEBANON

Bank Audi Palladium, Bab Idriss.
P.O. Box: 11-2560 Beirut – Lebanon.
Tel: (961-1) 994000. Fax: (961-1) 990555.
Customer helpline: (961-1) 212120.
Swift: AUDBLBBX.
contactus@bankaudi.com.lb
bankaudi.com.lb

M1 Building, Bab Idriss.
P.O. Box: 11-2560 Beirut – Lebanon.
Tel: (961-1) 994000. Fax: (961-1) 990555.
Customer helpline: (961-1) 212120.
Swift: AUDBLBBX.
contactus@bankaudi.com.lb
bankaudi.com.lb

BRANCHES

CORPORATE BRANCHES

ASHRAFIEH – MAIN BRANCH
SOFIL Center, Charles Malek Avenue.
Tel: (961-1) 200250. Fax: (961-1) 200724, 339092.
Senior Manager: Mrs. Rita M. Freiha

BAB IDRISS
Bank Audi Plaza, Omar Daouk Street.
Tel: (961-1) 977588. Fax: (961-1) 999410, 971502.
Network Manager – Corporate Banking:
Mrs. Ghina M. Dandan
Branch Manager: Mrs. Patricia G. Debs

VERDUN
Verdun 2000 Center, Rashid Karameh Avenue.
Tel: (961-1) 805805. Fax: (961-1) 865635, 861885.
Network Manager – Corporate Banking:
Mrs. Wafaa S. Younes
Branch Manager: Mr. Haytham. M. Ramadan

BEIRUT

ASHRAFIEH – SASSINE
Le Gabriel Hotel, Elias Sarkis Avenue, Sassine.
Tel: (961-1) 200640. Fax: (961-1) 216685.
Branch Manager: Ms. Rita C. Haddad

ASHRAFIEH – SAYDEH
Shibli Bldg., Istiklal Street.
Tel: (961-1) 200753. Fax: (961-1) 204972.
Branch Manager: Mrs. Hoda A. Abou-Moussa

BADARO
Ibrahim Ghattas Bldg., Badaro Street.
Tel: (961-1) 387395. Fax: (961-1) 387398.
Branch Manager: Mrs. Nayla S. Hanna

BASTA
Ouzaï Street, Noueiri Quarter.
Tel: (961-1) 661323. Fax: (961-1) 651798.
Branch Manager: Mrs. Hiba M. Kayal

BESHARA EL-KHOURY
Banna & Sayrawan Bldg., Beshara El-Khoury Street.
Tel: (961-1) 664093. Fax: (961-1) 664096.
Branch Manager: Mrs. Roula F. Ramadan

BLISS
Kanater Bldg., Bliss Street.
Tel: (961-1) 361793. Fax: (961-1) 361796.
Branch Manager: Ms. Afaf M. Khoury

EL-HORGE
Khattab Bldg., Hamad Street.
Tel: (961-1) 660636. Fax: (961-1) 660686.
Branch Manager: Mrs. Reine G. Doughan

GEFINOR
Gefinor Center, Clemenceau Street.
Tel: (961-1) 743400. Fax: (961-1) 743412.
Branch Manager: Ms. Rima M. Hoss

HAMRA
Mroueh Bldg., Hamra Street.
Tel: (961-1) 341491. Fax: (961-1) 344680.
Branch Manager: Mrs. Dima R. Chahine

JNAH
Tahseen Khayat Bldg., Khalil Moutran Street.
Tel: (961-1) 844870. Fax: (961-1) 844875.
Branch Manager: Mrs. Mariam H. Nizam

MAZRAA
Wakf El-Roum Bldg., Saeb Salam Blvd.
Tel: (961-1) 305612. Fax: (961-1) 316873, 300451.
Branch Manager: Mr. Moustafa M. Anouty

MOUSSEITBEH
Makassed Commercial Center, Mar Elias Street.
Tel: (961-1) 818277. Fax: (961-1) 303084.
Branch Manager: Mrs. Ghada S. Al-Ameen

RAMLET EL BAYDA
Al Iwan Bldg., Saeb Salam Avenue.
Tel: (961-1) 785951. Fax: (961-1) 785736.
Branch Manager: Mrs. Hind A. Ghalayini

RAOUSHEH
Majdalani Bldg., Raousheh Corniche.
Tel: (961-1) 805068. Fax: (961-1) 805071.
Branch Manager: Ms. Nisrine A. Ismail

SAIFI
El-Hadissa Bldg., El-Arz Street, Saifi.
Tel: (961-1) 580530. Fax: (961-1) 580885.
Branch Manager: Mrs. Rawan K. Baydoun

SELIM SALAM
Sharkawi Bldg., Selim Salam Avenue.
Tel: (961-1) 318824. Fax: (961-1) 318657.
Branch Manager: Mrs. Iman M. Hankir

SODECO
Alieh Bldg., Istiklal Street.
Tel: (961-1) 612790. Fax: (961-1) 612793.
Branch Manager: Mrs. Josette F. Aramouni

TABARIS
Saifi Plaza, Fouad Shehab Avenue
& Georges Haddad Street crossroad.
Tel: (961-1) 992335-9. Fax: (961-1) 990416, 990516.
Branch Manager: Mrs. Raghida N. Bacha

ZARIF
Salhab Center, Algeria Street.
Tel: (961-1) 747550. Fax: (961-1) 747553.
Branch Manager: Mr. Mohamad I. Karakira

MOUNT LEBANON

AIN EL-REMMANEH
Etoile Center, El-Areed Street.
Tel: (961-1) 292870. Fax: (961-1) 292869.
Branch Manager: Mrs. Roula E. Fayad

AJALTOUN
Bou Shaaya & Khoury Center, El-Midane.
Tel: (961-9) 234620. Fax: (961-9) 234439.
Branch Manager: Mr. Emile J. Moukarzel

