Bank Audi

ANNUAL REPORT 2016

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2016

STATEMENT OF THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

Bank Audi's 2016 results confirm once again the high resilience of the Group in its capacity to withstand adverse developments in its markets of presence and to sustain favourable growth in activity and net profits parallel to the reinforcement of the Bank's fundamentals and financial flexibility.

The Bank actually maintained in 2016 a sound activity growth in a tough operating environment. Consolidated assets of Bank Audi increased from USD 42.3 billion at end-December 2015 to USD 44.3 billion at end-December 2016, corresponding to a rise of USD 2.0 billion, i.e. a growth of 4.7%. This performance was nonetheless impacted by the depreciation of the Egyptian Pound and the Turkish Lira versus the US Dollar by 58% and 18% respectively in 2016. Had the exchange rate of those currencies been the same at end-December 2016 than at end-December 2015, consolidated assets of Bank Audi would have increased by USD 6.1 billion, corresponding to a growth by 14.4%. Accounting for assets under management, fiduciary deposits and custody accounts, consolidated assets would reach USD 55.1 billion.

In parallel, consolidated deposits rose from USD 35.6 billion at end-December 2015 to USD 36 billion at end-December 2016, corresponding to an increase of USD 346 million, while consolidated net loans contracted by 4.0%, reaching USD 17.2 billion at end-December 2016. Those performances were again affected by the depreciation of the Egyptian Pound and the Turkish Lira, since on the basis of a constant exchange rate, consolidated customers' deposits would have increased by USD 3.6 billion (+10%) driven primarily by entities operating in Lebanon, while loans to customers would have increased by USD 1.5 billion (+8%), driven by an increase in loans in entities operating in Lebanon, Turkey and Egypt.

The Bank's growth was not realised at the detriment of its financial standing which continued to bear witness to a strong financial soundness in the realms of liquidity, asset quality, capitalisation and profitability. At the level of liquidity, consolidated primary liquidity placed with central banks and foreign banks was further reinforced, increasing by USD 5.3 billion in 2016 to USD 21.8 billion, the equivalent of 60.5% of consolidated customers' deposits, a high level when compared to regional and global averages.

At the level of asset quality, lending growth was coupled with a strengthening of the lending portfolio quality, as Management took USD 441 million of net loan loss provision charges in 2016, of which USD 306 million in the form of collective provisions taken in implementation of the Central Bank of Lebanon's directives in preparation of IFRS 9 directives. Subsequently, collective provisions reached USD 419 million at end-December 2016, representing 2.9% of risk-weighted loans and 2.43% of net loans, against 0.9% at end-December 2015. In parallel, gross doubtful loans represented 2.4% only of gross loans ratio (improving from 2.9% at end-December 2015) while the coverage of those loans by specific provisions maintained its 68% level, rising to 102% when accounting for real guarantees. As such, the net doubtful loans to gross loans ratio improved from 0.93% at end-December 2015 to 0.8% at end-December 2016.

At the capitalisation level, consolidated shareholders' equity of Bank Audi strengthened by USD 411 million, from USD 3.3 billion as at end-December 2015 to USD 3.7 billion as at end-December 2016, the highest in the Lebanese banking sector. As at end-December 2016, consolidated shareholders' equity represented 8.4% of consolidated assets as compared to 7.8% as at end-December 2015. The increase in shareholders' equity was mirrored at the level of regulatory equity rising by USD 573 million in 2016, to USD 3.9 billion. Subsequently, total capital adequacy ratio hiked from 13.36% at end-December 2015 to 14.78% at end-December 2016 in spite of the adverse impact of the depreciation of Turkish Lira and the Egyptian Pound versus the US Dollar, a level exceeding the 14% minimum regulatory ratio.

At the profitability level, Bank Audi achieved around USD 1 billion of exceptional non-recurring revenues as a result of its participation in the exchange transactions offered by the Central Bank of Lebanon for a limited period of time and with enticing conditions. As per Banque Du Liban's directives (Intermediary Circular No. 446), Bank Audi used those exceptional revenues to allocate additional collective provisions representing 2% of risk-weighted loans, as well as to book impairment of goodwill and intangibles assets in a number of entities. In addition, the Bank wrote off its investments in Syria and Sudan, which entails bearing impairments while realising the related foreign currency translation losses, which were already accounted for in common equity. Having met all the requirements of the Central Bank, the Bank was left with a remainder amount of USD 173 million (USD 204 million before tax) which was allocated over 70% as non-distributable reserves for capital increase (USD 121 million) and 30% as deferred liabilities, which would be accounted for as Tier 2 capital (USD 52 million). The above treatments increased shareholders' equity by USD 200 million while regulatory capital increased by USD 426 million.

In parallel, consolidated net profits moved from USD 403 million in 2015 to USD 470 million in 2016, a growth of 16.6% year-on-year. Despite challenging operating conditions regionally and globally, Bank Audi succeeded in 2016 to improve its spread by 20 basis points, amid a stable non-interest income generation relative to average assets before exceptional revenues, driving a similar increase in asset utilisation ratio to 5.04%. On the backdrop of improving net operating margin, the Bank's return on average assets ratio rose to 1.1%, while the return on average common equity improved by 1.06% to 14.7% in 2016.

In sum, Bank Audi believes that in 2016, it has once again succeeded to reach its main purpose of achieving 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, while also reinforcing the Group's fundamentals. The Group is continuously looking to become more and more a privileged partner to customers through the provision of a wide, universal and innovative bank offering mix at the service of individual and corporate customers.

Indeed, as a result of successive restructuring and expansion strategies, the Bank has significantly reinforced its presence in Lebanon, throughout the MENA region and in Turkey, as well as diversified the range of its products and services to cover all the activities traditionally carried out by a universal bank, in particular:

- A strong franchise in Corporate and Commercial Banking, Retail and Individual Banking, Private Banking and Wealth Management, as well as Treasury and Capital Market activities and a well-known profile throughout the MENA region. By end-December 2016, the Bank had a loan portfolio of USD 17.2 billion, well diversified over economic sectors; a wide spectrum of 195 retail products and services covering bancassurance, credit card and Internet Banking, offered in all countries where Bank Audi operates and supported by a network of 201 branches and 478 ATMs; a leading position in Private Banking, with more than USD 10.8 billion in AuMs, by far the largest portfolio managed by a Lebanese banking group and which compares competitively with portfolios managed by leading banks in the GCC; a strong Capital Market activities in Lebanon, reporting an annual turnover of circa USD 16.7 billion in 2016.
- A strong diversification of operations by geography, with a presence in seven countries across the MENA region and Turkey, and clients which include leading corporations across a number of industry sectors.
- A leading position in its key markets, including ranking first among private sector conventional banks in Lebanon, sixth in Egypt and ninth in Turkey.
- An experienced Risk Management team, with a focus on risk governance and a number of risk management committees at the Board and Senior Management levels, which support the determination and monitoring of the Group's risk philosophy and appetite.
- Strong Corporate Governance and transparency structures and practices, which have been recognised as among the first and best in the region; and
- A diversified shareholder base which includes historical shareholders, international institutional investors and individuals from the region.

Maybe one of the most important developments at the level of Bank Audi's business activity in 2016 was the launch of a new proposition in SME Banking in August 2016, encompassing a comprehensive array of products and services, and which is expected to become a major business line. The new SME solutions were designed in a flexible manner to better answer customers' lending and non-lending business needs, from business banking transactions to financing solutions for day-to-day running business needs, as well as business growth and capital expenditure requirements. The revamping of the Bank's proposing was implemented with the advice of the IFC and aimed at promoting a sector which has a substantial impact of the domestic economy, representing 90% of the enterprises in Lebanon and employing 82% of the work force in the private sector. Hence serving this sector is not only profitable for Bank Audi, but it also promotes overall job creation and supports economic growth.

It is important to mention 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 IT and HR.

At the IT level, Bank Audi IT continued the implementation of multiple transformational business and technology projects across many of its affiliates. In Lebanon, phase 1 of the Omni-channel banking platform, a state-of-the-art mobile banking platform and application, was made available to customers. In addition, implementation work continued on several strategic projects: core banking replacement, subsequent phases of the Omni-channel banking platform, new automated business process management and loan management systems, and a new customer relationship management system. When operational, these systems together will redefine the way the Bank produces and delivers state-of-the-art services to its customers. Lastly, Bank Audi IT has increased over the past year its efforts to research and develop the latest trends of technology, the future of banking, and the means to implement those findings in existing and potential new entities.

At the HR level, if the year 2016 were to be labeled, it would easily hold up to the title "Human Resources Upgrade" in the Group's main entities. Distinguished and rich accomplishments were witnessed during the year within the Human Resources Department. Following three years of engaged efforts and dedication, the e-Business Suite Human Resources Management System (HRMS) – a state-of-the-art, versatile yet user-friendly software – was successfully launched at the beginning of 2016, driving transformation and change at the level of the Bank. In parallel, the Training and Development efforts remained predominantly focused on the personal and professional development of employees, in compliance with the beliefs and culture prevailing in Bank Audi Lebanon.

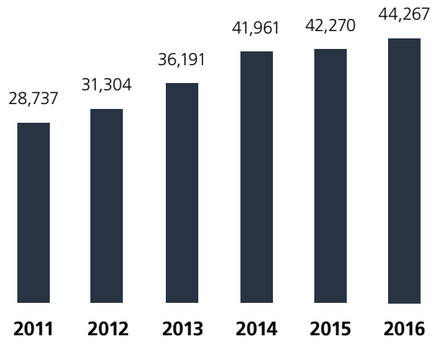
In closing and on behalf of the Bank's Board of Directors, we would like to express our gratitude to all our staff who have helped move Bank Audi forward to the point where we stand now, and to all our customers who honour us with their confidence and trust.

Raymond W. Audi
Chairman and General Manager

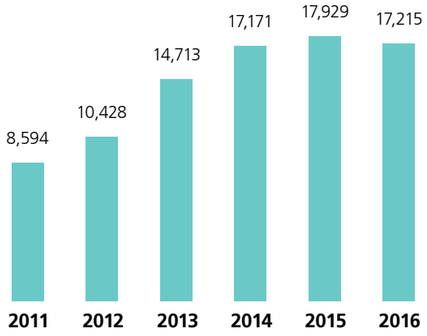
Samir N. Hanna
Group Chief Executive Officer

FINANCIAL HIGHLIGHTS

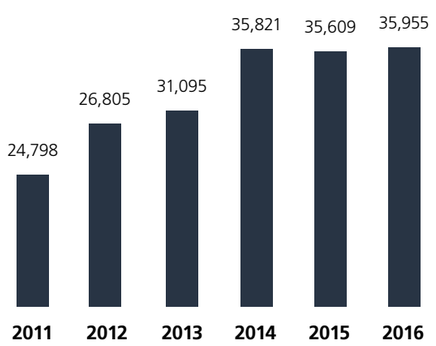
ASSETS (USD MILLION)



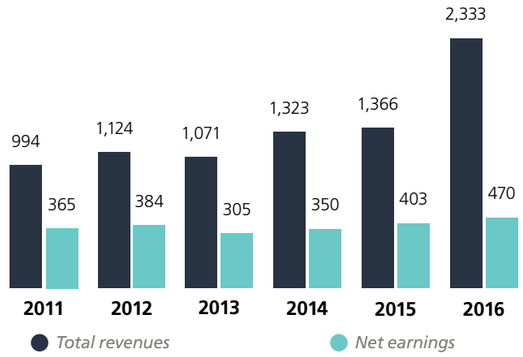
LOANS TO CUSTOMERS (USD MILLION)



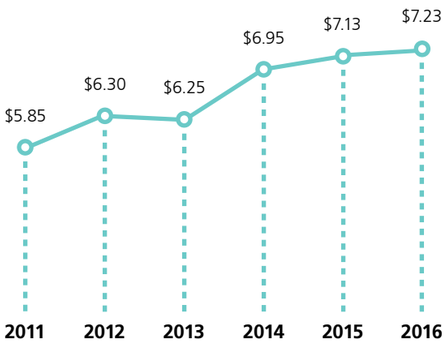
CUSTOMERS' DEPOSITS (USD MILLION)



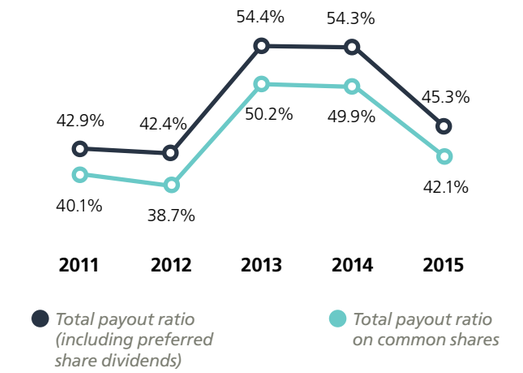
REVENUES AND NET EARNINGS (USD MILLION)



COMMON BOOK PER SHARE (USD)



PAYOUT RATIOS



BANK AUDI sal: SELECTED FINANCIAL DATA (USD MILLION)

	2011	2012	2013	2014	2015	2016	CAGR 11-16
Assets	28,737	31,304	36,191	41,961	42,270	44,267	**9.03%**
Loans to customers	8,594	10,428	14,713	17,171	17,929	17,215	**14.91%**
Customers' deposits	24,798	26,805	31,095	35,821	35,609	35,955	**7.71%**
Shareholders' equity	2,357	2,669	2,696	3,348	3,287	3,698	**9.43%**
Net earnings	365	384	305	350	403	470	**5.18%**
Number of branches	154	162	189	207	217	201	**5.47%**
Number of staff	4,808	5,070	5,894	6,408	6,891	7,017	**7.85%**
Liquidity and asset quality							
Liquid assets/Deposits	77.20%	74.51%	65.67%	64.84%	64.00%	71.26%	
Loans to deposits	34.66%	38.91%	47.32%	47.94%	50.35%	47.88%	
Net doubtful loans/Gross loans	0.66%	0.64%	1.00%	0.86%	0.93%	0.80%	
Loan loss provisions/Gross doubtful loans *(including collective provisions)*	116.07%	114.38%	95.31%	97.38%	98.32%	162.92%	
Net doubtful loans/Equity	2.50%	2.58%	5.60%	4.57%	5.21%	3.86%	
Collective provisions/Net loans	1.17%	1.06%	0.89%	0.81%	0.90%	2.43%	
Capital adequacy							
Equity/Assets	8.20%	8.53%	7.45%	7.98%	7.78%	8.35%	
Capital adequacy ratio	10.69%	13.67%	13.67%	13.49%	13.36%	14.78%	
Profitability							
Cost to income	44.71%	45.96%	56.07%	55.08%	53.82%	46.95%	
ROAA	1.27%	1.32%	0.91%	0.90%	0.96%	1.10%	
ROACE	16.73%	16.51%	12.59%	13.63%	13.69%	14.75%	

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01

CORPORATE GOVERNANCE

OFFERING YOU GROWTH
BUILT ON SAFETY.

1.0. | CORPORATE GOVERNANCE FRAMEWORK

INTRODUCTION

As in previous years, the Board of Directors has exerted, during 2016, every effort to promote the success of Bank Audi by supervising and directing its affairs and by regularly reviewing management performance and monitoring the achievement of objectives. It has also given a particular attention to prudent and effective controls in a year characterized by important challenges that entail effective risk assessment and management.

The Board is thus satisfied that, in 2016, it has fully discharged all its responsibilities, as mapped in its yearly rolling agenda, and has acted on the recommendations of its committees in a way to meet its obligations to its shareholders and to all other stakeholders.

Changes introduced to the Governance framework of the Bank during 2016 (and 2017 to date) include the adoption, review and/or update of a number of Governance, Compliance, and Risk-related policies, the creation of a new Board committee, the "AML/CFT Committee", and the adoption of its charter.

As usual, the Bank 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. Bank Audi's Board is 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 10) 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 www.bankaudigroup.com

The Board is supported in carrying out its duties by the Audit Committee, the Risk Committee, the Remuneration Committee, the Corporate Governance and Nomination Committee, and the Executive Committee (and, starting in 2017, by the AML/CFT 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, internal control and the compliance system[1]; (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[2].

- 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 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] Starting in 2017, a number of Compliance-related responsibilities of the Audit Committee will be transferred to the newly created AML/CFT Committee of the Board.

[2] 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 31 December 2016:

Shareholders/Groups of Shareholders	Country (Ultimate Economic Ownership)	Percentage Ownership[1] (%)
FRH Investment Holding sal	Lebanon	9.65
Audi family[2]	Lebanon	6.90
Sheikha Suad Hamad Al Saleh Al Homaizi[2]	Kuwait	5.94
Sheikh Dhiab Bin Zayed Al Nehayan	UAE	4.97
Al Sabbah Family[2]	Kuwait	4.71
Investment and Business Holding sal	Lebanon	3.61
Ali Ghassan El Merhebi family	Lebanon	2.60
Al Hobayb family[2]	KSA	2.55
Levant Finance 2 Limited	Lebanon	2.51
International Finance Corporation I.F.C.	—	2.50
Said El-Khoury family	Lebanon	2.22
Kel (Cayman) Limited	Lebanon	2.15
Executives and employees[3]	Lebanon	4.02
Others	—	15.67
Deutsche Bank Trust Company Americas[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] Sheikha Suad Hamad Al Saleh Al Homaizi is a member of the Board. The Audi family, Al Sabbah family and Al Hobayb family include the following members of the Board: (i) Raymond Wadih Audi and Marc Jean Audi, (ii) Mariam Nasser Sabbah Al Nasser Al Sabbah, and (iii) Abdullah Al Hobayb, respectively.

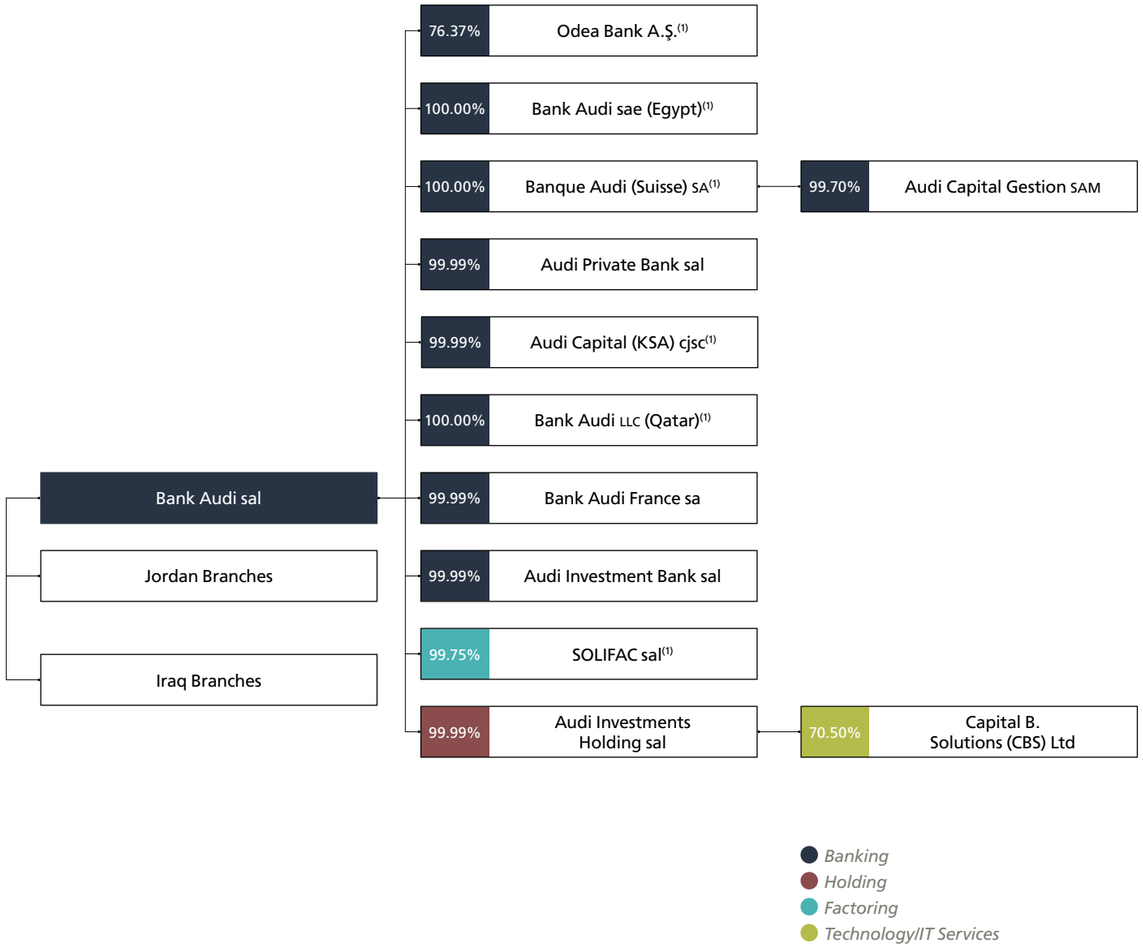
[3] Excluding members of the Audi family accounted for in a separate row above.

[4] Deutsche Bank Trust Company Americas holds common shares in its capacity as depositary under the Bank's GDR Program.
*In addition to the ownership of common shares mentioned above, 10.61% of the Bank's common shares are held through GDRs by each of **FRH Investment Holding Company sal (including its controlling shareholder), the Audi family, 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 66.20% of the Bank's common shares.

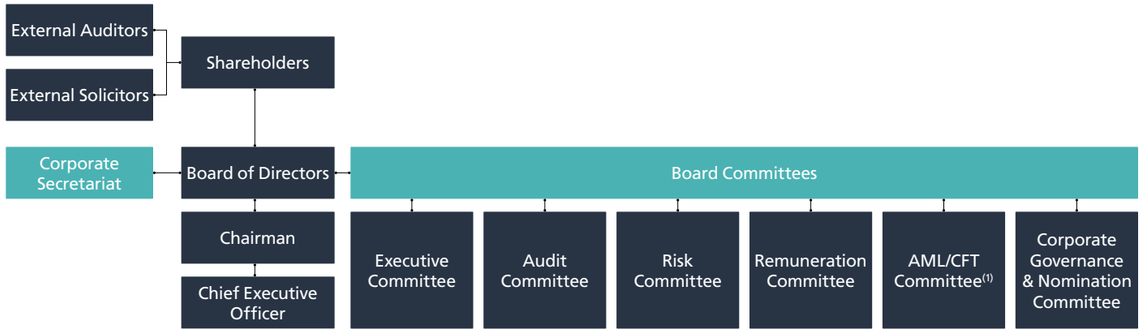
3.0. | CORPORATE STRUCTURE

The major subsidiaries and branches abroad of Bank Audi sal as at 31 December 2016 are:



(1) *Represents the economic ownership of the Bank with direct and/or indirect ownership through subsidiaries.*

4.0. | GROUP HIGH LEVEL CHART



Group Business Lines	Standing Management Committees	Group Support Functions
Corporate Banking	• Asset Liability Committee	Risk Management
Retail Banking	• Credit Committee	Internal Audit
Private Banking	• Information Technology Strategic Committee	Legal & Compliance
Capital Markets	• Financial Institutions Committee	Finance
Islamic Banking	• Anti-money Laundering Committee	Operations
Financial Institutions	• Disclosure Committee	Credit
e-Payment Solutions & Card Services	• Real Estate Committee	Information Technology
	• Corporate Social Responsibility Committee	Research

(1) *Starting 2017.*

5.0. | BOARD OF DIRECTORS

COMPOSITION OF THE BOARD OF DIRECTORS

The current members of the Board of Directors were elected by a resolution of the Ordinary General Assembly of shareholders held on 8 April 2016 for a three-year term expiring on the date of the annual Ordinary General Assembly meeting (expected to be held in April 2019) that will examine the accounts and activity of the year 2018.

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 Corporate Governance and Nomination Committee
H.E. Mr. Raymond W. AUDI *(Chairman)*						Chair •
Dr. Marwan M. GHANDOUR *(Vice-chairman)*	•		Chair •	•	Chair •	•
Dr. Freddie C. BAZ *(Vice-chairman)*		Deputy Chair •		•		
Mr. Samir N. HANNA		Chair •				•
Sheikha Suad H. S. AL HOMAIZI						
Mr. Marc J. AUDI		•				
Sheikha Mariam N. AL SABBAH	•		•			
Dr. Imad I. ITANI		•				
Mr. Abdullah I. AL HOBAYB	•		•		•	
Dr. Khalil M. BITAR	•			Chair •	•	

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 Group CEO).

[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 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 2016, the Board of Directors held 9 meetings, the Group Audit Committee held 4 meetings, the Group Risk Committee held 5 meetings, the Remuneration Committee held 2 meetings, the Corporate Governance and Nomination Committee held 3 meetings, and the Group Executive Committee held 26 meetings.

CHANGES TO THE BOARD OF DIRECTORS DURING THE YEAR 2016

(i) The Ordinary General Assembly of shareholders of Bank Audi convened on 8 April 2016, and resolved to re-elect the current Directors for a new three-year mandate.

(ii) The newly elected Board convened following the General Assembly of shareholders and resolved, amongst other things, to re-elect H.E. Mr. Raymond W. Audi as Chairman of the Board – General Manager, Dr. Marwan M. Ghandour as Vice-chairman of the Board, and Dr. Freddie C. Baz as Vice-chairman of the Board for the new Board's term.

(iii) In November 2016, the Board of Directors resolved to create a new Board committee whose mission is to assist the Board of Directors in overseeing the Bank's procedures and processes that protect it from money laundering and terrorist financing, as well as from other compliance-related risks, and, more generally, to oversee the Bank's compliance with applicable laws, policies and regulations (the "AML/CFT Committee"). The AML/CFT Committee is expected to start its work in 2017.

GROUP SHARIA' SUPERVISORY BOARD

Dr. Mohamed A. ELGARI (Chair)

Sheikh Nizam M. YAQOOBI

Dr. Khaled R. AL FAKIH

LEGAL ADVISORS

Law Offices of Ramzi Joreige & Partners

AUDITORS

BDO, Semaan, Gholam & Co.

Ernst & Young p.c.c.

6.0. | BIOGRAPHIES OF BOARD MEMBERS

RAYMOND W. AUDI

CHAIRMAN OF THE BOARD – GENERAL MANAGER
Age: 84 – Lebanon
Director since February 1962
Term expires at the 2019 annual General Assembly of shareholders
- Chairman of the Corporate Governance and Nomination Committee

Raymond Audi acts as Chairman of the Board of Directors and General Manager since December 2009.

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 2008, resigning from this position when he was appointed Minister of the Displaced in the Lebanese government. He resumed his position as Chairman of the Board of Directors effective 22 December 2009.

Raymond Audi has played an active role in leading Bank Audi through both prosperous and challenging times to its current status as a widely recognised leading Lebanese and regional bank.

He served as President of the Association of Banks in Lebanon in 1994 and is the recipient of several honours and awards, including, in July 2007, an Honorary Doctorate in Humane Letters from the Lebanese American University.

MARWAN M. GHANDOUR

VICE-CHAIRMAN OF THE BOARD
Age: 73 – 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 Board Group Risk 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 is also the Vice-chairman of the Board of Directors of Odea Bank A.Ş., Bank Audi's subsidiary in Turkey, 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: 64 – 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

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).

SAMIR N. HANNA

GENERAL MANAGER – GROUP CHIEF EXECUTIVE OFFICER
Age: 72 – Lebanon
Director since August 1990
Term expires at the 2019 annual General Assembly of shareholders
- Executive Director
- Chairman of the Group Executive Committee
- Member of the Corporate Governance and Nomination Committee

Samir Hanna is the 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 44 billion, consolidated deposits exceeding USD 36 billion and a group staff headcount exceeding 7,000 employees.

Samir Hanna 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.

He currently serves as the Group Chief Executive Officer and the Chairman of the Group Executive Committee, and heads all aspects of the Bank's Executive Management.

SUAD H. S. AL HOMAIZI

BOARD MEMBER
Age: 75 – Kuwait
Director since February 1962
Term expires at the 2019 annual General Assembly of shareholders
- Non-executive Director

Sheikha Suad Al Homaizi is a non-executive member of the Board of Directors of Bank Audi. She is the wife of late Sheikh Jaber Ali Salem Al Sabbah, a prominent member of the ruling family of Kuwait. She is one of the founders of Bank Audi.

Sheikha Suad Al Homaizi is one of the largest Kuwaiti private real estate developers and is active in many business sectors in Kuwait and overseas, notably representing multinational corporations in the fields of infrastructure, construction, pharmaceuticals and others.

She is a member of the Board of Directors of Bank Audi since February 1962.

MARIAM N. AL SABBAH

BOARD MEMBER
Age: 68 – Kuwait
Director since March 2001
Term expires at the 2019 annual General Assembly of shareholders
- Independent Non-executive Director
- Member of the Group Audit Committee

Sheikha Mariam Al Sabbah is the daughter of late Sheikh Nasser Sabah Al Nasser Al Sabbah and the widow of late Sheikh Ali Sabah Al Salem Al Sabbah, 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 Sabbah was one of the founders of Bank Audi.

Sheikha Mariam Al Sabbah 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.

MARC J. AUDI

GENERAL MANAGER – COUNTRY MANAGER LEBANON
Age: 59 – 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), the Private Banking arm of the Group, until 2005).

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

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

IMAD I. ITANI

GENERAL MANAGER – HEAD OF GROUP RETAIL BANKING
Age: 55 – Lebanon
Director since June 2002
Term expires at the 2019 annual General Assembly of shareholders
- Executive Director
- Member of the Group Executive 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.

Imad Itani is the Chairman of the Board of Audi Investment Bank sal, a fully owned subsidiary of Bank Audi, and a member of the Board of Directors of Odea Bank A.Ş., Bank Audi's subsidiary in Turkey.

He 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: 74 – 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.

Abdullah Al Hobayb 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.

He holds a Master's degree in Electrical Engineering from Karlsruhe University in Germany.

KHALIL M. BITAR

BOARD MEMBER
Age: 74 – 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

Khalil Bitar is an independent member of the Board of Directors since 2010. 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-establishing 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.

7.0. | GROUP EXECUTIVE COMMITTEE

VOTING MEMBERS

Mr. Samir N. HANNA *(Chair)*	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. Huseyin V. ÖZKAYA	Chief Executive Officer – Odea Bank A.Ş.
Mr. Hatem A. SADEK	Chairman & Managing Director – Bank Audi sae (Egypt)
Mr. Philippe R. SEDNAOUI	Group Head of Private Banking
Mr. Khalil I. DEBS	Group Head of Corporate Banking
Mr. Tamer M. GHAZALEH	Group Chief Financial Officer

NON-VOTING MEMBERS

Mr. Chahdan E. JEBEYLI	Group Chief Legal & Compliance Officer
Mr. Adel N. SATEL	Group Chief Risk Officer
Mrs. Ayşe Ö. KORKMAZ	Head of Internal Systems – Odea Bank A.Ş.
Mr. Mohamad A. FAYED	Deputy Chairman & Managing Director – Bank Audi sae (Egypt)

INVITEES

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

SECRETARY

Mr. Farid F. LAHOUD	Group Corporate Secretary

8.0. | 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 the key Management personnel (as defined in Note 53 accompanying the financial statements), during the year 2016, amount to LBP 60 billion, in addition to post-employment benefits aggregating LBP 16 billion. Provision for end of service benefits of key Management personnel amounted to LBP 30 billion as of 31 December 2016.

02

MANAGEMENT DISCUSSION AND ANALYSIS

UNLOCKING A WORLD
OF POSSIBILITIES.

1.0. | INTRODUCTION

Founded in 1830, Bank Audi was incorporated in its present form in 1962 as a private joint stock company with limited liability ("société anonyme libanaise") with a term of 99 years. Bank Audi is licensed by Banque du Liban (BDL) and registered on the Lebanese List of Banks under number 56 and on the Beirut Commercial Registry under number 11347. 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 Bank Audi were members of the Audi family, together with certain Kuwaiti investors. Since 1983, the shareholder base has expanded with an aim to build a diversified shareholders base in support of the growth story of the Group. At end-December 2016, a total number of common shares of 399,749,204, comprised of ordinary shares and Global Depositary Receipts (GDRs), were held by more than 1,500 shareholders varying between individual investors, institutional investors and a supranational agency. Ordinary shares are listed on the Beirut Stock Exchange while Global Depositary Receipts (GDRs) are listed on both the Beirut Stock Exchange and the London Stock Exchange.

Bank Audi has operations in Lebanon, Turkey, Egypt, France, Switzerland, Jordan, Saudi Arabia, Qatar, Abu Dhabi (through a representative office), Monaco and Iraq. Bank Audi Group operates principally through 10 banks and 3 financial companies in 11 countries, offering a full range of products and services that cover principally Commercial and Corporate Banking, Retail and Individual Banking, and Private Banking, as well as ancillary activities such as Investment Banking and Factoring. Throughout a network of 201 branches, 478 ATMs and 7,017 employees, the Bank draws its experience and expertise in providing more than 1 million clients with a full range of financial products and solutions.

Bank Audi ranks first among Lebanese banking groups and is positioned among the top Arab banking groups. Its strategy over the medium term is focused on three geographic development pillars, Lebanon, Turkey and Egypt, in addition to the continued development of its Private Banking business.

The discussion and analysis that follows cover the consolidated performance of Bank Audi in 2016. It was prepared based upon the audited consolidated financial statements of the Bank as at and for the fiscal years ended 31 December 2015 and 31 December 2016. Terms such as "Bank Audi", "the Bank" or "the Group" refer to Bank Audi sal and its consolidated subsidiaries, as disclosed in Note 48 of the Bank's 2016 audited financial statements. Main development pillars mentioned in the discussion and analysis refer to the following: **Lebanese entities** (consisting of Bank Audi sal, Audi Investment Bank sal, SOLIFAC, other minor Lebanese entities excluding consolidation adjustments), **Turkey** (representing Odea Bank A.Ş.), **Egypt** (representing Bank Audi sae (Egypt)), Private Banking entities (consisting of Audi Private Bank sal, Banque Audi (Suisse), Audi Capital (KSA), Bank Audi LLC (Qatar) and Audi Capital Gestion (Monaco)), **other entitites** (consisting of Bank Audi France sa, Bank Audi sal - Jordan Branches , Bank Audi sal - Iraq Branches, and other European and MENA entities).

To note that, in September 2016, the Group deconsolidated and wrote off its investments in Bank Audi Syria, National Bank of Sudan and Arabeya Online. Subsequently, in the fourth quarter of 2016, the Bank sold its 76.56% participation in National Bank of Sudan.

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS). Ernst & Young p.c.c. and BDO, Semaan, Gholam & Co. have jointly audited the annual financial statements.

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 2015 and 2016). 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 14 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 2016 as compared to end-December 2015. An overview of share information comes next, followed by dividend policy, risk management, resources deployed, investors' relations, compliance, environmental and social management system, and corporate social responsibility.

2.0. | STRATEGY

Through its strategy and recent growth, as a result of a vast regional expansion ongoing since 2005, Bank Audi has stepped into the close circle of the largest and most diversified banking groups in the MENA region, delivering added value to all its stakeholders. That is how over a span of 10 years, Bank Audi's profile was deeply transformed, to benefit today from the following competitive edges:

- A strong franchise covering Commercial and Corporate Banking, Retail Banking, Private Banking and Capital Markets activities, and a well-known profile throughout the MENA region.
- A strong diversification of operations by geography, with a presence in 11 countries through 10 banks and 3 financial companies in the MENA region, in Europe, and in Turkey.
- A leading position in its main markets of presence, ranking as the largest banking group in Lebanon, the 7th largest in Egypt and the 9th in Turkey, as well as maintaining a leading position in Private Banking in the MENA region, with USD 11 billion in assets under management.
- An experienced risk management team, with a focus on risk governance and a number of risk management committees at the Board and Senior Management levels, which support the determination and monitoring of the Group's risk philosophy and appetite.
- Strong Corporate Governance and transparency structures and practices, which have been recognised among the best in the region.
- A diversified shareholder base which includes historical shareholders, international institutional investors, and individuals from the region.

Given the persisting challenging environment across the region, Management's current short-term development strategy is based around consolidating and reinforcing the credit profile and positioning of its key entities in Lebanon, Egypt, Turkey, along with the development of the Private Banking activities, while maintaining the network ready to capture growth opportunities as soon as they arise.

- **In Lebanon** – As Lebanon will remain a pivotal part of the Group's overall activity, the Bank seeks to further reinforce and consolidate its leading position on the local market while increasing penetration in the corporate, SME and retail segments.
- **In Egypt** – The Bank will continue to build a resilient and well-regarded franchise in Egypt.
- **In Turkey** – Odea Bank aims to establish a well-fenced banking platform while improving efficiency and profitability.
- **At the level of Private Banking activities** – The Bank looks to leverage solid expertise in Private Banking by reinforcing synergies across entities in Europe, the Near-East and the GCC.

In achieving those objectives, Management expects to deliver 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. As the regional uncertainties alleviate, the Group is expected to resume the diversification and expansion strategy. Bank Audi's key target in the longer run remains to further develop as a fully-integrated, pan-regional group dedicated to catering to a highly diversified client base among corporates and individuals.

3.0. | OPERATING ENVIRONMENT

The 2016 MENA economic scene, where Bank Audi has a wide presence, was dominated by geopolitical and oil price developments. Regional uncertainties arising from the complex conflicts in a number of countries of the region have been weighing on overall confidence. Low oil prices are also taking a toll on economic activity, mainly in the oil-exporting countries, with varying spillover effects on oil importing countries. Within this environment, MENA growth is estimated to be modest at 3.2% in 2016. The MENA banking sectors remained at the image of macroeconomic developments, with consolidated assets of MENA banks reporting a mild deposits growth of 3.2% in December 2016 relative to the same month of the previous year.

Within this environment, the year 2016 was mixed for the Egyptian and Turkish economies, the main markets of presence of Bank Audi within the region, which are facing opportunities and challenges. Both countries are going through domestic challenges, mainly at the level of monetary and exchange pressures that add to geopolitical and security threats, yet without jeopardising the countries sound macro fundamentals at large. In Lebanon, the Lebanese economy expanded at a slightly higher pace than in the previous year, with real GDP growing by 2%, along with prospects for faster growth in 2017 on the basis of Lebanon's recent domestic political settlement that led to successful presidential elections and the formation of a Cabinet of National Unity.