ALEY
Beshara El-Khoury Road (near Aley Club), Aley.
Tel: (961-5) 556902. Fax: (961-5) 558903.
Branch Manager: Mrs. Olfat A. Hamza

BAABDA
Boulos Brothers Bldg., Damascus International Road.
Tel: (961-5) 451452. Fax: (961-5) 953236.
Branch Manager: Mr. Elias J. Daniel

BAABDA SQUARE
Helou Bldg., Charles Helou Avenue.
Tel: (961-5) 921827. Fax: (961-5) 921767.
Branch Manager: Mrs. Hala N. Younes

BATROUN
Batroun Square Center, Main Road No. 7.
Tel: (961-9) 642371. Fax: (961-9) 642347.
Branch Manager: Mr. Tannous N. Abi-Saab

BAUSHRIEH – JDEIDEH
Joseph Kassouf Bldg., Mar Youhanna Street.
Tel: (961-1) 892701. Fax: (961-1) 892428.
Branch Manager: Mr. Raymond Y. Sleiman

BHAMDOUN
Main Road.
Tel: (961-5) 261285. Fax: (961-5) 261289.
Branch Manager: Mr. Youssef C. Obeid

BOURJ HAMMOUD
Mekheterian Bldg., Municipality Square.
Tel: (961-1) 263325. Fax: (961-1) 265679.
Branch Manager: Mrs. Grace G. Nercessian

BROUMMANA
Lodge Center, Main Road.
Tel: (961-4) 860163. Fax: (961-4) 860167.
Branch Manager: Mr. Hadi M. Chaoul

DEKWANEH
El-Nefaa, Main Road.
Tel: (961-1) 693790. Fax: (961-1) 693795.
Branch Manager: Mr. Salam N. Dagher

DORA
Cité Dora 1, Dora Highway.
Tel: (961-1) 255686. Fax: (961-1) 255695, 259071.
Senior Branch Manager: Mrs. Hilda G. Sadek

DORA – VARTANIAN
Vartanian Center, Dora Highway.
Tel: (961-1) 250404. Fax: (961-1) 241647.
Branch Manager: Ms. Bassima P. Moradides

ELYSSAR
Elyssar Main Road, Mazraat Yashouh.
Tel: (961-4) 913928. Fax: (961-4) 913932.
Branch Manager: Mrs. Nisrine N. Chidiac

FANAR
La Rose Center, Main Road.
Tel: (961-1) 879637. Fax: (961-1) 879641.
Branch Manager: Mrs. Claude A. Habib

FURN EL-SHEBBAK
Joseph Jreissati Bldg., Damascus International Road.
Tel: (961-1) 290713. Fax: (961-1) 282104.
Branch Manager: Mrs. Nazek Y. Asmar

GHAZIR
Main Road, Ghazir, Kfarhebab.
Tel: (961-9) 851720. Fax: (961-9) 856376.
Branch Manager: Ms. Roula F. Kmeid

GHOBEYRI
Hoteit Bldg., Shiyah Blvd., Mousharrafieh Square.
Tel: (961-1) 541125. Fax: (961-1) 272342.
Branch Manager: Mrs. Leila K. Barakat

HADATH
El-Ain Square, Main Road.
Tel: (961-5) 464050. Fax: (961-5) 471854.
Branch Manager: Mrs. Rachel J. Sarkis

HARET HREIK
Ahmad Abbas Bldg., Baajour Street, Main Road.
Tel: (961-1) 277270. Fax: (961-1) 547265.
Branch Manager: Mr. Yasser A. Zein

HARET SAKHR
Gray Pearl Bldg., Harissa crossroad.
Tel: (961-9) 638060. Fax: (961-9) 915511.
Branch Manager: Mrs. Nancy S. Boustany

HAZMIEH
Dar Assayad Bldg., Saïd Freiha Street, Hazmieh Roundabout.
Tel: (961-5) 451850. Fax: (961-5) 457963.
Branch Manager: Mr. Ibrahim M. Harati

JAL EL-DIB
Milad Sarkis Bldg., Main Road.
Tel: (961-4) 710393. Fax: (961-4) 710395.
Branch Manager: Mr. Charles A. Berbery

JBEIL
Byblos Sun Bldg., Jbeil Roundabout.
Tel: (961-9) 543890. Fax: (961-9) 543895.
Branch Manager: Mr. Chady F. Kassis

JEITA – ANTOURA
Antoura Square.
Tel: (961-9) 235257. Fax: (961-9) 235260.
Branch Manager: Mrs. Christiane Y. Akiki

JOUNIEH
La Joconde Center, Fouad Shehab Blvd.
Tel: (961-9) 641660. Fax: (961-9) 644224.
Branch Manager: Mrs. Rana A. Khoury

KHALDEH
Lebanese Commercial Mall, Saida Highway.
Tel: (961-5) 801988. Fax: (961-5) 806405.
Branch Manager: Mrs. Rana N. Mecharrafieh

MANSOURIEH
Kikano Bldg., Main Road.
Tel: (961-4) 533610. Fax: (961-4) 533614.
Branch Manager: Mr. Antoine Y. Asmar

MREIJEH
Mreijeh Plaza Center, Abdallah Yaffi Avenue.
Tel: (961-1) 477980. Fax: (961-1) 477200.
Branch Manager: Mr. Hassan Z. Jaafar

NACCASH – DBAYEH
Naccash – Dbayeh Highway, East Side.
Tel: (961-4) 521671. Fax: (961-4) 521677.
Branch Manager: Mrs. Georgina Y. Nakad

RABIEH
Rabieh First Entrance, Street No. 5.
Tel: (961-4) 405950. Fax: (961-4) 416105.
Branch Manager: Mrs. Marthe A. Nawar

ROUEISS
Hoteit Bldg., Hady Nasrallah Blvd.
Tel: (961-1) 541146. Fax: (961-1) 541149.
Branch Manager: Mr. Mohamad-Nour A. El-Radi

SHIYAH
Youssef Khalil Bldg., Assaad El-Assaad Street.
Tel: (961-1) 541120. Fax: (961-1) 541123.
Branch Manager: Mrs. Lina A. Hayek

SIN EL-FIL
Hayek Street.
Tel: (961-1) 490301. Fax: (961-1) 510384.
Branch Manager: Mr. Pierre A. Mezher

ZALKA
Romeo & Juliette Bldg., Zalka Highway.
Tel: (961-1) 875124. Fax: (961-1) 900274.
Branch Manager: Mrs. Karla M. Ghaoui

ZOUK
Val de Zouk Center, Zouk Mikhael.
Tel: (961-9) 211140. Fax: (961-9) 223603, 225505.
Branch Manager: Mr. Pierre E. Harb

ZOUK – ESPACE
Vega Center, Zouk Mikhael Highway.
Tel: (961-9) 210900. Fax: (961-9) 210897.
Branch Manager: Mrs. Grace E. Moussa

NORTH

AMYOUN
Main Road.
Tel: (961-6) 955600. Fax: (961-6) 955604.
Branch Manager: Mrs. Theodora A. Bachawaty

HALBA
Main Road.
Tel: (961-6) 692020. Fax: (961-6) 692024.
Branch Manager: Mr. Ali A. Hammad

SHEKKA
Main Road.
Tel: (961-6) 545379. Fax: (961-6) 541526.
Branch Manager: Mrs. Houda A. Azar

TRIPOLI – AZMI
Fayad Bldg., Azmi Street.
Tel: (961-6) 445590. Fax: (961-6) 435348.
Branch Manager: Mr. Georges A. Khodr

TRIPOLI – EL-BOHSAS
Fattal Tower 1, El-Bohsas Blvd.
Tel: (961-6) 410200. Fax: (961-6) 410799.
Branch Manager: Mr. Mohsen A. Dabliz

TRIPOLI – EL-MINA
Mandarine Bldg., Riad El-Solh Street, El-Mina Blvd.
Tel: (961-6) 205100. Fax: (961-6) 205103.
Branch Manager: Mr. Ziad M. Kabbara

TRIPOLI – SQUARE 200
Akkad Bldg., Square 200.
Tel: (961-6) 448840. Fax: (961-6) 437383.
Branch Manager: Mrs. Sherine M. Merhebi

SOUTH

ABRA
Nhouli & Solh Bldg., Main Road.
Tel: (961-7) 752267. Fax: (961-7) 752271.
Branch Manager: Mr. Elias S. Stephan

BENT JBEIL
Ahmad Beydoun Bldg., Serail Square.
Tel: (961-7) 450900. Fax: (961-7) 450904.
Branch Manager: Mr. Ayoub I. Khreich

MARJEYOUN
Boulevard Hay El-Serail, Jdeidet Marjeyoun.
Tel: (961-7) 831790. Fax: (961-7) 831794.
Branch Manager: Mr. Marwan F. Massaad

NABATIEH
Office 2000 Bldg., Hassan Kamel El-Sabbah Street.
Tel: (961-7) 767812. Fax: (961-7) 767816.
Branch Manager: Mrs. Zeina H. Kehil

SAIDA – EAST
Dandashli Bldg., Eastern Blvd.
Tel: (961-7) 751885. Fax: (961-7) 751889.
Branch Manager: Mrs. Sherine M. Assaad

SAIDA – RIAD EL-SOLH
Wakf El-Roum Catholic Bldg., Riad El-Solh Blvd.
Tel: (961-7) 733750. Fax: (961-7) 724561.
Branch Manager: Mr. Mohamad M. Bizri

SAIDA – SOUTH
Moustapha Saad Street.
Tel: (961-7) 728601. Fax: (961-7) 752704.
Branch Manager: Mr. Mohamad M. Kalo

TYRE
Abou Saleh & Moughnieh Bldg., Main Road.
Tel: (961-7) 345196. Fax: (961-7) 345201.
Branch Manager: Mrs. Mounira I. Khalife

TYRE ABBASSIEH
Tyre North Entrance, Main Road, Abbassieh.
Tel: (961-7) 741830. Fax: (961-7) 741835.
Regional Manager: Mr. Georges K. Karam

AL-ZAIDANIEH
Al-Zaidanieh village, Main Road, Majdelyoun.
Tel: (961-7) 724905. Fax: (961-7) 723639.
Branch Manager: Ms. Diana A. Assaad

BEKAA

JEB JANNINE
Majzoub Bldg., Main Road.
Tel: (961-8) 661488. Fax: (961-8) 661481.
Branch Manager: Mr. Wael A. Sobh

SHTAURA
Daher Bldg., Main Road.
Tel: (961-8) 542960. Fax: (961-8) 544853.
Branch Manager: Mr. Joseph E. Makdessi

ZAHLEH
Beshwati Bldg., El-Boulevard.
Tel: (961-8) 813592. Fax: (961-8) 801921.
Branch Manager: Ms. Mona K. Cherro

NOVO NETWORK

CITY MALL
City Mall, Dora.

PALLADIUM DOWNTOWN
Bank Audi Palladium Bldg., Bab Idriss.

ZGHARTA
North Palace Hotel, Kfarhata.

BEIRUT DIGITAL DISTRICT (BDD)
Beshara El-Khoury Street.

ABC VERDUN MALL
Verdun.