3.1. | LEBANON

In 2016, the Lebanese economy did not get out of the state of sluggishness that characterised its performance during the past half a decade. Despite a continuously growing private consumption, economic sluggishness was mainly tied to a weak private investment component within the context of a wait-and-see attitude among investors, delaying major investment decisions in the country. It is within this context that the capital formation rate, i.e. the investment to GDP ratio, registered a low of 23% in 2016, gradually down from 31% in 2010 prior to the regional turmoil. Mirroring the sound growth of private consumption offset by declining private investment, the analysis of Lebanon's imports, that account for 36% of GDP, suggests a rise of 5.2% in imports of non-oil consumption products in 2016, coupled with a stagnation in imports of investment products over the same period.

With the Lebanese economy expanding at a slightly higher pace than in the past couple of years, the BDL coincident indicator issued by the Central Bank of Lebanon for the month of November 2016 reported 288 for the first eleven months of 2016, growing by 4.5% relative to the corresponding period of 2015. Comparatively, the average coincident indicator had grown by 3.2% in 2014 and by 2.0% in 2015. Within this context, the Central Bank of Lebanon forecast real GDP growth at 2% in 2016, similar to our own forecast and

almost in line with the average reported over the past five years, but higher than the growth of 2015. While there was a slight improvement in aggregate demand for goods and services in Lebanon's economy in 2016, the economy is still in a sluggish mood, with growth way below the economic boom years between 2007 and 2010, when the economy recorded a real GDP growth of 9% on average per annum.

The analysis of most real sector indicators suggests that they remained somehow on the upside in 2016. Out of 11 real sector indicators, 8 are up and 3 are down in 2016. Among indicators that witnessed a positive growth in 2016, we mention the number of tourists with a rise of 11.2%, merchandise at the port with a surge of 6.3%, passengers at the airport with a rise of 5.5%, electricity production with an uplift of 5.2%, property sales with an expansion of 4.9%, cement deliveries with an increase of 4.1%, imports with a rise of 3.5%, and exports with an uplift of 0.8%. Among indicators that witnessed a negative growth, we mention new car sales with a drop of 7.7%, cleared checks with a decline of 2.2%, and construction permits with a decrease of 0.9% year-on-year.

The year 2016 witnessed a fiscal deterioration, along with a monetary improvement. Lebanon's fiscal performance reported a net deterioration in the first eight months of 2016, with budget deficit expanding by 27% year-on-year driven by a faster growth in expenditures (9.5%) relative to that of public revenues (4.1%). At the monetary level, the Central Bank of Lebanon, in tight coordination with Lebanese banks, has undertaken successfully innovative financial engineering operations that targeted reinforcing Lebanon's foreign assets and supporting the balance sheets of operating banks. Swap operations between the Central Bank and the Ministry of Finance and between banks and the Central Bank revolved around a total of USD 14 billion, raising BDL foreign assets to a record high of above USD 40 billion.

Consequently, the foreign sector reported a significant improvement in activity on the back of a noticeable 44% growth in financial inflows over the first eleven months of the year, generating a surplus in the balance of payments of USD 1.2 billion, following a large deficit the year before. While the year started with a large BOP deficit in the early months of the year, the financial engineering operations of the Central Bank were key to attract significant inflows in the second half, leading to a corollary rise in the net foreign assets of the financial system.

Within this environment, banking activity, benefiting from growing financial inflows towards Lebanon saw a USD 18.3 billion increase in assets in 2016, almost double the growth over the previous year, mostly driven by the rise in customer deposits of USD 10.9 billion and the significant reinforcement in shareholders' equity. As to the currency breakdown, FX deposits grew by USD 8.6 billion, while LBP deposits increased by USD 2.3 billion, leading to a rise in deposit dollarization to 65.8% in December 2016. The year 2016 was a profitable year for Lebanese banks, reversing the trend of profit stagnation and contraction of return ratios over the previous few years.

At the capital markets level, a relative improvement in activity was witnessed, especially in the last quarter. Prices at the Beirut Stock Exchange rose by 2.1% in 2016, with equity trading activity increasing from USD 498 million in 2015 to USD 885 million in 2016, a year-on-year growth of 77.8% generating a rise in the annual turnover ratio to 8.1% of market capitalisation from 4.7% over the previous year. In parallel, Lebanon's 5-year CDS spreads widened by 57 basis points over the year to reach 478 basis points at end-December 2016, despite the contraction of the fourth quarter.

Our macro forecasts for 2017 post-presidential elections and Cabinet formation, but with the persisting absence of a regional settlement, rest on a 4% real GDP growth for Lebanon, i.e more than double the average it reported over the past 6 years (1.8%). This could be driven by a 15% growth in private investment and a 7% growth in private consumption within the context of an 18% growth in financial inflows towards Lebanon, benefitting banking activity at large.

LEBANON MACRO/BANKING INDICATORS

(LBP Billion)	Dec-15	Dec-16	% Growth
Nominal GDP	76,592	**78,869**	3.0%
Real GDP growth	1.0%	**2.0%**	1.0%
Domestic banks' assets	280,378	**307,999**	9.9%
Domestic banks' deposits	228,514	**244,961**	7.2%
Domestic banks' loans	81,744	**86,199**	5.4%
(USD Billion)			
Nominal GDP	50.8	**52.3**	3.0%
Real GDP growth	1.0%	**2.0%**	1.0%
Domestic banks' assets	186.0	**204.3**	9.9%
Domestic banks' deposits	151.6	**162.5**	7.2%
Domestic banks' loans	54.2	**57.2**	5.4%

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

3.2. | EGYPT

The year 2016 was mixed for the Egyptian economy which is facing both opportunities and challenges.

The country is going through large structural reforms which are set to secure sound growth in the economy on the medium term. However, such reforms carry intermediate costs, mainly at the level of monetary and exchange pressures that add to geopolitical and security threats, with considerable burden on the real sectors of the economy.

As a matter of fact, the Egyptian economy reported a real GDP growth of 3.8% in 2016, slightly lower than the 4.2% registered in the previous year, but still outpacing overall population growth. The real sector slowdown comes within the context of shrinking foreign demand amid lower touristic receipts and financial inflows, while domestic demand continues to grow satisfactorily. Reflecting the sluggish touristic performance, the number of tourists was down by 48% over the first nine months of 2016 relative to the previous year's same period. The balance-of-payments figures for 2015/16 indicate a record current-account deficit of USD 18.7 billion, compared with USD 12.1 billion in the previous year.

Within this environment, Egypt adopted significant structural measures including a currency flotation, increases in fuel and power prices, a new value-added tax and increases in custom duties. The reforms had already contributed to a rise in Egypt's core inflation, but inflationary pressures are expected to ease in the second half of 2017. Core inflation jumped to 24.3% in December, an eight-year high. The rise in inflation has adverse effects on real income which adversely impacts consumption.

Linked to that is the monetary drift. The Egyptian Pound exchange rate reached 18.11 pounds per dollar by year-end 2016, against 7.83 at year-end 2015, following the decision on 3 November to move from a fixed exchange rate system to a floating exchange rate regime. The large depreciation of the exchange rate comes despite reinforced central bank reserves that exceeded USD 24.3 billion at year-end 2016 (against USD 16.5 billion at year-end 2015), following the IMF deal and the stream of financing agreements with the World Bank, African Development Bank and others.

The decision to float the EGP and to reign in energy subsidies should help increase investment and improve the net export contribution to growth. But a slowdown in consumption could prevent a rapid growth rebound in the current fiscal year. Prolonged periods of FX shortages over the past few years, along with elevated socio-political and security related risks, have severely undermined investment growth. Investment has dipped from 21% of GDP in 2010 to around 14% currently. In parallel, the erosion of competitiveness as a result of real appreciation of the EGP contributed to a sharp fall in exports by 25% over the same period.

Beyond helping to bridge Egypt's large external financing needs, the agreement with the IMF would send a strong signal to domestic and foreign investors that the authorities are committed to achieve macroeconomic stability and to improve the business environment. According to the IMF program, Egypt is set to decrease its debt ratio to reach 88% of GDP by 2018/19 from its current level of 98%, and to turn its 3.5% primary deficit to GDP ratio to a surplus of 2%, which represent ambitious targets for the Egyptian state authorities in general.

At the banking sector level, the banking system has been relatively resilient to the macro/monetary pressures amidst a tough operating environment. In details, over the first ten months of 2016, bank assets grew by 26.1% when expressed in Egyptian Pound, while deposits grew by 16.2% over the period. In parallel, bank loans to the private sector grew by 24.0%, suggesting growing lending opportunities in an economy operating below potential.

Net profits for 9 listed banks reported a yearly growth of 35.6% over the first nine months of 2016 relative to the corresponding period of 2015. Financial soundness indicators remain satisfactory, with a non-performing loan ratio of 5.9% of total loans, along with a provisioning ratio of 99.0% of non-performing loans, a capital adequacy ratio of 13.8%, a return on average assets of 1.5% and a return on average equity of 24.4%. Within this environment, banking activity in Egypt continues to be sound amid a strictly regulated environment, with opportunities outpacing challenges for operating banks at large.

EGYPT MACRO/BANKING INDICATORS

(EGP Billion)	Dec-15	Oct-16	% Growth
Nominal GDP*	2,429.8	**2,777.8**	14.3%
Real GDP growth*	4.2%	**3.8%**	-0.4%
Domestic banks' assets	2,485.5	**3,133.5**	26.1%
Domestic banks' deposits	1,914.6	**2,224.2**	16.2%
Domestic banks' loans	791.5	**981.2**	24.0%
(USD Billion)			
Nominal GDP*	330.2	**341.9**	3.6%
Real GDP growth*	4.2%	**3.8%**	-0.4%
Domestic banks' assets	317.4	**352.6**	11.1%
Domestic banks' deposits	244.5	**250.2**	2.4%
Domestic banks' loans	101.1	**110.4**	9.2%

** IMF full-year estimates.*

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

3.3. | TURKEY

Throughout the year 2016, the Turkish economy went under considerable pressures in its real sector, while its financial sector proved to be somehow resilient thanks to interest rate cuts by the Central Bank of Turkey (CBRT) throughout the year. Increased political uncertainty, a fall in tourism, weak business confidence, and adverse domestic and external shocks are taking their toll on Turkey's economy, where growth is expected to fall to 2.7% in 2016 as per the IMF, against 6.1% in 2015.

Regarding tourism, the number of tourists fell by 30% in 2016. The country's total revenue from tourism was USD 22 billion over the year, USD 9.4 billion less compared to the last year when it was USD 31.5 billion. Turkey suffered from a significant decline in hotel occupancy rates with a 17.8% decline in 2016 compared to 2015, and had the lowest hotel occupancy rate across Europe with 50.8%. In parallel, net FDI fell by 27.8% in 2016.

In brief, what is impacted in Turkey is foreign demand in its different components of FDI, portfolio inflows and tourism receipts, but domestic demand that accounts for 70% of total demand is almost unaffected by this year's events. As a matter of fact, at the level of domestic demand, a hike in minimum wages, the positive term-of-trade from low oil prices, and demand from 3.5 million-plus refugees living in Turkey, have all contributed to sound consumption growth.

Within this environment, the government announced its 2017-2019 Medium-Term Program which prioritises political and economic stability. Real GDP growth is forecast at 3.2% for 2016, 4.4% for 2017 and 5% for 2018 and 2019. As per the program, the government expects inflation to decline from 8.5% at the end 2016 to 8.0% at the end of 2017, 6.0% in 2018 and 5.0% in 2019.

At the external sector level, the year 2016 is reporting a sustainable current account deficit ratio of 4.0% of GDP, mainly benefitting from the decline in oil prices. The ratio of exports to imports reported a 7-year high of 78.7% in 2016. In parallel, despite the expansion in fiscal deficit this year, the latter still represents a mere 1.3% of GDP, bringing down the public debt ratio to a low of 28.7% of GDP.

What remains is the monetary concern, with the exchange rate depreciating by 18% in 2016 to reach 3.53 relative to the US Dollar at the end of 2016. It is yet important to mention, in this respect, that the Central Bank's international reserves kept a level below the USD 100 billion threshold, recording USD 92.1 billion, against USD 92.9 billion at end-2015. As to reserve coverage, international reserves currently represent 18.1% of money supply and 6.4 months of imports, slightly lagging behind international benchmarks.

At the capital markets level, this year's developments did not entail significant pressures on stock and fixed income markets. The stock market price index rose by 8.9%, after a contraction of 16.3% in 2015, raising market capitalisation to USD 195 billion, the equivalent of 23% of GDP. The stock market turnover ratio, measured by the annualised trading value to market capitalisation, fell from 200.8% in 2015 to 193.5% in 2016. As a reflection of market perception of country risks, the CDS spread expanded by 32 basis points on average in 2016, following a widening of 36 basis points in 2015.

At the banking sector level, a noticeable resilience was reported this year. Total bank assets increased by 15.8% in local currency terms from January to December. Meanwhile, credits increased by 16.8 percent in local currency terms. Also, Turkish banks' profits grew by 44.1% in TRY terms and 18.9% in USD terms in 2016. The Turkish banking sector is fundamentally sound, with high regulatory capital ratios (15.6%), low NPLs (3.2%) and sizeable liquidity buffers (USD 60.5 billion of FX liquid assets, the equivalent of 35% of FX deposits). As such, all financial soundness indicators for the sector in aggregate are still reasonable in terms of profitability, asset quality, liquidity and capitalisation at large.

Finally, while there are undoubtedly increased risks on the political and geopolitical fronts, we yet believe there is no major deterioration in economic fundamentals post-coup attempt for a number of intrinsic considerations. The Economic Research team at Odea Bank believes that increased risks are balanced by severely undervalued Turkish assets, including the Turkish Lira, and an increasingly hawkish Central Bank of the Republic of Turkey. The Turkish government's timely supportive actions since the coup attempt on the macro-prudential, fiscal and structural reform fronts are expected to help the economy bounce back in the second half of 2017. Therefore, the upside potential in the Turkish economy still exists, assuming the political uncertainties will be dampened starting from the second quarter of 2017.

TURKEY MACRO/BANKING INDICATORS

(TRY Billion)	Dec-15	Dec-16	% Growth
Nominal GDP	1,953	2,152	10.2%
Real GDP growth	4.0%	2.7%	-1.3%
Domestic banks' assets	2,357.5	2,730.9	15.8%
Domestic banks' deposits	1,245.4	1,435.7	15.3%
Domestic banks' loans	1,485.0	1,734.3	16.8%
(USD Billion)			
Nominal GDP	720.4	714.0	-0.9%
Real GDP growth	4.0%	2.7%	-1.3%
Domestic banks' assets	813.4	778.3	-4.3%
Domestic banks' deposits	429.8	414.7	-3.5%
Domestic banks' loans	512.3	494.5	-3.5%

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

4.0. | CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Within those persisting challenging conditions, Bank Audi recorded a rather good performance in 2016, despite the depreciation of the Egyptian Pound and the Turkish Lira versus the US Dollar. Consolidated net profits reached USD 470 million, rising by 17% relative to 2015. Net profits growth was supported by a corollary increase in consolidated assets, reaching USD 44.3 billion at end-December 2016. At the current exchange rates, this corresponds to an assets' increase by USD 2.0 billion relative to end-December 2015, i.e. a growth of 4.7%. Nonetheless, at constant exchange rate (as at end-December 2015), consolidated assets would have increased by USD 6.1 billion, i.e. a growth of 14.4%, thereby justifying the growth in net profits.

4.1. | RECENT DEVELOPMENTS AND EXTRAORDINARY REVENUES

In May 2016, the Central Bank of Lebanon, aiming at increasing its FCY reserves, offered local banks the possibility to discount Lebanese Treasury bills with long-term maturities at close to 50% their yields, with a condition that a similar amount is used to buy USD Eurobonds/Central Bank CDs from the Central Bank. Offered for a limited period of time, the exchange operations revolved around a total of USD 14 billion. As a result of the discount, substantial capital gains were realised while the balance sheet of Lebanese banks and their credit profiles were bolstered.

In December 2016, the Central Bank of Lebanon issued the Intermediary Circular No. 446 which provided how the exceptional revenues resulting from those operations should be used, as detailed below:

- To allocate additional collective provisions corresponding to 2% of risk-weighted loans.
- To allocate any additional provisions required for the implementation of IFRS 9.
- To book goodwill impairment.
- To write off investments in entities abroad.
- With remainder amounts to be allocated as follows: 70% as reserves for capital increase accounted for as Common Equity Tier 1 capital, and 30% as deferred liabilities accounted for as Tier 2 capital.

Bank Audi was the most active bank in seizing the offered opportunity, (i) first by using its own USD liquidity and holding of LBP-denominated paper and (ii) by channelling USD funds from qualified large depositors overseas (while sharing with them a portion of the generated revenues and retaining the rest as brokerage fee). Bank Audi achieved around USD 1 billion of exceptional non-recurring revenues as a result of its participation in the exchange transactions offered by the Central Bank of Lebanon, representing almost 1/3 of its shareholders' equity. Those were used as follows:

- USD 231 million of impairment of goodwill and investments and write-off of intangible assets and one-off expenses.
- USD 306 million of additional collective provisions corresponding to 2% of risk-weighted loans, so as the total collective provisions reached USD 419 million as at end-December 2016.
- USD 205 million of write-off of the investments in Bank Audi Syria, Arabeya Online and National Bank of Sudan.
- USD 108 million of exceptional tax in relation with those bookings.

Having met all the requirements of the Central Bank, the Bank was left with a remainder amount of USD 173 million (USD 204 million before tax) which was allocated over 70% as non-distributable reserves for capital increase (USD 121 million) and 30% as deferred liabilities, which would be accounted as Tier 2 capital (USD 52 million). The USD 173 million are therefore non-distributable reserves meant to strengthen the capital base within the context of higher minimum regulatory requirements.

In sum, the USD 1 billion of exceptional revenues did not impact the consolidated net profits achieved by the Group in 2016, as the related residual exceptional net profits amounted to only USD 5.5 million, out of the USD 470 million generated in 2016.

Meanwhile, the increase in consolidated net profits was generated by all four main developments pillars, with net profits of Bank Audi Egypt and Odea Bank in Turkey contributing most significantly to it. The evolution of asset and loan quality ratios of those entities bear witness to the resilience of their loan books within the prevailing challenging political and economic environment in their countries of presence.

4.2. | THE GROUP'S PERFORMANCE IN 2016

The table below sets out the evolution of main activity aggregates over the main development pillars as at end-December 2016 as compared to end-December 2015:

	Dec-15		Dec-16		Change	
(USD Million)	Volume	Share in Total	Volume	Share in Total	Volume	Share in Total
ASSETS						
Lebanese entities	24,594	58.2%	28,628	64.7%	4,034	6.5%
Turkey	11,031	26.1%	10,801	24.4%	-230	-1.8%
Egypt	4,812	11.4%	3,017	6.8%	-1,796	-4.6%
Private Banking entities	3,250	7.7%	3,339	7.5%	89	-0.1%
Other entities	2,825	6.7%	2,576	5.8%	-249	-0.9%
Consolidated adjustment	-4,241	-10.0%	-4,093	-9.2%	148	0.8%
Total	**42,270**	**100.0%**	**44,267**	**100.0%**	**1,996**	**0.0%**
DEPOSITS						
Lebanese entities	18,528	52.0%	21,216	59.0%	2,688	7.0%
Turkey	8,633	24.2%	8,242	22.9%	-391	-1.3%
Egypt	4,125	11.6%	2,480	6.9%	-1,645	-4.7%
Private Banking entities	2,569	7.2%	2,561	7.1%	-8	-0.1%
Other entities	1,910	5.4%	1,652	4.6%	-259	-0.8%
Consolidated adjustment	-157	-0.4%	-195	-0.5%	-39	-0.1%
Total	**35,609**	**100.0%**	**35,955**	**100.0%**	**346**	**0.0%**
LOANS						
Lebanese entities	6,163	34.4%	6,023	35.0%	-140	0.6%
Turkey	7,465	41.6%	7,403	43.0%	-62	1.4%
Egypt	2,365	13.2%	1,611	9.4%	-755	-3.8%
Private Banking entities	1,084	6.0%	1,214	7.1%	130	1.0%
Other entities	933	5.2%	1,035	6.0%	102	0.8%
Consolidated adjustment	-82	-0.5%	-70	-0.4%	12	0.1%
Total	**17,929**	**100.0%**	**17,215**	**100.0%**	**-714**	**0.0%**

The following trends drove the Group's overall performance in 2016:

In Lebanon – The Bank's Lebanese operations continued to adopt a strategy of consolidating its leading position in the domestic market while capturing growth opportunities, in particular after the recent domestic political settlement fundamentally improving the risk profile of the country and lifting economic opportunities at the horizon. Lebanon remains a pivotal part of the Group's overall activity. The focus in 2016 was on leveraging existing corporate relationships to grow the Commercial Banking business, and boosting the SME proposition to make it a major business line while increasing the Bank's penetration of the retail segment within tight efficiency and productivity guidelines. Assets of Lebanese entities (excluding consolidation adjustments) increased by USD 4.0 billion to USD 28.6 billion, driven by a customers' deposits increase by USD 2.7 billion, reaching USD 21.2 billion, within stable lending. Subsequently, profitability metrics of Lebanese entities improved with the ROAA moving from 0.85% in 2015 to 0.98% in 2016.

In Turkey – The Bank's Turkish subsidiary, Odea Bank, recorded solid activity growth in 2016, outpacing peers in the Turkish market. Odea Bank reported an assets growth of 18.7% in 2016, as compared to 15.8% for the sector, and is now ranked as the 9th largest commercial bank in Turkey (among 33 non-conventional operating commercial banks) with a market share of approximately 1.4% of total assets (2.0% in deposits and 1.5% in loans). Net profits of Odea Bank increased 3-folds in 2016, from TRY 62.6 million in 2015 to TRY 206.9 million in 2016. This performance was realised within the context of a slight deterioration in the credit quality, with the ratio of NPLs to gross loans reaching 2.57% at end-December 2016, a level which remains well below the market average at 3.2%. 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.

In Egypt – Bank Audi Egypt continues to show strong resilience to the persisting ongoing political uncertainties in Egypt. It continues to sustain a strong growth trajectory in terms of activity and earnings. Assets of Bank Audi Egypt grew in 2016 by 48% reaching EGP 55.8 billion at end-December 2016. At constant exchange rate (as at end-December 2015), assets of Bank Audi Egypt would have grown by 22%. Its net profits increased from EGP 534.9 million in 2015 to EGP 1,709.3 million in 2016, which when adjusted to the gains from the FX structural position since the float of the Egyptian Pounds, becomes EGP 787.9 million. This performance was not realised at the detriment of credit quality as the ratio of NPLs to gross loans was sustained at 1.4%. 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 2016.

At the level of the Private Banking activity – The Bank grew its Private Banking operations in 2016, leveraging on existing intra-group synergies and efficiencies as a result of the restructuring of its Private Banking business (pursuant to which its Private Banking entities now form a unified group) and the pooling of resources, in particular in the MENA region. Private Banking client assets rose in 2016 by USD 1.3 billion, from USD 9.8 billion at end-December 2015 to USD 11.1 billion at end-December 2016. In parallel, net profits of Private Banking entities reported a 16% growth, moving from USD 46.9 million in 2015 to USD 54.6 million in 2016.

A detailed discussion of results across main development pillars is included on Page 49.

The performance of each main development pillar individually reflects the Bank's strong dynamics, including, in particular, its capacity to attract new customers, as well as to expand services provided to existing customers. Both the number of customers and the total number of accounts continued to increase, with 106,641 new customers and 219,639 new accounts in 2016, after the deconsolidation of Bank Audi Syria and National Bank of Sudan, which had total numbers of customers and accounts of respectively 52,272 and 62,527 at end-December 2015. At end-December 2016, Bank Audi had 1,090,541 customers and 2,127,557 accounts in total.

Nonetheless, the performance of the main development pillars individually is unfortunately not mirrored at the consolidated position level, which is significantly impacted by the depreciation of, in particular, the Turkish Lira, the Egyptian Pound and the Euro, as compared to the US Dollar, by 18%, 58% and 3% respectively in 2016.

4.3. | CONSOLIDATED BALANCE SHEET MANAGEMENT

Consolidated assets of Bank Audi rose in 2016 from USD 42.3 billion at end-December 2015 to USD 44.3 billion at end-December 2016, corresponding to an increase of USD 2.0 billion, i.e. a growth of 4.7%. Consolidated assets including assets under management, fiduciary deposits and custody accounts reached USD 55.1 billion at end-December 2016 as compared to USD 52.1 billion at end-December 2015, corresponding to a growth by 5.7%.

BALANCE SHEET (USD MILLION)

	Dec-15	**Dec-16**	Vol.	%
Primary liquidity	12,633	15,752	3,119	24.7%
Portfolio securities	10,158	9,869	-289	-2.8%
Loans to customers	17,929	17,215	-714	-4.0%
Other assets	796	749	-47	-5.9%
Fixed assets	755	681	-73	-9.7%
Assets = Liabilities	**42,270**	**44,267**	**1,996**	**4.7%**
Bank deposits	1,931	3,040	1,109	57.4%
Customers' deposits	35,609	35,955	346	1.0%
Subordinated debt	646	646	0	0.0%
Other liabilities	797	928	130	16.3%
Shareholders' equity (profit included)	3,287	3,698	411	12.5%
AUMs + fid. dep. + cust. acc.	9,849	10,831	982	10.0%
Assets + AUMS	**52,119**	**55,098**	**2,979**	**5.7%**

The contribution of entities outside Lebanon to the Bank's consolidated total assets decreased from 48.6% as at end-December 2015 to 41.5% as at end-December 2016 as it was adversely affected by the devaluation of the Turkish Lira and the Egyptian Pound. Had the Turkish Lira/US Dollar and Egyptian Pound/US Dollar exchange rates been the same as at end-December 2016 as they were as at end-December 2015, the Bank's total consolidated assets would have increased by USD 6.1 billion or 14.4%, to USD 48.3 billion as at end-December 2016, primarily due to an increase in assets in Turkey and Egypt by USD 983 million and USD 1,041 million, respectively, on the back of the reported USD 4.0 billion increase in assets of Lebanese entities in 2016.

The following table sets out a geographic breakdown of the Bank's assets, customers' deposits and loans as at end-December 2016 as compared to end-December 2015:

BREAKDOWN BY GEOGRAPHY

	Assets			Deposits			Loans		
	Dec-15	**Dec-16**	Change	Dec-15	**Dec-16**	Change	Dec-15	**Dec-16**	Change
By region									
Lebanon	51.4%	**58.5%**	7.2%	54.9%	**61.7%**	6.8%	34.8%	**35.4%**	0.6%
Abroad	48.6%	**41.5%**	-7.2%	45.1%	**38.3%**	-6.8%	65.2%	**64.6%**	-0.6%

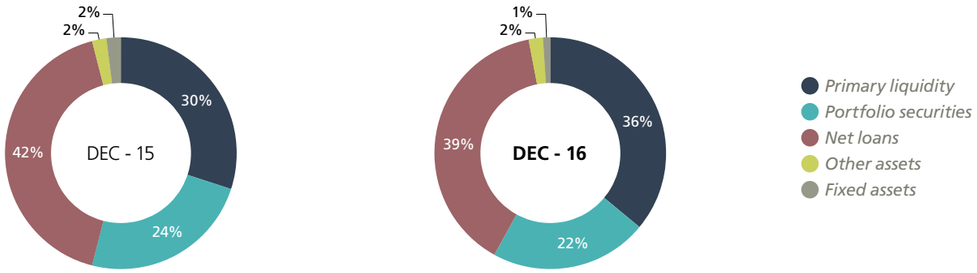
As in previous years, the Bank's balance sheet continues to favour investments in asset classes which have the highest impact on profitability, while taking into consideration an optimum diversification of risks and a conservative approach to asset quality. Balance sheet allocation is determined by internal limits and regulatory requirements (see section on Risk Management on Page 56). As per the Group's Corporate Governance guidelines (article 2.8.), limits are subject to annual review by the Board of Directors; in the interim, Management may submit on an ad-hoc basis to the Board of Directors for approval, changes in the limits in response to changing business or market conditions. On a day-to-day basis, the responsibility of monitoring the limits lies within the Group Credit Risk Department.

As at end-December 2016, the Bank's credit risk profile was as follows: consolidated primary liquidity (excluding certificates of deposits issued by the Central Bank) represented 43.8% of consolidated customers' deposits (35.5% as at end-December 2015), a high level when compared to regional and global averages. In parallel, the Bank's loan to deposits ratio stood at 47.9% while portfolio securities as a percentage of total deposits decreased from 28.5% as at end-December 2015 to 27.4% as at end-December 2016. On this backdrop, the Bank's net exposure to Lebanese sovereign Eurobonds, as a percentage of net customers' deposits in USD, decreased from 1.5% at end-December 2015 to the insignificant level of 0.03% as at end-December 2016, the lowest level among the Bank's Lebanese bank peers' portfolios, according to statistics published by Bankdata.

ASSET ALLOCATION

The following chart displays the allocation by asset class as at end-December 2016 as compared to end-December 2015. The discussion that follows analyses the evolution of the various asset classes and their respective key indicators over the same period.

BREAKDOWN OF ASSETS



Primary Liquidity

The Bank's primary liquidity is composed of amounts held at the central banks of the countries of presence of the Group, excluding certificates of deposits issued by the Central Bank of Lebanon, placements with banks and loans to banks, and reverse repo facilities with the Central Bank of Lebanon, other central banks, and financial institutions.

Consolidated primary liquidity increased from USD 12.6 billion at end-December 2015 to USD 15.8 billion at end-December 2016, the equivalent of 43.8% of consolidated customers' deposits (35.5% as at end-December 2015). Including certificates of deposits issued by the Central Bank of Lebanon, consolidated primary liquidity would have increased by USD 5.3 billion in 2016 to USD 21.8 billion as at end-December 2016, accounting for 60.5% of consolidated customers' deposits as compared to 46.1% as at end-December 2015.

The Bank's primary liquid assets in Lebanese Pounds are essentially composed of cash and deposits with the Central Bank of Lebanon. Because of the Bank's participation in the exchange transaction offered by the Central Bank of Lebanon, Bank Audi discounted part of its holdings in securities denominated in Lebanese Pounds, at enticing conditions, translating in an increase in the Bank's primary liquidity in Lebanese Pounds from USD 880 million at end-December 2015 to USD 3.7 billion at end-December 2016. Subsequently, the ratio of liquid assets in Lebanese Pounds to customers' deposits in Lebanese Pounds moved from 20.1% as at end-December 2015 to represent 82.5% as at end-December 2016. To absorb this liquidity, the Bank launched, in the third quarter of 2016, a lending program with an envelope of LBP 1 trillion (USD 663 million) aimed at financing SMEs in Lebanese Pounds at an annual rate of 7% the first year (to be compared with an average of c. 12% sector wide). This initiative is expected to be followed by other waves of subsidised loans in Lebanese Pounds, as announced by the Central Bank of Lebanon.

The Bank's primary liquid assets in foreign currency are essentially composed of cash and short-term deposits placed at the Central Bank of Lebanon and other central banks, excluding certificates of deposits, placements in prime banks in OECD countries, as well as loans to Bank and reverse repo facilities. The Bank's primary liquidity in foreign currency amounted to USD 12.1 billion as at end-December 2016, increasing from USD 11.8 billion as at end-December 2015. The following table highlights the breakdown of primary liquidity by type and by currency as at end-December 2016:

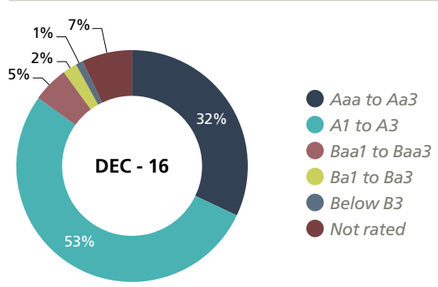
LIQUIDITY (USD MILLION)

	LBP	USD	EUR	EGP	TRY	JOD	OTHERS	TOTAL
Central banks	**3,588**	**6,917**	**911**	**392**	**387**	**61**	**115**	**12,372**
o.w. Reserves requirements	320	3,861	5	73	366	54	0	4,679
o.w. Cash deposits	3,268	3,056	906	319	21	7	115	7,693
Placements with banks	**142**	**1,326**	**267**	**26**	**1,255**	**18**	**347**	**3,380**
o.w. Deposits with banks	64	1,326	249	1	3	18	347	2,008
o.w. Reverse repurchase agreements	78		18	25	1,252			1,372
Total liquidity	**3,730**	**8,243**	**1,178**	**418**	**1,642**	**79**	**462**	**15,752**

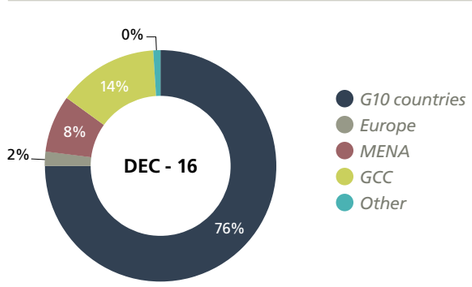
In relative terms, the Bank's primary liquid assets in foreign currency represented 38.3% of consolidated customers' deposits in foreign currencies as at end-December 2016, as compared to 37.6% as at end-December 2015. A breakdown of this ratio over the different components shows that primary liquidity in foreign currency comprised principally of placements with central banks in the countries in which the Bank has operations accounted for 27.9% of consolidated customers' deposits in foreign currency, as compared to 26.7% as at end-December 2015. Placements with OECD banks in foreign currency represented 6.2% of consolidated customers' deposits in foreign currency as at end-December 2016, increasing from 5.6% as at end December 2015. Loans to banks and reverse repo facilities in foreign currency represented 4.3% of customers' deposits in foreign currency as at end-December 2016 as compared to 5.4% as at end-December 2015. Such placements are mainly based in low risk OECD and GCC countries that show high levels of solvency and financial and monetary stability. Over 85% 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 as at end-December 2016 by rating and geographic location:

BREAKDOWN OF PLACEMENTS WITH BANKS BY RATING IN 2016



BREAKDOWN OF PLACEMENTS WITH BANKS BY REGION IN 2016



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.

Securities' Portfolio

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

The consolidated securities' portfolio decreased by USD 289 million in 2016, from USD 10.2 billion as at end-December 2015 to USD 9.9 billion as at end-December 2016. As a percentage of total customers' deposits, the Bank's securities portfolio represented 27.4% as at end-December 2016 as compared to 28.5% as at end-December 2015.

The following table sets out the distribution of the Bank's securities portfolio, by type of security, as at end-December 2016 as compared to end-December 2015:

PORTFOLIO SECURITIES BREAKDOWN (USD MILLION)

	Dec-15	Dec-16	Vol.	%
Central Bank certificates of deposits	**3,797**	**6,012**	**2,215**	**58.33%**
LBP-denominated	2,664	540	-2,124	-79.74%
Foreign currency-denominated	1,133	5,472	4,340	383.0%
Net Lebanese Treasury bills and Eurobonds	**1,702**	**1,529**	**-173**	**-10.15%**
LBP-denominated	1,251	1,520	269	21.47%
Foreign currency-denominated	450	9	-441	-98.07%
Risk-ceded government Eurobonds	**1,547**	**388**	**-1,159**	**-74.91%**
LBP-denominated				
Foreign currency-denominated	1,547	388	-1,159	-74.91%
Other non-Lebanese sovereign securities	**2,540**	**1,342**	**-1,198**	**-47.16%**
LBP-denominated				
Foreign currency-denominated	2,540	1,342	-1,198	-47.16%
Other fixed income securities	**436**	**420**	**-17**	**-3.80%**
LBP-denominated				
Foreign currency-denominated	436	420	-17	-3.80%
Equity securities	**135**	**178**	**42**	**31.40%**
LBP-denominated	42	43	1	3.01%
Foreign currency-denominated	93	134	41	44.21%
Total portfolio securities	**10,158**	**9,869**	**-289**	**-2.84%**

Lebanese Bond and Central Bank Certificates of Deposits Portfolio

The composition of the Lebanese portfolio of securities changed in 2016, primarily because of the Bank's participation in the swap transaction with the Central Bank of Lebanon, as well as prevailing market conditions.

In Lebanese Pounds, certificates of deposits issued by the Central Bank of Lebanon decreased by USD 2.1 billion while holdings of Treasury bills issued by the Republic of Lebanon increased by USD 269 million.

In foreign currency, certificates of deposits issued by the Central Bank of Lebanon increased by USD 4.3 billion in 2016 while the Group's net exposure to Lebanese sovereign Eurobonds (net of risk-ceded sovereign Eurobonds) was totally wiped out, decreasing from USD 450 million as at end-December 2015 to a mere USD 8.7 million as at end-December 2016. This decrease is in part justified by the significant appetite of foreign institutional investors starting mid-year in investing in Lebanese Eurobonds that are mainly underweight relative to the bond indices (it is estimated that the average weight of Lebanon in emerging markets' portfolios is around 1% versus EMBI diversified weight of Lebanon of 2.72%). In fact, the trading desk of the Bank achieved a turnover on those instruments of close to USD 6 billion in 2016 as compared to a mere USD 2 billion in 2015.

The Bank's preference to invest in certificates of deposits issued by the Central Bank of Lebanon stems from the fact that those securities have lower capital consumption requirements (with a 50% risk weighting applied to placements at the Central Bank of Lebanon), as compared to Lebanese sovereign Eurobonds (which carry a risk weighting of 100%) with equivalent yields.

In relative terms, the Bank's net exposure to sovereign Eurobonds represented 0.1% of the Bank's total securities portfolio and 0.03% of foreign currency denominated customers' deposits as at end-December 2016, as compared to 4.4% and 1.5%, respectively as at end-December 2015.

Non-Lebanese Sovereign Securities

The Bank's non-Lebanese sovereign bonds portfolio is primarily composed of Egyptian and Turkish sovereign bonds, mainly due to the sizeable operations the Group has in those countries through Bank Audi Egypt and Odea Bank. In 2016, the non-Lebanese sovereign bonds portfolio decreased by USD 1.2 billion, from USD 2,540 million as at end-December 2015 to USD 1,342 million as at end-December 2016. The Bank's exposure to the sovereign risk of Egypt, which is denominated in Egyptian Pounds, decreased by USD 1,027 million to USD 516 million as at end-December 2016. Amid a depreciation of the Egyptian Pounds versus the US Dollar by 58% during the year, USD 890 million of the decrease relates to changes in FX translation, with the real decrease amounting to USD 137 million.

In parallel, the exposure to the sovereign risk of Turkey decreased by USD 140 million, reaching USD 390 million at end-December 2016, with USD 31 million of the decrease accounted for by FX translation impact.

In relative terms, the Bank's portfolio of non-Lebanese sovereign bonds represented 13.6% of the total securities portfolio and 4.3% of foreign currency denominated customers' deposits as at end-December 2016, as compared to 25% and 8.1%, respectively, as at end-December 2015.

Other International Fixed Income Securities

As at end-December 2016, the Bank's exposure to other international fixed income securities almost sustained its level as at end-December 2015, standing at USD 420 million. These placements continue to favour highly rated financial institutions and accounted for 79% of the Bank's total international bond portfolio as at end-December 2016 as compared to 75% as at end-December 2015. Corporate issuers accounted for 12% and sovereign names (other than local holdings of sovereign securities in Bank Audi's countries of presence) for 9% of the total at the same date. The relatively high concentration of investments in highly rated financial institutions was 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.

In terms of geographical concentration, the Bank's exposure to other international fixed income securities as at end-December 2016 was split between the GCC markets (accounting for approximately 48% of the total portfolio), the Far East (accounting for approximately 20% of the total portfolio), Europe (accounting for approximately 18% of the total portfolio), the United States (accounting for approximately 10% of the total portfolio) and Australia (accounting for approximately 4% of the total portfolio). Relative to last year, the breakdown by geography favours investments in the Far East and the United States at the detriment of Europe and Australia.

In terms of ratings, the Bank's international bond portfolio enjoys a high average rating, with the major part of the total exposure being invested in bond issues rated A+ or better. The portfolio is also characterised by a good level of diversification, with the highest single issuer position representing 10% of the total portfolio and the second largest representing 8.6% as at end-December 2016.

Loan Portfolio

The Bank's loan portfolio consists of direct lending, such as term loans, residential and commercial mortgages and overdrafts. The Bank offers a wide range of traditional banking products and services to large corporate clients, namely working capital finance by way of credit lines, overdraft facilities and short-term loans (with terms of less than one year), and Trade Finance, while also being active in syndications. In addition, the Bank provides support and financing to SMEs and aims to increase the share of SME lending (see section on SME Banking on Page 52). At the retail level, the Group has adopted a customer-centric focused retail model in most of its entities, which continues to boost the contribution of retail lending to the total loan portfolio (see section on Retail Banking on Page 53).

The following is a discussion of the Bank's loan portfolio and lending activities on a consolidated basis as at end-December 2016 and 2015 (including loans to related parties).

To note that net loans to related parties amounted to USD 145 million as at end-December 2016 as compared to USD 142 million as at end-December 2015. Article 152 of the Code of Money and Credit and Central Bank Basic Decision No. 7776 dated 21 February 2001, as amended, provides that advances and credit facilities to directors or managers of banks or to companies having common directors with a bank: (i) must be authorised by the shareholders of the bank; (ii) must not exceed in aggregate 5% of the bank's shareholders' equity; and (iii) must be made on arms-length commercial terms. Management believes that the Bank is in compliance with applicable regulations.

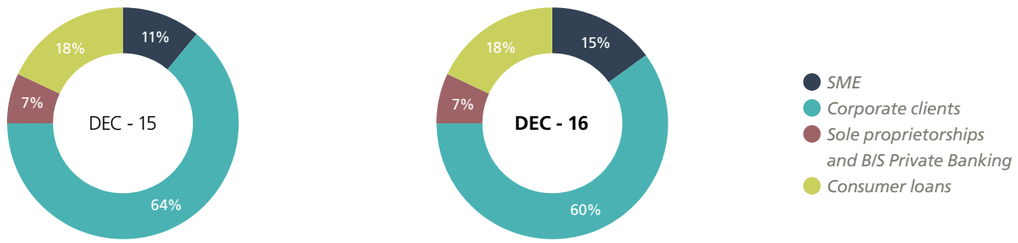
In 2016, the Bank's lending activity contracted by 4.0%, with the consolidated net loans portfolio moving from USD 17.9 billion as at end-December 2015 to USD 17.2 billion as at end-December 2016. This performance is without doubt affected by the depreciation of the Egyptian Pound and the Turkish Lira versus the US Dollar. In fact, had the Turkish Lira/US Dollar and Egyptian Pound/US Dollar exchange rates been the same as at end-December 2016 as they were as at end-December 2015, the Bank's net loans to customers would have increased by USD 1.5 billion (i.e. a growth of +8%), driven by an increase in loans in entities operating in Lebanon, Turkey, Egypt and France, as well as Private Banking entities.

As at end-December 2016, 43.0% of the consolidated net loans were booked in Odea Bank – Turkey, 35.0% in Lebanese entities (including consolidation adjustments), 9.4% in Bank Audi Egypt, 7.1% in Private Banking entities, and 6% in other entities.

Analysis of Loans by Class of Borrower

The following table sets out the distribution of the Bank's loan portfolio, by class of borrower, as at end-December 2016 as compared to end-December 2015:

BREAKDOWN OF NET LOANS & ADVANCES BY TYPE OF CUSTOMER

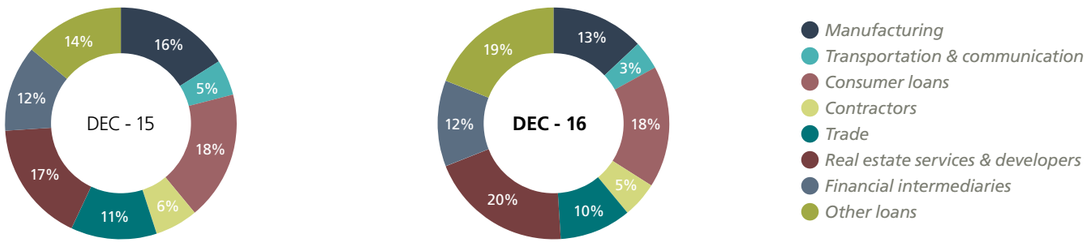


The distribution of the Bank's consolidated loan portfolio by borrower continues to indicate a concentration of corporate clients, although decreasing to 60% of the loan portfolio as at end-December 2016, as compared to 64% as at end-December 2015. The decrease was at the advantage of the share of SME clients, which increased from 11.1% as at end-December 2015 to 15.0% as at end-December 2016. The change in the distribution reflects the Bank's strategy to boost the SMEs lending segment, which it believes constitutes a potential profitable market while offering a greater diversification of risk. Management anticipates that growth of loans to SMEs will be among the key priorities for the Lebanese, Turkish and Egyptian markets in the coming years. Notwithstanding, the Bank will continue to expand its corporate segment targeting established regional companies with turnover exceeding USD 10 million per annum, having sound financial standing, and which are involved primarily in defensive business sectors.

Analysis of Loans by Economic Sector

The following charts sets out the distribution of the Bank's loan portfolio by economic sector as at end-December 2016 and end-December 2015:

BREAKDOWN OF NET LOANS & ADVANCES BY ECONOMIC SECTOR

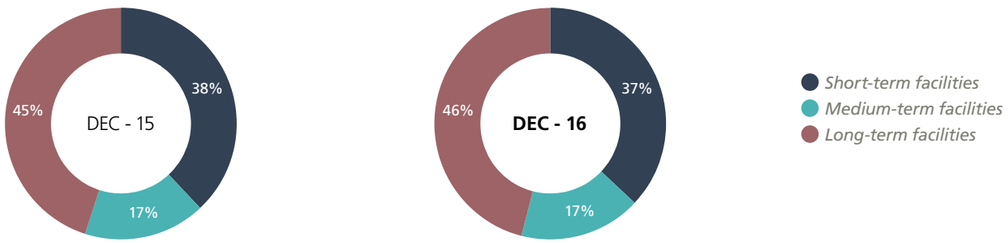


The distribution of the Bank's consolidated loan portfolio by economic sector is well diversified with the largest sectors being real estate services & developers (19.8%), consumer loans (17.6%), manufacturing (12.9%), financial intermediaries (12.2%), and wholesale and retail trade (10.4%) as at end-December 2016. This is to be compared with the following distribution as at end-December 2015: real estate services & developers (16.8%), consumer loans (18.1%), manufacturing (16.5%), financial intermediaries (12.0%), and wholesale and retail trade (11.5%). Hence, the most significant change is the drop in the proportion of manufacturing in net loans in favour of real estate services & developers. Notwithstanding, the concentration of the loan portfolio by economic sector remains within the Board of Directors' approved concentration limits relative to the loan portfolio and the Bank's consolidated equity.

Analysis of Loans by Maturity

The following charts sets out the maturity profile of the Bank's loan portfolio as at end-December 2016 as compared to end-December 2015:

BREAKDOWN OF NET LOANS & ADVANCES BY MATURITY (USD MILLION)



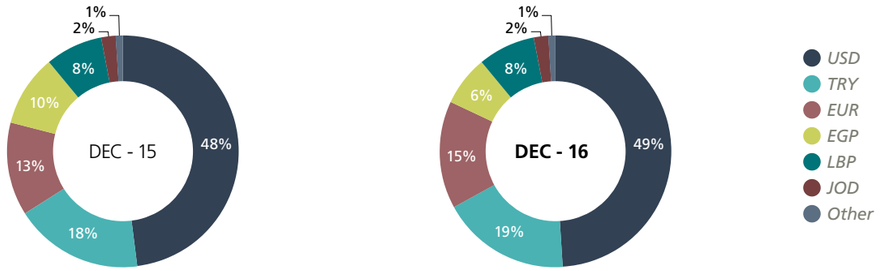
The Bank's consolidated loan portfolio was primarily composed of short-term facilities and long-term facilities. Short-term facilities represent the financing of working capital and Trade Finance needs of the Bank's customer base, and include bridge loans in the process of being converted to medium and long-term tenors upon full withdrawal or ending withdrawal period.

As at end-December 2016, short-term facilities having a maturity of less than one year represented 37% of the Bank's consolidated loan portfolio, while medium-term facilities with maturities between one and five years represented 17% of the Bank's consolidated loan portfolio. Loans with maturities over five years represented 45% of the Bank's consolidated loan portfolio at the same date. There is no significant change in the maturity profile of the loan portfolio as at end-December 2016 as compared to as at end-December 2015. This is primarily attributed to the stability in the maturities' profile of customers' deposits. In fact, the relatively stable portion of long-term loans in the portfolio results from the stickiness of the Group's short-term deposits, whereby short-term deposits are typically rolled over following the expiry of their term, as well as a variety of long-term products offered by the Central Bank of Lebanon, including subsidised and environmental loans.

Analysis of Loans by Currency

The following chart sets out the distribution of the Bank's loan portfolio by currency as at end-December 2016 as compared to end-December 2015:

BREAKDOWN OF NET LOANS & ADVANCES BY CURRENCY (USD MILLION)

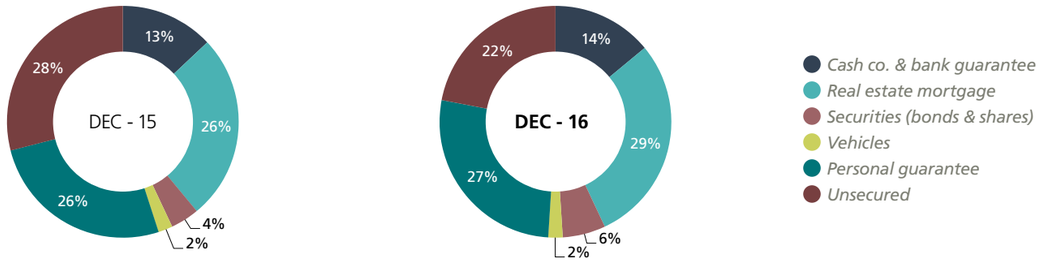


Loans in US Dollars continued to comprise the largest portion of the loan portfolio as at end-December 2016 and 2015, in line with the dollarization rate of the Bank's balance sheet. The share of loans in Egyptian Pound decreased by 3.5% over the same period, primarily due to the devaluation of the Egyptian Pound against the US Dollar by 58%. The share of loans denominated in Turkish Lira increased by 0.1% as at end-December 2016, as compared to end-December 2015, despite the 18% devaluation of the Turkish Pound against the US Dollar, witnessing clearly to a stronger growth in the Turkish Lira-denominated loan portfolio than the devaluation impact.

Analysis of Loans by Type of Collateral

The following chart sets out the distribution of the Bank's loan portfolio by type of collateral as at end-December 2016 as compared to end-December 2015:

BREAKDOWN OF NET LOANS & ADVANCES BY COLLATERALS (USD MILLION)



Although the Bank's lending decisions rely primarily on the availability and sustainability of cash flows as a first source of repayment, the Bank also relies on the availability and enforceability of collateral. As at end-December 2016, 50% of the consolidated loan portfolio was secured, witnessing to an adequate level of collateralisation. This is to be compared to 45.4% as at end-December 2015. The principal types of collateral securing the Bank's loans are cash collateral and real estate, in addition to securities such as bonds and shares and bank guarantees. By entity, secured loans represent 48.1% of Odea Bank's loan portfolio, 55.8% of the loan portfolio of Bank Audi Lebanon, and 23.6% of the loan portfolio of Bank Audi Egypt.

Loan Quality

Lending growth in individual entities was not realised at the detriment of the quality of the loan portfolio. On the contrary, credit quality strengthened in 2016 as Management continued to adopt tight credit risk management policies in the face of the persisting challenging conditions across markets of presence.

Total gross doubtful loans decreased by USD 103 million in 2016, from USD 542 million at end-December 2015 to USD 439 million as at end-December 2016. This decrease was primarily due to an increase in loans written off by USD 199 million, as well as the effect of positive foreign currency translations, transfers to watch list, and the effect of the deconsolidation of Bank Audi Syria and National Bank of Sudan. The latter were offset by new additions by USD 175 million as a result of persisting challenging market conditions, as well as the expected seasoning of Odea Bank's loan portfolio.

The decrease in gross doubtful loans drove an improvement in the ratio of gross doubtful loans to gross loans ratio from 2.94% as at end-December 2015 to 2.45% as at end-December 2016. Based on published data, this ratio compares favourably to the Bank's peers in Lebanon (average ratio of 3.5%), regional peers (average ratio of 3.9%), peers in other emerging markets (average ratio of 6.9%), as well as banks in the world (average of 7.5%).

The following table sets out the Bank's main asset quality indicators as at end-December 2016 as compared to end-December 2015:

ASSET QUALITY (USD MILLION)

	Dec-15	Dec-16	Change
Gross NPLs	**542.3**	**438.9**	**-103.4**
o.w. Corporate	436.4	334.1	-102.4
o.w. Retail	105.9	104.9	-1.0
Gross SLs	**38.1**	**42.6**	**4.5**
Net loans	**17,928.6**	**17,214.9**	**-713.7**
o.w. Corporate	14,681.4	14,108.7	-572.7
o.w. Retail	3,247.2	3,106.2	-141.0
Specific provisions	**371.0**	**296.4**	**-74.6**
o.w. Corporate	293.0	214.2	-78.8
o.w. Retail	78.0	82.2	4.2
Collective provisions	**162.2**	**418.8**	**256.6**
o.w. Corporate	126.5	339.3	212.9
o.w. Retail	35.8	79.5	43.7
Gross NPLs/Gross loans	**2.94%**	**2.45%**	**-0.49%**
o.w. Corporate	2.89%	2.28%	-0.61%
o.w. Retail	3.15%	3.21%	0.06%
Net DLs/Gross loans	**0.93%**	**0.80%**	**-0.13%**
o.w. Corporate	0.95%	0.82%	-0.13%
o.w. Retail	0.83%	0.69%	-0.14%
Coverage (specific)	**68.40%**	**67.51%**	**-0.89%**
o.w. Corporate	67.13%	64.11%	-3.02%
o.w. Retail	73.65%	78.36%	4.71%
Collective provisions/Net loans	**0.90%**	**2.43%**	**1.53%**
o.w. Corporate	0.86%	2.41%	1.54%
o.w. Retail	1.10%	2.56%	1.46%

In support of its credit quality, the Bank took in 2016 USD 441 million of loan loss provisions, representing 18.9% of total revenues and 2.6% of net loans. USD 306 million of those net loan provisions were collective provisions taken by Management in implementation of the Central Bank of Lebanon's directives (Intermediary Circular No. 446) so as they would represent 2% of risk-weighted loans. In parallel, the Bank allocated USD 168 million of specific provisions in 2016, offset by USD 33.4 million of recoveries and write-offs.

In absolute terms, the Bank increased its collective provisions from USD 162 million as at end-December 2015 to USD 419 million as at end-December 2016, representing 2.9% of risk-weighted loans and 2.43% of net loans against 0.90% at end-December 2015.

In parallel, specific loan loss reserves, including interest in suspense, decreased from USD 371 million as at end-December 2015 to USD 296 million as at end-December 2016, primarily due to write-offs and negative differences in foreign currency translation, which offset specific loan loss reserves recorded during the year. As a result, the coverage ratio of doubtful loans by specific provisions was sustained at 67.5% as at end-December 2016, almost the same level as at end-December 2015 of 68.4%.

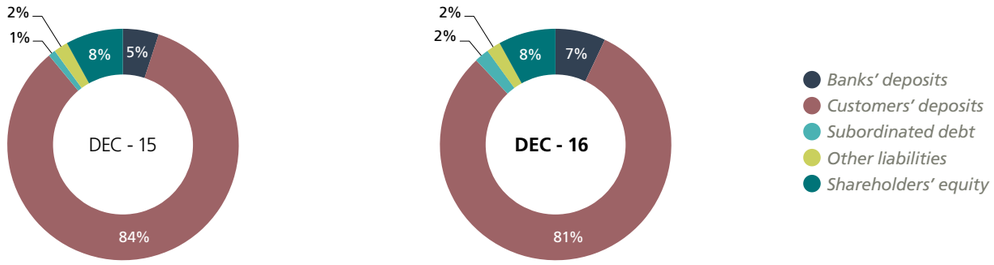
Subsequently, net doubtful loans represented 0.80% of gross loans as at end-December 2016, as compared to 0.93% of gross loans as at end-December 2015.

Gross substandard loans increased from USD 38.1 million as at end-December 2015 to USD 42.6 million as at end-December 2016, driven primarily by a deterioration in certain loans booked in Lebanon. Net substandard loans represented 0.22% of gross loans as at end-December 2016, almost the same level as at end-December 2015, of 0.20%.

FUNDING SOURCES

The following chart sets out the distribution of the Bank's sources of funding as at end-December 2016 as compared to end-December 2015. The discussion that follows analyses the evolution of those funding classes and their respective key indicators over the same period.

BREAKDOWN OF NET LOANS & ADVANCES BY COLLATERALS (USD MILLION)



The Bank's primary source of funding is customers' deposits which accounted for 81% of the Bank's total liabilities and shareholders' equity as at end-December 2016. Other sources of funding include bank deposits (6.9% of total liabilities and shareholders' equity), other liabilities (2.1% of total liabilities and shareholders' equity), subordinated debt (1.5% of total liabilities and shareholders' equity) and shareholders' equity (8.4% of total liabilities and shareholders' equity). Relative to end-December 2015, the proportion of customers' deposits in total liabilities and shareholders' equity decreased by 3.0% to the advantage of bank deposits (whose share increased by 2.3%) and shareholders' equity (whose share rose by 0.6%), with the remainder accounted for by other liabilities (0.2%).

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 2016, banks' deposits increased from USD 1.9 billion as at end-December 2015 to USD 3 billion, corresponding to an increase by USD 1.1 billion. Within the context of an increase in due to banks and financial institutions by USD 209 million, this increase is mainly attributed to a short-term credit agreement the Group entered with the Central Bank of Lebanon for a loan facility in the amount of USD 720 million which bears an interest of 6% and matures in March 2017, translating in a reduction of the Group's net exposure on the Central Bank of Lebanon.

Customers' Deposits

Consolidated customers' deposits increased from USD 35.6 billion as at end-December 2015 to USD 36 billion as at end-December 2016, corresponding to an increase of USD 346 million, i.e. a growth by 1%. There is no doubt that this performance was also affected by the depreciation of the Egyptian Pound and the Turkish Lira, since had there been no devaluation of the Turkish Lira (by 18%) and the Egyptian Pound (by 58%) against the US Dollar in 2016, customers' deposits would have increased by USD 3.6 billion or 10.1%, driven primarily by entities operating in Lebanon, contributing to USD 2.7 billion of this increase.

The stronger growth of customers' deposits in Lebanese entities and the depreciation of the Turkish Lira and Egyptian Pound significantly impacted the distribution of customers' deposits over the main development pillars. As at end-December 2016, 58.5% of consolidated customers' deposits were sourced from Lebanese entities (including consolidation adjustments), 22.9% from Odea Bank, 6.9% from Bank Audi Egypt, 7.1% from Private Banking entities, and 4.6% from other entities. This is to be compared with a contribution of 51.6% for Lebanese entities to consolidated customers' deposits as at end-December 2015, 24.2% for Odea Bank, 11.6% for Bank Audi Egypt, 7.2% for Private Banking entities, and 5.4% for other entities.

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 2016 as compared to end-December 2015:

BREAKDOWN OF CUSTOMERS' DEPOSITS BY SEGMENT (USD MILLION)

	Dec-15		Dec-16		Change	
	Volume	Structure	Volume	Structure	Volume	Structure
Deposits from customers	**35,609**	**100.0%**	**35,955**	**100.0%**	**348**	**-0.0%**
Corporate Banking	8,963	25.2%	6,875	19.1%	-2,088	-6.1%
SME Banking	2,539	7.1%	2,797	7.8%	258	0.7%
Retail Banking	7,731	21.7%	8,621	24.0%	890	2.3%
Personal Banking	16,116	45.3%	17,427	48.5%	1,310	3.2%
Public	244	0.7%	236	0.7%	-8	-0.0%
Other deposits	16	0.0%	0	0.0%	-16	-0.0%

Consolidated customers' deposits are predominantly composed of personal banking deposits. In 2016, personal banking deposits increased by USD 1.3 billion, from USD 16.1 billion as at end-December 2015 (or 45.3% of total deposits) to USD 17.4 billion (or 48.5% of total deposits) as at end-December 2016.

The increase in personal banking deposits was met by an increase in retail and SME deposits by respectively USD 890 million and USD 256 million over the same period, to account for 24% and 7.8% of total deposits as at end-December 2016. Those increases were totally offset by a decrease in corporate deposits by USD 2.1 billion. Corporate deposits reached USD 6.9 billion as at end-December 2016, accounting for 19.1% of total deposits.

Analysis of Customers' Deposits by Type

The following table sets out the breakdown of consolidated customers' deposits by type as at end-December 2016 as compared to end-December 2015:

BREAKDOWN OF CUSTOMERS' DEPOSITS BY TYPE (USD MILLION)

	Dec-15		Dec-16		Change	
	Volume	Structure	Volume	Structure	Volume	Structure
Deposits from customers	**35,609**	**100.0%**	**35,955**	**100.0%**	**346**	**0.0%**
Sight deposits	5,414	15.2%	5,388	15.0%	-26	-0.2%
Time deposits	23,746	66.7%	24,868	69.2%	1,122	2.5%
Saving accounts	5,046	14.2%	4,816	13.4%	-230	-0.8%
Certificates of deposits	913	2.6%	389	1.1%	-524	-1.5%
Margin deposits	351	1.0%	352	1.0%	1	-0.0%
Others deposits	139	0.4%	142	0.4%	3	0.0%

Consolidated customers' deposits are predominantly composed of time deposits which include saving deposits and certificates of deposits. In 2016, the breakdown of consolidated customers' deposits by type remained unchanged. Time deposits increased by USD 368 million over the same period, from USD 29.7 billion as at end-December 2015 to USD 30.1 billion as at end-December 2016, accounting for 83.6% of total deposits as compared to 83.4% a at end-December 2015.

In parallel, sight deposits (including margin deposits and other deposits) were sustained at their level of USD 5.9 billion and accounted for 16.4% of total customers' deposits as at end-December 2016 as compared 16.6% as at end-December 2015.

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 2016 and as at end-December 2015:

BREAKDOWN OF DEPOSITS BY MATURITY (USD MILLION)

	Dec-15		Dec-16		Change	
	Volume	Share in Total	Volume	Share in Total	Volume	Share in Total
Less than 1 month	23,792	66.8%	23,323	64.9%	-470	-2.0%
Within 3 months	7,089	19.9%	5,701	15.9%	-1,388	-4.1%
3-12 months	3,753	10.5%	4,039	11.2%	286	0.7%
1-5 years	960	2.7%	2,881	8.0%	1,921	5.3%
Over 5 years	14	0.0%	11	0.0%	-3	-0.0%
Total	**35,609**	**100.0%**	**35,955**	**100.0%**	**346**	**0.0%**

The Bank's deposits are predominantly composed of deposits with maturities of less than one month, accounting for 64.9% of total deposits as at end-December 2016 as compared to 66.8% as at end-December 2015, 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 2016, the maturity profile of deposits has shifted to the advantage of deposits with maturities between 1–5 years, which accounted for 8.0% of total deposits as at end-December 2016 as compared to 2.7% as at end-December 2015. This shift came at the detriment of deposits with 3 months' maturities accounting for 15.9% of total deposits as at end-December 2016 as compared to 19.9% of total deposits as at end-December 2015.

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 2016 as compared to end-December 2015:

BREAKDOWN OF DEPOSITS BY CURRENCY (USD MILLION)

	Dec-15		Dec-16		Change	
	Volume	Share in Total	Volume	Share in Total	Volume	Share in Total
Lebanese Pound	4,384	12.3%	4,450	12.4%	66	0.1%
US Dollars	19,067	53.5%	21,023	58.5%	1,956	4.9%
Turkish Lira	3,310	9.3%	3,102	8.6%	-207	-0.7%
Euro	3,847	10.8%	4,056	11.3%	210	0.5%
Egyptian Pound	3,398	9.5%	1,964	5.5%	-1,434	-4.1%
Other currencies	1,604	4.5%	1,360	3.8%	-244	-0.7%
Total	**35,609**	**100.0%**	**35,955**	**100.0%**	**346**	**0.0%**

The Bank's deposits in US Dollar increased from USD 19.1 billion as at end-December 2015 to USD 21 billion as at end-December 2016, accounting henceforth to 58.5% of total deposits as compared to 53.5% as at end-December 2015. The 4.9% increase in the share of US Dollar was offset by decreasing proportion of deposits in Turkish Lira and Egyptian Pound by respectively 0.7% and 4.1% as a result of the depreciation of the exchange rate of both currencies versus the US Dollar in 2016.

Subordinated Debt

As at end-December 2016, the Bank had four unsecured subordinated loans of an aggregate amount of USD 646 million, or 1.5% of consolidated customers' deposits.

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 and 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 subscribing for USD 8 million, and Audi Capital (KSA) subscribing for USD 4 million.

On 27 March 2014, the Bank entered into subordinated loans with the IFC, a member of the World Bank Group, 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 6-month LIBOR and applicable fees per annum, payable on a bi-annual basis, subject to the availability of free profits in accordance with Central Bank 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 also accounted for as regulatory Tier 2 capital (see Note 37 to the 2016 financial statements for further details).

Shareholders' Equity

In 2016, the Bank's shareholders' equity increased by USD 411 million, from USD 3,287 million as at end-December 2015 to USD 3,698 million as at end-December 2016, the highest in the Lebanese banking sector. As at end-December 2016, consolidated shareholders' equity represented 8.4% of consolidated assets as compared to 7.8% as at end-December 2015.

The increase in shareholders' equity by USD 411 million was primarily due to:

- USD 470 million of net profits realised in 2016.
- USD 257 million representing the minority share's proportion of the TRY 1 billion capital increase of Odea Bank closed in August 2016.
- USD 250 million issuance of Series "I" preferred share closed in December 2016. The purpose of this issuance which was oversubscribed is to replace the Series "E" preferred shares (USD 125 million) redeemed in 2015. It is worth noting that the Series "I" preferred shares is fully compliant with the recent and stricter interpretation of Basel III requirements, particularly at the level of loss absorbency, through a mandatory conversion mechanism triggered by solvency and regulator events, coupled with an option to cancel any dividend distribution on a non-cumulative basis at the sole discretion of the Bank.
- USD 121 million of increase in non-distributable reserves for capital increase as a result of the allocation, as per the Central Bank of Lebanon's directives, of 70% surplus of exceptional revenues generated from the swap transaction.

Those amounts were partially offset by:

- USD 62 million increase of the Bank's Treasury stock position.
- USD 183 million of common and preferred dividends distribution in April 2016 for the 2015 exercise.
- USD 337 million of negative in foreign currency translation reserves.
- USD 105 million of changes of other components of equity.

In fact, during 2016, foreign currency translation reserves fluctuated as a result of converting the Bank's investment in its continued subsidiaries from respective functional currencies into Lebanese Pounds (or US Dollars) using the exchange rate at end-December 2016, which differed from the rate in effect as at end-December 2015. During this period, the Egyptian Pound, the Turkish Lira and the Euro were devalued against the US Dollar by 58%, 18% and 3% respectively, resulting in a USD 473 million decrease in foreign currency translation reserves of continued operations. This decrease in foreign currency translation reserves was apportioned mainly among Bank Audi Egypt (USD 318 million) and Odea Bank (USD 171 million), with the balance distributed over the remaining entities outside Lebanon.

In January 2014, the Bank hedged a portion of its capital invested in Odea Bank, which has been converted into Turkish Lira to protect itself against the depreciation of the currency against the US Dollar. The hedging strategies that were entered into were a combination of capped calls and rolling collars which aimed at providing adequate levels of protection while minimising the impact of their cost on the net income of the Bank. As a result, the Bank bore an annual cost of hedge of USD 15.5 million in 2016, as compared to USD 14.7 million in 2015.

In January 2017, following the significant depreciation of the Turkish Lira versus the US Dollar, Bank Audi bought a compound option to hedge an additional portion of its capital at a cost of 2% on the notional amounts, in order to protect itself against further slips in the Turkish Lira. The hedge will be exercised in six months in case TRY has further depreciated by paying an additional premium, otherwise a new hedge would be placed at a lower cost given better market conditions.

In sum, the impact of the Bank's participation in the swap transactions on the Bank's consolidated shareholders' equity as at end-December 2016 as compared to end-December 2015 amounted to USD 200 million.

Capital Adequacy

The Bank's regulatory capital rose from USD 3,347 million as at end-December 2015 to USD 3,920 million as at end-December 2016, corresponding to an increase by USD 573 million. The increase in regulatory capital is due to the increase in shareholders' equity mentioned above and to the positive impact of the impairment of goodwill and intangibles assets by respectively USD 129 million and USD 35 million, as well as the increase in Tier 2 capital by USD 52 million following the allocation of 30% of the remainder exceptional, as per the Central Bank of Lebanon's directives, to deferred liabilities accounted for as Tier 2. Subsequently, the Bank's participation in the swap operations offered by the Central Bank of Lebanon resulted in bolstering the regulatory capital by USD 426 million, of which USD 380 million at the level of CET1 capital and USD 52 million at the level of Tier 2 capital.

Within this context, in September 2016, the Central Bank of Lebanon issued Intermediary Circular No. 436 by which it amended Basic Circular No. 44 related to the minimum Capital Adequacy Ratios (CAR). These ratios are set to increase gradually between December 2016 and December 2018, to reach 10%, 13% and 15% for CET1, Tier 1 and Total CAR respectively in 2018, including a capital conservation buffer of 4.5%, as set out in the table below:

	Dec-15	Dec-16	Dec-17	Dec-18
Common Equity Tier 1 ratio	8.00%	8.50%	9.00%	10.00%*
Tier 1 ratio	10.00%	11.00%	12.00%	13.00%*
Total Capital Adequacy ratio	**12.00%**	**14.00%**	**14.50%**	**15.00%***

** Includes a capital conservation buffer of 4.5%.*

Based on this circular, the Bank's capital adequacy ratio was 14.78% as at end-December 2016, as compared to 13.36% as at end-December 2015 in each case, above the regulatory minimum ratio imposed by the Central Bank of 14.0% as at end-December 2016, and 12% as at end-December 2015. Common Equity Tier 1 ratio reached 9.1% as at end-December 2016 as compared to 8.7% as at end-December 2015, each above the imposed minimum regulatory ratio of 8.5% and 8% respectively.

The 1.4% increase in total capital adequacy ratio is broken down over a 0.9% increase in CET1 capital, a 1.2% increase in additional Tier 1 capital as a result of the issuance of Series "I" preferred shares, and the 0.2% aforementioned increase in Tier 2 capital, partly offset by a 5.9% growth in risk-weighted assets including the adverse impact of the downgrade of Turkey's sovereign rating (-0.9%).

The following table sets out the calculation of the Bank's capital adequacy ratios as at end-December 2015 and end-December 2016:

CAPITAL ADEQUACY RATIO (USD MILLION)

	Dec-15	Dec-16	Change
Risk-weighted assets	**25,049**	**26,526**	**1,477**
o.w. Credit risk	22,617	23,805	1,188
o.w. Market risk	464	360	-104
o.w. Operational risk	1,968	2,361	393
Tier 1 capital (including net profit less proposed dividends)	**2,560**	**3,084**	**524**
Common Tier 1 ratio	**8.7%**	**9.1%**	**0.4%**
+ Additional Tier 1 ratio	1.5%	2.5%	1.0%
= Tier 1 ratio	**10.2%**	**11.6%**	**1.6%**
Tier 2 ratio	3.1%	3.2%	0.0%
Total ratio	**13.4%**	**14.8%**	**1.4%**

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 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. In preparation for moving towards more advanced methods in the Basel framework and for internal use, the Bank calculated 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 continued 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

Amid the persisting challenging environment across a number of markets of presence, Bank Audi recorded a rather good performance in 2016. Consolidated net profits rose by 17% from USD 403 million in 2015 to USD 470 million in 2016. The 2016 net profits include USD 856 million of exceptional revenues resulting from the exchange transaction of the Central Bank of Lebanon. Nonetheless, as per the Central Bank of Lebanon's directives, the Bank has used most of these exceptional revenues as follows:

- USD 231 million of impairment of goodwill and investments and write-off of intangible assets.
- USD 306 million of additional collective provisions so as to comply with the Central Bank of Lebanon's directive (Intermediary Circular No. 446) and to arrive to a total collective provisions stock representing 2% of risk-weighted loans.
- USD 205 million of write-off of the Bank's investments in Bank Audi Syria, National Bank of Sudan and Arabeya Online. These expenses included USD 136 million of negative changes of foreign currency translation reserves at end-September 2016, which were booked in common equity.
- USD 108 million of exceptional tax expenses as the above expenses are non-deductible.

Subsequently, the one-off impact of those exceptional flows was limited to a mere USD 5.5 million.

Entities outside Lebanon significantly contributed to the USD 67 million increase in consolidated net profits in 2016, in particular Bank Audi sae (Egypt) and Odea Bank whose net profits increased by USD 91 million and USD 45 million respectively. Lebanese entities had a negative contribution to the increase of consolidated net profits in 2016, justified by the USD 205 million borne by Bank Audi for the write-off of Bank Audi Syria, National Bank of Sudan and Arabeya Online. Excluding the discontinued operations, net profits of Lebanese entities increased by USD 36 million.

The following table sets out an overview of the Bank's consolidated financial results in 2015 and 2016, with an additional column highlighting those results net of the exceptional flows arising from the BDL transaction, as well as the one-off FX gains on the structural position of Bank Audi Egypt since the float of the Egyptian Pound in September 2016:

INCOME STATEMENT (USD MILLION)

	As Published				Adjusted to One-off[2]		
	Dec-15	**Dec-16**	Vol.	**%**	**Dec-16**	Vol.	**%**
Interest income[1]	891.7	998.9	107.1	12.0%	998.9	107.1	12.0%
Non-interest income	473.8	1,334.6	860.8	181.7%	478.6	4.8	1.0%
Total revenues	**1,365.5**	**2,333.5**	**967.9**	**70.9%**	**1,477.4**	**111.9**	**8.2%**
Operating expenses	749.6	1,012.8	263.3	35.1%	781.8	32.2	4.3%
- Loan loss provisions	133.4	441.4	308.0	230.9%	135.1	1.7	1.3%
- Net other provisions	0.0	-0.2	-0.2		-0.2	-0.2	
- Tax	106.7	233.2	126.6	118.6%	124.9	18.2	17.1%
= Total expenses	**989.6**	**1,687.2**	**697.6**	**70.5%**	**1,041.6**	**52.0**	**5.2%**
= Net profits from continued operations	**375.9**	**646.2**	**270.3**	**71.9%**	**435.8**	**59.9**	**15.9%**
Results from discontinued operations	27.2	-176.1	-203.3	-747.2%	28.7	1.5	5.6%
Net profits	**403.1**	**470.1**	**67.0**	**16.6%**	**464.6**	**61.4**	**15.2%**

[1] Includes interest revenues from financial assets at FVPL.

[2] Resulting from the exchange operation with the Central Bank of Lebanon and the FX gains on the structural position of Bank Audi Egypt since the float.

A detailed analysis of the components of net profits reveals that the increase in net profits (before exceptional items) by USD 61.5 million (i.e. a growth of 15.3%) was driven by a USD 112 million increase in total revenues (i.e. a growth by 8.2%) and USD 52 million in total costs (i.e. a growth of 5.2%). Total costs include net loan loss provisions, net other provisions, income tax expense and general operating expenses.

The Bank's consolidated revenues increased from USD 1,366 million in 2015 to USD 2,333 million in 2016, of which USD 616 million of exceptional net fees and commissions, and USD 240 million of exceptional gains on financial instruments, both related to swap transactions. Excluding the latter, total revenues would have reached USD 1,477 million in 2016, increasing by USD 112 million. This increase is driven by USD 107 million of additional interest income within an increase in non-interest income by USD 4.8 million.