AUDI PRIVATE BANK sal

Bank Audi Plaza, Block D, Bab Idriss, Beirut.
P.O. Box: 11-1121 Beirut - Lebanon.
Tel: (961-1) 954800, 954900. Fax: (961-1) 954880.
contactus.lebanon@bankaudipb.com - bankaudipb.com

AUDI INVESTMENT BANK sal

Bank Audi Plaza, Block B, Bab Idriss.
P.O. Box: 16-5110 Beirut - Lebanon.
Tel: (961-1) 994000. Fax: (961-1) 999406.
contactus@bankaudiib.com – bankaudigroup.com

SOLIFAC sal

Zen Building, Charles Malek Avenue, Ashrafieh.
P.O. Box: 11-1121 Beirut - Lebanon.
Tel: (961-1) 209200. Fax: (961-1) 209205.

2.0. | TURKEY

ODEA BANK A.Ş.

HEADQUARTERS

Odea Bank A.Ş. headquarters, Levent 199, Buyukdere Street, No. 199, Floors 33-40, 34394, Sisli, Istanbul.
Tel: (90-212) 3048444. Fax: (90-212) 3048445.
info@odeabank.com.tr – odeabank.com.tr

BRANCHES

ISTANBUL

MASLAK
Maslak District, Ahi Evran Street, Olive Plaza No.11, Ground Floor, 34398, Sisli, Istanbul.
Tel: (90-212) 3048100. Fax: (90-212) 3481835.
Branch Managers: Mr. Kudret M. Uslu (Commercial); Mr. Burhan T. Aktaş (Commercial); Ms. Ciler A. Durmaz (Retail)

GUNESLI
Baglar District, Osmanpasa Street, No. 65, 34209, Bagcilar, Istanbul.
Tel: (90-212) 4646000. Fax: (90-212) 3481840.
Branch Managers: Mr. Irfan M. Sahinkaya (Commercial); Mr. Mehmet T. Toker (Commercial); Ms. Arzu H. Aydin (Retail)

KOZYATAGI
Sayrayicedid District, Ataturk Avenue, No. 42 D, Kadikoy, Istanbul.
Tel: (90-216) 6657000. Fax: (90-212) 3481839.
Branch Manager: Ms. Cagla T. Cavusoglu Yilmaz (Retail)

CADDEBOSTAN
Caddebostan District, Bagdat Avenue, No. 270, Goztepe, Istanbul.
Tel: (90-216) 4686800. Fax: (90-212) 3481850.
Branch Manager: Ms. Naciye Ebru F. Topdemir (Retail)

NISANTASI
Mim Kemal Oke Street, No. 17/2-3, Nisantasi, Istanbul.
Tel: (90-212) 3738100. Fax: (90-212) 3481853.
Branch Manager: Ms. Umut H. Altayli Yilmaz (Retail)

BEBEK
Bebek District, Cevdetpasa Street, No. 26, 34342, Besiktas, Istanbul.
Tel: (90-212) 3624700. Fax: (90-212) 3481851.
Branch Manager: Ms. Bahar M. Erce (Retail)

BESIKTAS
Sinanpasa District, Ortabahce Street, No.13, Besiktas, Istanbul.
Tel: (90-212) 3961500. Fax: (90-212) 3481879.
Branch Manager: Ms. Aysun C. Ozkan (Retail)

ETILER
Nispetiye Street, No. 60/A-B, Etiler, Besiktas, Istanbul.
Tel: (90-212) 3591600. Fax: (90-212) 3481872.
Branch Managers: Ms. Mehrzad H. Senefe (Retail); Mr. Ozan M. Kok (Commercial)

SISLI
Halaskargazi Street, No.169, Sisli, Istanbul.
Tel: (90-212) 3734300. Fax: (90-212) 3481874.
Branch Managers: Ms. Hulya H. Kuçuk (Retail); Mr. Serdar M. Uzelli (Commercial)

YESILYURT
Sipahioglu Street, No. 2/B, Bakirkoy, Istanbul.
Tel: (90-212) 4631100. Fax: (90-212) 3481875.
Branch Manager: Mr. Umut S. Kilic (Retail)

ALTUNIZADE
Altunizade District, Kisikli Street, No. 35/1, Uskudar, Istanbul.
Tel: (90-216) 4001600. Fax: (90-212) 3481886.
Branch Managers: Mrs. Seren M. Sag (Retail); Mr. Ozlem H. Morova (Commercial)

HADIMKOY
Akcaburgaz District, Hadimkoy Road, No. 154-156, Esenyurt, Istanbul.
Branch Managers: Mr. Hikmet S. Guncan (Commercial & Retail); Ms. Naciye Pinar H. Koç (Commercial)

BATI ATASEHIR
Barbaros District, Halk Street, No. 59, D:1 Atasehir, Istanbul.
Tel: (90-216) 5471200. Fax: (90-212) 3481890.
Branch Managers: Ms. Serap H. Coşkun (Retail); Ms. Gaye S. Akçoru (Commercial); Ms. Zeynep Y. Erdogan (Commercial)

BOSTANCI
Semsettin Gunaltay Street, Suadiye District, No. 97/A, Kadikoy, Istanbul.
Tel: (90-216) 5791400. Fax: (90-212) 3481894.
Branch Manager: Ms. Gamze A. Vural (Retail)

KADIKOY
Sogutlu Cesme Street, No. 46-48, Kadikoy, Istanbul.
Tel: (90-216) 5421300. Fax: (90-212) 3481898.
Branch Manager: Ms. Tansel M. Çoklar (Retail)

KARTAL
Ankara Street, No. 88, Kartal, Istanbul.
Tel: (90-216) 5865300. Fax: (90-212) 3481895.
Branch Manager: Mr. Sinan Mahmut A. Erdal (Commercial & Retail)