INTEREST INCOME

While the Bank believes that it has the ability to increase net interest income over time, this income may be significantly affected by a variety of factors such as the mix and overall size of the Bank's earning assets mix and its cost of funding, as well as foreign currency exchange rates. In 2016, net interest income growth was impacted by the persisting low international interest rate environment, as well as by the volatile macroeconomic conditions in the countries where the Bank operates. Net interest income in 2016 did not include any exceptional items from the swap operations.

Despite the prevailing challenging conditions, consolidated interest income, including interest revenues from financial assets at fair value through P&L, increased from USD 892 million in 2015 to USD 999 million in 2016, corresponding to 68% of total revenues (excluding exceptional items), as compared to 65.3% in 2015. The increase in net interest income was primarily due to an improvement in consolidated spread by 20 basis points from 2.14% in 2015 to 2.33% in 2016. Entities in Lebanon and Turkey accounted for 37.8% and 58.4%, respectively, of the total increase in net interest income in 2016. In relative terms, the 20 basis points are contributed by the main development pillars as follows: 7 basis points from Lebanese entities, 12 basis points from Odea Bank, 2 basis points from Private Banking entities with a flat contribution from Bank Audi Egypt, no doubt affected by the FX translation resulting from the depreciation of the Egyptian Pound versus the US Dollar.

NON-INTEREST INCOME

In 2016, consolidated non-interest income increased by USD 861 million, reaching USD 1,335 million, of which USD 616 million of exceptional brokerage fees and commissions generated from the structured product the Bank sold to a number of qualified investors, principally among its Private Banking customers, allowing them to participate in the exchange operations of the Central Bank of Lebanon, over and above USD 240 million of exceptional gains on financial instruments related to the swap transaction.

Excluding those exceptional commissions and gains, consolidated non-interest income would have reached USD 479 million in 2016 as compared to USD 474 million in 2015, bearing witness to an almost flat performance relative to 2015. At end-December 2016, non-interest income represented 1.19% of average assets, almost the same level as in at end-December 2015, of 1.20%.

COST OF CREDIT

In 2016, the Bank took USD 441 million of net loan loss provision charges, of which USD 306 million in the form of collective provisions and USD 135 million of specific provisions net of recoveries and write-offs. In relative terms, net loan loss provisions represented 18.9% of revenues, while the consolidated cost of risk ratio, calculated as the ratio of net loan loss provision over net loans, increased from 0.7% in 2015 to 2.6% in 2016, largely exceeding the global and MENA region averages of 0.7%.

The allocation of the USD 135 million net specific provisions in 2016 was mostly accounted for by Odea Bank in Turkey, who took USD 93 million, while Lebanese entities took USD 30 million and Bank Audi Egypt USD 13 million. This allocation is consistent with the seasoning of the loan book at Odea Bank, amid an increase in provisioning on the SME portfolio.

In parallel, the allocation of the USD 306 million of collective provisions was apportioned as USD 84 million at Odea Bank, USD 204 million in Lebanese entities, and USD 13 million in Bank Audi Egypt, with other entities accounting for the remainder. Those provisions result exclusively from the exceptional realised capital gains and have been taken in implementation of the Central Bank of Lebanon's directives (see section entitled "Recent Developments and Extraordinary Revenues" – Page 31). Had there not been any exceptional capital gains, those provisions would not have been needed. Notwithstanding, these provisions may offer Bank Audi (and Odea Bank) a cushion for any future possible risks, and could be used in optimal cases to substitute for future allocations. At end-December 2016, collective provisions reached USD 419 million, representing 2% of risk-weighted loans and 2.43% of net loans against 0.90% at end-December 2015.

TOTAL OPERATING EXPENSES

The Bank's total operating expenses increased by USD 263 million in 2016, from USD 750 million in 2015 to USD 1,013 million in 2016. Pursuant to its decision not to have exceptional revenues, from the swap transactions, as well as the gains from the FX structural position, impact the consolidated net profits, Management has taken, in 2016, USD 231 million of exceptional expenses, of which USD 129 million to impair the goodwill in a number of entities, USD 15 million for the impairment of intangibles assets, and USD 87 million of other exceptional expenses representing majorly early repayments of IT accruals. Excluding the exceptional expenses, the Bank's general operating expenses would have increased by USD 32.2 million, corresponding to a growth by 4.3%.

As a result of a faster revenue growth rate than expenses growth rate, the Bank's cost to income ratio improved from 53.8% in 2015 to 47.0% in 2016 (52% excluding exceptional flows).

INCOME TAX

In 2016, income taxes reached USD 233 million, of which USD 108 million of exceptional taxes relating to the operations with the Central Bank of Lebanon. Excluding the latter, income taxes would have increased from USD 107 million in 2015 to USD 125 million in 2016, rising by USD 18 million or 17%. With operational profits before tax increasing at almost the same pace as income tax, effective tax rate reached 22.3% in 2016, as compared to 22.1% in 2015.

NET PROFITS FROM DISCONTINUED OPERATIONS

In September 2016, the Bank wrote off its investments in Bank Audi Syria, National Bank of Sudan and Arabeya Online, which entailed bearing impairments while realising the related foreign currency translation losses which were already accounted for in common equity (reaching USD 136 million at the time of the write-off). Those impairments reached USD 205 million in 2016, split over USD 103 million impairments for Bank Audi Syria, USD 80 million of National Bank of Sudan (net from gains for its sale), and USD 22 million for Arabeya Online. Nonetheless, those amounts were offset by the net income after tax realised in those entities up till their write-off, reaching USD 28.7 million in 2016 as compared to USD 27.2 million in 2015.

Subsequently, the Bank reported in 2016 net losses from discontinued operations of USD 176.1 million as compared to net profits from discontinued operations of USD 27.2 million in 2015.

COMPONENTS OF ROAA AND ROAE

The Bank's return on average assets (ROAA) increased from 0.96% as at end-December 2015 to 1.10% as at end-December 2016, primarily reflecting the impact of faster growth in net profits than average assets. In turn, the Bank's return on average equity (ROAE) increased from 12.47% as at end-December 2015 to 13.91% as at end-December 2016, corresponding to an increase by 1.44%, also justified by a faster growth in net profits than in average equity. In parallel, the Bank's return on average common equity increased from 13.69% as at end-December 2015 to 14.75%, corresponding to the weighted average cost of the Group. Management's target remains to achieve a sustainable ROACE across entities, in excess of the cost of equity of the countries where they operate.

The table below sets a breakdown of key performance indicators in 2016 and 2015:

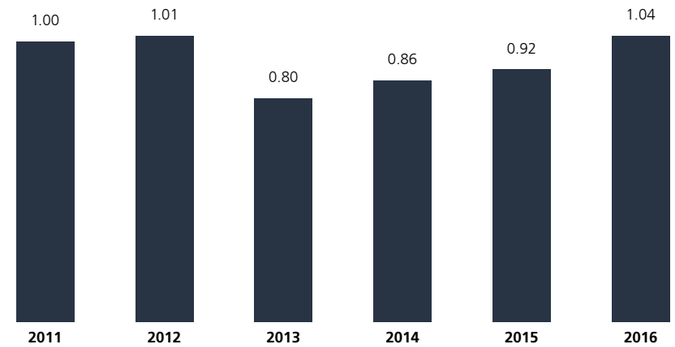
KEY PERFORMANCE METRICS

	2015	2016	Change
Spread	**2.13%**	**2.33%**	**0.21%**
+ Non-interest income/AA	1.20%	2.71%	1.51%
= Asset utilisation	**3.32%**	**5.04%**	**1.72%**
X Net operating margin	**28.95%**	**21.79%**	**-7.15%**
o.w. Cost to income	53.82%	46.95%	-6.87%
o.w. Provisons	9.58%	20.45%	10.87%
o.w. Tax cost	7.66%	10.81%	3.15%
= ROAA	**0.96%**	**1.10%**	**0.14%**
X Leverage	**12.96**	**12.66**	**-0.30**
= ROAE	**12.47%**	**13.91%**	**1.44%**
ROACE	**13.69%**	**14.75%**	**1.06%**

EARNINGS PER COMMON SHARE AND COMMON BOOK PER SHARE

As a result of the above, basic earnings per common share increased by 13.4%, from USD 0.92 in 2015 to USD 1.04 in 2016, driven primarily by the growth of net profits across group entities. 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)



The common book per share increased from USD 7.13 in 2015 to USD 7.23 in 2016, corresponding to a growth by 1.5%.

EQUITY METRICS (USD THOUSANDS)

	Dec-15	Dec-16	Change	%
Shareholders' equity	**3,287,398**	**3,698,480**	**411,082**	**12.5%**
- Minority shares	39,658	226,436	186,778	471.0%
= Shareholders' equity group share	**3,247,740**	**3,472,044**	**224,304**	**6.9%**
- Preferred stock (including dividends)	397,875	655,375	257,500	64.7%
= Common shareholders' equity	**2,849,865**	**2,816,669**	**-33,196**	**-1.2%**
Outstanding number of shares (net of Treasury stock)	399,749,204	389,371,316	-10,377,888	-2.6%
Common book per share	7.13	**7.23**	0.10	1.5%
Share price at end-December	6.05	6.80	0.75	12.4%
P/Common book	0.85	**0.94**	0.09	10.8%

As at 30 December 2016, the ordinary shares were trading on the Beirut Stock Exchange at a market price of USD 6.8 per common share, reflecting a price-to-earnings ratio of 6.5 times and a price-to-book ratio of 0.94 times, both considered as very low multiples with respect to regional peers trading at 11.0 times their common earnings and 1.64 times their common book.

4.5. | RESULTS ACROSS MAIN DEVELOPMENT PILLARS

The main development pillars of the Group are its Lebanese operations, its Turkish operations (through Odea Bank), its Egyptian operations (through Bank Audi Egypt) and its Private Banking business. Following a continued growth, Bank Audi's Lebanese operations continued in 2016 to benefit from a strong leadership across business lines, translating in Bank Audi retaining the highest domestic market shares among direct peers, at an average of 13.0% across main banking criteria (assets, deposits and loans). In Turkey and Egypt, the Bank's operations have been outperforming their peers. This resulted in Odea Bank ranking, in just 4 years of average activity, 9th among non-state conventional banks, with an average market share improving to 1.6%, while Bank Audi sae (Egypt) ranks 7th among private sector banks, with an average market share increasing to 1.9%.

LEBANESE ENTITIES

In 2016, assets of the Bank's Lebanese entities (excluding Audi Private Bank and consolidation adjustments) grew by 16.4%, rising by USD 4.0 billion, from USD 24.6 billion at end-December 2015 to USD 28.6 billion at end-December 2016. Assets growth was principally driven by customers' deposits increasing by USD 2.7 million over the same period, moving from USD 18.5 billion as at end-December 2015 to USD 21.2 billion as at end-December 2016 (a growth of 14.5%). With those results, Bank Audi has outperformed its domestic direct peers in Lebanon, as the Lebanese banking sector achieved an assets and deposits growth of 5.5% and 2.0% respectively in 2016.

LEBANESE ENTITIES (EXCLUDING CONSOLIDATION ADJUSTMENTS)

(USD Million)	Dec-15	Dec-16	Change
Balance sheet data			
Assets	24,594	28,628	4,034
Deposits	18,528	21,216	2,688
Loans	6,163	6,023	-140
Equity	3,230	3,625	396
Outstanding LCs + LGs	839	979	140
Earnings data	2015	**2016**	Change
Total income	624.8	1,153.8	529.0
Net profits before discontinued operations	209.6	245.1	35.6
Net profits after discontinued operations	209.6	74.5	-135.0
Spread	**1.6%**	**1.7%**	**0.1%**
ROAA	**0.85%**	**0.98%**	**0.1%**
RORRC	**15.8%**	**17.0%**	**1.2%**

Over the same period, the loan portfolio stabilised at USD 6.0 billion. Nonetheless, this performance in no way reflects a static portfolio as a number of loans totaling USD 1 billion have reached their maturity during the year and were replaced with new ones having an equivalent aggregate amount.

Loan quality improved noticeably in 2016 as the ratio of gross doubtful loans to gross loans of Lebanese entities moved from 4.30% at end-December 2015 to 2.67% as at end-December 2016. This improvement is predominantly justified by the write-off of a facility extended to a regional corporate (USD 115 million). In parallel, coverage ratio by specific provisions also increased from 80.4% as at end-December 2015 to 87% as at end-December 2016, translating in a corollary improvement in the ratio of net doubtful loans to 0.35%, its lowest level since 2009. Coverage by collective provisions was also bolstered from 1.11% of net loans as at end-December 2015 to 4.55% as at end-December 2016.

In 2016, Lebanese entities recorded net profits of USD 75 million after accounting for the net losses from discontinued operations resulting from the write-offs of Bank Audi Syria, National Bank of Sudan and Arabeya Online. Without doubt, the profit and loss statement of Lebanese entities included exceptional revenues and expenses resulting from the Bank's participation in the swap operations offered by the Central Bank of Lebanon. When normalising the P&L to those exceptional items, Lebanese entities would have generated net profits after taxes and provisions of USD 195 million in 2016 as compared to USD 191 million in 2015, reporting a flat performance.

BANK AUDI EGYPT

In 2016, Bank Audi Egypt succeeded in sustaining a solid growth trajectory, asserting its resilience relative to the prevailing challenging operating conditions marked by monetary and price pressures. In fact, assets of Bank Audi Egypt increased from EGP 37.7 billion as at end-December 2015 to EGP 55.8 billion as at end-December 2016, corresponding to a growth of 48%. Adjusting to the impact of successive devaluations of the Egyptian Pound versus the US dollar in 2016, totaling a value loss by 58%, assets of Bank Audi Egypt would have grown by 22% in real terms. The assets growth mirrors that of deposits, reaching at end-December 2016 EGP 45.9 billion.

At the lending side, loans to customers grew in nominal terms by 60.9% (29% in real terms).

This solid growth was not realised at the detriment of credit quality, as the ratio of gross doubtful loans to gross loans sustained its level of 1.4%, largely below that of the sector (5.9%). Coverage by specific provisions continued to represent 75% while the ratio of collective provisions/net loans almost doubled from 0.63% to 1.04%.

BANK AUDI sae (EGYPT)

(EGP Million)	Dec-15	**Dec-16**	Change
Balance sheet data			
Assets	37,680	55,803	18,123
Deposits	32,300	45,872	13,572
Loans	18,521	29,795	11,274
Equity	3,215	4,925	1,710
Outstanding LCs + LGs	2,456	4,090	1,634
Earnings data	2015	**2016**	Change
Total income	1,552.0	3,461.2	1,909.2
Net profits	534.9	1,709.3	1,174.5
Net profits adj to increase in FX structural position since float	534.9	787.9	253.0
Spread	**3.1%**	**3.5%**	**0.5%**
ROAA	**1.5%**	**1.9%**	**0.4%**
ROACE	**19.8%**	**20.6%**	**0.8%**

Bank Audi Egypt recorded net profits (after provisions and taxes) of EGP 1,709 million in 2016, including exceptional net gains on the FX structural positions since the float. Adjusting to those gains and to the exceptional expenses taken as a result, Bank Audi Egypt would have reported net profits of EGP 788 million in 2016 as compared to EGP 535 million in 2015.

Based on those adjusted results, Bank Audi Egypt continued to report solid profitability ratio with an ROAA of 1.9% (as compared to 1.5% in 2015) and an ROAE of 20.6% (as compared to 19.8% in 2015). This is to be read in conjunction with a capital adequacy ratio of 14.65% as at end-December 2016, largely exceeding the set regulatory minimum of 10.625%.

ODEA BANK

The year 2016 was marked with heightened volatility in Turkey, in particular since the failed coup attempt mid-year, on the backdrop of geopolitical challenges. Within this context, assets of Odea Bank increased from TRY 32.1 billion as at end-December 2015 to TRY 38.1 billion as at end-December 2016, corresponding to an increase by TRY 6 billion and a growth by 18.8%. The increase was principally funded by an increase in customers' deposits by TRY 4 billion in 2016, reaching TRY 29.1 billion. In August 2016, Odea Bank had successfully completed a TRY 1 billion capital increase, partially subscribed by the IFC and EBRD, along some private MENA investors, underscoring a strong investor confidence in Odea Bank.

ODEA BANK

(TRY Million)	Dec-15	**Dec-16**	Change
Balance sheet data			
Assets	32,077	38,074	5,997
Deposits	25,103	29,053	3,949
Loans	21,708	26,095	4,387
Equity	2,388	3,598	1,210
Outstanding LCs + LGs	2,216	2,779	563
Earnings data	2015	**2016**	Change
Total income	861.2	1,443.7	582.5
Net profits	62.6	206.9	144.2
Spread	**2.3%**	**2.8%**	**0.5%**
ROAA	**0.2%**	**0.6%**	**0.4%**
ROACE	**2.7%**	**7.2%**	**4.5%**

In 2016, loans to customers of Odea Bank increased by TRY 4.4 billion from TRY 21.7 billion as at end-December 2015 to TRY 26.1 billion as at end-December 2016, corresponding to a growth by 20%, of which 8% of real growth and the remaining accounted for by the translation effect resulting from the movement of the exchange rate of the Turkish Lira versus the US Dollar over the period.

In terms of loan quality, the ratio of gross doubtful loans to gross loans moved from 2.22% as at end-December 2015 to 2.57% as at end-December 2016, with the deterioration justified by the expected seasoning of the loan portfolio, in particular the SME portfolio. Coverage by specific provisions improved from 38.6% as at end-December 2015 to 43.8% as at end-December 2016, amid adequate collateralisation levels. Collective provisions as a percentage of net loans strengthened from 0.46% as at end-December 2015 to 1.35% as at end-December 2016, as Management decided to allocate the equivalent of USD 84 million as collective provision.

As mentioned earlier, this allocation was made in view of the capital gains Odea Bank realised. Had those gains not been realised, those provisions would not have been needed. Notwithstanding, these provisions, whose allocation was qualified by auditors as not required may offer Odea Bank a cushion for any future possible risks, and could be used in optimal cases to substitute for future allocations.

Based on the above, Odea Bank recorded net profits (after provisions and taxes) of TRY 207 million in 2016 as compared to TRY 63 million in 2015, within the allocation of TRY 534 million to loan loss provision. Subsequently, Odea Bank's profitability ratios strengthened, realising an ROAA of 0.6% in 2016 (as compared to 0.2% in 2015), while the ROACE increased from 2.7% in 2015 to 7.2% in 2016, in spite of the TRY 1 billion capital increase. The capital adequacy ratio of Odea Bank reached 15% at end-December 2016, exceeding the 12% set regulatory minimum.

PRIVATE BANKING ENTITIES

Bank Audi enjoys a strong expertise and know-how in Private Banking and wealth management. The Bank's Private Banking entities comprise four main booking centers based in Switzerland (the second largest Arab private bank in Switzerland with an established footprint since the 1970s), Lebanon (representing the largest Private Banking entity in Lebanon), Saudi Arabia and Qatar, with additional representative offices in Monaco, Jordan and the United Arab Emirates. Audi Private Bank also covers Sub-saharan Africa and Latin America through dedicated relationship managers managing assets under management of close to USD 1.2 billion in each of those geographies.

PRIVATE BANKING ENTITIES (EXCLUDING CONSOLIDATION ADJUSTMENTS)

(USD Million)	Dec-15	**Dec-16**	Change
Balance sheet data			
Assets	**3,250**	**3,339**	**89**
Client assets[1]	**9,812**	**11,101**	**1,289**
o.w. Deposits	2,569	2,561	-8
o.w. AuMs & fiduciary deposits	7,243	8,540	1,297
Client loans	**1,084**	**1,214**	**130**
Equity	**444**	**478**	**34**
Staff	**279**	**264**	**-15**
Earnings data	2015	**2016**	Change
= Total income	**131.7**	**135.7**	**4.0**
= Net profits	**46.9**	**54.6**	**7.7**
Spread	**1.7%**	**1.9%**	**0.2%**
= ROAA	**1.5%**	**1.6%**	**0.1%**
= ROACE	**11.0%**	**11.8%**	**0.9%**

[1] *Excluding consolidated adjustments.*

Client assets (comprising of client deposits as well as off-balance sheet AuMs including AuMs, fiduciary deposits and custody accounts) at Audi Private Bank increased from USD 9.8 billion at end-December 2015 to USD 11.1 billion at end-December 2016, representing an increase by USD 1.3 billion, of which USD 269 million in Banque Audi (Suisse), USD 1.2 billion in Audi Private Bank, and USD 7 million in Bank Audi Qatar, partially offset by a small net outflow in Audi Capital KSA. Within this context, the Private Banking entities generated, in 2016, net profits of USD 54.6 million, as compared to USD 46.9 million in 2016, corresponding to a growth by 16%.

4.6. | PRINCIPAL BUSINESS ACTIVITIES

COMMERCIAL AND CORPORATE BANKING

Bank Audi provides integrated Corporate and Commercial Banking solutions, with a coverage span entailing the Middle East, GCC, Africa and Europe through its established headquarters in Lebanon and its entities operating in Turkey, Egypt, Jordan, Saudi Arabia, Qatar, Iraq, France, and Switzerland. Despite the continuing challenging economic and political conditions prevailing in several key markets, Bank Audi still managed to consolidate its regional Corporate and Commercial Banking franchise.

Consolidated assets of the corporate and commercial segment reached USD 14.1 billion at end-December 2016. The portfolio witnessed a positive evolution through new lending activity, but the increase was negated by the devaluations of the Egyptian Pound and the Turkish Lira. This resulted in a 3.9% decrease compared to the level achieved at end-December 2015 (USD 14.7 billion). In fact, had the exchange rates of the Egyptian Pound and the Turkish Lira against the US Dollar stayed the same as at end-December 2016 as compared to end-December 2015, net loans of Bank Audi Egypt and Odea Bank would have increased by 29% and 9.6% respectively during 2016.

In Turkey, Bank Audi (via its subsidiary Odea Bank) further initiated and developed relationships with top tier corporate and commercial clients in a wide range of sectors including healthcare and education, construction & real estate, textile and other manufacturing industries, oil and gas, renewable energy, retail and commercial development, tourism, as well as transportation and logistics. The corporate and commercial loan portfolio of Odea Bank stood at USD 6.6 billion as at end-December 2016.

Egypt remains a key pillar of the corporate and commercial lending activity at group level. Bank Audi Egypt's lending activity covers a wide range of corporations in the fields of infrastructure, power generation, higher education, fertilizer production, oil and gas, real estate development, steel manufacturing, pharmaceuticals, and airlines. The corporate and commercial loan portfolio of Bank Audi Egypt stood at USD 1.3 billion as at end-December 2016.

In Lebanon, Bank Audi continued to support the growth of many local businesses by building a strong relationship with the existing customers and increasing penetration to large corporates. Bank Audi continues to be the largest commercial and corporate lender in the Lebanese sector, with a corporate and commercial loan portfolio standing at USD 4.3 billion at end-December 2016, the same level achieved as at end-December 2015. The flat performance in no way reflects a stagnant portfolio as close to USD 1 billion worth of loans matured during the year and were replaced.

SME Banking

In August 2016, Bank Audi launched a new SME Banking proposition in Lebanon, Egypt and Turkey, encompassing a comprehensive array of products and services, with an ultimate aim for this segment to become a major business line.

In Lebanon, new SME solutions were designed in a flexible manner to better answer customers' lending and non-lending business needs, from business banking transactions to financing solutions for day-to-day running business needs, as well as business growth and capital expenditure requirements. The revamping of the Bank's proposition was implemented with the advice of the IFC and aimed at promoting a sector which has a substantial impact on the domestic economy, representing 90% of the enterprises in Lebanon and employing 82% of the work force in the private sector. Hence, serving this sector is not expected to be only profitable for Bank Audi, but it also promotes job creation and economic growth.

The business rationale was based on a number of findings collected from the Bank's internal data mining, market studies, and focus group research where the main outcome was "Bank Audi would have to rebuild itself according to the business needs of SME clients". Therefore, the Bank differentiated itself with the design of a total wallet solution aiming at securing a long-term business relationship with the client and a simplified "modus operandi" aiming at optimising efficiency.

During 2016, the Group also continued the implementation of its updated Environmental and Social Management System (ESMS) to actively manage environmental and social risks, and to promote environmental business opportunities (see section entitled "ESMS" on Page 67).
Based on the above, the corporate and commercial business generated total revenues of USD 492 million in 2016 as compared to USD 521 million in 2015, corresponding to a decline by 5.6% partly attributable to the devaluations of the Turkish Lira and the Egyptian Pound.

RETAIL BANKING

In 2016, the retail business line reinforced the Bank's positioning as an innovative and technology-driven retail bank through constant efforts accompanying the roll-out of its business transformation strategy, aiming at becoming a truly customer-centric organisation. New service models and customer segmentation initiatives were implemented across pillar markets, supported by the expansion of delivery channels, the introduction of innovative technologies, and the customisation of existing products and services. Those initiatives aimed at enhancing customer experience, transparency and profitability, improving customer retention while growing the retail lending exposure in compliance with the approved internal risk limits.

The Bank offers more than 150 retail products and services to more than 1 million retail clients across the countries of presence of Bank Audi. The product ranges include conventional checking and savings accounts, fixed-term deposits, loans and residential mortgages, SME lending, credit cards, bank insurance products, as well as a host of innovative retail products developed in association with leading partners across the region. Customers are being served through an Omni-channel network of more than 450 advanced self-service machines (ITM, ATM and Novo), digital channels (online and mobile), and through more than 180 branches.

The retail business line continued to grow in 2016 despite the political and economic instability in the region; when consolidated in USD, retail loans at end-December 2016 sustained the same level as the previous year and stood at USD 3.1 billion, with the flat growth justified by the depreciation of the Egyptian Pound and Turkish Lira versus the US Dollar by respectively 58% and 18% over the same period. In fact, the retail loan portfolio of Bank Audi Egypt reported a growth in local currency by 20.5%, while the retail loan portfolio of Odea Bank reported a growth in local currency by 27.6%. If we exclude the impact of the currency devaluation, the consolidated retail portfolio would have registered a year-on-year growth of 14.6%. This growth is driven by a 23.2% growth in personal loans, 6.8% in car loans, 14.4% in credit cards, and 8.4% in housing loans.

At end-December 2016, housing loans backed by mortgages made up 40.1% of the consolidated retail portfolio, followed by personal loans with 37.6%, credit cards with 13.0%, and car loans with 8.3%, in addition to 1% of small/multipurpose loans.

The retail portfolio quality was preserved in 2016 as the ratio of gross doubtful retail loans to retail loans reached 3.2% at end December 2016 (same level as at end-December 2015), with coverage of those loans by specific provisions increasing to 78.4% (excluding collaterals), while collective provisions represented 2.6% of retail loans.

Based on the above, the Retail Banking business line generated consolidated revenues of USD 331 million in 2016 as compared to USD 279 million in 2015, corresponding to a growth by 19%. The USD 52 million increase in total revenues is mainly attributed to a USD 32 million increase in interest income driven by an improvement in spread following the re-pricing of loans (16% growth), along with a slower increase in non-interest income of USD 21 million. Corresponding nonetheless to a 21% growth, the increase in non-interest income is driven by a 25% increase in commissions from retail business, underscoring increased efficiency at this level.

Bank Audi Lebanon initiated the roll out of a new operating model across the domestic network, based on customer segmentation and channel behaviour analysis. Deeper customer insights catered for an increased marketing focus and tapped into unexploited potential, especially the youth and the public sector.

In August 2016, Bank Audi launched its new Mobile App which was the first stepping stone in the Omni-channel project, offering clients a smooth user experience by allowing them to perform all the banking transactions available on the Internet Banking channel, anywhere and anytime from their mobile devices. The number of transactions on the app have reached 41% of the total banking transactions performed on Audi Online and the Bank Audi App combined.

In December 2016, the number of transactions performed on the Bank Audi App and Audi Online combined constituted 33% of the Bank's bulk of transfers compared to 22.5% in December 2015. This increase of 9.5% in transactional migration from the counter asserts our clients' propensity for using alternative delivery channels for simple banking transactions.

At the level of **e-Payments and Card Solutions (EPCS)**, the Bank's main focus in 2016 was to reinforce its strategy of building a cashless society through encouraging e-commerce and enhancing the contactless payment activity.

In a challenging economic environment, Bank Audi Egypt delivered another year of considerable results, reconfirming its core commitment to achieve a meaningful and efficient customer relationship management in parallel with the development of innovative products and services.

Within that scope, **Bank Audi Egypt** launched a new Audi Online service in January 2016, and started migrating customers to the new platform and educating them on the new features. Throughout the year, more than 41,000 users (38,127 retail and 3,500 corporate) executed more than 109,000 transactions on the new Audi Online channel. As of Q4 2016, 30% of credit card payments are conducted through alternative channels.

In Turkey, **Odea Bank** hits record levels, with the number of Retail Banking customers acquired to date (since establishment) exceeding the 1 million customers' threshold just before the end of 2016, and achieving a year-on-year growth of 34%. Total balances reported, in parallel, a 31% growth over the same period, reaching TRY 20.7 billion, of which TRY 17.8 billion of deposits and investments and TRY 3.5 billion of loans. Increasing focus was on the non-interest income generation in 2016, driven predominantly by the newly implemented infrastructure for commission waiver controls, an increase in number of credit cards (with higher activity), an increase in the number of new consumer loan sales, new mutual funds and investment services, and other new initiatives aimed at generating higher insurance income. As a result, total non-interest income from Retail Banking operations reached a record level of TRY 64 million in 2016.

Direct Banking activities accounted for a significant part of this growth, with a transaction volume growing by 35% in 2016 to TRY 8.7 million, while serving 500k customers and conducting 16 million operations. Monthly Direct Banking transactions constitute 85% of overall banking transactions. Within that scope, the user base of Mobile Banking has rapidly increased, achieving the highest increase in penetration, with a growth of 128% in Q4 2016 relative to the corresponding period of 2015.

In addition to delivering advanced solutions to customers and ensuring that their transactions are carried out quickly and easily, Direct Banking activities also focused on promoting sales. In 2016, 97% of overall cash advance transactions amounting to TRY 257 million were generated by Direct Banking channels, mainly ATM and contact center. The retail loan disbursement service, recently added within Direct Banking, accounted for a volume of TRY 47 million, corresponding to 18% of the total Retail Banking loan disbursement volume at end-December 2016.

PRIVATE BANKING

Bank Audi's Private Banking arm provides services to high net-worth individuals through its network in Europe (Geneva and Monaco) and the Middle East (Beirut, Riyadh, Abu Dhabi, Amman and Doha), and comprises four main booking entities, namely Audi Private Bank, Banque Audi (Suisse), Bank Audi Qatar and Audi Capital (KSA).

In Lebanon, the Bank provides Private Banking services through Audi Private Bank, the largest Private Banking subsidiary in Lebanon. Audi Private Bank offers a full and diversified range of services to high net-worth clients, with full 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.

In Switzerland, since 1976, the Bank has been developing an important Private Banking franchise through Banque Audi (Suisse), the second largest Arab private bank in Switzerland. In 2011, the Bank expanded its offering of private wealth management services to Monaco.

In addition, the Bank offers wider coverage of the Private Banking market in the broader MENA region through its entities in Saudi Arabia and Qatar, and its representative office in the United Arab Emirates, offering its clients trading capabilities, advisory services and traditional discretionary portfolio, as well as asset management services. Audi Private Bank also leverages on the presence of the Group in Turkey and Egypt to source customers, while adopting an opportunistic approach in other markets.

Consolidated assets under management (comprising of assets under management, fiduciary deposits and custody accounts) increased from USD 10 billion at end-December 2015 to USD 11 billion at end-December 2016, a level that compares competitively with portfolios managed by regional banks.

In Switzerland, Banque Audi (Suisse) now represents the main Private Banking arm of the Group. With close to USD 6 billion in AuMs, Banque Audi (Suisse) continues to consolidate its leading position as the 2nd largest Arab private bank in Switzerland. In Lebanon, Audi Private Bank is the largest wholly-owned Private Banking entity, with USD 4 billion in AuMs, as compared to approximately USD1 billion for its closest peer. In Saudi Arabia, Audi Capital (KSA) serves as the Group's main Private Banking hub for GCC markets, with AuMs of USD 1.2 billion.

TREASURY AND CAPITAL MARKETS

The Bank offers Capital Markets and Investment Banking products and services, including securities trading activities. The Bank is leveraging its regional presence to further develop its securities services and brokerage platform, consolidating the business towards increased intra-group synergies.

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 27% market share of Beirut Stock Exchange equities trading volumes by value as at end-December 2016. The Bank also has a significant share of the government Eurobond and Treasury notes markets, with an annual trading volume exceeding USD 16.7 billion in 2016. 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.

The activities of the Treasury and Capital Markets was marked significantly by the exceptional exchange operations with the Central Bank of Lebanon. Assets of this segment reached USD 24.6 billion as at end-December 2016, from USD 22 billion as at end-December 2015, growing by 19.2%. In parallel, total revenues from those activities moved from USD 412 million in 2015 to USD 1,288 million, of which USD 616 million of exceptional brokerage fees and USD 240 million of exceptional gains on financial instruments resulting from the exchange operations with the Central Bank of Lebanon. Excluding the latter, revenues of the Treasury and Capital Markets activities would have reached USD 432 million, growing year-on-year by 4.9%.

5.0. | DIVIDEND POLICY

Since 1996, the Bank's Board of Directors has recommend the distribution to holders of common shares of a dividend payment of at least 30% of profits after tax for each year, subject to the approval of the Bank's shareholders and to the availability of distributable net income for the year, after payment of distributions to holders of preferred shares.

Pursuant to the Bank's by-laws and applicable Lebanese law, the Bank's annual net profits (dividends are payable from the Bank's standalone available-for-distribution net income) shall be distributed in the following order of priority:

- To the legal reserve, in amounts equivalent to 10% of the Bank's net profits after tax, to be transferred each year until such reserve reaches one-third of the Bank's share capital. The legal reserve is distributable only upon the liquidation of the Bank. In 2016, the Bank and its subsidiaries transferred LBP 48,748 million to the legal reserve in accordance with applicable law.
- To the general banking risks reserve. Pursuant to BDL Decision No. 7129, the Bank is required to set aside a minimum of 0.2% and a maximum of 0.3% of its risks-weighted assets as a reserve for unspecified banking risks, which forms an integral part of the Bank's Tier I capital. The aggregate of this reserve must be equivalent to 1.25% of risk-weighted assets within ten years from the date of Decision No. 7129 and 2.0% of risk-weighted assets within 20 years of such date. In addition, the Bank is required to establish a special reserve for properties acquired in satisfaction of debts and not liquidated within the required delays. These special reserves shall be withheld from the annual profits at the end of the year during which the acquired property should have been liquidated, and will not be accounted for as an expense as per IFRS.
- To the payment of dividends in respect of Series "F", "G", "H" and "I" preferred shares (or any other series of preferred shares), as approved by the Ordinary General Meeting of the Bank's shareholders.
- To the Bank's general or special reserve or profits carried forward.
- To holders of the Bank's common shares.

The determination to pay any dividend in respect of the common shares will depend upon, among other things, the Bank's net earnings, its financial condition and cash requirements, priority rights for distribution, government regulations and policies, and such other factors as may be deemed relevant by the Board of Directors and shareholders from time to time.

Notwithstanding, dividends to common shares cannot be made until the full amounts of dividends to preferred shares have been paid or declared and set aside. The common dividend distributions are made annually on the dates specified by the General Meeting. 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 Lebanese government.

The table below highlights the dividends distribution practices at Bank Audi over the past 5 years. During its meeting held on 8 April 2016, the Ordinary General Assembly resolved the payment of dividends on preferred shares of respectively USD 6, USD 6 and 6.5 respectively per "F","G" and "H" preferred shares and a common dividend per share of LBP 603 (before the 5% withholding tax), the equivalent of USD 0.4. Total dividends paid for the exercise represented 45.3% of consolidated net earnings in 2016. On the basis of a share price of ordinary shares and GDRs of respectively USD 6.80 and USD 6.50 as at end-December 2016, the dividend yield reached 5.9% for ordinary shares and 6.2% for GDRs as compared to a 4.6% average in the MENA region (98 companies), 4.1% in both emerging markets (638 companies) and around the world (2,346 companies) as per Bloomberg.

CONSOLIDATED PAYOUT RATIO (USD THOUSANDS)

	2011	2012	2013	2014	2015
Common earnings	**348,021**	**360,420**	**278,681**	**319,956**	**380,260**
Dividends on common shares	139,776	139,420	139,900	159,701	159,900
Dividends per common shares (USD)	0.40	0.40	0.40	0.40	0.40
Payout ratio on common shares	40.2%	38.7%	50.2%	49.9%	42.1%
Dividends on preferred shares	**17,188**	**23,188**	**25,875**	**30,375**	**22,875**
Total dividends	**156,964**	**162,608**	**165,775**	**190,076**	**182,775**
Net earnings	**365,208**	**383,608**	**304,556**	**350,331**	**403,135**
Total payout ratio	**43.0%**	**42.4%**	**54.4%**	**54.3%**	**45.3%**

6.0. | RISK MANAGEMENT

Sound risk management remained a top strategic priority at Bank Audi in 2016, and during this year, the Bank continued enhancing its risk management framework by leveraging on the strategic plan common for Risk and Finance, that was laid out the year before.

The Bank maintained close risk oversight for its various entities, especially for its exposures in Egypt and Turkey in anticipation of the devaluation in their respective local currencies and in light of the challenging political and economic environments in these two countries. 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 2016, Bank Audi continued to improve and harmonise 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, and in line with the Bank's risk appetite.

RISK APPETITE

Bank Audi, initiated, during 2015, a project to revamp its existing risk appetite framework based on a top-down approach linking risk appetite directly to the Bank's strategy. During 2016, the Bank made significant progress in that area and intends to submit, early 2017, the first version of the new risk appetite framework at a consolidated level to the Group's Executive Committee and Board of Directors for approval. Following its approval, the Bank intends to start cascading down the new risk appetite framework to legal entities and business lines.