TAKSIM
Sehitmuhtar District, Tarlabasi Street, No. 10/1, Taksim, Beyoglu, Istanbul.
Tel: (90-212) 3134100. Fax: (90-212) 3481899.
Branch Manager: Ms. Hayal M. Yuksel (Retail)

LEVENT CARSI
Levent District, Yasemin Street, No. 2/1, Besiktas, Istanbul.
Tel: (90-212) 3395100. Fax: (90-212) 3481903.
Branch Manager: Ms. Didem M. Yavasoglu (Retail)

UMRANIYE
Ataturk District, Alemdag Street, No. 50/52 A, Umraniye, Istanbul.
Tel: (90-216) 6491200. Fax: (90-212) 3481901.
Branch Managers: Ms. Alev Y. Dogan (Retail); Mrs. Serap F. Turhan (Commercial)

IMES
Ataturk District, Alemdag Street, No. 50/52 A, Umraniye, Istanbul.
Tel: (90-216) 6491200. Fax: (90-212) 3481901.

EMINONU
Hobyar District, Buyuk Postane Street, No. 32, Fatih, Istanbul.
Tel: (90-212) 4027000. Fax: (90-212) 3481905.
Branch Manager: Mr. Mehmet Cihat H. Erdogan (Retail)

SUADIYE ANATOLIAN CENTRAL BRANCH
Bagdat Street, No. 406, Suadiye, Istanbul.
Tel: (90-216) 4685400. Fax: (90-212) 3481908.
Branch Managers: Mr. Özgür E. Taykurt (Commercial); Ms. Asli O. Yasar (Retail)

ANKARA

ANKARA
Tepe Prime, Mustafa Kemal District, Dumlupinar Avenue, No. 266, Cankaya, Ankara.
Tel: (90-312) 2489800. Fax: (90-312) 2489801.
Branch Managers: Ms. Gulhan H. Pervan (Commercial); Mrs. Nurdan C. Senocak (Retail)

GOP
Kazim Ozalp District, Ugur Mumcu Street, No. 16, Çankaya, Ankara.
Tel: (90-312) 4553800. Fax: (90-212) 3481858.
Branch Manager: Mr. Hakki Murat S. Önlem (Commercial); Mr. Gokhan Y. Kaynak (Commercial); Ms. Deniz F. Omay (Retail)

OSTIM
Serhat District, 1171/1 Street, No. 5, Ostim Yenimahalle, Ankara.
Tel: (90-312) 5927500. Fax: (90-212) 3481877.
Branch Manager: Mr. Keykubat K. Sancaktaroğlu (Commercial & Retail)

UMITKOY
Cayyolu 1 District, Osmanaga Konaklari, No. 12, Cankaya, Ankara.
Tel: (90-312) 2917300. Fax: (90-212) 3481912.
Branch Manager: Ms. Irem E. Celtemen (Retail)

IZMIR

IZMIR
Megapol Tower Business Center, Anadolu Street, No. 41, Bayrakli, Izmir.
Tel: (90-232) 4951500. Fax: (90-212) 3481837.
Branch Managers: Mr. Huseyin Cem H. Taner (Commercial); Mr. Murat S. Celik (Commercial); Mr. Melih I. Sugunes (Commercial); Ms. Nursel A. Esen (Retail)

ALSANCAK
Cumhuriyet Avenue, No. 176, Alsancak, Konak, Izmir.
Tel: (90-232) 4981800. Fax: (90-212) 3481868.
Branch Manager: Ms. Ebru O. Cindoglu (Retail)

HATAY
Arab Hasan District, Inonu Street, No. 285-293-A, Karabaglar, Izmir.
Tel: (90-232) 2921200. Fax: (90-212) 3481887.
Branch Manager: Ms. Nalan H. Pala (Retail)

BOSTANLI
Bostanli District, Cemal Gursel Street, No. 532/A-B, Karsiyaka, Izmir.
Tel: (90-232) 4911000. Fax: (90-212) 3481892.
Branch Manager: Ms. Gulum O. Gurle (Retail)

KOCAELI

GEBZE
Hacihalil District, Ismetpasa Street, No. 34, Gebze, Kocaeli.
Tel: (90-262) 6742400. Fax: (90-212) 3481873.
Branch Manager: Mr. Kadir A. Kutlu (Commercial & Retail)

IZMIT CARSI
Cumhuriyet Street, No. 104, Izmit, Kocaeli.
Tel: (90-262) 2812500. Fax: (90-212) 3481889.
Branch Manager: Ms. Nur Esin A. Keles (Retail)

BURSA

BURSA
Izmir Road, No. 116, No. 13-14, Nilufer, Bursa.
Tel: (90-224) 2753400. Fax: (90-224) 2753401.
Branch Managers: Mr. Hasan T. Gorgun (Commercial); Ms. Aysegul H. Ozata (Retail)

GAZIANTEP

GAZIANTEP
Prof. Muammer Aksoy Avenue, Cazibe Business Center, No. 15/D, Sehit Kamil, Gaziantep.
Tel: (90-342) 2117400. Fax: (90-212) 3481859.
Branch Managers: Ms. Gamze M. Acar (Retail); Mr. Erdal H. Karakusoglu (Commercial)

ADANA

ADANA
Resatbey District, Ataturk Street, No. 18-18/1, Seyhan, Adana.
Tel: (90-322) 4551600. Fax: (90-212) 3481866.
Branch Managers: Mr. Eray Şevki M. Karabay (Commercial); Ms. Banu U. Gürer (Retail)

KAYSERI

KAYSERI CARSI
Cumhuriyet District, Serdar Street, No. 21, Melikgazi, Kayseri.
Tel: (90-352) 2071400. Fax: (90-212) 3481870.
Branch Manager: Mr. Ismail I. Murat (Retail)