The new risk appetite framework is set to include both qualitative statements and quantitative indicators, along various dimensions including solvency, profitability, liquidity and franchise value. This new framework will allow Senior Management and the Board of Directors to ensure that all material risks resulting from the Bank's strategy are properly and easily monitored and controlled. The Bank will continue to use the existing bottom-up framework that includes numerous key risk indicators, along the various types of risks to monitor the risk profile at the most granular levels.

RECOVERY AND RESOLUTION PLANS

During 2016 and in line with best practices, Bank Audi prepared the recovery plans for our three major subsidiaries in Lebanon, Turkey and Egypt. The purpose of the Recovery Plan is to draw recovery actions that can be triggered, when needed, to enhance the financial position of the Bank. 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 and quantitative indicators were set. In line with global regulatory requirements, the Bank also prepared resolution plans for these three subsidiaries. The purpose of these plans is to facilitate an orderly and timely reorganisation of these subsidiaries in the event of a severe stress event in order to minimise any consequent impact on the financial sector and its critical functions. During 2017, the Bank will be working on strengthening the governance aspect around these plans.

INTEGRATED MIS

During 2016, Bank Audi maintained its efforts towards integrating its risk and finance system to ensure one sole source of information for accurate, uniform and timely decision-making. The Bank went forward with the implementation of the Integrated Finance and Risk Management System (IFRMS) for Bank Audi's three major entities in Lebanon, Egypt and Turkey.

In 2016, the IFRMS project did a major progress in Turkey where our subsidiary is planning to go live during 2017 for Asset-Liability Management (ALM), Liquidity Risk Management (LRM), Fund Transfer Pricing (FTP) and Profitability. In Lebanon, FTP and Profitability implementation is expected to be completed in 2017.

STRESS TESTING

Bank Audi continued to improve and upgrade its stress testing framework. Stress testing is used by Bank Audi to measure the Bank's vulnerability to severe and plausible events and its impact on solvency, profitability, liquidity and franchise.

In 2016, the Bank worked on standardising the stress testing framework across entities by ensuring a consistent approach in terms of selection of scenarios, reporting of results and other components.

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.

IFRS 9: EXPECTED CREDIT LOSS

The Banking Control Commission of Lebanon (BCC) issued, on 13 August 2015, a memo on the application of the IFRS 9 standard by Lebanese banks, whereby it requested from banks to start preparing for the implementation of this standard which will become fully effective at a consolidated basis starting 1 January 2018.

During 2016, Bank Audi has developed and rolled out its new IFRS 9 framework across the Group, and has conducted two impact studies on a consolidated basis: one for internal purpose and the other for regulatory purpose. This year was marked by a major transition in the approach the Bank allocates to provisions, first by widening the scope of the assets subject to provisioning requirements, from the loan portfolio during 2015 to all major credit asset classes during 2016, and second by introducing a forward looking component in the provisions calculation methodology.

In 2016, the Bank took additional provisions in comparison to the amount effectively required as per existing standard, in preparation for the IFRS 9 impairment adoption, as well as in order to comply with provisioning requirements of the Central Bank of Lebanon, as stipulated in Intermediary Circular No. 439. This excess provision was subject to a qualified opinion by the external auditor as the IFRS 9 impairment treatment is not applicable yet. Going forward and in 2017, Bank Audi intends to calculate the ECL on a consolidated and quarterly basis, in preparation for the full adoption of the standard beginning January 2018.

In support of the IFRS 9 initiative, Bank Audi further enhanced its risk-rating system and methodologies for Probability of Default and Loss Given Default for the various countries of operations, that will be used in the final ECL calculation.

ICAAP

During 2016, the Internal Capital Adequacy Assessment Process (ICAAP) was further integrated in the budgeting and capital planning process, and institutionalised stress testing as part of this 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 also at the level of our subsidiaries in Turkey, Egypt, Saudi Arabia, as well as the Jordanian branch network.

DATA GOVERNANCE

Along with the implementation of the Integrated Finance and Risk Management System (IFRMS) solution, the Bank continued to put significant efforts on data governance.

During 2016, the Risk function focused on addressing the completeness of IFRS 9 data given the importance of ensuring accurate Expected Credit Loss calculations. This effort was rolled out in various entities of the Group, in close coordination with related stakeholders for Risk, Finance, IT and the business lines. This effort will continue in 2017, and would include Basel 3 and other requirements.

PILLAR 3 PREPARATION

Even though the Bank's regulators have not yet issued requirements on Pillar 3 compliance, the Bank is working on meeting the specific expectations set by the Basel Committee in its Pillar 3 disclosure standard, as part of an internal initiative and in anticipation of a future regulatory requirement. Over the next few years, we will therefore gradually bring our disclosure in line with the spirit and the requirements of Basel Pillar 3.

INTEREST RISK IN THE BANKING BOOK

The Bank has started calculating the Interest Rate Risk in the Banking Book (IRRBB) capital charge using the new Basel III approach, replacing by this the earlier version of Basel methodology. Going forward, the Bank will start incorporating this assessment and resulting capital charge in the ICAAP as part of Pillar 2, as well as in the new risk appetite framework.

RISK INTELLIGENCE

Bank Audi maintained its efforts on enhancing its reporting and early detection initiative at group level. The Bank has established a Risk Intelligence function within Group Risk in order to centrally build and maintain automated risk reports, streamline the monitoring of the risk profile and key risk indicators, as well as notify the appropriate stakeholder of an emerging risk when it occurs.

CREDIT INSPECTION

During 2016, the Bank established a new Credit Inspection function whose mission is to provide an independent evaluation of the quality of the credit portfolios and the effectiveness of the credit process being used to manage these portfolios.

This function has been scheduling and conducting on-site reviews of the commercial and corporate functions at the entities of the Group. These reviews are forward-looking and provide Management with an independent assessment of the future prospects of the credit portfolio managed by the business. This helps ensure that the Bank's credit portfolio is managed in accordance with the core principles of the Bank and in compliance with the approved credit policies, procedures and appetite.

6.2. | PRIORITIES FOR 2017

The Bank, in its continuous effort to be the leader in risk management, is always looking for ways to improve its risk management framework. Priorities for 2017 are as follows:

- Continue preparing for the IFRS 9 adoption by focusing on the automation of the ECL calculation process and enhancements of the related data quality.
- Ensure optimal capital allocation.
- Widen the scope of utilisation of the return on capital measures to include more businesses and entities to ensure proper risk-reward balance.
- Maintain and strengthen the Group's risk culture.
- Continue to enhance the Bank's stress testing framework.
- Move towards further standardisation of risk management processes across the Group.
- Increase the integration of capital planning and risk management.
- Constantly reinforce the Bank's security posture, increase the efficiency of the business continuity plan, and keep it abreast of upcoming changes.
- Prepare for the Pillar 3 disclosure as an internal initiative.
- Cascade the new risk appetite framework across geographies.

6.3. | CREDIT RISK

CORPORATE CREDIT

Consolidated net loan portfolio decreased by 4.0% in 2016, from USD 17.9 billion as at end-December 2015 to USD 17.2 billion as at end-December 2016, mainly due to the devaluations of EGP and TRY versus the US Dollar. Excluding these devaluations, the consolidated portfolio would have displayed an 8.0% annual growth during 2016. Asset quality on the whole remains healthy, with all key related risk indicators broadly within their respective internal risk limits (see section on Loan Quality on Page 40).

Cross-border Country Risk

Country risk credit exposure is mainly concentrated in markets where Bank Audi holds material local operations, mainly Lebanon, Turkey, Egypt and Jordan. Bank Audi also places part of its foreign currency liquidity with banks, mainly in G10 and highly rated GCC countries. This generates additional cross-border exposure.

Outside of aforementioned markets, there is a limited amount of cross-border credit exposure captured as part of transactions conducted with customers. Such exposures are not normally significant and are in general spread across several countries. Exposures in countries that are considered high risk, excluding countries of presence of Bank Audi (sub-investment grade) are not material (reaching USD 440 million) and represent a manageable size as compared to the size of consolidated shareholders' equity, standing at USD 3.8 billion as at end-December 2016. Note that this exposure is diversified and hence, would be relatively easy to absorb in a major stress scenario in one or potentially several correlated countries.

The table below sets the breakdown of cross border credit exposures by region/market as at end-December 2016, excluding collateral held in the various countries, considered as a mitigating factor:

BREAKDOWN OF CROSS-BORDER CREDIT EXPOSURE BY REGION/MARKET OF OPERATION (USD MILLION)

	Exposure
G10 (mainly USA, UK, Germany and France)	2,175
GCC (mainly KSA and UAE)	887
Markets with significant local presence for Bank Audi (Lebanon, Egypt, Turkey and Jordan)	1,531
Other investment grade rated countries	266
Non-investment grade countries	440
Total	**5,299**

The above table shows the well diversified portfolio of cross-border exposures spread mainly across highly rated countries (G10, GCC and investment grade), and countries of strategic importance for Group Audi, representing the bulk of the exposure (over 90%).

RETAIL CREDIT RISK

The development and deployment of application scorecards continued throughout 2016 in various entities of the Group. With this development, Bank Audi has largely completed the transition of credit decision platforms to reliable consistent ones which enhance the predictability of risk. Building on enhanced and proactive risk management, the Bank has initiated the process for building behaviour scorecards to upgrade the management of portfolios.

In addition to scorecards, the Bank has completed the development IFRS 9 compliant retail impairment models which have been rolled out in the entities for impact assessment. These models will be used during the 2017 parallel-run to calculate provisioning requirements, in preparation for the full adoption of the standard expected beginning January 2018.

In parallel, reviews of portfolios' quality, a core process within the risk management framework, were particularly critical throughout 2016 due to the economic and regulatory challenges faced in Egypt and the political developments and subsequent economic implications in Turkey. While pressure on retail asset quality has increased in these two countries, performance remains well within the Bank's risk appetite. In fact, the retail portfolio has demonstrated strong resilience to the economic challenges across major entities, which together with the proactive risk management measures taken, translated in improvements in risk indicators of key portfolios. In addition to addressing performance, the Bank worked on improving governance and policies in the entities.

6.4. | OPERATIONAL RISK

Operational risk is the risk of loss that exists in the natural course of the Bank's activities. This risk can result from inadequate or failed internal processes, people, systems and external events.

The mitigation of operational risk entails, at a minimum, applying good business practices and ensuring a continuous improvement of internal controls. This can be achieved through a Group Operational Risk Framework that sets a robust governance, as well as the standards and guidelines mandated by the Board of Directors to manage operational risks, while ensuring compliance with laws, regulations and best practices.

At Bank Audi, the effective management of operational risk is not restricted to a specific function; rather it is decentralised based on a three-line-of-defence approach. The first responsibility of operational risk management relies on the business lines Managers which act as a first line of defence. The second line of defence is assumed by several support functions that include: Operational Risk, Corporate Information Security and Business Continuity, Compliance, Regulatory Compliance and Internal Control. Internal Audit, which is the third line of defence, provides an independent assurance on whether the operational risk framework is effective, implemented as intended, and whether the associated governance across the Group is adequate. The operational risk framework is audited yearly as per the 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 through risk sign-offs on new projects and major changes pertaining to products, services, processes, activities and systems. All these activities are conducted in accordance with the Board-approved Group Operational Risk framework. To support operational risk management activities while ensuring an efficient and standardised group-wide implementation, the Bank has acquired and implemented an operational risk solution across entities.

As an additional layer of mitigation against operational risk events, the Bank purchases adequate insurance coverage from highly rated reinsurers to cover specific risks such as computer crime, infidelity, professional indemnity, property, political violence, external fraud on credit cards, etc.

The Bank also ensures that operational risk inherent to outsourced activities is subject to adequate assessment procedures to maintain a consistent and sound risk management across all activities in the organisation.

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 and to improve crisis management and handling of security incidents. Several initiatives were also implemented to ensure the continuity of business operations.

Information Security

The Bank is adopting 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 raise the awareness level of staff and Management, 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, change management, and logical and physical access.

Cyber Resilience

Bank Audi is aware of the increasing effects of cybercrime globally, especially on 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 has been designed to ensure the continuity of critical business activities in the event of an unforeseen event that may disrupt 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 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. | LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances.

Liquidity risk can manifest in the following two forms:

- Funding liquidity risk is the risk that the Bank's financial condition is adversely affected as a result of its inability to meet both expected and unexpected current and future cash flow and collateral needs in a timely and cost efficient manner.
- Market liquidity risk is the risk that the Bank cannot easily offset or eliminate a position at the market price because of inadequate market depth or market disruption ultimately leading to loss.

The Bank addresses these risks in two distinct environments:

- Normal conditions where the Bank must satisfy daily liquidity needs (flows) and the liquidity risk associated with those needs (e.g. in conjunction with expanding product or business mix, settlement, deposit/loan growth, etc.).
- Stressed conditions where the Bank is facing liquidity strains due to idiosyncratic or systemic conditions and may invoke the Contingency Funding Plan (CFP) and Recovery Plan as a result.

LIQUIDITY ADEQUACY

Management considers the Bank's liquidity position to remain strong, based on its liquidity metrics as at end-December 2016, 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 of funding sources to meet actual and contingent liabilities through both normal and stress periods.

The Bank continues to source funds by relying on a stable customers' deposit base constituting 81% of its funding (liabilities + equity). The Bank maintains its franchise in Retail/Personal Banking at 69% of deposits, while about 30% are corporate/SME. The large Retail/Personal Banking base highlights the Bank's reliance on sources of funding that are considered to be the most stable.

All entities where LCR has come into effect are compliant with their jurisdictional minimum. There is no regulatory requirement for LCR in Lebanon, neither at entity standalone nor consolidated levels. Internal assessments show that should it be implemented, the Bank would probably be in a healthy situation.

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 over 1-month and 3-month horizons) are at healthy levels. For example, the 1-month ratio is 31%.

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 to or better than those of their domestic sovereign. 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 and limit funding concentration risk. As mentioned later under Liquidity Management, the Bank's liquidity management strategy promotes self-sufficiency of legal entities, most especially across borders.

The Bank monitors its liquidity position daily. Its fund-raising ability in Turkey has been tested and found reliable in several instances during unsettled periods, including the failed coup attempt of July.

GOVERNANCE

The Bank's governance process is designed to ensure that its liquidity position remains strong at both entity and parent levels. The Asset-Liability Committee (ALCO) formulates and oversees execution of the Bank's liquidity policy at the level of each entity (which essentially lays down the Bank's liquidity management strategy). The liquidity risk policy for identifying, measuring, monitoring, and reporting of liquidity risk, and the contingency funding plan are recommended by Risk Management, reviewed by ALCO, approved by the Group's 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 which informs 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 policy, as well as maintaining the Bank's liquidity risk profile according to ALCO directives, all within the risk appetite set by the Group's Board of Directors.

The parent bank's Treasury and Capital Markets Division communicates with the entities' Treasury Departments to ensure adequate liquidity conditions at the group level.

LIQUIDITY MONITORING AND RISK APPETITE

Monitoring and setting of risk appetite for liquidity occur independently for each entity. Given the Bank's operating environment, the Bank monitors liquidity adequacy in each currency separately, especially for significant currency positions.

The Bank employs a variety of metrics to monitor and manage liquidity. One set of analyses used by the Bank relates to the timing of liquidity sources versus liquidity uses (e.g. liquidity gap analysis). A second set of analyses focuses on 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 highly liquid assets, the loans-to-deposits ratio and other balance sheet measures). The Bank also uses methods like Basel's Liquidity Coverage Ratio to measure and monitor liquidity under different conditions, which is not confined to the regulatory weighting, but reflects Management's own view under different scenarios in the relevant jurisdiction.

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.

LIQUIDITY MANAGEMENT

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. The Bank's liquidity management strategy promotes self-sufficiency of legal entities, most especially across borders.

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, the Bank holds high quality, marketable securities available to raise liquidity, such as corporate and sovereign debt securities.

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

The Bank's main exposure, on a parent level, to changes in FX rates at year-end 2016 stems mainly from its structural FX positions resulting from its equity investments in banking subsidiaries in non-hard currencies that cannot be hedged against, except for the Turkish Lira where derivatives can be used.

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.

The sensitivity of net interest income to major currencies is listed below at the consolidated group level.

INTEREST RATE SENSITIVITY - 2016

		Sensitivity of Net Interest Income	
Currency	**Change** (Basis Points)	**Increase** (LBP Million)	**Decrease** (LBP Million)
EUR	± 25	-5,505	5,505
USD	± 50	2,268	-2,268
LBP	±100	7,179	-7,179
TRY	±200	-9,642	9,642
EGP	±150	6,924	-6,924

It is important to note that interest rates on liabilities are not fully correlated with asset rates. The stickiness of customers' deposit rates, an observed phenomenon in the Lebanese market, has been incorporated in the above table. It has been quantified for the Lebanese USD customers' deposit 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 from a net interest income perspective is within acceptable bounds. The impact of a change in rates in any currency reduces less than 1% of net interest income. LBP impact reversed compared to year-end 2015 given that the Group has a much higher amount of LBP short-term placements at year-end 2016.

The interest rate shocks shown in the table do not reflect any particular view Management is assuming on rates, and are not indicative of historical or assumed correlation between them.

7.0. | DEPLOYED RESOURCES

7.1. | INFORMATION TECHNOLOGY AND OPERATIONS

In 2016, the Group moved forward in its transformation journey, not only by continuing previously launched initiatives, but also by introducing new ones. Key focus areas of the transformation program consist in improving the customer experience, enabling the operations with better capabilities, and increasing operational efficiency.

At the customer experience level, in parallel to the expansion of its brick-and-mortar network, Bank Audi Lebanon introduced tools to support the branches in better serving customers. These tools include:

- **State-of-the-art Mobile Banking Application** – As part of its Omni-channel initiative, and building on Odea Bank's successful experience, Bank Audi Lebanon launched a new mobile banking application, with a revamped user interface and an enriched set of services. The design and implementation of the other components of the Omni-channel platform and an integrated contact center are currently in progress.
- **Debit card instant issuing in branches** – This tool enabled the Bank to deliver debit cards to customers immediately upon applying for their cards, providing them with instant access to their accounts and transacting capabilities.
- **Novot** – Launched for the first time in the region, Novot, known as Pepper worldwide, is a humanoid robot with artificial intelligence introduced to the branches to gain traction through gamification. Novot toured more than 40 locations, welcoming customers and promoting new products and services, while entertaining customers.

Enabling the organisation with better capabilities remained at the forefront of priorities in 2016. New solutions were introduced:

- **A new CRM platform** – The implementation of an advanced CRM platform integrated with the Omni-channel solution was launched in Lebanon in 2016. Designed for customer insight management and analysis, the platform aims to strengthen customer-centric relationships and promote dedicated servicing.
- **Treasury and Capital Market solution** – Bank Audi Egypt completed, in 2016, the implementation of a Capital Markets solution, while Odea Bank introduced enhancements to its Treasury Trading solution, enhancing operational efficiency of those activities.
- **Integrated finance and risk management** – Building on the successful rollout of the IFRM systems at Bank Audi Lebanon, the year 2016 witnessed the launch of a similar project at Odea Bank, while Bank Audi Egypt completed the implementation of its IFRM framework. In Lebanon, the implementation of the Risk Management and Profitability modules is still underway.

At the level of operational efficiency, the Group worked on modernising the Core Banking Systems in both Bank Audi Lebanon and Bank Audi Egypt, with the execution currently underway in 2017. Efforts were also engaged to automate processes whereby additional workflows were being migrated to the Document Management System at Bank Audi Lebanon, and the Bank delivered this solution for use at Bank Audi Egypt. In parallel, work on the Business Process Management tool is currently underway at Bank Audi Lebanon, while the initiative was launched in Egypt.

On the other hand, in order to enable and support the transformation, Bank Audi's IT is achieving additional milestones across several entities, in its strategic journey towards: a scalable service-oriented architecture and towards IT as a service model, whereby different infrastructure components are provisioned, operated and managed through software and automation, and delivered as a service. This allows the Bank to provide fast, reliable, and secure services, while controlling costs.

7.2. | HUMAN RESOURCES DEVELOPMENT

If the year 2016 were to be labeled, it would easily hold up to the title "Human Resources Upgrade" in the Group's main entities, Bank Audi Lebanon, Odea Bank in Turkey, and Bank Audi sae (Egypt).

BANK AUDI LEBANON

Distinguished and rich accomplishments were witnessed during the year within the Human Resources Department.

Following three years of engaged efforts and dedication, the e-Business Suite Human Resources Management System (HRMS) – a state-of-the-art, versatile yet user-friendly software – was successfully launched on 18 January 2016, driving transformation and change at the level of the Bank. As employee data gathered on HRMS directly affect a number of systems under the umbrella of e-Business Suite (notably Oracle financials), this implementation enabled Human Resources to have an even greater leverage as a strategic business partner of the various business lines across the Bank. In order to guarantee a smooth transition from previous systems to HRMS, the Organisational Development (OD) team remains fully devoted to continuously support all bank employees on properly using the available modules through direct on-the-spot assistance, trainings and user manuals. This comes over and above the support provided through the interactive Self-service module and its numerous functionalities offering a wide range of online services and requests allowing to cut the end-to-end processing in almost half, thus increasing employee satisfaction and encouraging employees to further use the system. Among other processes, the annual Performance Management (PM) process was migrated to HRMS in 2016, thereby allowing employees and managers to fill, submit and keep track of annual appraisals on the HRMS Self-service portals.

In parallel, and honouring its role as the Human Capital advocate, HR at Bank Audi Lebanon introduced, in the last quarter of 2016, a concept entitled "Design Thinking: Molding Employee Experience" and offering a variety of compelling and meaningful employee solutions that leverage technology and analytics.

Employee experience was also promoted throughout the relocation of the employees' parking premises to a new one, featuring a lounge area, a coffee machine and vending machines, with two new additional services offered at special corporate rates (car wash and laundry) aimed at facilitating employees' access to basic domestic services in a one-stop-shop.

At the level of Recruitment and Selection (R&S), the team kept its proactive pace within the Bank's fast changing and dynamic environment by continuously attracting potential talents which totaled **275** resources for positions in different branches and departments within required deadlines.

Within a parallel scope, **530** internal lateral and vertical moves of existing employees underscored the Bank's belief in their career potential.

As part of its civic role, the Bank offered internships to **510** university students with over **98,000** on-the-job-training hours. Bank Audi participated in job fairs within the most reputable local and international universities. It also took part, once again, in the "Harvard Arab Weekend" hosted by Harvard Business School in November 2016, and participated in their organised career fair. In addition, the Bank hosted the customary luncheon reception for Lebanese students enrolled in Ivy League institutions for the **6th** consecutive year, aiming at building ties with them.

Supporting the Bank's strategy in developing the SME Banking (see section on SME Banking on Page 52), the Relationship Management team partnered with related stakeholders for the revamping of this business line. Accordingly, R&S put in great efforts to find adequate resources for a diversified range of related positions. Within that scope, new and existing employees were offered **1,392** training hours in 2016, focusing on the fundamental and practical areas of the SME activity.

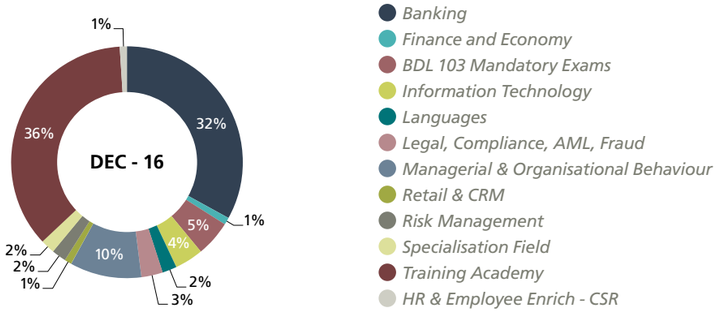
Transparency being one of the Bank's core values, "Afternoon Encounter with the General Manager" sessions were held throughout 2016. They aimed at creating open forum discussions which offer junior-level employees the opportunity to engage in open dialogs and voice their concerns to the Bank's Management in small groups, thus strengthening the ties between the Bank's leadership and its working human capital.

Moreover, following the successful implementation of the Succession Planning (SP) project in 2015, the Board of Directors officially adopted the SP during 2016. The SP is a continuous process that is expected to be reviewed annually and followed by a "Talent Management" process.

In 2016, the Training and Development (T&D) efforts remained predominantly focused on the personal and professional development of employees in compliance with the beliefs and culture prevailing in Bank Audi Lebanon. To that end, over **111,606** training hours and **192,000** on-the-job training hours were delivered, targeting the advancement of the human capital technical and behavioural skills. It is to be noted that T&D continued to ensure compliance with the Central Bank of Lebanon's certification requirements by enrolling employees in specific certifications related to regulatory banking functions.

The training activity hours were mainly centered on both academic courses, as well as managerial and behavioural trainings. The chart below sets out the breakdown of training activity in 2016 by topic:

TRAINING IN 2016



The Training Academy recorded the participation of 3,272 employees, spread out over **210** sessions covering specialised technical/behavioural courses. Meanwhile, the Risk Training Program under Risk Academy allowed close to **200** head office employees to attend sessions on various topics, thus widening their knowledge and understanding of risk-related issues. In addition, to ensure proper exposure of Managers and subject matter experts to international best practices and trends, **114** employees attended overseas trainings on **70** various soft/technical topics related to their area of expertise.

Building on the successful launch of the Advanced Management Program (AMP) in 2015, **20** self-motivated mid-career managers were chosen to be part of 2016 AMP cohort 2. The 30-day executive program delivered over 12 months focused on providing participants with tools to effectively lead and manage people, embrace and drive change initiatives, create and deliver customer value, gain the confidence to make the decisions needed to succeed and get exposure to different functional areas.

In addition, the Branch Management Program (BMP) continued for the 2nd successful year. During 2016, **16** qualified employees were selected to join the BMP to eventually assume Branch Manager and Assistant Branch Manager positions, after exposure to an intensive learning environment for a period ranging between one and three years.

Furthermore, Bank Audi continued encouraging employees – **27** during 2016 – to pursue higher education in local top-tiered and international universities such as the American University of Beirut, INSEAD in France, Instituto de Empresa in Spain, and London Business School. In addition, the Bank sponsored **26** employees to obtain professional certifications related to their lines of work.

ODEA BANK

In 2016, Odea Bank's HR practices continued to be shaped around Management's strong belief that human capital is the Bank's most valuable asset for success. Within that scope, Odea Bank's HR continued to actively act as a strategic business partner by assuming a critical role in the correlation between efforts aiming at increasing performance, efficiency and cooperation, contributing to the creation of synergies between business units, while boosting the overall motivation and performance levels.

Odea Bank's HR conducted one-to-one meetings with employees covering **75%** of the Bank's talent pool. Head office employees were also invited to a "Lunch with Executive Committee Members" in the last quarter of the year, in a move to promote and enhance an internal open communication platform, and to offer employees an opportunity to meet and share ideas/suggestions with top executives in small groups.

It is Management's belief that one of the most important factors behind its success lies in the effective organisational structure which is strongly supported by a fair, objective and efficient reward system. During 2016, salary review and bonus studies were carried out, taking into consideration average wages in the banking sector, job complexity and job content across all positions, as well as performance indicators, all well adjusted within the annual budget.

Recognising the importance of incorporating and leveraging technology within HR practices, Odea Bank's HR has been integrating HR processes into its HR system, providing effective solutions that best meet employee needs. Within this context, the "Web-based Recruitment Module" was launched in December 2016 as an additional module to the existing ones, which allows the end-to-end management of the entire hiring process and enables candidates to apply to vacant positions and create CVs through the Bank's website.

Training and developing employees' soft and technical knowledge is well aligned with the Bank's strategies and corporate culture. In 2016, the overall training hours reached close to 40,000, corresponding on average to 3 working days of trainings per employee. In order to facilitate the learning process, employees are offered full access to several applications and platforms, notably, "e-Odea HR Training Platform", "Vide'O", "Skillport," and "Odea Bank Exclusive". Furthermore, in November 2016, "Odea Bank in-house Mentoring Program" was initiated to develop competencies of selected mentees and help them align their personal career goals with the organisational goals. Odea Bank's in-house mentoring program also supports mentees' motivation and engagement, and provides them with an opportunity to expand their business and personal capabilities, in addition to growing further in the organisation.

BANK AUDI sae (EGYPT)

In 2016, the HR department of Bank Audi sae (Egypt) continued to work on providing equal opportunities, rewarding talent and building a strong teamwork culture. It remained true to its role as communicator, facilitator, consultant, as well as change catalyst, while thriving to achieve Management's overall strategy and goals.

Believing that employees are the Bank's main key asset, HR concentrated its efforts on activities that increase staff productivity, engagement and motivation.

During 2016, Bank Audi Egypt's HR team provided an efficient and comprehensive support service to all stakeholders, emphasising the delivery of high-level soft and technical knowledge to employees: **69,000** training hours and **4,000** on-the-job training hours were delivered through various channels such as the educational academy, training programs and developmental projects.

Additionally, HR established its own in-house assessment center which aims to attract/recruit high caliber employees while promoting and developing existing ones through a set of psychometric/non-psychometric exercises.

Bank Audi Egypt's HR has also started designing its Succession Planning project whereby high potential employees are identified based on a set of specific criteria, thus eliminating any future risk of vacant critical positions.

8.0. | INVESTOR RELATIONS

8.1. | INVESTOR RELATIONS ACTIVITY IN 2016

Bank Audi's ordinary shares and GDRs are listed on both the Beirut Stock Exchange and the London Stock Exchange since more than 3 decades now, compelling the Bank to apply high standards of disclosure and transparency. To that end, the investors' relations activity of Bank Audi Group focuses primarily on providing quick, current, relevant and reliable information to its shareholders, coverage analysts, rating agencies, the investment community, the general society and the media. The Bank endeavours to maintain an active and open dialogue with market players, regarding the status and outlook of Bank Audi Group and the development of its business lines and main subsidiaries in the various countries of presence.

The above encompasses regular financial information reporting, including the annual report, CSR reports, interim reports, press releases, IR presentations, participation to investor conferences and investor site visits. All reports, presentations, announcements and press releases are available on www.bankaudigroup.com and on Bank Audi's IR App which was launched in 2016 and is available on android and iOS stores.

The prevailing regional political and economic uncertainties, coupled with emerging market sell-off across the MENA region and a transition in investment style from active to passive, all weighed down on the investors relations activity in 2016. The number of MENA equity conferences decreased, driven by travel spending cuts from institutional investors and lower travel cost measures undertaken by the corporate access team of leading international banks organising those conferences.

Bank Audi's participation in equity conferences in 2016 was limited to 2 conferences, whereby it fulfilled 92 meetings with 33 institutional investment companies, a number of which among its institutional shareholders. This was complemented by a number of conference calls, information exchange and site visits aimed at informing investors on the strategies adopted by Management in the face of the challenging environments in main countries of presence, allowing to manage the underlying risks and sustain the Group's performance.

The table below illustrates Bank Audi's participation since 2005 in equity conferences highlighting Management's commitment to Investor Relations:

PARTICIPATION IN EQUITY CONFERENCES/NON-DEAL ROADSHOWS

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Equity conferences	4	3	6	2	10	13	14	7	7	5	5	2	**78**
Number of meetings	87	66	139	68	201	207	170	68	72	83	71	92	**1,324**
Number of companies met with	74	54	120	66	141	151	116	60	61	65	56	33	**997**
Number of portfolio managers met with	122	88	171	94	244	248	185	73	95	102	75	25	**1,522**
Company/Roadshow	**18.5**	**18.0**	**20.0**	**33.0**	**14.1**	**11.6**	**8.3**	**8.6**	**8.7**	**13.0**	**11.2**	**16.5**	**12.8**
Meeting/Company	**1.2**	**1.2**	**1.2**	**1.0**	**1.4**	**1.4**	**1.5**	**1.1**	**1.2**	**1.3**	**1.3**	**2.8**	**1.3**
Portfolio manager/Company	**1.6**	**1.6**	**1.4**	**1.4**	**1.7**	**1.6**	**1.6**	**1.2**	**1.6**	**1.6**	**1.3**	**0.8**	**1.5**

8.2. | BANK AUDI'S STOCK RESEARCH COVERAGE

Since 2010, several London-based banks and regional financial institutions initiated coverage of Bank Audi's stock. The table below lists institutions that cover the Bank's stock at the date of this report:

BANK AUDI'S STOCK COVERAGE

Institutions	Country	Analyst	Initiation Date
EFG Hermes	Egypt	Elena Sanchez-Cabezudo	Jan-06
FFA Private Bank sal	Lebanon	Nadim Kabbara	Oct-09
HSBC	United Kingdom	Aybeck Islamov	Feb-10
Arqaam Capital	United Arab Emirates	Jaap Meijer	Feb-12

9.0. | COMPLIANCE

The Board of Directors and Senior Management of Bank Audi sal consider sustaining the integrity and reputation of the Group's franchise as a key priority. Compliance and Business functions are entrusted with preserving these assets, constantly identifying improvement areas, and rising up to the challenges imposed by compliance requirements. The Group considers this to be 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 more stringent requirement applies as long as it does not contradict local laws and regulations.

Moreover, it is within the Group's policy for all its subsidiaries 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.

In 2016, various regulatory authorities and supra-national regulatory bodies have maintained the trend of increasing the levels of compliance requirements and regulatory scrutiny over the banking industry. It is expected that this will continue in the coming period. Topics such as Tax Evasion, Anti-bribery and Corruption, and Cybercrime have been subject to particular focus, however not at the expense of traditional Compliance/Anti-money Laundering (Know Your Customer, Beneficial Ownership, Risk-based Approach among others) topics. All represent challenges facing the Group, as well as banks and financial institutions worldwide. As a result, regulatory authorities worldwide are becoming more stringent and relationships with global correspondent banks are now more demanding, especially that a number of them have recoursed to de-risking whenever compliance risk goes beyond their risk appetite.

In 2016, the Compliance Function group-wide continued to ensure that risks deriving from local and global developments are appropriately monitored and managed with suitable mitigating measures effectively implemented. Back in November 2015, the Lebanese parliament modified the AML law and enacted a series of AML-related supplementary laws, namely tackling tax evasion and setting the ground for compliance with the OECD Common Reporting Standard. The Central Bank of Lebanon followed suit and issued a number of regulations beefing up compliance requirements applicable to Lebanese banks, in line with latest FATF recommendations and international best practices.

The desired objective at Bank Audi 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. The Compliance Function constantly works on improving itself, its governance, policies, procedures, and measurement methods so as to keep succeeding in this balancing act, to promote a compliance culture at Group level, to remain a trusted and skilled business partner, and to help 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 Bank has succeeded in maintaining very positive relationships with regulators (both local and international) and correspondent banks. These are considered as valuable assets and testimonies of the soundness of our compliance practices that translate into: continuous Senior Management involvement in Compliance, a clear, risk-based approach to AML/CFT, 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.

In parallel, the Group Compliance Function further developed its enterprise-wide compliance management framework that requires stakeholders at all group entities to further work together in a coherent manner and upgrade the levels of business and compliance controls aiming at protecting our franchise. Work in progress is being performed in the following areas:

1. Redefining the respective roles and responsibilities of Group Compliance and Compliance Functions at group entities towards a more collaborative and centralised model allowing for increased oversight role/enforcement on key matters and active involvement of Group Compliance.
2. Defining priorities in collaboration with the business, following compliance risk assessments conducted at the Group and entity levels. This determines the compliance risk appetite based on which the Bank sets acceptance criteria for customers and transactions to be uniformly applied across the Group. The overall framework also makes sure that whenever exceptions are granted, these are tracked and continuously monitored.
3. Increasing the level of information sharing between Group Compliance and Compliance Functions at group entities. The main purpose is for Group Compliance to collect more data relevant to key risk and performance indicators from group entities in order to better monitor the implementation of compliance programs and be constantly aware of and act on any specific deficiencies leading to increased compliance risk exposure. This translates into more accurate reporting on the status of compliance group-wide.
4. Upgrading the AML/CFT programs in place at group entities: this typically involves increased automation and more efficient and robust controls. The purpose is to work towards a uniform AML/CFT program tailored to the size and nature of business at every group entity. The main topics addressed are:
    a. Know Your Customer/CDD: standardisation of the KYC form, customer due diligence process and customer acceptance criteria, in addition to the ongoing review of KYC/CDD information.
    b. Risk-based Approach: implementing the Group RBA standards/ customer risk classification criteria tailored to the size and nature of business of each group entity. These standards are already set in the Group AML/CFT Policy and are being upgraded.
    c. AML/CFT monitoring systems: adopting common minimum business requirements/efficient, robust controls and upgrading system capabilities in terms of client on-boarding/KYC, profiling and filtering at all group entities.
    d. Qualifications and training requirements of Compliance-dedicated human resources.
5. Increasing the level of coordination with Group Internal Audit on the scope and frequency of reviews against (i) Group Compliance policies and (ii) applicable compliance-related laws and regulations.
6. Enhancing the compliance training and awareness program managed and executed at the Group level. The training program serves to make sure that all group employees receive a consistent compliance message on major topics and group standards.

10.0. | ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM

For information on our commitments and procedures associated with Environmental and Social Risk Management and ESMS organisational capacity at Bank Audi, please refer to Bank Audi Lebanon's 2014 and 2015 CSR Reports, and Bank Audi's 2015 Annual Report.

During 2016, the Bank took additional steps to enhance Environmental and Social (E&S) Risk Management in its Corporate and Commercial Banking activities. As part of our ongoing commitment to managing these risks, an in depth E&S risk management training was held in collaboration with E&S experts from the International Finance Corporation (IFC) across the Group. This was done in an effort to further strengthen our internal organisational capacity to identify and manage these risks. The training provided a comprehensive overview of key E&S risk management concepts, including the IFC Performance Standards and how they should be applied in supporting the Bank's credit decision-making. These sessions were attended by 96 Corporate and Commercial Banking employees from across all the Bank's entities. Furthermore, the IFC training included an enhanced and in-depth two day E&S risk training addressing the Bank's dedicated ESMS officers from each of the Bank's entities.

Throughout 2016, the Bank placed an emphasis on further strengthening our internal capacity to identify and manage E&S risks at Odea Bank. A three-hour compulsory online training module, developed by the Banks Association of Turkey (BAT) on Sustainability Guidelines for the Banking Sector was assigned to all Odea Bank Corporate and Commercial Banking teams, including Relationship Managers (352 employees in total had completed the training by February 2016). Two further E&S risk assessment sessions were held in collaboration with international E&S consultants, attended by 18 and 20 participants, respectively. These sessions provided a more in-depth coverage of E&S risk assessment and monitoring of the banking sector, including the importance of project finance transactions.

As part of our commitment to continuously improve our ESMS, updated E&S risk review documentation was rolled out during 2016 across all entities. Improvements were made to this documentation based on observations made since our initial implementation of the Bank's ESMS in 2014. We updated the Bank's internal guidelines for categorising E&S risk, as well as the review summary documentation associated with transaction E&S risk reviews. These changes were made in an effort to streamline the process, while at the same time ensuring that all transactions within scope of E&S risk review were reviewed according to the required standards.

TRANSACTION E&S RISK REVIEWS

During 2016, 802 transactions across the Group were subject to E&S risk review, as per requirements set out by our ESMS (see Figure 1 for E&S risk breakdowns of these transactions). By comparison, 679 transactions were reviewed in 2015. As part of the Bank's E&S risk review process, independent consultants were commissioned to conduct E&S due diligence on project finance/project-related corporate loan transactions at Odea Bank and Bank Audi Egypt, in order to confirm the compliance of the proposed projects with the relevant IFC Performance Standards.

E&S Risk Categorisation[1]	Number of Reviews
A	192
B	231
C	379
Total	802

11.0. | CORPORATE SOCIAL RESPONSIBILITY

At Bank Audi, integrating Social Responsibility within our core business has been a growing step through engaging multiple stakeholders in the economic, social and environmental areas in main countries of presence. In this respect, Management acknowledged the role of the Bank in spreading Corporate Social Responsibility (CSR) culture, and thus expanded CSR strategies to further reach key indicators of community interest by consulting inclusive stakeholder groups.

IN LEBANON

The year 2016 was marked by major CSR achievements, of which those related to Corporate Governance aimed at sustaining transparency. Bank Audi continued to comply with the ISO 26000 Social Responsibility standard, and reporting according to internationally recognised Global Reporting Initiative (GRI) G4 indicators. The Bank maintains its position as the first Lebanese institution to join the GRI Organisational Stakeholders Network. Additionally, it renewed the pledge of its commitment to the United Nations Global Compact (UNGC) ten principles and actively participated in the UNGC Lebanon Steering Committee aiming at engaging other institutions to adhere and implement accordingly. Bank Audi has also pledged to adopt and show progress on five of the Sustainable Development Goals (SDGs) which are: Quality Education (Goal 4), Gender Equality (Goal 5), Decent Work and Economic Growth (Goal 8), Industry, Innovation and Infrastructure (Goal 9), and Climate Action (Goal 13).

[1] An environmental and social risk categorisation is assigned to a transaction based on the understood magnitude of E&S impacts/risks associated to the client's sector and the specific transaction. Transactions are assigned a category of A, B or C, in descending order of environmental and social sensitivity. Bank Audi follows the IFC definitions for E&S risk categorisations, namely:
***CATEGORY A:** projects expected to have significant adverse social and/or environmental impacts that are diverse, irreversible or unprecedented.*
***CATEGORY B:** projects expected to have limited adverse social and/or environmental impacts that can be readily addressed through mitigation measures.*
***CATEGORY C:** projects expected to have minimal or no adverse impacts.*

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 empowerment to youth and entrepreneurs. Similarly, and also aiming at engaging stakeholders, Bank Audi's CSR unit organised two major competitions: the first initiated within the Human Development pillar and targeting university students, aimed at exposing the latter to the concept of Social Responsibility within corporations in general, and to Bank Audi's CSR strategy with a focus on anti-corruption as part of the Corporate Governance pillar. It inspired this particular stakeholder group to explore their creativity and innovative minds in order to set impactful CSR initiatives. With that, a competition was launched, inviting the students to formulate suggestions or potential implementable initiatives related to anti-corruption, that Bank Audi could implement. The second competition was within the Environmental Protection pillar. It consisted in allowing school students to measure their households' environmental impact and find means to reduce their energy consumption with the help of a microsite called "My Carbon Footprint" and in collaboration with the Ministry of the Environment and the United Nations Development Program (UNDP).

Economic empowerment, philanthropic initiatives and numerous pledged causes are also revealed with the Annual CSR Report under the Economic Development, Community Development and Human Development pillars. For instance, in the realm of Human Development, we hosted more than 400 eleventh graders for the Global Money Week, introducing financial literacy and compliance issues. Another example is the employees' community engagement through the corporate Volunteer Program which reaches out to over 4,000 beneficiaries and extends a helpful hand to eleven NGOs.

To top the above achievements, 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, propose ideas to enhance CSR nationally, and identify room for future collaboration between the various domestic stakeholders. Within that scope, Bank Audi's CSR Unit participated in a number of major national and regional CSR conferences and workshops, thus becoming a benchmark among CSR practitioners and mentoring several institutions.

The various activities and different measures taken by Bank Audi in Lebanon are available in a separate CSR Report published and released on the Bank's website, including further details on CSR-related projects and their effect on the Bank's stakeholders and on society at large.

IN TURKEY

Odea Bank assumes a proactive and cooperative role within the society, with the aim of improving the quality of life of its stakeholders while establishing a society that lives and works in better conditions. Within this framework, Odea Bank commits to:

- Mandating an honest and transparent interaction with internal and external stakeholders by establishing integrity and open communication as the standard form of interaction.
- Valuing human resources by encouraging versatility, diversity and equal opportunity.
- Rewarding talent, supporting team work and developing its employees.
- Implementing the highest standard of propriety in business relations.
- Encouraging healthy ecosystems, social equality and good organisational governance within its sphere of influence.
- Assuming responsibility for its decisions and actions, and being reliable.
- Having positive impact on the value chain with an awareness of social responsibility.

As an institution, Odea Bank makes sure that discrimination based on sex, age, condition, pregnancy, race, religion or disability is not allowed within the Bank, with equal treatment and equal career opportunities offered to all employees alike. Based on a strong conviction that human capital is one of the most important factors of its success, Odea Bank continued to provide, throughout the year 2016, the appropriate guidance, training and supervision support to all its employees for efficiency and success at work, by implementing advanced learning and development methods, in line with its values and culture. In addition, the Bank sustained its support of quality health services and health consciousness programs, whereby vaccination campaigns, occupational health and safety training, and compulsory medical examinations were also realised in 2016.

In terms of civil responsibility, Odea Bank has been supporting basketball through sponsorship agreements with Galatasaray's men and women basketball teams, as well as Fenerbahçe men's basketball team and Beşiktaş women's basketball team for few years now. In 2016, Odea Bank took its basketball support one step further by sponsoring THY Euroleague, the pinnacle of European basketball.

In addition, with a view to contributing to spreading the sports culture among the young generation, a basketball school managed by a team of basketball professional was set in-house in 2014, with the objective to train employees' children. Over and above, and in collaboration with the Turkish Foundation for Children in Need of Protection, 20 children in need were selected yearly to be part of the Bank's in-house training programs. In 2016, the school was further expanded to become a sports school catering for tennis, judo and basketball trainings, under the supervision of professional trainers.

IN EGYPT

Throughout 2016, Bank Audi sae (Egypt) concentrated its CSR efforts on reinforcing its impact as a corporate on the Egyptian community and economic development, while continuing to promote those principles within its talent pool. To that end, Bank Audi sae (Egypt) launched an internal educational CSR project touching on 5 key elements and promoting active employee participation and give-back to the community they serve. The 5 key life elements are set out as follows:

- One Blood: to become blood donors in the blood drives held in cooperation with the Blood Bank at the Bank's head office and in its branches. Over 400 employees volunteered in this first round, and more will follow.
- One Hand: to make regular donations to the needy in the community.
- One Life: to educate employees on the importance of water conservation.
- One Community: to build a culture of environmental awareness and sustainability by highlighting the importance of recycling and waste management.
- One Power: to reduce electricity consumption and educate employees on the growing importance of turning to more renewable resources.

In parallel, the Bank is working on ensuring compliance, at the level of its daily activities, with its CSR principles. Within the above-mentioned ESMS policy, corporate bankers at Bank Audi sae (Egypt) strived to make sure that all the Bank's corporate clients are leading projects that do not cause any harm to the environment or the community they operate in.

It is also worth mentioning that the new head office of Bank Audi sae (Egypt) was built in line with eco-friendly and sustainable building resource-efficient standards.

This is to be added to Bank Audi Egypt's sustained commitment to Egypt's economic development, particularly in the context of the persisting challenges touching the operating environment, through:

- Publishing of quarterly economic reports.
- Participating in and sponsoring economic forums and conferences.
- Donating to "Tahya Misr" fund which is dedicated to Egypt's economic development.
- Supporting local businesses through our lending strategies.

In 2016, Bank Audi sae (Egypt) partnered with several NGOs which support the community, among which the Egyptian Blood Bank, the Egyptian Food Bank, 57357 Hospital, Magdy Yacoub Heart Foundation, the Breast Cancer Association, the Orman Foundation, Rasala, and many others.

03

FINANCIAL STATEMENTS

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RESOLUTIONS PROPOSED BY THE BOARD OF DIRECTORS TO THE ANNUAL GENERAL ASSEMBLY

EXCERPTS OF RESOLUTIONS PROPOSED TO THE ANNUAL GENERAL ASSEMBLY OF SHAREHOLDERS OF 10 APRIL 2017

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 2016, 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 2016.

Proposal No. 2

The Ordinary General Assembly of shareholders of the Bank is invited to appropriate the 2016 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 1,500,000 series "F" preferred shares on the basis of USD 6.00 per share at the exchange rate of LBP 1,507.50 per USD;
- To holders of 1,500,000 series "G" preferred shares on the basis of USD 6.00 per share at the exchange rate of LBP 1,507.50 per USD;
- 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 3.00 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 753.75 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 2017, to the holders of shares on record as at 13 April 2017 ("Record Date") as per the records of Midclear sal.

CONSOLIDATED FINANCIAL STATEMENTS

You can view the Bank Audi 2016
Annual Report on our Investor Relations app

EY
Building a better working world

Ernst & Young p.c.c.
Starco Building
South Block B - 9th Floor
Mina El Hosn, Omar Daouk Street
P.O. Box: 11-1639, Riad El Solh
Beirut - 1107 2090, Lebanon

Tel: +961 1 760 800
Fax: +961 1 760 822/3
beirut@lb.ey.com
ey.com/mena
C.R. 61

BDO
SEMAAN, GHOLAM & CO.

BDO, Semaan, Gholam & Co.
Gholam Building - Sioufi Street
Beirut
P.O.Box: 11-0558, Riad El Solh
Beirut - 1107 2050, Lebanon

Tel: (01) 323676
Fax: (01) 204142
siman@inco.com.lb
C.R. 570

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 2016, 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 2016, 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 38 to the consolidated financial statements, during 2016, the Group did not recognise in the consolidated income statement an amount of LBP 307,063 million in gains realised from certain transactions on financial instruments with the Central Bank of Lebanon. The Group recognized LBP 182,702 million of the gains directly as other comprehensive income under non-distributable reserves in equity, LBP 78,300 million under other liabilities in compliance with the Central Bank of Lebanon's Intermediate Circular No. 446 dated 30 December 2016, and LBP 46,061 million in current tax liabilities. Furthermore, as disclosed in Note 23 to the consolidated financial statements, the Group recorded excess collective impairment allowances for loans and advances to customers of LBP 384,039 million in order to comply with the requirements of Central Bank of Lebanon's Intermediate Circulars No. 439 dated 8 November 2016. The Group's accounting for the above-mentioned transactions departs from the requirements of International Financial Reporting Standards.

Had the Group properly accounted for these transactions, events and conditions, in accordance with IFRS, the effects on the consolidated financial statements would have been as follows:

- Net income for the year ended 31 December 2016 would have increased by LBP 638,915 million through an increase in gain from sale of financial assets at fair value through profit or loss and financial assets at amortised cost of LBP 307,063 million; a decrease in "Net credit losses" of LBP 400,253 million; and an increase in "Income tax" of LBP 68,401 million;
- Total assets as at 31 December 2016 would have increased by LBP 364,942 million through an increase in loans and advances to customers of LBP 384,039 million and a decrease in other assets of LBP 19,097 million;
- Total liabilities as at 31 December 2016 would have decreased, through a decrease in other liabilities of LBP 78,300 million; and
- Equity as at 31 December 2016 would have increased by LBP 443,242 million, through an increase the result of the year of LBP 638,915 million, a decrease in other comprehensive income of LBP182,702; and a decrease in foreign currency translation reserve of LL 12,971 million.

Basis for Qualified Opinion (continued)
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 2016 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 2016 Annual Report of the matters described in the *Basis for qualified opinion* section above, whereby the Group did not recognise certain gains in the consolidated income statement and recorded excessive collective impairment allowances.

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 2016. 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.

Key Audit Matters (continued)

Impairment of Loans and Advances
Due to the inherently judgmental nature of the computation of impairment provisions for loans and advances, there is a risk that the amount of impairment may be misstated. The impairment of loans and advances is estimated by Management through the application of judgment and the use of subjective assumptions. Due to the significance of loans and advances and related estimation uncertainty, this is considered a key audit risk. The corporate loan portfolio generally comprises larger loans that are monitored individually by Management. The assessment of loan loss impairment is therefore based on Management's knowledge of each individual borrower. This includes the analysis of the financial performance of the borrower, historic experience when assessing the likelihood of incurred losses in the portfolios and the adequacy of collateral for secure lending. However, consumer loans generally comprises much smaller value loans to a much greater number of customers. Provisions are not calculated on an individual basis, but are determined by grouping by product into homogeneous portfolios. The portfolios are then monitored through delinquency statistics, which drive the assessment of loan loss provision.

The risks outlined above were addressed by us as follows:

- For corporate customers, we tested the key controls over the credit grading process, to assess if the risk grades allocated to the counterparties were appropriate. We then performed detailed credit assessment of all loans in excess of a defined threshold and loans in excess of a lower threshold in the watch list category and impaired category together with a selection of other loans.

- Where impairment allowance was calculated on a collective basis for performing corporate loans, we tested the completeness and accuracy of the underlying loan information used in the impairment model by agreeing details to the Bank's source systems as well as re-performing the calculation of the modelled impairment allowances. For the key assumptions in the model, we assessed whether those assumptions were appropriate in the circumstances.

- For consumer loans, specific and collective impairment allowances are calculated using a simple model, which are based on a percentage of outstanding amounts. We understood and critically assessed the model used and checked that no undue changes had been made in model parameters and assumptions. We tested the completeness and accuracy of data from underlying systems that is used in this model. We also re-performed the calculation of the modelled impairment allowance.

Impairment of Goodwill
Goodwill impairment testing of cash generating units ('CGUs') relies on estimates of value-in-use based on estimated future cash flows. Due to the uncertainty of forecasting and discounting future cash flows, this is deemed significant risk.

We assessed the cash flow projections and compared key inputs, such as discount rates and growth rates, to externally available industry, economic and financial data and the Group's own historical data and performance. We used our own valuation specialists to test the assumptions used in valuation.

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.

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.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- 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.

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 Walid Nakfour for Ernst & Young and Antoine Gholam for BDO, Semaan, Gholam & Co.

Ernst & Young

23 March 2017
Beirut, Lebanon

BDO, Semaan, Gholam &Co.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 LBP Million	2015* Restated LBP Million
CONTINUING OPERATIONS			
Interest and similar income	5	3,867,438	3,751,014
Interest and similar expense	6	(2,331,623)	(2,300,257)
Net interest income		**1,535,815**	1,450,757
Fee and commission income	7	1,441,911	496,006
Fee and commission expense	8	(106,760)	(96,411)
Net fee and commission income		**1,335,151**	399,595
Net gain on financial assets at fair value through profit or loss	9	396,931	27,284
Net gain on sale of financial assets at amortised cost	10	199,033	123,426
Revenues from financial assets at fair value through other comprehensive income	26	26,619	23,107
Share of profit of associates under equity method	27	1,090	3,044
Other operating income	11	46,579	32,154
Total operating income		**3,541,218**	2,059,367
Net credit losses	12	(665,384)	(201,057)
Net operating income		**2,875,834**	1,858,310
Personnel expenses	13	(733,910)	(623,093)
Other operating expenses	14	(490,546)	(399,393)
Depreciation of property and equipment	28	(77,802)	(73,262)
Amortisation of intangible assets	29	(30,913)	(28,756)
Impairment of goodwill and other assets	31 & 32	(193,660)	(5,457)
Total operating expenses		**(1,526,831)**	(1,129,961)
Operating profit		**1,349,003**	728,349
Net loss on disposal of fixed assets		(23,188)	(821)
Profit before tax from continuing operations		**1,325,815**	727,528
Income tax	15	(351,618)	(160,825)
Profit after tax from continuing operations		**974,197**	566,703
DISCONTINUED OPERATIONS			
(Loss) profit from discontinued operations, net of tax	16	(265,512)	41,024
Profit for the year		**708,685**	607,727
ATTRIBUTABLE TO:			
Equity holders of the Bank:		**672,095**	587,948
Profit for the year from continuing operations		959,594	566,483
(Loss) profit for the year from discontinued operations		(287,499)	21,465
Non-controlling interests:		**36,590**	19,779
Profit for the year from continuing operations		14,603	220
Profit for the year from discontinued operations		21,987	19,559
		708,685	607,727
EARNINGS PER SHARE:			
		LBP	LBP
Basic and diluted earnings per share	17	1,572	1,387
Basic and diluted earnings per share from continuing operations		2,294	1,333

** Restated for the effect of separate presentation of profit from discontinued operations and earnings per share information.*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 LBP Million	2015* Restated LBP Million
Profit for the year from continuing operations		974,197	566,703
(Loss) profit for the year from discontinuing operations		(265,512)	41,024
Profit for the year		**708,685**	607,727
OTHER COMPREHENSIVE INCOME			
Items to be reclassified to the Income Statement in subsequent periods:			
Exchange differences on translation of foreign operations		(758,094)	(326,405)
Loss reclassified to Income Statement		180,971	-
Net gain on hedge of net investments	21	46,250	124,318
Net deferred income taxes	15	(1,812)	-
	47	**(533,085)**	(202,087)
Effect of change in time value of hedging instruments	21	(4,655)	(53,500)
Net deferred income taxes		94	-
		(4,561)	(53,500)
		(537,646)	(255,587)
Items not to be reclassified to the Income Statement in subsequent periods:			
Actuarial gain on defined benefits plans	39	2,011	9,157
Net deferred income taxes	15	(673)	(891)
	47	**1,338**	8,266
Net unrealised gain on financial assets at fair value through other comprehensive income		(4,463)	11,040
Net deferred income taxes	15	433	(1,161)
	47	**(4,030)**	9,879
Revaluation of lands and buildings	28	-	770
Effect on entities deconsolidated during the year		(2,319)	-
Net deferred income taxes	15	-	4,613
	47	**(2,319)**	5,383
Net gain from sale of financial assets	38 & 43	182,702	-
		177,691	23,528
Other comprehensive income for the year, net of tax	47	**(359,955)**	(232,059)
Total comprehensive income for the year, net of tax		**348,730**	375,668
ATTRIBUTABLE TO:			
Equity holders of the Bank		372,174	377,891
Non-controlling interests		(23,444)	(2,223)
		348,730	375,668

** Restated for the effect of separate presentation of profit from discontinued operations and earnings per share information.*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	Notes	2016 LBP Million	2015 LBP Million
ASSETS			
Cash and balances with central banks	18	18,650,596	13,754,922
Due from banks and financial institutions	19	3,027,228	2,704,157
Loans to banks and financial institutions and reverse repurchase agreements	20	2,068,815	2,585,553
Derivative financial instruments	21	390,138	265,863
Financial assets at fair value through profit or loss	22	693,214	383,722
Loans and advances to customers at amortised cost	23	25,732,247	26,812,807
Loans and advances to related parties at amortised cost	24	219,193	214,549
Debtors by acceptances		199,156	240,605
Financial assets at amortised cost	25	13,990,070	14,784,574
Financial assets at fair value through other comprehensive income	26	193,948	144,375
Investments in associates	27	13,333	13,989
Property and equipment	28	881,501	963,438
Intangible assets	29	64,621	101,364
Non-current assets held for sale	30	81,027	72,779
Other assets	31	485,295	470,506
Goodwill	32	41,827	209,434
TOTAL ASSETS		**66,732,209**	63,722,637
LIABILITIES			
Due to central banks	33	2,008,163	651,174
Due to banks and financial institutions	34	2,574,005	2,259,247
Derivative financial instruments	21	272,952	131,199
Customers' deposits	35	53,389,218	52,990,507
Deposits from related parties	36	813,548	690,111
Debt issued and other borrowed funds	37	973,535	1,053,982
Engagements by acceptances		199,156	240,605
Other liabilities	38	769,582	578,000
Provisions for risks and charges	39	156,592	172,060
TOTAL LIABILITIES		**61,156,751**	58,766,885
SHAREHOLDERS' EQUITY – GROUP SHARE			
Share capital – common shares	40	661,985	661,985
Share capital – preferred shares	40	10,350	6,210
Issue premium – common shares	41	883,582	883,582
Issue premium – preferred shares	41	931,837	559,102
Warrants issued on subsidiary shares	40	12,629	17,145
Cash contribution to capital	42	72,586	72,586
Non-distributable reserves	43	1,456,141	1,179,216
Distributable reserves	44	624,501	642,865
Treasury shares	46	(94,026)	-
Retained earnings		875,244	675,524
Other components of equity	47	(872,818)	(390,195)
Result of the year		672,095	587,948
		5,234,106	4,895,968
NON-CONTROLLING INTERESTS	48	**341,352**	59,784
TOTAL SHAREHOLDERS' EQUITY		**5,575,458**	4,955,752
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**66,732,209**	63,722,637

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 LBP Million	2015 LBP Million
OPERATING ACTIVITIES			
Profit before tax from continuing operations		1,325,815	727,528
(Loss) profit before tax from discontinued operations		(263,749)	41,387
Non-cash:			
Depreciation and amortisation	28 & 29	108,715	102,018
Impairment of assets acquired in settlement of debt	30	310	-
Net gain on financial instruments at amortised cost	10	(199,033)	(123,426)
Provisions for loans and advances	12	715,797	238,421
Recoveries of provision for loans and advances	12	(50,413)	(37,370)
Share of net profit of associates	27	(1,090)	(3,044)
Net gain on disposal of assets acquired in settlement of debt	11	11	(225)
Net gain on sale or disposal of fixed assets and intangible assets		23,188	821
Provision for risks and charges		60,581	53,412
Write-back of provisions for risks and charges		(1,336)	(654)
Impairment of goodwill	32	148,439	5,457
Gain on revaluation of associate	11	-	(7,161)
Effect of entities deconsolidated during the year		73,738	(7,687)
		1,940,973	989,477
Working capital adjustments:			
Balances with the central banks, banks and financial institutions maturing in more than 3 months		(3,245,003)	(3,755)
Change in derivatives and financial assets held for trading		(194,955)	25,760
Change in loans and advances to customers and related parties		397,823	(1,334,219)
Change in other assets		(56,138)	71,956
Change in deposits from customers and related parties		522,148	(319,213)
Change in other liabilities		126,870	90,034
Cash used in operations		**(508,282)**	(479,960)
Provisions for risks and charges paid		(49,872)	(32,470)
Taxation paid		(208,891)	(181,523)
Net cash flows from (used in) operating activities		**(767,045)**	(693,953)
INVESTING ACTIVITIES			
Change in financial assets – other than trading		1,025,577	(81,162)
Purchase of property and equipment and intangibles	28 & 29	(171,857)	(170,736)
Change in investments under equity method and related loans		1,746	(377)
Cash collected from sale of property and equipment and intangibles		384	288
Proceed from sale of subsidiaries	16	30,150	-
Acquisition of subsidiary, net of cash acquired	3	-	(6,766)
Net cash flows from (used in) investing activities		**886,000**	(258,376)
FINANCING ACTIVITIES			
Subsidiary shares warrants	40	(4,516)	(50)
Issuance of preferred shares	40	376,875	-
Cost of issuance preferred shares	40	(7,707)	-
Cancellation of preferred shares series "E"	40	-	(188,438)
Distribution of dividends	40	(275,515)	(286,556)
Treasury GDR and warrants transactions		(93,742)	4,929
Debt issued and other borrowed funds	37	(80,447)	199,527
Change in non-controlling interest		359,368	(3,477)
Net cash flows from (used in) financing activities		**274,316**	(274,065)
CHANGE IN CASH AND CASH EQUIVALENTS		**393,271**	(1,226,771)
Net foreign exchange difference		**(608,014)**	(203,617)
Cash and cash equivalents at 1 January		**3,671,857**	5,102,245
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	49	**3,457,114**	3,671,857
Operational cash flows from interest and dividends			
Interest paid		**(3,846,031)**	(2,328,462)
Interest received		**2,322,153**	3,790,528
Dividends received		**27,024**	23,430

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	Attributable to the Equity Holders of the Bank														
	Share Capital - Common Shares LBP Million	Share Capital - Preferred Shares LBP Million	Issue Premium - Common Shares LBP Million	Issue Premium - Preferred Shares LBP Million	Warrants Issued on Subsidiary Shares LBP Million	Cash Contribution to Capital LBP Million	Non-distributable Reserves LBP Million	Distributable Reserves LBP Million	Treasury Shares LBP Million	Retained Earnings LBP Million	Other Components of Equity LBP Million	Result of the Year LBP Million	**Total LBP Million**	Non-controlling Interests LBP Million	**Total Shareholders' Equity LBP Million**
BALANCE AT 1 JANUARY 2016	**661,985**	**6,210**	**883,582**	**559,102**	**17,145**	**72,586**	**1,179,216**	**642,865**	**-**	**675,524**	**(390,195)**	**587,948**	**4,895,968**	**59,784**	**4,955,752**
Net profits for the year	-	-	-	-	-	-	-	-	-	-	-	672,095	**672,095**	36,590	**708,685**
Other comprehensive income	-	-	-	-	-	-	182,702	-	-	-	(482,623)	-	**(299,921)**	(60,034)	**(359,955)**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**182,702**	**-**	**-**	**-**	**(482,623)**	**672,095**	**372,174**	**(23,444)**	**348,730**
Appropriation of 2015 profits	-	-	-	-	-	-	235,013	2,681	-	74,739	-	(312,433)	-	-	-
Issuance of preferred shares series "I"	-	4,140	-	372,735	-	-	-	-	-	-	-	-	**376,875**	-	**376,875**
Distribution of dividends on ordinary shares	-	-	-	-	-	-	-	-	-	-	-	(241,030)	**(241,030)**	-	**(241,030)**
Distribution of dividends on preferred shares	-	-	-	-	-	-	-	-	-	-	-	(34,485)	**(34,485)**	-	**(34,485)**
Cost of issuance of shares	-	-	-	-	-	-	-	(7,707)	-	-	-	-	**(7,707)**	-	**(7,707)**
Treasury shares transactions	-	-	-	-	-	-	-	284	(94,026)	-	-	-	**(93,742)**	-	**(93,742)**
Subsidiary shares warrants	-	-	-	-	(4,516)	-	-	-	-	-	-	-	**(4,516)**	-	**(4,516)**
Non-controlling interests share of reserves	-	-	-	-	-	-	(16)	242	-	(8,860)	-	-	**(8,634)**	8,634	-
Non-controlling interests share of capital	-	-	-	-	-	-	-	-	-	-	-	-	**-**	359,368	**359,368**
Entities deconsolidated during the year	-	-	-	-	-	-	(140,774)	(10,865)	-	134,396	-	-	**(17,243)**	(62,990)	**(80,233)**
Other movements	-	-	-	-	-	-	-	(2,999)	-	(555)	-	-	**(3,554)**	-	**(3,554)**
BALANCE AT 31 DECEMBER 2016	**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**
Balance at 1 January 2015	659,586	8,250	883,582	745,500	17,195	72,586	1,050,579	616,976	(4,929)	599,388	(178,943)	513,500	4,983,270	63,261	5,046,531
Net profits for the year	-	-	-	-	-	-	-	-	-	-	-	587,948	587,948	19,779	607,727
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	(210,057)	-	(210,057)	(22,002)	(232,059)
Total comprehensive income	-	-	-	-	-	-	-	-	-	-	(210,057)	587,948	377,891	(2,223)	375,668
Appropriation of 2014 profits	-	-	-	-	-	-	143,140	25,927	-	57,877	-	(226,944)	-	-	-
Increase in share nominal value	2,399	23	-	(23)	-	-	(2,399)	-	-	-	-	-	-	-	-
Distribution of dividends on ordinary shares	-	-	-	-	-	-	-	-	-	-	-	(240,766)	(240,766)	-	(240,766)
Distribution of dividends on preferred shares	-	-	-	-	-	-	-	-	-	-	-	(45,790)	(45,790)	-	(45,790)
Redemption of preferred shares series "E"	-	(2,063)	-	(186,375)	-	-	-	-	-	-	-	-	(188,438)	-	(188,438)
Entities under equity method	-	-	-	-	-	-	-	-	-	612	-	-	612	-	612
Treasury share transactions	-	-	-	-	-	-	-	-	4,929	-	-	-	4,929	-	4,929
Warrants issued on subsidiary shares	-	-	-	-	(50)	-	-	(31)	-	-	-	-	(81)	-	(81)
Non-controlling interests share of reserves	-	-	-	-	-	-	(12,104)	(687)	-	18,737	-	-	5,946	(5,946)	-
Non-controlling interests share of capital	-	-	-	-	-	-	-	-	-	-	-	-	-	4,692	4,692
Sale of financial assets at FVTOCI	-	-	-	-	-	-	-	-	-	4,764	(1,195)	-	3,569	-	3,569
Entities acquired during the year	-	-	-	-	-	-	-	681	-	(6,903)	-	-	(6,222)	-	(6,222)
Other movements								(1)	-	1,049	-	-	1,048	-	1,048
BALANCE AT 31 DECEMBER 2015	661,985	6,210	883,582	559,102	17,145	72,586	1,179,216	642,865	-	675,524	(390,195)	587,948	4,895,968	59,784	4,955,752

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

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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 2017.

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 carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

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. Besides, the consolidated financial statements provide comparative information in respect of the previous period.

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 Risk Management 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 Bank 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 2016.

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 to 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. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in profit or loss. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

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 Bank'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 Bank 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.

CONTROL AND SUBSIDIARIES

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 Bank 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 Bank 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 Bank can direct those activities;
- Contractual arrangements such as call rights, put rights and liquidation rights; and
- Whether the Bank 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 Bank 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 Bank obtains control over the subsidiary and ceases when the Bank 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 Bank 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 interest 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 represents 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.

INVESTMENT 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 associate 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.

2.3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2016.

Although these new standards and amendments have been applied for the first time in 2016, they did not have a material impact on the annual consolidated financial statements of the Group. The nature and the impact of each new standard or amendment are described as follows:

Standard	Description	Effective Date (Early Adoption Permitted)
Amendments to IAS 1 – Disclosure initiative	The amendments provide clarifications and narrow-focus improvements on materiality, presentation of primary statements, structure of notes, disclosure of accounting policies, and presentation of OCI arising from equity accounted investments. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose and how to structure notes in their financial statements.	1 January 2016
Amendments to IFRS 11 – Accounting for acquisition of interests in joint operations	The amendments clarify that when acquiring an interest in a joint operation where the activity of the joint operation constitutes a business, all of the principles on business combinations accounting in IFRS 3, and other IFRSs, that do not conflict with the guidance in IFRS 11, are to be applied. The requirements apply to the acquisition of both the initial interest and additional interests in a joint operation but any previously held interest in the joint operation would not be remeasured.	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28 Investment entities – Applying the consolidation exception	The amendments define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.	1 January 2016
Amendments to IAS 16 and IAS 38 – Clarification of acceptable methods of depreciation and amortisation	The amendment clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.	1 January 2016
IFRS 10 Consolidated Financial Statements and IAS 28 - Investments in Associates & Joint Ventures	The amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows: (a) Require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations). (b) Require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognised only to the extent of the unrelated investors' interests in that associate or joint venture.	1 January 2016

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 2016, with the Group not opting for early adoption. These have, therefore, not been applied in preparing these consolidated financial statements.

Standard	Description	Effective Date
IFRS 9 (2014) Financial instruments	In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments (IFRS 9 (2014)) which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. In prior years, the Group has early adopted IFRS 9 (2011) which includes the requirements for the classification and measurement. In 2014, the Group early applied IFRS 9 (2013) which includes the classification and measurement, as well as the hedge accounting requirements of the standard. Retrospective application is required, but comparative information is not compulsory. The adoption of IFRS 9 (2014) will have an effect on measuring impairment allowances and on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and receivables, either on a 12-month or lifetime basis.	1 January 2018
IFRS 15 "Revenue from contracts with customers"	This is the converged standard on revenue recognition. It replaces IAS 11 "Construction contracts", IAS 18, "Revenue" and related interpretations. Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.	1 January 2018

Standard	Description	Effective Date
IAS 12 "Income taxes"	The amendments clarify the following: (a) Recognition of a deferred tax asset if the loss is unrealised is allowed, if certain conditions are met; and (b) The bottom line of the tax return is not the "future taxable profit" for the recognition test. The IASB amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The current approach of using the expected bottom line on the tax return – i.e. future taxable income less tax-deductible expenses, will no longer be appropriate instead the taxable income before the deduction will be used, to avoid double counting.	1 January 2017
IAS 7 "Statement of Cash Flows"	The amendments issued are as follows: (a) Introduce additional disclosure requirements intended to address investors' concerns as currently they are not able to understand the management of an entity's financing activities; (b) Require disclosure of information enabling users to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes; (c) Do not prescribe a specific format for disclosures but indicates that we can fulfil the requirement by providing a reconciliation between opening and closing balances for liabilities arising from financing activities; and (d) Are also applicable to financial assets that hedge liabilities arising from financing activities.	1 January 2017
IFRS 16 "Leases"	The IASB issued the new standard for accounting for leases in January 2016. (a) The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. (b) Lessees must apply a single model for all recognised leases, but will have the option not to recognise "short-term" leases and leases of "low-value" assets. (c) Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the Statement of Profit or Loss. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. The Group is currently assessing the impact of adopting the above changes as it plans to adopt the new standards on the required effective date.	1 January 2019

2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOREIGN CURRENCIES

The consolidated financial statements are presented in Lebanese Lira (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.

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.

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 retranslation of non-monetary items 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 is also recognised in other comprehensive income or profit or loss, respectively).

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 weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve in equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in 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:

	2016		2015	
	Year-end Rate	**Average Rate**	Year-end Rate	Average Rate
	LBP	**LBP**	LBP	LBP
US Dollar	**1,507.50**	**1,507.50**	1,507.50	1,507.50
Euro	**1,596.29**	**1,662.26**	1,646.64	1,677.56
Swiss Franc	**1,485.81**	**1,524.89**	1,520.88	1,561.93
Syrian Lira	**-**	**-**	4.48	5.66
Turkish Lira	**427.66**	**500.28**	518.42	557.96
Jordanian Dinar	**2,124.74**	**2,125.11**	2,124.44	2,127.02
Egyptian Pound	**81.49**	**141.22**	192.53	195.99
Sudanese Pound	**-**	**-**	234.45	236.98
Saudi Riyal	**401.91**	**401.88**	401.58	401.79
Qatari Riyal	**413.99**	**414.01**	413.89	414.00
Iraqi Dinar	**1.29**	**1.29**	-	-

FINANCIAL INSTRUMENTS – CLASSIFICATION AND MEASUREMENT

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.

Classification and Measurement of Financial Instruments

a. Financial Assets

The classification of financial assets depends on the basis of each entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs. Assets are subsequently measured at amortised cost or fair value.

An entity may, at initial recognition, 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. An entity is required to disclose such financial assets separately from those mandatorily measured at fair value.

(i) Financial Assets at Amortised Cost

Debt instruments are subsequently measured at amortised cost less any impairment loss (except for debt instruments that are designated at fair value through profit or loss upon initial recognition) if they meet the following two conditions:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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 financial assets are measured at amortised cost using the effective interest rate (EIR) method, less allowance for impairment. Amortised cost is calculated by taking into account any discount of premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in "Interest and similar income" in the Income Statement. The losses arising from impairment are recognised in the Income Statement in "Impairment losses on other financial assets".

Although the objective of an entity's business model may be to hold financial assets in order to collect contractual cash flows, the entity need not hold all of those instruments until maturity. Thus an entity'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 entity needs to assess whether and how such sales are consistent with an objective of collecting contractual cash flows. If the objective of the entity's business model for managing those financial assets changes, the entity is required to reclassify 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.

(ii) Balances with Central Banks, Due from Banks and Financial Institutions, and Loans and Advances to Customers and Related Parties – at Amortised Cost

After initial measurement, "Balances with central banks", "Due from banks and financial institutions", and "Loans and advances to customers and related parties" are subsequently measured at amortised cost using the EIR, less allowance for impairment. 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 credit losses".

(iii) 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" above, debt instruments designated at fair value through profit or loss upon initial recognition, and equity instruments at fair value through profit or loss.

Debt Instruments at Fair Value through Profit or Loss

These financial assets are recorded in the Consolidated Statement of Financial Position at fair value. 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.

(iv) Financial Assets at Fair Value through Other Comprehensive Income

Investments in equity instruments designated at initial recognition as not held for trading are classified at fair value through other comprehensive income.

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 IAS 18 "Revenue", unless the dividends clearly represent a recovery of part of the cost of the investment.

b. Financial Liabilities

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 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.
- Financial guarantee contracts and commitments to provide a loan at a below-market interest rate which after initial recognition are subsequently measured at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 "Revenue".

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.

The amount of changes in fair value of a financial liability designated at fair value through profit or loss at initial recognition that is attributable to changes in credit risk of that liability is 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 are not reclassified to Consolidated Income Statement.

(i) Debt Issued and Other Borrowed Funds and Subordinated Notes

Financial instruments issued by the Group, which are not designated at fair value through profit or loss, are classified as liabilities 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 and subordinated notes 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.