DENIZLI

DENIZLI
Saltak Avenue, M. Korkut Street, No. 2, Merkez Denizli.
Tel: (90-258) 2952000. Fax: (90-212) 3481883.
Branch Managers: Ms. Pelin F. Bozbay Yazici (Commercial); Mrs. Aliye Ozlem M. Ozkok (Retail)

KONYA

KONYA BUSAN
Fevzi Cakmak District, Kosgeb Street, No. 3, Karatay, Konya.
Tel: (90-332) 2216800. Fax: (90-212) 3481880.
Branch Manager: Mr. Kursat M. Dayioglu (Commercial & Retail)

ANTALYA

ANTALYA
Yesilbahce District, Metin Kasapoglu Street, No. 49/A, Muratpasa Antalya.
Tel: (90-242) 3204300. Fax: (90-212) 3481902.
Branch Managers: Mr. Ali Zafer A. Kaçar (Commercial); Ms. Ebru E. Savas (Retail)

MUGLA

BODRUM
Hasan Resat Oncu Street, Yokuşbaşi District No. 12, Bodrum, Mugla.
Tel: (90-252) 3115000. Fax: (90-212) 3481881.
Branch Manager: Ms. Asli O. Yilmaz (Commercial & Retail)

ESKISEHIR

ESKISEHIR
Ismet Inonu Street, Yalcin Kilicoglu Plaza No. 13/E Tepebasi, Eskisehir
Tel: (90-222) 2131000. Fax: (90-212) 3481891.
Branch Manager: Mr. Mehmet Can A. Aykol (Commercial & Retail)

MERSIN

MERSIN
Camiserif District, Kuvai Milliye Street, No. 20/A, Mersin.
Tel: (90-324) 2418300. Fax: (90-212) 3481882.
Branch Managers: Mr. Onur H. Altinli (Commercial); Ms. Pinar E. Asal (Retail)

HATAY

ISKENDERUN
Cay District, Ataturk Avenue, No. 33B, Iskenderun, Hatay.
Tel: (90-326) 6291300. Fax: (90-212) 3481900.
Branch Manager: Ms. Canan N. Yerli (Retail)

SAMSUN

SAMSUN
Kale District, Kazimpasa Avenue, No. 21, Ilkadim, Samsun.
Tel: (90-362) 3118800. Fax: (90-212) 3481907.
Branch Manager: Mr. Ismail M. Aytek (Commercial & Retail)

MANISA

MANISA
1 Anafartalar District, Mustafa Kemal Pasa Street, No. 34/A, Center, Manisa.
Tel: (90-236) 2291600. Fax: (90-212) 3481911.
Branch Managers: Mr. Celal E. Oner (Retail); Mr. Hakan S. Tuzkapi (Commercial)

3.0. | EGYPT

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BRANCHES

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DOKKI (MAIN BRANCH)
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Fax: (20-2) 37483818.
Senior Branch Manager: Mrs. Sally F. Sallam

MOSADDAK (ISLAMIC BRANCH)
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Branch Manager: Mr. Mohammed A. Hussein

LEBANON
60 Lebanon Street (Lebanon Tower), Lebanon Square, Mohandessin.
Tel: (20-2) 33026423, 33026436. Fax: (20-2) 33026454.
Branch Manager: Mrs. Marwa M. El-Mougy

EL BATAL AHMED ABDEL AZIZ
44 El Batal Ahmed Abdel Aziz Street, Mohandessin.
Tel: (20-2) 37480855, 37480868, 37480266.
Fax: (20-2) 37480599.
Branch Manager: Mr. Mohammed H. Kamel

SHOOTING CLUB
13 Shooting Club Street, Mohandessin.
Tel: (20-2) 37486398, 37486405, 37486427, 37486436, 37486461.
Branch Manager: Mr. Sami S. Osman

EL HARAM (ISLAMIC BRANCH)
42 El Haram Street, El Haram Plaza Tower, El Haram.
Tel: (20-2) 33863708, 33863807-8, 33864113, 33864002, 33865056. Fax: (20-2) 33865103.
Branch Manager: Mr. Sherif S. El Sonbaty

TAHRIR
94 Tahrir Street, Dokki.
Tel: (20-2) 37485487, 37485573, 37485782, 37486082, 37486238. Fax: (20-2) 37486310.
Area Manager: Mr. Omar M. Wally

SIXTH OF OCTOBER
Plot 2/23, Central District, Sixth of October City.
Tel: (20-2) 38353781-3-5. Fax: (20-2) 38353780.
Branch Manager: Mr. Hisham M. Amin

PYRAMIDS HEIGHTS
Pyramids Heights Office Park, Cairo-Alexandria Desert Road, Km 22, Sixth of October City.
Tel: (20-2) 35362053. Fax: (20-2) 35362052.
Acting Branch Manager: Ms. Ragia M. El-Badawy

SHEIKH ZAYED
Units 002 & 101, Bldg. B3, Capital Business Park, Phase 1, Sheikh Zayed, Sixth of October City.
Tel: (20-2) 38653551-2-3.
Branch Manager: Mr. Hatem G. Mohamed

CAIRO

MAKRAM EBEID
1 Makram Ebeid Street, Nasr City.
Tel: (20-2) 23520160, 23520164, 23520454, 23520538, 23520594. Fax: (20-2) 22726755.
Senior Branch Manager: Mr. Karim A. Abdel-Baki

ABBASS EL-AKKAD
70 Abbass El-Akkad Street, Nasr City.
Tel: (20-2) 22708723, 22708735, 22708790, 22708740. Fax: (20-2) 22708757.
Branch Manager: Mr. Ayman M. Farrag

BEIRUT
54 Demeshk Street, Heliopolis.
Tel: (20-2) 24508643, 24508610, 24508633, 24508644. Fax: (20-2) 24508653.
Senior Branch Manager: Ms. Maie A. Saeed

SHOUBRA
128 Shoubra Street, Shoubra.
Tel: (20-2) 22092482, 22092683, 22092756, 22092774. Fax: (20-2) 22075779.
Branch Manager: Mr. Hesham A. Awaad

ZAMALEK
1B Hassan Sabry Street, Zamalek.
Tel: (20-2) 27375001-2-3-4-5. Fax: (20-2) 27375008.
Area Manager: Ms. Ghada M. El-Garrahy

MASAKEN SHERATON
11 Khaled Ibn El Waleed Street, Masaken Sheraton.
Tel: (20-2) 22683381-3, 22683397, 22683448, 22683303. Fax: (20-2) 22683433.
Area Manager: Mrs. Christine R. Farag

SHAMS CLUB
17 Abdel Hamid Badawy Street, Heliopolis.
Tel: (20-2) 21804942-4, 21805143.
Fax: (20-2) 26210945.
Branch Manager: Ms. Nancy N. Helmy

MOKATTAM
Plot 6034, Street 9, Mokattam.
Tel: (20-2) 25053634, 25057040, 25056978.
Fax: (20-2) 25057566.
Acting Branch Manager: Mr. Ahmed Y. Awad

ABBASSIA
109 Abbassia Street, Abbassia.
Tel: (20-2) 24871906-8. Fax: (20-2) 24871957.
Acting Branch Manager: Ms. Marwa N. Arnaout

EL OBOUR
Shops 43, 44, 45, Golf City, El Obour City.
Tel: (20-2) 44828308, 46104326. Fax: (20-2) 46104324.
Branch Manager: Mr. Ahmed H. Hassanen

EL MANIAL
90 El Manial Street, El Manial.
Tel: (20-2) 23630119, 23630156, 23630163, 23629935, 23629955. Fax: (20-2) 23630099.
Branch Manager: Mr. Ahmed S. Abou El-Hadid

TRIUMPH
8 Plot 740, intersection of Othman Ibn Affan Street and Mohamed Adly Kaffafi Street, Heliopolis.
Tel: (20-2) 27740220, 27740242, 27740549.
Fax: (20-2) 26352929.
Acting Branch Manager: Ms. Amira G. Zohdy

ABD EL KHALEK THARWAT
42 Abd El Khalek Tharwat Street, Downtown.
Tel: (20-2) 23910638, 23910752. Fax: (20-2) 23904162.
Branch Manager: Mr. Sameh M. Mousa

GARDEN CITY
1 Aisha El Taymoria Street, Garden City.
Tel: (20-2) 27928975-6-7. Fax: (20-2) 27928977.
Acting Branch Manager: Mr. Ramy A. Fayek

SALAH SALEM
Bldg. 15, Salah Salem Street, Heliopolis.
Tel: (20-2) 24053298, 24053289, 24053285, 24053278, 24053260. Fax: (20-2) 22607168.
Cluster Manager: Mrs. Rasha M. Ramadan

MAADI – DEGLA
1-B, 256 Street, Degla, Maadi.
Tel: (20-2) 25162094, 25162044, 25193243, 25195238. Fax: (20-2) 25194938.
Senior Branch Manager: Mr. Ahmed M. El-Sheikh

MAADI
Plot 1&2 D/5, intersection of Laselky Street and Nasr Street, New Maadi.
Tel: (20-2) 25197913, 25197901-8. Fax: (20-2) 25197921.
Acting Branch Manager: Mr. Mohamed M. Abou El Dahab

TAYARAN
40 Tayaran Street, Nasr City.
Tel: (20-2) 24048619, 24048626, 24048634-9, 24048642. Fax: (20-2) 24048683.
Branch Manager: Mr. Bassel H. Zohdy

MERGHANY
100 A Merghany Street, Heliopolis.
Tel: (20-2) 24192349, 24192264, 24192166, 24192079, 24192059, 24158725.
Senior Branch Manager: Mr. Sherif A. El-Aidy

TAGAMOU EL KHAMES
Waterway Compound – Phase One, Ground & First Floors, Commercial Units CGS4-CFS4, Investors' Zone – North, New Cairo.
Tel: (20-2) 24508633.
Branch Manager: Mr. Moataz M. Hussein

MADINATY
Plot 6, Banks Zone, Madinaty, New Cairo.
Acting Branch Manager: Mr. Amir E. Henawy

ALEXANDRIA

SMOUHA
35 Victor Emmanuel Square, Smouha.
Tel: (20-3) 4244502, 4244679, 4245097, 4245089.
Fax: (20-3) 4244510.
Branch Manager: Mr. Ibrahim E. El-Khatib

SULTAN HUSSEIN
38B Sultan Hussein Street, Azarita.
Tel: (20-3) 4782132-3-4-5-6-7-8 Fax: (20-3) 4877198.
Branch Manager: Mr. Mohamed A. Abdel-Wahid

MIAMI (ISLAMIC BRANCH)
4 El Asafra Al Bahariya, Street 489, Montazah, Alexandria.
Tel: (20-3) 5485312, 5485319, 5505227.
Fax: (20-3) 5505136.
Branch Manager: Ms. Salma A. Hassanien

SAN STEFANO
413 El-Gaish Road, San Stefano, Loran.
Tel: (20-3) 5859719, 5859761, 5859762, 5859763, 5859815-6. Fax: (20-3) 5859790.
Acting Branch Manager: Mr. Ahmed M. Beltagy

GLEEM
1 Mostafa Fahmy Street, Gleem.
Tel: (20-3) 5825546, 5825574, 5825587, 5825741-6, 5825768, 5825867. Fax: (20-3) 5825866.
Branch Manager: Ms. Eman H. Saad