(ii) Due to Central Banks, Banks and Financial Institutions and Customers' and Related Parties' Deposits

After initial measurement, due to banks and financial institutions, 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.

c. Derivatives Recorded at Fair Value through Profit or Loss

The Group uses derivatives such as interest rate swaps and futures, credit default swaps, 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. 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.

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.

Day 1 Profit or Loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, 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 determined using data which is not observable, the difference between the transaction price and model value is only recognised in the Consolidated Income Statement when the inputs become observable, or when the instrument is derecognised.

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

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the Statement of Financial Position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in the Consolidated Income Statement.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that 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 that the Group could be required to repay.

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".

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 cash received 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, 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.

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.

IMPAIRMENT OF FINANCIAL ASSETS

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.

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 the "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.

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.

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.

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. 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 (loss) from financial instruments at fair value through profit or loss".

(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" (or other comprehensive income, if the hedging instrument hedges an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income. 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.

(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.

To enhance hedge effectiveness, the Group designates only the change in the intrinsic value as the hedging instrument when hedging a net investment in a foreign operation through financial derivatives. The time value of the derivatives is treated as costs of hedging to be deferred or amortised. The change in fair value of the time value of the option is recognised in other comprehensive income to the extent that it relates to the hedged item. The method used to reclassify the amounts from equity to Consolidated Income Statement is determined by considering that the hedged item is time-period related since the Group seeks to hedge the currency risk during a period of time.

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.

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 payable 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.

Interest and Similar Income and Expense

For all financial instruments measured at amortised cost, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

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, is 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.

Dividend Income

Dividend income is recognised when the right to receive the payment is established.

Net Gain on Financial Assets at Fair Value through Profit or Loss

Results arising from financial assets at fair value through profit or loss, include a gains and losses from changes in fair value and related income or expense and dividends for financial assets at fair value through profit or loss. This includes any ineffectiveness recorded in hedging transactions. This caption also includes the results arising from trading activities including all gains and losses from changes in fair value and related income or expense and dividends for financial assets held for trading.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents as referred to in the cash flow statement comprise balances with original maturities of a period of three months or less including: cash and balances with the central banks, deposits with banks and financial institutions, and deposits due to banks and financial institutions.

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 Statement of Income, 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

An item of property and equipment and any significant part initially recognised is 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 FIXED 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 of 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 Statement of Comprehensive Income 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 Statement of Comprehensive Income.

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. The expense relating to any provision is presented in the Consolidated Income Statement net of any reimbursement.

The Bank 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 Bank's business.

When the Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank 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 Bank is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Bank 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 Bank 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, expected rates of return on assets, future salary increases, mortality rates and future pension 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 the Consolidated Income Statement:

- 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.

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.

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 ORDINARY SHARES

Dividends on ordinary 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 Bank 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 Bank'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 Bank'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.

FINANCIAL GUARANTEES

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements (within "Other liabilities") 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, when appropriate, cumulative amortisation recognised in the Consolidated Income Statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is recorded in the Consolidated Income Statement. The premium received is recognised in the Consolidated Income Statement on a straight line basis over the life of the guarantee.

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 making an assessment whether a business model's objective is to hold assets in order to collect contractual cash flows, the Group considers at which level of its business activities such assessment should be made. 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. However, in some circumstances, it may not be clear whether a particular activity involves one business model with some infrequent asset sales or whether the anticipated sales indicate that there are two different business models.

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.

Deconsolidation of Bank Audi Syria

The Group deconsolidated Bank Audi Syria due to the loss of control over the subsidiary and the Group's inability to direct its relevant activities. The assessment inevitably relied on Management's judgment which resulted in significant effects on the consolidated financial statements. Please refer to Note 16 for more details on these effects.

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, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Impairment Losses on Loans and Advances

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

As of 31 December 2014, the Group carries its land and building and building improvements at fair value, with changes in fair value being recognised in other comprehensive income. The Group engaged independent valuation specialists to assess fair value as at 31 December 2014. Land and buildings 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. Management believes that price levels did not change significantly since 31 December 2014.

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. | BUSINESS COMBINATIONS

During September 2015, Bank Audi sal acquired additional 33% of Capital B. Solutions (CBS) Ltd ("CBS") with a total percentage of 70.5% for LBP 10,944 million. CBS (previously "Capital Outsourcing Limited") is a company limited by shares in accordance with Companies Law pursuant to DIFC Law No. 2 of 2009. The registered office of CBS is situated in the Dubai International Financial Centre (DIFC). CBS is engaged in providing all information technology enabled services and data processing services, sale, exploitation and lease of all kind of information technology materials, telecommunications' equipment, as well as electrical and electronic supplies.

The fair value of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition was:

	Fair Value Recognised on Acquisition LBP Million	Carrying Value LBP Million
Due from banks	4,178	4,178
Loans and advances	547	547
Property and equipment	1,707	1,707
Intangible assets	223	11,840
Other assets	13,300	13,300
	19,955	31,572
Due to banks	11,958	11,958
Other liabilities	13,707	13,707
Provision for risk and charges	960	960
	26,625	26,625

	LBP Million
Acquisition percentage	70.50%
Fair value of net assets	(4,703)
Goodwill arising on acquisition	28,084
Cost of acquisition	23,381

Cash Outflow on Acquisition of the Subsidiary:	LBP Million
Cash paid	(10,944)
Net cash acquired with the subsidiary	4,178
Net cash outflow	(6,766)

From the date of acquisition till year-end 2015, CBS contributed to a gain of LBP 97 million to the net profit of the Group. If the contribution had taken place at the beginning of the year 2015, the total net operating income for the year ended 2015 would have increased by LBP 579 million.

Goodwill resulting from the above acquisition of LBP 28,084 million was impaired upon testing on 31 December 2016 (Note 32).

4.0. | 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 depreciation are managed on a group basis and are not allocated to operating segments.

Interest income is reported net, since Management monitors net interest income 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.

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.

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.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The following tables present net operating income information and financial position information.

NET OPERATING INCOME INFORMATION

	2016				
	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	607,568	395,412	432,144	100,691	**1,535,815**
Non-interest income					
Net fee and commission income	133,188	242,899	951,506	7,558	**1,335,151**
Foreign exchange operations	598	25,959	217,295	2,153	**246,005**
Financial operations	-	7,363	339,823	29,392	**376,578**
Share of profit of associates	-	-	-	1,090	**1,090**
Other operating income	311	5,264	557	40,447	**46,579**
Total non-interest income	**134,097**	**281,485**	**1,509,181**	**80,640**	**2,005,403**
Total operating income	**741,665**	**676,897**	**1,941,325**	**181,331**	**3,541,218**
Net credit losses	(521,963)	(143,421)	-	-	**(665,384)**
Net operating income	**219,702**	**533,476**	**1,941,325**	**181,331**	**2,875,834**

	2015				
	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	593,105	337,863	502,532	17,257	1,450,757
Non-interest income					
Net fee and commission income	172,694	204,841	20,582	1,478	399,595
Foreign exchange operations	11,579	20,956	13,475	347	46,357
Financial operations	6,000	12,599	76,558	32,303	127,460
Share of profit of associates	-	-	-	3,044	3,044
Other operating income	774	8,495	7,194	15,691	32,154
Total non-interest income	191,047	246,891	117,809	52,863	608,610
Total operating income	784,152	584,754	620,341	70,120	2,059,367
Net credit losses	(114,069)	(86,988)	-	-	(201,057)
Net operating income	670,083	497,766	620,341	70,120	1,858,310

FINANCIAL POSITION INFORMATION

	2016				
	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	-	-	-	13,333	**13,333**
Total assets	19,302,205	7,844,788	37,151,484	2,433,732	**66,732,209**
Total liabilities	13,503,624	41,389,108	5,731,083	532,936	**61,156,751**

	2015				
	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	-	-	-	13,989	13,989
Total assets	20,147,932	7,189,528	33,219,127	3,166,050	63,722,637
Total liabilities	13,332,995	40,153,626	5,118,651	161,613	58,766,885

Capital expenditures amounting to LBP 171,857 million for the year 2016 (2015: LBP 174,850 million) are allocated to the Group Functions and Head Office business segment.

GEOGRAPHICAL SEGMENTS

The Group operates in three geographical segments: Lebanon, Middle East and North Africa and Turkey, (MENAT) and Europe, and 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

	2016			
	Lebanon LBP Million	MENAT LBP Million	Europe LBP Million	**Total LBP Million**
Net interest income	**629,935**	**841,430**	**64,450**	**1,535,815**
Non-interest income				
Net fee and commission income	922,160	168,841	244,150	**1,335,151**
Foreign exchange operations	22,426	207,974	15,605	**246,005**
Financial operations	253,127	101,971	21,480	**376,578**
Share of profit or loss of associates	91	999	-	**1,090**
Other operating income	3,419	40,309	2,851	**46,579**
Total non-interest income	**1,201,223**	**520,094**	**284,086**	**2,005,403**
Total external operating income	**1,831,158**	**1,361,524**	**348,536**	**3,541,218**
Net credit losses	(343,725)	(315,191)	(6,468)	**(665,384)**
Net external operating income	**1,487,433**	**1,046,333**	**342,068**	**2,875,834**

	2015			
	Lebanon LBP Million	MENAT LBP Million	Europe LBP Million	Total LBP Million
Net interest income	598,379	799,941	52,437	1,450,757
Non-interest income				
Net fee and commission income	159,021	182,678	57,896	399,595
Foreign exchange operations	20,110	12,680	13,567	46,357
Financial operations	218,970	(97,457)	5,947	127,460
Share of profit or loss of associates	247	2,797	-	3,044
Other operating income	13,645	13,058	5,451	32,154
Total non-interest income	411,993	113,756	82,861	608,610
Total external operating income	1,010,372	913,697	135,298	2,059,367
Net credit losses	(29,781)	(170,940)	(336)	(201,057)
Net external operating income	980,591	742,757	134,962	1,858,310

FINANCIAL POSITION INFORMATION

	2016			
	Lebanon LBP Million	MENAT LBP Million	Europe LBP Million	**Total LBP Million**
Capital expenditures	65,615	104,793	1,449	**171,857**
Investments in associates	10,281	3,052	-	**13,333**
Total assets	42,823,697	20,312,789	3,595,723	**66,732,209**
Total liabilities	38,254,444	20,012,766	2,889,541	**61,156,751**

	2015			
	Lebanon LBP Million	MENAT LBP Million	Europe LBP Million	Total LBP Million
Capital expenditures	48,223	123,166	3,461	174,850
Investments in associates	10,420	3,569	-	13,989
Total assets	35,800,023	24,438,939	3,483,675	63,722,637
Total liabilities	31,378,529	24,139,804	3,248,552	58,766,885

5.0. | INTEREST AND SIMILAR INCOME

	2016 LBP Million	2015 LBP Million
Balances with central banks	524,543	424,234
Due from banks and financial institutions	45,219	61,038
Loans to banks and financial institutions and reverse repurchase agreements	113,153	147,329
Loans and advances to customers at amortised cost	2,294,647	2,065,155
Loans and advances to related parties at amortised cost	8,197	6,232
Financial assets classified at amortised cost	881,679	1,046,736
Other interest income	-	290
	3,867,438	3,751,014

The components of interest and similar income from loans and advances to customers at amortised cost are detailed as follows:

	2016 LBP Million	2015 LBP Million
Corporate and SME	1,719,003	1,510,378
Retail and Personal Banking	513,166	508,744
Public sector	62,478	46,033
	2,294,647	2,065,155

The components of interest and similar income from financial assets classified at amortised cost are detailed as follows:

	2016 LBP Million	2015 LBP Million
Lebanese sovereign and Central Bank of Lebanon	605,918	625,042
Other sovereign	255,566	404,089
Private sector and other securities	20,195	17,605
	881,679	1,046,736

6.0. | INTEREST AND SIMILAR EXPENSE

	2016 LBP Million	2015 LBP Million
Due to central banks	32,814	11,312
Due to banks and financial institutions	58,791	46,160
Customers' deposits	2,135,480	2,139,426
Deposits from related parties	30,961	27,421
Debt issued and other borrowed funds	73,577	75,938
	2,331,623	2,300,257

The components of interest and similar expense from deposits from customers are detailed as follows:

	2016 LBP Million	2015 LBP Million
Corporate and SME	606,918	586,047
Retail and Personal Banking	1,526,516	1,553,355
Public sector	2,046	24
	2,135,480	2,139,426

7.0. | FEE AND COMMISSION INCOME

	2016 LBP Million	2015 LBP Million
Commercial Banking income	87,133	74,854
Credit-related fees and commissions	88,782	96,820
Brokerage and custody income	1,009,019	78,514
Trust and fiduciary activities	16,059	13,351
Trade Finance income	56,578	63,653
Electronic Banking	127,654	119,489
Corporate Finance fees	36,957	32,193
Insurance Brokerage income	12,591	12,915
Other fees and commissions	7,138	4,217
	1,441,911	496,006

The increase in commissions from brokerage and custody activities resulted mainly from LBP 927,997 million in fees net of associated costs, which were earned for the execution of trades of financial instruments with the Central Bank of Lebanon on behalf of customers in relation to the Central Bank of Lebanon's initiative to raise foreign currency reserves.

8.0. | FEE AND COMMISSION EXPENSE

	2016 LBP Million	2015 LBP Million
Commercial Banking expenses	9,757	8,004
Brokerage and custody fees	14,831	13,452
Electronic Banking	66,936	60,987
Insurance brokerage fees	1,124	1,030
Other fees and commissions	14,112	12,938
	106,760	96,411

9.0. | NET GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016			2015		
	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 (loss) on financial instruments						
Lebanese sovereign and Central Bank of Lebanon						
Certificates of deposits	176,792	15,158	**191,950**	(1,479)	8,449	6,970
Treasury bills	(2,730)	33,137	**30,407**	77,179	10,897	88,076
Eurobonds	1,644	3,177	**4,821**	767	4,840	5,607
	175,706	**51,472**	**227,178**	76,467	24,186	100,653
Other sovereign						
Treasury bills	(6,095)	690	**(5,405)**	(2,347)	1,140	(1,207)
Eurobonds	113	-	**113**	92	4	96
	(5,982)	**690**	**(5,292)**	(2,255)	1,144	(1,111)
Private sector and other securities						
Banks and financial institutions debt instruments	478	21	**499**	802	27	829
Loans and advances	(9,465)	-	**(9,465)**	-	-	-
Corporate debt instruments	119	-	**119**	89	731	820
Structured product	4	1,521	**1,525**	-	-	-
Funds	807	-	**807**	(673)	-	(673)
Equity instruments	79	-	**79**	(686)	-	(686)
	(7,978)	**1,542**	**(6,436)**	(468)	758	290
b) Other trading income						
Foreign exchange	246,005	-	**246,005**	46,357	-	46,357
Currency swaps and forwards	(66,899)	-	**(66,899)**	(108,698)	-	(108,698)
Currency options	(22,319)	-	**(22,319)**	(21,204)	-	(21,204)
Credit derivatives	9,046	-	**9,046**	120	-	120
Other derivatives	15,243	-	**15,243**	10,554	-	10,554
Dividends	405	-	**405**	323	-	323
	181,481	**-**	**181,481**	(72,548)	-	(72,548)
	343,227	**53,704**	**396,931**	1,196	26,088	27,284

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 includes gains and losses from spot transactions, forward and swap currency contracts, 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. Gains during 2016 resulted mainly from the Group's subsidiary in Egypt pursuant to the significant decrease in the exchange rate of the Egyptian Pound.

For the year ended 31 December 2016, derivatives include a gain of LBP 9,046 million (2015: gain of LBP 120 million) representing the change in fair value of the credit default swaps related to the Lebanese sovereign risk and embedded in some of the Group's deposits, as discussed in Note 35 to these consolidated financial statements.

During 2016, the Group entered into certain financial transactions with the Central Bank of Lebanon relating to Treasury bills and certificates of deposits denominated in Lebanese Pounds. These transactions were available to banks provided that they are able to reinvest an amount equivalent to the nominal value of the sold instruments in Eurobonds issued by the Lebanese Republic or certificates of deposits issued by the Central Bank of Lebanon denominated in US Dollars and purchased at their fair values. The net gains from such trades on financial instruments amounted to LBP 669,993 million of which LBP 307,063 million was not realised in the Consolidated Income Statement (Note 38).

10.0 | 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 deposits by the Central Bank of Lebanon;
- Currency risk management as a result of change in the currency base of deposits; or
- Liquidity for capital expenditures.

The schedule below details the gains and losses arising from the derecognition of these financial assets:

	2016			2015		
	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 deposits	241,106	(1,707)	**239,399**	83,438	(7,284)	76,154
Treasury bills	4,706	(406)	**4,300**	12,319	(1,397)	10,922
Eurobonds	12,689	(57,989)	**(45,300)**	36,201	(22,155)	14,046
	258,501	**(60,102)**	**198,399**	131,958	(30,836)	101,122
Other sovereign						
Treasury bills	2,185	(1,548)	**637**	21,490	(493)	20,997
Other governmental securities	6	-	**6**	450	(1)	449
Eurobonds	-	-	**-**	6	-	6
	2,191	**(1,548)**	**643**	21,946	(494)	21,452
Private sector and other securities						
Banks and financial institutions debt instruments	9	(2)	**7**	230	(5)	225
Corporate and other debt instruments	1	(17)	**(16)**	642	(15)	627
	10	**(19)**	**(9)**	872	(20)	852
	260,702	**(61,669)**	**199,033**	154,776	(31,350)	123,426

Refer to Note 9 for the effect on unrealised gains on certain financial transactions carried out with the Central Bank of Lebanon.

11.0. | OTHER OPERATING INCOME

	2016 LBP Million	2015 LBP Million
Revenue from non-banking activities[A]	37,955	9,957
Accruals written back	3,144	7,609
Safe rental	1,647	1,650
Release of provision for risks and charges (Note 39)	1,336	654
Gain on revaluation of associate[B]	-	7,161
Income from disposal of assets acquired against debts	11	225
Release of provision for end of service benefits (Note 39)	-	11
Other income	2,486	4,887
	46,579	32,154

[A] Revenue from non-banking activities represents software license and IT services revenue earned by Capital Banking Solutions Ltd, a subsidiary.

[B] Pursuant to the acquisition of additional 33.00% equity in Capital Banking Solutions Ltd during 2015 (Note 3), the Group re-measured its non-controlling investment immediately before obtaining control which resulted in a gain of LBP 7,161 million.

12.0. | NET CREDIT LOSSES

	2016 LBP Million	2015 LBP Million
Charges for the year		
Loans and advances to customers at amortised cost (Note 23)	715,797	238,421
Loans directly written off	-	6
	715,797	238,427
Recoveries for the year		
Impairment allowance recovered (Note 23)	(26,178)	(16,591)
Unrealised interest recovered (Note 23)	(1,116)	(2,456)
Recoveries of debts previously written off (Note 23)	(23,119)	(18,323)
	(50,413)	(37,370)
	665,384	201,057

13.0. | PERSONNEL EXPENSES

	2016 LBP Million	2015 LBP Million
Salaries and related benefits	591,718	504,849
Social security contributions	51,322	44,619
End of service benefits (Note 39)	31,442	17,268
Transportation	18,374	18,162
Schooling	9,704	9,444
Medical expenses	6,102	5,959
Food and beverage	7,726	7,455
Training and seminars	6,620	6,953
Others	10,902	8,384
	733,910	623,093

14.0. | OTHER OPERATING EXPENSES

	2016 LBP Million	2015 LBP Million
Operating leases	68,496	66,120
Professional fees	52,572	30,551
Board of Directors fees	5,723	6,103
Advertising fees	50,063	45,548
Taxes and similar disbursements	35,988	19,930
Outsourcing services	34,799	31,909
Premium for guarantee of deposits	24,843	23,652
Information technology	69,050	34,244
Donations and social aids	12,924	5,790
Provisions for risks and charges (Note 39)	4,125	8,247
Travel and related expenses	15,501	16,955
Telephone and mail	14,099	14,414
Electricity, water and fuel	10,597	10,925
Maintenance	12,144	12,269
Insurance premiums	8,135	8,347
Facilities services	11,586	9,904
Subscription to communication services	9,996	9,647
Office supplies	6,633	7,259
Receptions and gifts	6,896	5,483
Electronic cards expenses	10,019	9,298
Regulatory charges	9,780	8,533
Documentation and miscellaneous subscriptions	2,843	2,510
Others	13,734	11,755
	490,546	399,393

15.0 | INCOME TAX

The components of income tax expense for the year ended 31 December are detailed as follows:

	2016 LBP Million	2015 LBP Million
Current tax		
Current income tax	299,910	186,170
Adjustment in respect of current income tax of prior years	6,689	(5,754)
Other taxes treated as income tax	4,343	9,187
	310,942	189,603
Deferred tax		
Relating to origination and reversal of temporary differences	40,676	(28,778)
	351,618	160,825

The tax rates applicable to the parent and subsidiaries vary from 7.25% to 35.00% 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.

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:

	2016 LBP Million	2015 LBP Million
Operating profit before tax	**1,325,815**	727,528
Income tax	**207,997**	165,199
Increase resulting from:		
Non-deductible expenses	37,886	31,105
Non-deductible provisions	110,812	38,417
Unrealised losses on financial instruments	39,286	27,006
Unearned commissions	7,629	7,524
Other non-deductibles	69,925	12,922
	265,538	116,974
Decrease resulting from:		
Revenues previously subject to tax	6,773	28,648
Provision recoveries previously subject to tax	72,611	34,730
Exempted revenues	48,397	5,661
Unrealised gains on financial instruments	42,150	21,754
Other deductibles	3,694	5,210
	173,625	96,003
Income tax	**299,910**	186,170
Effective income tax rate	**22.62%**	25.59 %

The movement of current tax liabilities during the year is as follows:

	2016 LBP Million	2015 LBP Million
Balance at 1 January	**84,879**	102,614
Charges for the year	310,942	189,603
Result of discontinued operations	-	415
Transfer from deferred tax liabilities	32,571	-
Transfer to deferred tax liabilities	(2,894)	(4,388)
Taxes on gain recognised directly in other comprehensive income (Note 38)	46,061	-
Transfer from other components of equity	-	839
Transfer to tax regularisation accounts	(2,750)	(11,407)
Other transfers	1,258	(3,544)
	385,188	171,518
Less taxes paid:		
Current year tax liability*	132,735	134,860
Prior year tax liabilities	76,156	46,661
Foreign exchange difference	36,414	7,732
	245,305	189,253
Balance at 31 December	**224,762**	84,879

** Represents taxes paid on interest received from Treasury bills and Central Bank's certificates of deposits.*

Deferred taxes recorded in the Consolidated Statement of Financial Position result from the following items:

2016	Deferred Tax Assets LBP Million	Deferred Tax Liabilities LBP Million	*Income Statement LBP Million*	*Other Comprehensive Income LBP Million*
Provisions	14,561	35,322	*(31,361)*	-
Impairment allowance for loans and advances	55,872	-	*30,446*	-
Financial instruments at FVTOCI	(2,554)	2,728	-	*433*
Difference in depreciation rates	(2,875)	2,849	*(1,799)*	-
Defined benefit obligation	1,802	19	-	*(673)*
Revaluation of real estate	-	2,035	-	-
Financial instruments at FVTPL	7,763	-	*5,425*	-
Foreign currency translation reserve	10,922	53,298	*(45,719)*	*(1,812)*
Net gain on hedge of net investment	10,185	-	-	*94*
Other temporary differences	11,748	(18)	*2,332*	-
	107,424	**96,233**	***(40,676)***	***(1,958)***

2015	Deferred Tax Assets LBP Million	Deferred Tax Liabilities LBP Million	*Income Statement LBP Million*	*Other Comprehensive Income LBP Million*
Provisions	10,744	(2,044)	*1,450*	-
Impairment allowance for loans and advances	30,904	-	*10,003*	-
Financial instruments at FVTOCI	(3,336)	2,447	-	*(1,161)*
Difference in depreciation rates	(3,079)	4,789	*(317)*	-
Defined benefit obligation	2,432	(88)	-	*(891)*
Revaluation of real estate	-	42,637	-	*4,613*
Financial instruments at FVTPL	2,697	43	*5,691*	-
Foreign currency translation reserve	7,427	20,195	*7,427*	-
Net gain on hedge of net investment	-	(10,091)	-	-
Other temporary differences	13,275	(24)	*4,524*	-
	61,064	57,864	*28,778*	*2,561*

The movement of net deferred tax during the year is as follows:

	Provisions LBP Million	Impairment Allowance for Loans and Advances LBP Million	Financial Instruments at FVTOCI LBP Million	Difference in Depreciation Rate LBP Million	Defined Benefit Plan LBP Million	Revaluation of Real Estate LBP Million	Financial Instruments at FVTPL LBP Million	Foreign Currency Translation Reserve LBP Million	Net Gain on Hedge of Net Investment LBP Million	Other Temporary Differences LBP Million	Total LBP Million
At 1 January 2016	**12,788**	**30,904**	**(5,783)**	**(7,868)**	**2,520**	**(42,637)**	**2,654**	**(12,768)**	**10,091**	**13,299**	**3,200**
Net deferred tax related to Income Statement	(31,361)	30,446	-	(1,799)	-	-	5,425	(45,719)	-	2,332	**(40,676)**
Net deferred tax related to other comprehensive income	-	-	433	-	(673)	-	-	(1,812)	94	-	**(1,958)**
Transfer to current tax liabilities	-	-	-	-	-	32,571	-	-	-	-	**32,571**
Transfer from current tax liabilities	-	-	-	-	-	-	1,654	(2,894)	-	(1,654)	**(2,894)**
Foreign exchange difference	(2,188)	(5,478)	68	3,943	(64)	8,031	(1,970)	20,817	-	(2,211)	**20,948**
At 31 December 2016	**(20,761)**	**55,872**	**(5,282)**	**(5,724)**	**1,783**	**(2,035)**	**7,763**	**(42,376)**	**10,185**	**11,766**	**11,191**

	Provisions LBP Million	Impairment Allowance for Loans and Advances LBP Million	Financial Instruments at FVTOCI LBP Million	Difference in Depreciation Rate LBP Million	Defined Benefit Plan LBP Million	Revaluation of Real Estate LBP Million	Financial Instruments at FVTPL LBP Million	Foreign Currency Translation Reserve LBP Million	Net Gain on Hedge of Net Investment LBP Million	Other Temporary Differences LBP Million	Total LBP Million
At 1 January 2015	12,751	23,298	(4,968)	(8,758)	3,449	(48,926)	1,422	-	-	11,222	(10,510)
Net deferred tax related to Income Statement	1,450	10,003	-	(317)	-	-	5,691	7,427	-	4,524	28,778
Net deferred tax related to other comprehensive income	-	-	(1,161)	-	(891)	4,613	-	-	-	-	2,561
Result of discontinued operations	-	-	-	52	-	-	-	-	-	-	52
Transfer to retained earnings	-	-	-	-	-	-	-	(20,195)	-	-	(20,195)
Transfer from retained earnings	-	-	-	-	-	-	-	-	10,091	-	10,091
Transfer to current tax liabilities	-	(486)	548	-	-	-	(3,960)	-	-	(490)	(4,388)
Other transfers	-	-	(205)	-	-	-	(8)	-	-	213	-
Foreign exchange difference	(1,413)	(1,911)	3	1,155	(38)	1,676	(491)	-	-	(2,170)	(3,189)
At 31 December 2015	12,788	30,904	(5,783)	(7,868)	2,520	(42,637)	2,654	(12,768)	10,091	13,299	3,200

16.0. | (LOSS) PROFIT FROM DISCONTINUED OPERATIONS

Bank Audi Syria sa ("BASY"), which is 47.00% owned by the Group, is engaged in Commercial Banking activities, mainly deposits taking and loan granting in Syria, which used to be captioned under the Corporate and Commercial Banking and the Treasury and Capital Markets business segments, as well as the MENAT geographical segment. In prior years, BASY was consolidated in the Group accounts due to de facto control.

Since March 2011, Syria has witnessed extremely violent and crippling war in different parts of the country. The war has turned into a humanitarian disaster resulting in Syria being ranked number one on the list of the most dangerous countries in the world. The intensity of the acts of war have led several international bodies and countries (e.g. EU and USA) to set and implement sanctions and restrictions on dealing with Syria. In addition, the business environment of the country has been burdened by heavy state intervention, and Syria was ranked one of the eight most unfree economies in the world by The Heritage Foundation.

The Syrian pound has significantly deteriorated against the US Dollar, since 2011. The Syrian government has maintained currency controls and has created exchange mechanisms which rendered the market extremely illiquid over time, resulting in an other-than-temporary lack of exchangeability between the Syrian Pound and the US Dollar. The supply of foreign currencies in the market remains structurally well below demand and there are no obvious limits as to how low the Syrian currency can fall.

The above circumstances, combined, have significantly affected Syria's financial system. Banks are largely isolated from the international banking market, being shut-off from the international payment and settlement systems, as well as from credit markets. There was a major flight of deposits as Syrians have reallocated to safer assets. Syria's economy has contracted considerably in real terms since 2011, which has significantly affected the demand for credit facilities and the investment opportunities available for banks inside Syria. Banks are unable to repatriate funds outside the country and end up placing their funds in non-income generating assets, with the Central Bank of Syria and other local commercial or state-owned banks. The negative evolution of the macroeconomic situation limited the Group's ability to effectively manage the subsidiary. In addition, restrictions relating to the regulatory environment, foreign exchange, import authorisation, interest rates, granting and Board attendance , have added to the limitations already existing on the significant activities of banks, further preventing the Group from developing and implementing decisions on key operational and financial aspects regarding Syrian operations.

As a result of these factors which are expected to continue for the foreseeable future, effective 31 August 2016 the Group has a) determined that the recoverable value of its net investment in BASY to be insignificant based on the lack of market prospects and expectations of no dividend payments in future periods, and has accordingly written off the net assets of BASY in its consolidated financial statements, and b) concluded that the requisite conditions of IFRS 10 have not been met in order for an accounting control to be carried out on the subsidiary and, accordingly, three Board members representing the Group resigned from the Board of Directors of BASY.

The deconsolidation of BASY resulted in the recognition of losses of LBP 155,594 million, which include: a) the negative impact of LBP 109,258 million resulting from losses from the translation into Lebanese Pounds of the financial statements of BASY, previously recognised under foreign currency translation reserve in equity and reclassified to the Income Statement upon loss of control; and b) a negative impact of LBP 46,336 million due to the full write-off of the net investment.

The fully impaired investment in BASY was classified as an investment at fair value through other comprehensive income as of 31 December 2016. The Group will reassess its position in case there are significant future changes in the circumstances calling for deconsolidation.

National Bank of Sudan, which was 76.56% owned by the Group, is a separate legal entity offering Islamic Banking activities to its customers, which used to be reported under the Treasury and Capital Markets business segment and the MENAT geographical segment. During 2016, the Group sold its investment in National Bank of Sudan due to the limited market prospects in Sudan and in order to better manage the Group's risk profile. The sale took effect during December 2016 for a total consideration of LBP 22,612 million.

Arabeya Online for Securities Brokerage, which was fully owned by the Group, is a separate legal entity offering brokerage services to its customers, which used to be reported under the Treasury and Capital Markets business segment and MENAT geographical segment. During August 2016, the Group decided to cease the activities of the subsidiary sold it for a total consideration of LBP 7,538 million.

The results of Bank Audi Syria, National Bank of Sudan and Arabeya Online Brokerage are as follows:

	2016			
	Bank Audi Syria LBP Million	National Bank of Sudan LBP Million	Arabeya Online Brokerage LBP Million	**Total LBP Million**
Interest and similar income	6,134	4,657	413	**11,204**
Interest and similar expense	(2,561)	(265)	(13)	**(2,839)**
Net interest income	**3,573**	**4,392**	**400**	**8,365**
Fee and commission income	2,012	140	2,338	**4,490**
Fee and commission expense	(148)	(1)	(97)	**(246)**
Net fee and commission income	**1,864**	**139**	**2,241**	**4,244**
Other operating income	42,861	6,795	589	**50,245**
Total operating income	**48,298**	**11,326**	**3,230**	**62,854**
Total operating expenses	(6,031)	(3,484)	(1,918)	**(11,433)**
Operating profit	**42,267**	**7,842**	**1,312**	**51,421**
Loss on derecognition from discontinued operations	(155,594)	(127,164)	(32,412)	**(315,170)**
Tax attributable to operating profit	(1,418)	(74)	(271)	**(1,763)**
Loss for the period from discontinued operations	**(114,745)**	**(119,396)**	**(31,371)**	**(265,512)**
Cash inflow from sale:				
Total consideration received	-	22,612	7,538	**30,150**
				LBP
Earnings per share:				
Basic and diluted, from discontinued operations				**(722)**

	2016			
	Bank Audi Syria LBP Million	National Bank of Sudan LBP Million	Arabeya Online Brokerage LBP Million	**Total LBP Million**
Operating activities	19,302	3,060	51	**22,413**
Investing activities	(178)	(242)	3,219	**2,799**
Financing activities	-	(3,354)	-	**(3,354)**
Net cash inflows	**19,124**	**(536)**	**3,270**	**21,858**

	2015			
	Bank Audi Syria LBP Million	National Bank of Sudan LBP Million	Arabeya Online Brokerage LBP Million	Total LBP Million
Interest and similar income	14,652	5,038	743	20,433
Interest and similar expense	(7,226)	(289)	(23)	(7,538)
Net interest income	7,426	4,749	720	12,895
Fee and commission income	4,329	600	2,503	7,432
Fee and commission expense	(212)	(4)	(146)	(362)
Net fee and commission income	4,117	596	2,357	7,070
Other operating income	44,808	2,266	545	47,619
Total operating income	56,351	7,611	3,622	67,584
Total operating expenses	(21,439)	(2,966)	(2,840)	(27,245)
Operating profit	34,912	4,645	782	40,339
Non-operating (expenses) income	(278)	1,326	-	1,048
Tax attributable to operating profit	-	(304)	(59)	(363)
Profit for the period from discontinued operations	34,634	5,667	723	41,024
				LBP
Earnings per share:				
Basic and diluted, from discontinued operations				54

	2015			
	Bank Audi Syria LBP Million	National Bank of Sudan LBP Million	Arabeya Online Brokerage LBP Million	Total LBP Million
Operating activities	22,074	7,436	219	29,729
Investing activities	12,174	(321)	3,749	15,602
Financing activities	-	(1,533)	-	(1,533)
Net cash inflows	34,248	5,582	3,968	43,798

17.0. | EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary 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:

	2016 LBP Million	2015 LBP Million
Profit attributable to equity holders of the Bank	672,095	587,948
Less: dividends attributable to preferred shares	(45,791)	(34,484)
Profit available to holders of ordinary shares	**626,304**	553,464
Weighted average number of shares outstanding	398,332,801	399,006,205
Basic and diluted earnings per share	**1,572**	1,387

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.

18.0. | CASH AND BALANCES WITH CENTRAL BANKS

	2016 LBP Million	2015 LBP Million
Cash on hand	**377,438**	361,802
Central Bank of Lebanon		
Current accounts	655,206	574,634
Time deposits	14,356,065	9,520,250
Accrued interest	148,729	122,441
	15,160,000	10,217,325
Other central banks		
Current accounts	484,049	813,919
Time deposits	2,618,881	2,357,635
Accrued interest	10,228	4,241
	3,113,158	3,175,795
	18,650,596	13,754,922

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 25.00% of sight commitments and 15.00% 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 15.00% 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:

	2016			2015		
	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	453,810	-	**453,810**	354,793	-	354,793
Time deposits	28,833	4,278,108	**4,306,941**	64,222	3,525,410	3,589,632
	482,643	**4,278,108**	**4,760,751**	419,015	3,525,410	3,944,425
Other central banks						
Current accounts	-	200,058	**200,058**	-	491,072	491,072
Time deposits	-	2,092,859	**2,092,859**	-	2,226,173	2,226,173
	-	**2,292,917**	**2,292,917**	-	2,717,245	2,717,245
	482,643	**6,571,025**	**7,053,668**	419,015	6,242,655	6,661,670

19.0. | DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2016 LBP Million	2015 LBP Million
Current accounts	1,576,045	1,497,320
Time deposits	1,264,222	990,563
Checks for collection	141,997	166,034
Other amounts due	45,243	50,096
Accrued interest	537	1,034
Less: impairment allowance	(816)	(890)
	3,027,228	2,704,157

The movement of the impairment allowance was as follows:

	2016 LBP Million	2015 LBP Million
Balance at 1 January	**890**	895
Foreign exchange difference	(74)	(5)
Balance at 31 December	**816**	890

20.0. | LOANS TO BANKS AND FINANCIAL INSTITUTIONS AND REVERSE REPURCHASE AGREEMENTS

	2016 LBP Million	2015 LBP Million
Loans and advances	180,403	196,810
Reverse repurchase agreements	1,885,981	2,383,744
Accrued interest	2,431	4,999
	2,068,815	2,585,553

Reverse repurchase agreements held by the Group as of 31 December 2016 comprise the following:

Original Currency	Balance LBP Million	Average Interest Rate	Collateral Type	Collateral Value LBP Million
TRY	1,885,981	10.75%	Treasury bills	1,885,981
	1,885,981			**1,885,981**

Reverse repurchase agreements held by the Group as of 31 December 2015 comprise the following:

Original Currency	Balance LBP Million	Average Interest Rate	Collateral Type	Collateral Value LBP Million
USD	278,959	2.85%	BDL CD	312,052
TRY	2,104,785	10.75%	Treasury bills	2,104,785
	2,383,744			2,416,837

21.0. | DERIVATIVE FINANCIAL INSTRUMENTS

The tables below show the positive and negative fair values of derivative financial instruments, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are indicative of neither the market risk nor the credit risk.

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive market value of instruments that are favorable to the Group.

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 movements in interest or foreign currency rates, as well as the contracted upon amounts for currency swaps.

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.

A credit default swap (CDS) is a credit derivative between two counterparties, whereby they isolate the credit risk of at least one third party and trade it. Under the agreement, one party makes periodic payments to the other and receives the promise of a payoff if the third party defaults. The former party receives credit protection and is said to be the "buyer", while the other party provides credit protection and is said to be the "seller". The third party is known as the "reference entity".