ALEX DOWNTOWN
Merosa Compound, Unit E, Suez Canal Street, Alexandria.
Tel: (20-3) 3681369, 3681370-2-3-5. Fax: (20-3) 3681377.
Branch Manager: Mr. Mahmoud Y. El Sharnouby

DAQAHLIA

MANSOURA
26 Saad Zaghloul Street, Toreil, Mansoura.
Tel: (20-50) 2309783-4-5. Fax: (20-50) 2309782.
Branch Manager: Mr. Karim M. El Gohary

GHARBIA

TANTA
32 El Gueish Road, El Safa Tower, Tanta.
Tel: (20-40) 3403306-7-9, 3342405. Fax: (20-40) 3403100.
Area Manager: Mr. Amr A. Dorgham

SHARQIYA

ZAGAZIK
95 Saad Zaghloul Street, Zagazik.
Tel: (20-55) 2369783-4, 2369814-5, 2369826, 2369837-8, 2369824-5.
Branch Manager: Mr. Mohamed A. Ibrahim

RED SEA

EL GOUNA
Service Area Fba-12e, El Balad District, El Gouna, Hurghada.
Tel: (20-65) 3580096. Fax: (20-65) 3580095.
Branch Manager: Mr. Hossam S. Zaki

SHERATON ROAD
23 Taksim El Hadaba El Shamaleya, 167 Sheraton Road, Hurghada.
Tel: (20-65) 3452015-6-8-9, 3452020.
Fax: (20-65) 3452023.
Branch Manager: Mr. Shady E. El Awady

SOUTH SINAI

NAEMA BAY
207 Rabwet Naema Bay, Sharm El Sheikh.
Tel: (20-69) 3604514-6-8-9. Fax: (20-69) 3604520.
Branch Manager: Mr. Mohamed K. Abbas

ASSUIT

ASSUIT
Chamber of Commerce Bldg., Mahmoud Fahmy Al Noqrashi Street.
Tel: (20-88) 2286120-4-6, 2286130-3-4-6-7-8, 2286140.
Cluster Manager: Mr. Mohammed M. Oraby

DAMIETTA

DAMIETTA
49 Nile Corniche Street, Ezbat Al Lahm.
Tel: (20-57) 2367030, 2367040, 2367060, 2367070, 2367080, 2367090, 2368060.
Branch Manager: Mr. Khaled M. Shoeib

PORT SAID

PORT SAID
27 A, July 23rd Street, El-Sharq Division.
Tel: (20-66) 3239930-1-2-3-4-5-6.
Branch Manager: Mr. Mohamed S. Mansy

4.0. | CYPRUS

BAPB HOLDING LIMITED

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5.0. | SWITZERLAND

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6.0. | MONACO

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7.0. | SAUDI ARABIA

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8.0. | QATAR

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9.0. | FRANCE

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10.0. | JORDAN

BANK AUDI sal - JORDAN BRANCHES

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BRANCHES

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Bldg. 26, Suleiman Al-Nabulsi Street, Abdali, Amman.
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SHMEISSANI
Salah Center, Al-Shareef Abdul Hameed Sharaf Street, Shmeissani, Amman.
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Branch Manager: Mrs. Nada H. Al-Rasheed

ZAHRAN
Bldg. 213, Zahran Street, 6th Circle, opposite Emmar Towers, Amman.
Tel: (962-6) 4648834. Fax: (962-6) 4648835.
Branch Manager: Mrs. Lubna I. Oweiss

LE ROYAL HOTEL
Le Royal Hotel Complex, Zahran Street, 3rd Circle, Jabal Amman, Amman.
Tel: (962-6) 4604004. Fax: (962-6) 4680010.
Branch Manager: Ms. Samar H. Toukan

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Mecca Mall Complex (Extension – Gate # 4 – 2nd Floor), Mecca Street, Amman.
Tel: (962-6) 5518736. Fax: (962-6) 5542175.
Branch Manager: Mrs. Grace B. Atallah

TAJ MALL
Taj Mall, Market Level No.2, Prince Hashem Street, Amman.
Tel: (962-6) 5924261. Fax: (962-6) 5924385.

JABAL HUSSEIN
Al-Husseini Center, Khaled Ben Walid Street, Firas Circle, Jabal Hussein, Amman.
Tel: (962-6) 5605252. Fax: (962-6) 5604242.
Assistant Branch Manager: Mr. Tarek F. Fadda

SWEIFIEH
Al Yanbouh Center, Abd El-Rahim Al-Hajj Mohamad Street, Sweifieh, Amman.
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Branch Manager: Mrs. Miran M. Sirriyeh

ABDOUN
Moussa Nakho Complex, Queen Zain Al-Sharaf Street, Abdoun, Amman.
Tel: (962-6) 5935597. Fax: (962-6) 5935598.
Branch Manager: Mrs. Samar B. Homsi

AL-MADINA AL-MOUNAWARA STREET
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Saqra Complex, Wadi Saqra Street, Amman.
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Branch Manager: Mrs. Layal F. Sweidan

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Branch Manager: Mrs. Shada S. Abu-Saad

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Al Busoul Complex, Feras Al Ajlouni Street, Al Qubbeh Circle, Irbid.
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Branch Manager: Mr. Odeh T. Odeh

11.0. | IRAQ

BANK AUDI sal - IRAQ BRANCHES

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Branch Manager: Mr. Fadi B. El-Kaed

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Bldg. No. 85, Minawi Pasha Street, District 89, Basra.
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Branch Manager: Mr. Hisham A. Zein

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Branch Manager: Mr. Mahmoud S. Itani.
Regional Manager for Kurdistan Region: Mr. Jean E. Nseir

12.0. | UNITED ARAB EMIRATES

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