The notional amount of credit default swaps represents the carrying value of certain time deposits held by the Group as of 31 December 2016 and 2015.

The Group has positions in the following types of derivatives:

				Notional Amount by Term to Maturity			
31 December 2016	Positive Fair Value LBP Million	Negative Fair Value LBP Million	Notional Amount LBP Million	Within 3 Months LBP Million	3 to12 Months LBP Million	1 to 5 Years LBP Million	Over 5 Years LBP Million
Derivatives held for trading							
Forward foreign exchange contracts	19,298	27,464	**1,730,653**	1,402,607	315,453	12,593	-
Forward precious metals contracts	5	13	**998**	998	-	-	-
Currency swaps	135,404	179,681	**8,290,097**	6,965,814	772,891	524,781	26,611
Precious metals swaps	1,309	491	**84,526**	74,897	9,501	128	-
Currency options	49,307	51,809	**6,945,481**	4,367,716	2,576,762	1,003	-
Interest rate swaps	17,176	10,365	**4,932,735**	42,702	703,799	3,726,959	459,275
Interest rate options	-	-	**205,239**	-	-	205,239	-
Credit default swaps	11,588	-	**2,507,339**	180,698	773,084	1,553,557	-
Equity options	9,654	1,814	**39,061**	-	-	39,061	-
Total	**243,741**	**271,637**	**24,736,129**	**13,035,432**	**5,151,490**	**6,063,321**	**485,886**
Derivatives held to hedge net investments in foreign operations							
Currency swaps	8,753	1,315	**220,836**	-	220,836	-	-
Currency options	137,644	-	**603,000**	-	-	603,000	-
	146,397	**1,315**	**823,836**	-	**220,836**	**603,000**	-
	390,138	**272,952**	**25,559,965**	**13,035,432**	**5,372,326**	**6,666,321**	**485,886**

31 December 2015	Positive Fair Value LBP Million	Negative Fair Value LBP Million	Notional Amount LBP Million	Notional Amount by Term to Maturity: Within 3 Months LBP Million	3 to12 Months LBP Million	1 to 5 Years LBP Million	Over 5 Years LBP Million
Derivatives held for trading							
Forward foreign exchange contracts	16,579	10,138	1,398,617	1,148,637	249,796	184	-
Forward precious metals contracts	13	1	1,286	1,286	-	-	-
Currency swaps	31,463	59,464	5,503,849	4,443,734	828,118	231,997	-
Precious metals swaps	859	65	89,132	86,854	2,278	-	-
Currency options	38,275	45,634	5,489,799	3,652,178	1,787,289	50,332	-
Interest rate swaps	9,463	2,539	2,818,021	129,391	310,621	1,765,677	612,332
Interest rate options	-	-	236,663	-	-	-	236,663
Credit default swaps	2,578	-	2,325,642	236,427	2,089,215	-	-
Equity options	27,326	13,047	62,355	-	-	62,355	-
Total	126,556	130,888	17,925,364	9,698,507	5,267,317	2,110,545	848,995
Derivatives held to hedge net investments in foreign operations							
Currency swaps	5,072	311	222,913	-	222,913	-	-
Currency options	134,235	-	1,055,250	452,250	-	603,000	-
	139,307	311	1,278,163	452,250	222,913	603,000	-
	265,863	131,199	19,203,527	10,150,757	5,490,230	2,713,545	848,995

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.

During 2016, 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) as of December 2016. During 2015, the notional amount of these contracts amounted to USD 700 million (LBP 1,055,250 million) and was comprised of USD 400 million hedged through capped calls and USD 300 million hedged through currency collars. The collars matured on 30 December 2016. At 31 December 2016, the positive fair value of the capped call contracts amounted to USD 91 million (LBP 137,644 million). The Bank designated only the intrinsic value of these options as the hedging instrument.

During 2016, the Group renewed its currency swap contracts designated to hedge the net investment in its subsidiaries in Cyprus, France, Kingdom of Saudi Arabia and Qatar. The notional amount of these contracts amounted to LBP 220,836 million as of 31 December 2016 (2015: LBP 222,913 million). The positive fair value of these contracts amounted to LBP 8,753 million while the negative fair value contracts reached LBP 1,315 million (2015: positive fair value of LBP 5,072 million while the negative fair value LBP 131 million) and was transferred to "Foreign currency translation reserve" in equity to offset results of translation of the net investment in those subsidiaries.

No ineffectiveness from hedges of net investments in foreign operations was recognised in profit or loss during the year.

Information pertaining to the effect of applying hedge accounting for hedged items and hedging instruments is summarised as follows:

31 December 2016	Hedging Instrument LBP Million	Hedged Currency LBP Million	Notional Amount LBP Million	Positive Fair Value LBP Million	Negative Fair Value LBP Million	Effect of Change in Time Value Recognised in OCI: As of 31 December 2016 LBP Million	During 2016 LBP Million	Balances Recognised in FCTR during 2016 LBP Million
Hedged item								
Odea Bank A.Ş. – effect of foreign currency fluctuation within a predefined range	Capped calls	TRY	603,000	137,644	-	(57,713)	(529)	26,659
Odea Bank A.Ş. – effect of extreme foreign currency fluctuation	Collars	TRY	-	-	-	-	(4,032)	16,398
Bank Audi France sa – effect of foreign currency fluctuation	Currency swap	EUR	93,383	8,092	-	-	-	2,943
Banaudi Holding – effect of foreign currency fluctuation	Currency swap	EUR	9,578	661	-	-	-	302
Audi Capital (KSA) – effect of foreign currency fluctuation	Currency swap	SAR	42,099	-	643	-	-	(34)
Audi Qatar – effect of foreign currency fluctuation	Currency swap	QAR	75,776	-	672	-	-	(18)
				146,397	**1,315**	**(57,713)**	**(4,561)**	**46,250**

31 December 2015	Hedging Instrument LBP Million	Hedged Currency LBP Million	Notional Amount LBP Million	Positive Fair Value LBP Million	Negative Fair Value LBP Million	Effect of Change in Time Value Recognised in OCI: As of 31 December 2015 LBP Million	During 2015 LBP Million	Balances Recognised in FCTR during 2015 LBP Million
Hedged item								
Odea Bank A.Ş. – effect of foreign currency fluctuation within a predefined range	Capped calls	TRY	603,000	130,204	-	(57,184)	(56,396)	99,278
Odea Bank A.Ş. – effect of extreme foreign currency fluctuation	Collars	TRY	452,250	4,031	-	4,032	2,896	12,953
Bank Audi France sa – effect of foreign currency fluctuation	Currency swap	EUR	96,328	4,846	-	-	-	10,944
Banaudi Holding – effect of foreign currency fluctuation	Currency swap	EUR	9,880	226	-	-	-	1,123
Audi Capital (KSA) – effect of foreign currency fluctuation	Currency swap	SAR	41,645	-	189	-	-	13
Audi Qatar – effect of foreign currency fluctuation	Currency swap	QAR	75,060	-	122	-	-	7
				139,307	311	(53,152)	(53,500)	124,318

22.0. | FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 LBP Million	2015 LBP Million
Lebanese sovereign and Central Bank of Lebanon		
Certificates of deposits	17,559	109,520
Treasury bills	555,086	91,828
Eurobonds	13,100	51,684
	585,745	253,032
Other sovereign		
Treasury bills	**2,526**	12,863
Private sector and other securities		
Banks and financial institutions	9,427	36,351
Loans and advances to customers	21,898	22,185
Mutual funds	67,701	50,607
Equity instruments	5,917	8,684
	104,943	117,827
	693,214	383,722

The classification of the above instruments according to the type of interest is as follows:

	2016 LBP Million	2015 LBP Million
Fixed interest		
Lebanese sovereign and Central Bank of Lebanon	585,745	253,032
Other sovereign	2,483	12,812
Private sector and other securities	22,352	22,484
	610,580	288,328
Variable interest		
Other sovereign	**43**	51
Non-interest bearing		
Private sector and other securities	82,591	95,343
	693,214	383,722

23.0. | LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST

	2016			
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	Public Sector LBP Million	**Total LBP Million**
Overdraft accounts	2,787,443	813,956	86,743	**3,688,142**
Loans	16,745,678	5,694,686	366,660	**22,807,024**
Discounted bills and commercial paper	299,100	10,746	10,989	**320,835**
	19,832,221	**6,519,388**	**464,392**	**26,816,001**
Impairment allowance	(770,264)	(245,872)	(4,113)	**(1,020,249)**
Unrealised interest	(38,112)	(25,393)	-	**(63,505)**
	19,023,845	**6,248,123**	**460,279**	**25,732,247**

	2015			
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	Public Sector LBP Million	Total LBP Million
Overdraft accounts	3,471,020	939,599	63,646	4,474,265
Loans	16,913,135	5,651,214	376,595	22,940,944
Discounted bills and commercial paper	180,669	13,834	9,110	203,613
	20,564,824	6,604,647	449,351	27,618,822
Impairment allowance	(502,235)	(183,839)	(3,027)	(689,101)
Unrealised interest	(93,511)	(23,403)	-	(116,914)
	19,969,078	6,397,405	446,324	26,812,807

The breakdown and movement of the impairment allowance during the year are as follows:

	2016			
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	Public Sector LBP Million	**Total LBP Million**
Balance at 1 January	**502,235**	**183,839**	**3,027**	**689,101**
Add:				
Charges for the year (Note 12)	543,820	171,977	-	**715,797**
Transfers	(1,757)	(3,154)	4,911	-
Less:				
Recoveries (Note 12)	(15,723)	(10,455)	-	**(26,178)**
Entities deconsolidated during the year	(34,622)	(3,662)	-	**(38,284)**
Write-offs	(154,627)	(66,826)	-	**(221,453)**
Foreign exchange difference	(69,062)	(25,847)	(3,825)	**(98,734)**
Balance at 31 December	**770,264**	**245,872**	**4,113**	**1,020,249**
Individual impairment	268,710	120,210	-	**388,920**
Collective impairment	501,554	125,662	4,113	**631,329**
	770,264	**245,872**	**4,113**	**1,020,249**

	2015			
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	Public Sector LBP Million	Total LBP Million
Balance at 1 January	513,868	162,755	2,709	679,332
Add:				
Charges for the year (Note 12)	120,541	116,237	1,643	238,421
Transfers	1,568	(7,162)	(87)	(5,681)
Less:				
Recoveries (Note 12)	(9,818)	(6,772)	(1)	(16,591)
Result of discontinued operations	447	-	(1,062)	(615)
Write-offs	(80,232)	(66,362)	-	(146,594)
Foreign exchange difference	(44,139)	(14,857)	(175)	(59,171)
Balance at 31 December	502,235	183,839	3,027	689,101
Individual impairment	330,500	114,043	-	444,543
Collective impairment	171,735	69,796	3,027	244,558
	502,235	183,839	3,027	689,101

The movement of unrealised interest during the year is as follows:

	2016		
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	**Total LBP Million**
Balance at 1 January	**93,511**	**23,403**	**116,914**
Add:			
Unrealised interest applied on non-performing loans	30,599	7,030	**37,629**
Transfers	(1,054)	1,054	**-**
Less:			
Unrealised interest written off	(79,226)	(5,204)	**(84,430)**
Entities deconsolidated during the year	(2,553)	(871)	**(3,424)**
Unrealised interest recovered (Note 12)	(851)	(265)	**(1,116)**
Foreign exchange difference	(2,314)	246	**(2,068)**
Balance at 31 December	**38,112**	**25,393**	**63,505**

	2015		
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	Total LBP Million
Balance at 1 January	89,207	26,135	115,342
Add:			
Unrealised interest applied on non-performing loans	32,178	2,778	34,956
Less:			
Unrealised interest written off	(25,109)	(2,724)	(27,833)
Unrealised interest recovered (Note 12)	(1,954)	(502)	(2,456)
Foreign exchange difference	(811)	(2,284)	(3,095)
Balance at 31 December	93,511	23,403	116,914

Bad loans and related provisions and unrealised interest which fulfil certain requirements have been transferred to off-balance sheet accounts. The gross balance of these loans transferred during 2016 amounted to LBP 183,991 million (2015: LBP 34,327 million). Besides, amounts recovered from off-balance sheet accounts during 2016 amounted to LBP 23,119 million (2015: LBP 18,323 million) (Note 12).

During November 2016, the Central Bank of Lebanon issued Intermediate Circular No. 439 which required banks operating in Lebanon to constitute additional collective provisions. As such, the collective impairment allowances as at 31 December 2016 include an amount of LBP 384,039 million in excess of the provisioning requirements of IAS 39 (2015: nil).

24.0. | LOANS AND ADVANCES TO RELATED PARTIES AT AMORTISED COST

	2016		
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	**Total LBP Million**
Overdraft accounts	3,259	119,067	**122,326**
Loans	20,840	76,027	**96,867**
	24,099	**195,094**	**219,193**

	2015		
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	Total LBP Million
Overdraft accounts	31	134,891	134,922
Loans	17,157	62,470	79,627
	17,188	197,361	214,549

25.0. | FINANCIAL ASSETS AT AMORTISED COST

	2016 LBP Million	2015 LBP Million
Lebanese sovereign and Central Bank of Lebanon		
Certificates of deposits	9,045,756	5,614,622
Treasury bills	1,736,610	1,794,767
Eurobonds	585,250	2,959,183
	11,367,616	10,368,572
Other sovereign		
Treasury bills	1,742,254	3,425,347
Eurobonds	46,274	319,070
Other governmental securities	232,335	72,185
	2,020,863	3,816,602
Private sector and other securities		
Banks and financial institutions debt instruments	520,264	494,941
Corporate debt instruments	81,327	109,222
	601,591	604,163
	13,990,070	14,789,337
Less: impairment allowance	-	(4,763)
	13,990,070	14,784,574

The movement of the impairment allowance was as follows:

Balance at 1 January	**4,763**	5,186
Entities deconsolidated during the year	**(4,763)**	-
Result of discontinued operations	-	(433)
Foreign exchange differences	-	10
Balance at 31 December	-	4,763

The classification of the above instruments according to the type of interest is as follows:

	2016 LBP Million	2015 LBP Million
Fixed interest		
Lebanese sovereign and Central Bank of Lebanon	11,367,616	10,368,572
Other sovereign	1,909,771	3,651,726
Private sector and other securities	601,333	597,876
	13,878,720	14,618,174
Variable interest		
Other sovereign	111,092	164,876
Private sector and other securities	258	1,524
	111,350	166,400
	13,990,070	14,784,574

26.0. | FINANCIAL ASSETS 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 and dividends received, as well as the changes in fair value net of applicable taxes:

	2016		
	Fair Value LBP Million	Cumulative Changes in Fair Value LBP Million	Dividends LBP Million
LIA Insurance sal	38,881	6,014	2,855
Mass Global Energy (SUL) LTD	37,687	-	-
Visa NC – Class "C"	29,964	21,987	194
Phoenicia – Aer Rianta Co. SAL	10,729	-	19,294
Banque de l'Habitat SAL	19,641	13,092	434
Crossbridge Capital Holding Limit	11,738	(4,296)	-
Solidere International Limited	7,925	(3,169)	-
Liban Lait SAL	5,232	-	-
Saraya Aqaba Real Estate Development	3,853	-	-
Master Card Inc Class "B"	5,966	5,071	37
BA Capital Holding PLC	3,015	-	-
Visa Europe Ltd	824	65	3,110
Kafa Holding SAL	2,049	-	-
Kafalat	3,138	2,191	-
International Payment Network SAL	1,469	697	-
Arab Trade Finance Program	2,068	284	10
Abdel Wahab 618 Holding SAL	1,203	-	-
Fransabank SAL	848	(317)	72
C-Mobile Group Holding Ltd	1	(10,875)	-
Other equity instruments	7,717	1,410	613
	193,948	**32,154**	**26,619**

	2015		
	Fair Value LBP Million	Cumulative Changes in Fair Value LBP Million	Dividends LBP Million
LIA Insurance sal	39,013	6,132	2,347
Visa NC – Class "C"	30,265	22,253	96
Phoenicia – Aer Rianta Co. SAL	10,729	-	17,863
Banque de l'Habitat SAL	17,759	11,498	361
Solidere International Limited	7,003	(3,953)	-
Liban Lait SAL	5,232	-	-
Saraya Aqaba Real Estate Development	3,944	-	-
Master Card Inc Class "B"	5,734	4,874	19
BA Capital Holding PLC	3,015	-	-
Visa Europe Ltd	2,740	2,192	-
Kafa Holding SAL	2,049	-	-
Kafalat	2,508	1,740	-
International Payment Network SAL	1,469	697	55
Arab Trade Finance Program	1,723	126	10
Abdel Wahab 618 Holding SAL	1,203	-	-
Fransabank SAL	982	(203)	65
C-Mobile Group Holding Ltd	-	(10,867)	-
Other equity instruments	9,007	1,722	2,291
	144,375	36,211	23,107

27.0. | INVESTMENTS IN ASSOCIATES

			2016		2015	
	Country of Incorporation	Activity	Ownership %	Carrying Value LBP million	Ownership %	Carrying Value LBP million
Investments						
Assurex SAL	Lebanon	Insurance and reinsurance	**23.82%**	10,278	23.82%	9,942
Syrian Arab for Insurance	Syria	Insurance and brokerage	**31.00%**	3,052	36.00%	3,569
Pinpay SAL	Lebanon	Mobile payment services	**37.04%**	-	37.04%	101
				13,330		13,612
Related loans						
Pinpay SAL				3		377
				13,333		13,989

The Group's investments accounted for under the equity method are not listed on public exchanges. The following table illustrates the summarised financial information of these investments:

ASSOCIATES' STATEMENT OF FINANCIAL POSITION

	2016		
	Assurex SAL LBP Million	Syrian Arab for Insurance LBP Million	Pinpay SAL LBP Million
Associates' Statement of Financial Position			
Current assets	69,925	11,976	35
Non-current assets	35,956	16,194	1,334
Current liabilities	(61,987)	(4,558)	(649)
Non-current liabilities	(2,408)	(13,768)	(2,423)
Equity	**41,486**	**9,844**	**(1,703)**

	2015		
	Assurex SAL LBP Million	Syrian Arab for Insurance LBP Million	Pinpay SAL LBP Million
Associates' Statement of Financial Position			
Current assets	65,741	11,675	41
Non-current assets	35,545	19,788	1,596
Current liabilities	(56,757)	(2,644)	(435)
Non-current liabilities	(2,362)	(15,436)	(858)
Equity	42,167	13,383	344

ASSOCIATES' OPERATING RESULTS

	2016 LBP Million	2015 LBP Million
Associates' operating results		
Revenues	**46,035**	44,433
Operating expenses	**(40,192)**	(35,775)
Dividends received during the year	**487**	730
Share of profit for the year	**1,090**	3,044

Assurex SAL has contingent liabilities of LBP 3,175 million of which LBP 3,100 million relate to guarantees issued in accordance with regulatory requirements.

28.0. | 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 2016	209,519	577,685	152,929	3,481	218,756	110,176	8,816	**1,281,362**
Entities deconsolidated during the year	(1,919)	(5,862)	(2,548)	(329)	(3,906)	(3,185)	(9)	**(17,758)**
Additions	1,336	68,569	31,173	230	31,021	8,224	2	**140,555**
Disposals	-	(62)	(1,912)	(105)	(3,066)	(281)	(7)	**(5,433)**
Transfers	-	-	-	-	4,165	(4,165)	-	**-**
Foreign exchange difference	(13,024)	(88,729)	(29,551)	(1,013)	(30,897)	(7,208)	(192)	**(170,614)**
At 31 December 2016	**195,912**	**551,601**	**150,091**	**2,264**	**216,073**	**103,561**	**8,610**	**1,228,112**
Depreciation:								
At 1 January 2016	-	16,740	86,798	1,638	134,793	71,326	6,629	**317,924**
Entities deconsolidated during the year	-	(2,257)	(1,657)	(193)	(2,353)	(2,231)	-	**(8,691)**
Depreciation during the year	-	20,444	20,546	343	28,810	7,545	114	**77,802**
Disposals	-	(62)	(1,867)	(47)	(2,811)	(203)	(7)	**(4,997)**
Transfers	-	-	-	-	2,256	(2,256)	-	**-**
Foreign exchange difference	-	(2,574)	(15,293)	(324)	(13,887)	(3,217)	(132)	**(35,427)**
At 31 December 2016	**-**	**32,291**	**88,527**	**1,417**	**146,808**	**70,964**	**6,604**	**346,611**
Net book value:								
At 31 December 2016	**195,912**	**519,310**	**61,564**	**847**	**69,265**	**32,597**	**2,006**	**881,501**

	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 2015	182,267	572,342	146,883	3,104	189,656	107,047	8,745	1,210,044
Entities acquired during the year	-	-	1,661	-	3,016	629	-	5,306
Additions	317	50,475	24,876	878	36,863	7,461	106	120,976
Disposals	-	(1,223)	(5,067)	(308)	(707)	(503)	(9)	(7,817)
Revaluation	-	770	-	-	-	-	-	770
Transfers	27,436	(28,209)	(197)	-	1,518	727	-	1,275
Foreign exchange difference	(501)	(16,470)	(15,227)	(193)	(11,590)	(5,185)	(26)	(49,192)
At 31 December 2015	209,519	577,685	152,929	3,481	218,756	110,176	8,816	1,281,362
Depreciation:								
At 1 January 2015	-	-	77,874	1,553	110,425	65,121	6,530	261,503
Entities acquired during the year	-	-	672	-	2,235	147	-	3,054
Result of discontinued operations	-	317	234	25	269	306	-	1,151
Depreciation during the year	-	19,397	18,301	416	27,099	7,934	115	73,262
Disposals	-	(1,212)	(4,237)	(293)	(587)	(407)	-	(6,736)
Transfers	-	(625)	(197)	-	311	511	-	-
Foreign exchange difference	-	(1,137)	(5,849)	(63)	(4,959)	(2,286)	(16)	(14,310)
At 31 December 2015	-	16,740	86,798	1,638	134,793	71,326	6,629	317,924
Net book value:								
At 31 December 2015	209,519	560,945	66,131	1,843	83,963	38,850	2,187	963,438

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 constitute 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, 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 recognized in other comprehensive income by LBP 30,405 million before the effect of applicable taxes (2015: LBP 35,694 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 and buildings and related improvements were measured using the cost model, the carrying amounts as of 31 December would have been as follows:

	2016	
	Land LBP Million	Buildings and Freehold Improvements LBP Million
Cost	69,204	481,387
Accumulated depreciation	-	(165,877)
Net book value	**69,204**	**315,510**

	2015	
	Land LBP Million	Buildings and Freehold Improvements LBP Million
Cost	69,889	479,264
Accumulated depreciation	-	(150,182)
Net book value	69,889	329,082

29.0. | INTANGIBLE FIXED ASSETS

	Key Money LBP Million	Computer Software LBP Million	Other LBP Million	**Total LBP Million**
Cost:				
At 1 January 2016	412	202,326	600	**203,338**
Entities deconsolidated during the year	(412)	(755)	(245)	**(1,412)**
Additions	-	31,302	-	**31,302**
Disposals	-	(54,370)	-	**(54,370)**
Foreign exchange difference	-	(22,866)	(36)	**(22,902)**
At 31 December 2016	**-**	**155,637**	**319**	**155,956**
Amortisation:				
At 1 January 2016	58	101,614	302	**101,974**
Entities deconsolidated during the year	(58)	(457)	(81)	**(596)**
Amortisation during the year	-	30,837	76	**30,913**
Disposals	-	(31,234)	-	**(31,234)**
Foreign exchange difference	-	(9,652)	(70)	**(9,722)**
At 31 December 2016	**-**	**91,108**	**227**	**91,335**
Net book value:				
At 31 December 2016	**-**	**64,529**	**92**	**64,621**

	Key Money LBP Million	Computer Software LBP Million	Other LBP Million	Total LBP Million
Cost:				
At 1 January 2015	713	167,853	481	169,047
Entities acquired during the year	-	1,295	170	1,465
Additions	-	47,103	-	47,103
Transfers	-	254	-	254
Disposals	(13)	-	-	(13)
Foreign exchange difference	(288)	(14,179)	(51)	(14,518)
At 31 December 2015	412	202,326	600	203,338
Amortisation:				
At 1 January 2015	102	76,119	174	76,395
Entities acquired during the year	-	966	94	1,060
Result of discontinued operations	7	43	21	71
Amortisation during the year	-	28,716	40	28,756
Transfers	-	185	-	185
Disposals	(13)	-	-	(13)
Foreign exchange difference	(38)	(4,415)	(27)	(4,480)
At 31 December 2015	58	101,614	302	101,974
Net book value:				
At 31 December 2015	354	100,712	298	101,364

30.0. | NON-CURRENT ASSETS HELD FOR SALE

The Group occasionally takes possession of properties in settlement of loans and advances. The Group is in the process of selling these properties and 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.

Properties Acquired in Settlement of Debts	2016 LBP Million	2015 LBP Million
Cost:		
At 1 January	75,315	19,095
Entities deconsolidated during the year	(413)	-
Additions	12,728	63,178
Disposals	(8)	(4,699)
Foreign exchange difference	(4,006)	(2,259)
At 31 December	**83,616**	75,315
Impairment:		
At 1 January	2,536	585
Impairment for the year	332	-
Entities deconsolidated during the year	(248)	
Result of discontinued operations	-	314
Transfers	-	1,763
Foreign exchange difference	(31)	(126)
At 31 December	**2,589**	2,536
Net book value:		
At 31 December	**81,027**	72,779

31.0. | OTHER ASSETS

	2016 LBP Million	2015 LBP Million
Advances on acquisition of property and equipment	131,692	92,177
Advances on acquisition of intangible fixed assets	28,450	33,974
Prepaid charges	68,321	64,832
Electronic cards and regularisation accounts	38,778	23,962
Receivables related to non-banking operations	8,064	25,975
Advances to staff	4,050	7,232
Hospitalisation and medical care under collection	32,591	29,054
Advances on investments	5,058	58,256
Deferred tax assets (Note 15)	107,424	61,064
Interest and commissions receivable	5,880	9,718
Funds management fees	1,835	2,971
Fiscal stamps, bullions and commemorative coins	2,007	2,512
Management and advisory fees receivable	1,200	2,466
Tax regularisation account	6,787	6,772
Other debtor accounts	43,158	49,541
	485,295	470,506

During 2016, the Group wrote off advances on investments in the amount of LBP 45,221 million due to lack of its recoverability. The loss was booked under "Impairment of goodwill and other assets" in the Consolidated Income Statement for the year ended 31 December 2016.

32.0. | GOODWILL

	Lebanon LBP Million	Switzerland LBP Million	Egypt LBP Million	UAE LBP Million	Sudan LBP Million	**Total LBP Million**
Cost:						
At 1 January 2016	54,716	42,812	81,680	28,084	2,142	**209,434**
Entities deconsolidated during the year	-	-	(8,079)	-	(2,142)	**(10,221)**
Impairment loss	(54,716)	-	(65,639)	(28,084)	-	**(148,439)**
Foreign exchange difference	-	(985)	(7,962)	-	-	**(8,947)**
At 31 December 2016	**-**	**41,827**	**-**	**-**	**-**	**41,827**

	Lebanon LBP Million	Switzerland LBP Million	Egypt LBP Million	UAE LBP Million	Sudan LBP Million	Total LBP Million
Cost:						
At 1 January 2015	54,716	43,290	97,093	-	2,374	197,473
Entities deconsolidated during the year	-	-	-	28,084	-	28,084
Impairment loss	-	-	(5,276)	-	(181)	(5,457)
Foreign exchange difference	-	(478)	(10,137)	-	(51)	(10,666)
At 31 December 2015	54,716	42,812	81,680	28,084	2,142	209,434

For the purpose of impairment testing, goodwill is allocated to the Cash-generating Units (CGUs) which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes. The following CGUs include in their carrying value goodwill that is a significant proportion of total goodwill reported by the Group. These CGUs do not carry on their statement of financial position any intangible assets with indefinite lives, other than goodwill.

The following schedule shows the discount and terminal growth rates used for CGUs subject to impairment testing.

	2016		2015	
	Discount Rate %	Terminal Growth Rate %	Discount Rate %	Terminal Growth Rate %
Cash-generating units				
Private Banking – Lebanon	**17.00**	**2.00**	16.00	2.00
Private Banking – Switzerland	**10.00**	**2.00**	10.00	2.00
Commercial Banking – Egypt	**19.00**	**3.00**	17.00	3.00
Online Brokerage – Egypt	**-**	**-**	16.00	3.00
Commercial Banking – Sudan	**-**	**-**	22.00	3.00
Banking IT Support - UAE	**12.00**	**2.00**	-	-

The key assumptions described above may change in response to changes in economic and market conditions. The Group estimates that reasonably possible changes in these assumptions are not expected to cause the recoverable amount of either unit to decline below the carrying amount.

The Commercial Banking CGU in Egypt is a separate legal entity performing Commercial Banking activities to its customers and is reported under mainly the Corporate and Commercial Banking business segment and the MENAT geographical segment. The recoverable amount of this CGU, of LBP 363,271 million as at 31 December 2016, has been determined based on a value in use calculation using cash flow projections from financial budgets approved by Senior Management covering a five-year period. The projected cash flows have been updated to reflect the decrease in the level of activity due to the prevailing economic conditions in Egypt. The discount rate applied to cash flow projections is 19.00% (2015:17.00%). As a result, an impairment loss on goodwill of LBP 65,639 million was recognised for the year ended 31 December 2016 (2015: none).

The private banking CGU in Lebanon is a separate legal entity performing Private Banking activities to its customers and is reported mainly under Retail and Personal Banking business segment and the Lebanon geographical segment. The recoverable amount of this CGU, of LBP 267,131 million as at 31 December 2016, has been determined based on a value in use calculation using cash flow projections from financial budgets approved by Senior Management covering a five-year period. The projected cash flows have been updated to reflect the decreased level of activity. The discount rate applied to cash flow projections is 17.00% (2015: 16.00%) and cash flows beyond the five-year period are extrapolated using a 2% growth rate. As a result, an impairment loss on goodwill amounting to LBP 54,716 million was recognised for the year ended 31 December 2016 (2015: none).

The Banking IT Support CGU in UAE is a separate legal entity performing outsourcing activities to its customers and is reported under Group Functions and Head Office business segment and the MENAT geographical segment. The recoverable amount of this CGU amounted to LBP 2,582 million as at 31 December 2016, and has been determined based on a value in use calculation using cash flow projections from financial budgets approved by Senior Management covering a five-year period. The projected cash flows have been updated to reflect the decreased level of activity. The discount rate applied to cash flow projections is 12.00%. As a result, an impairment loss on goodwill of LBP 28,084 million was recognised for the year ended 31 December 2016 (2015: none).

The online brokerage CGU in Egypt is a separate legal entity performing brokerage activities to its customers and is reported under the Treasury and Capital Markets business segment and the MENAT geographical segment. The recoverable amount of this CGU amounted to LBP 19,640 million as at 31 December 2015, and has been determined based on a value in use calculation using cash flow projections from financial budgets approved by Senior Management covering a five-year period. The projected cash flows have been updated to reflect the decreased level of activity. The discount rate applied to cash flow projections is 17.00%. As a result, an impairment loss on goodwill amounting to LBP 5,276 million was recognised during the year ended 31 December 2015.

The Commercial Banking CGU in Sudan is a separate legal entity performing Islamic Banking activities to its customers and is reported under the Treasury and Capital Markets business segment and the MENAT geographical segment. The recoverable amount of this CGU amounted to LBP 77,058 million as at 31 December 2015, and has been determined based on a value in use calculation using cash flow projections from financial budgets approved by Senior Management covering a five-year period. The projected cash flows have been updated to reflect the decreased level of activity. The discount rate applied to cash flow projections is 22.00% and cash flows beyond the five-year period are extrapolated using a 2.00% growth rate. As a result, an impairment loss on goodwill amounting to LBP 181 million was recognised during the year ended 31 December 2015.

The Online Brokerage CGU in Egypt and the Commercial Banking CGU in Sudan were deconsolidated during 2016 pursuant to their sale, as disclosed under Note 16 to the consolidated financial statements.

GOODWILL SENSITIVITY

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 following table, which shows the details of the sensitivity of the above measures on the Bank's CGU's value in use (VIU):

Key Assumptions per CGU	Basis of Key Assumptions and Associated Risk	Reasonably Assumed Possible Changes
Banking IT Support		
Interest margins	Interest margins are based on current fixed interest yields.	A decrease of 1.00% causes an increase in impairment by 8.00% (LBP 2,279 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 1.00% causes a decrease of the impairment by 0.85% (LBP 247million).
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 1.00% causes an increase of impairment by 0.06% (LBP 17 million).
Private Banking – Lebanon		
Interest margins	Interest margins are based on current fixed interest yields.	A decrease of 0.10% causes an increase in impairment by 19.00% (LBP 10,260 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 a decrease in the impairment by 7.00% (LBP 3,720 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 0.50% causes an increase of impairment by 8.00% (LBP 4,118 million).
Commercial Banking – Egypt		
Interest margins	Interest margins are based on current fixed interest yields.	A decrease of 0.10% causes an increase in impairment by 37.00% (LBP 23,987 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 a decrease in impairment by 9.00% (LBP 6,123 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 0.50% causes an increase in impairment by 6.00% (LBP 4,136 million).
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 4.92% (LBP 24,477 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 2.63% (LBP 13,098 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 0.50% causes a decrease in the value in use by 2.20% (LBP 10,938 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:

	2016	2015
Interest margin	**(0.63%)**	(0.82%)
Discount rate	**4.75%**	5.35%
Growth rate	**(22.00%)**	(25.00%)

33.0. | DUE TO CENTRAL BANKS

	2016 LBP Million	2015 LBP Million
Central Bank of Lebanon		
Subsidised loan	804,888	569,742
Term deposits	1,085,400	-
Accrued interest	18,758	114
Other central banks		
Term loan	98,066	-
Repurchase agreements	1,051	81,318
	2,008,163	651,174

SUBSIDISED LOANS

During 2016, The Group signed a credit agreement with the Central Bank of Lebanon based on the provisions of Decision No. 6116 dated 7 March 1996 and relating to the facilities which can be granted by BDL to banks. The loan amounted to LBP 804,888 million as of 31 December 2016 and bears a 1.00% interest that is accrued and paid on a yearly basis. The loan is repaid on a monthly basis based on the utilised portion by the Bank's customers.

TERM DEPOSITS

As of 31 December 2016, the Group had term deposits of LBP 1,085,400 million (USD 720 million) from the Central Bank of Lebanon bearing an interest rate of 6.00% and maturing during March 2017.

Interest expense on the above loans and deposits amounted to LBP 23,961 million and LBP 4,585 million for the years ended 31 December 2016 and 2015, respectively (Note 6).

REPURCHASE AGREEMENTS

The Group entered into repurchase agreements by pledging Turkish Treasury bills as collateral. The terms of these agreements are as follows:

	2016 LBP Million	2015 LBP Million
Central banks	**1,051**	81,318
Carrying value of collateral	**1,055**	97,960
Interest expense	**8,553**	6,727
Annual interest rate	**7.65%**	7.50%
Maturity date	**January 2017**	January 2016

34.0. | DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2016 LBP Million	2015 LBP Million
Current accounts	403,427	168,297
Term loans	1,845,213	1,853,074
Time deposits	**320,964**	233,355
Accrued interest	4,401	4,521
	2,574,005	2,259,247

Included in term loans above, is an amount of LBP 627,551 million (2015: LBP 438,051 million) representing loans granted from various supranational entities for the purpose of financing small and medium-sized enterprises in the private sector with annual interest rates ranging from 2.24% to 5.68%.

The commitments arising from bank facilities received are disclosed in Note 51 to these consolidated financial statements.

35.0. | CUSTOMERS' DEPOSITS

	2016				
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	Public Sector LBP Million	Other LBP Million	**Total LBP Million**
Sight deposits	2,995,314	4,863,434	132,742	-	**7,991,490**
Time deposits	11,138,805	25,475,711	199,598	-	**36,814,114**
Saving accounts	16,918	7,243,213	-	-	**7,260,131**
Certificates of deposits	52,326	533,860	-	-	**586,186**
Margins on LC's and LG's	185,752	58,786	22,879	-	**267,417**
Other margins	136,559	122,646	-	-	**259,205**
Other deposits	52,488	158,187	-	-	**210,675**
	14,578,162	**38,455,837**	**355,219**	**-**	**53,389,218**
Deposits pledged as collateral					**5,106,940**

	2015				
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	Public Sector LBP Million	Other LBP Million	Total LBP Million
Sight deposits	3,008,921	4,950,638	116,078	10,982	8,086,619
Time deposits	13,781,231	21,156,425	251,059	2,837	35,191,552
Saving accounts	15,776	7,590,521	-	-	7,606,297
Certificates of deposits	86,482	1,289,374	-	-	1,375,856
Margins on LC's and LG's	206,987	51,379	22	-	258,388
Other margins	144,105	117,425	-	8,813	270,343
Other deposits	77,089	123,166	-	1,197	201,452
	17,320,591	35,278,928	367,159	23,829	52,990,507
Deposits pledged as collateral					4,906,371

Sight deposits include balances of bullion amounting to LBP 62,095 million (2015: LBP 68,226 million) which were carried at fair value through profit or loss.

Time deposits include balances amounting to LBP 2,507,339 million as at 31 December 2016 (2015: LBP 2,325,642 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 21).

36.0. | DEPOSITS FROM RELATED PARTIES

	2016		
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	**Total LBP Million**
Sight deposits	146	131,092	**131,238**
Time deposits	1,233	673,355	**674,588**
Saving accounts	-	568	**568**
Other deposits and margin accounts	1,870	5,284	**7,154**
	3,249	**810,299**	**813,548**
Deposits pledged as collateral			**221,147**

	2015		
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	Total LBP Million
Sight deposits	5,817	69,041	74,858
Time deposits	11,940	594,259	606,199
Saving accounts	-	551	551
Other deposits and margin accounts	1,780	6,723	8,503
	19,537	670,574	690,111
Deposits pledged as collateral			185,521

37.0. | DEBT ISSUED AND OTHER BORROWED FUNDS

	2016 LBP Million	2015 LBP Million
Subordinated loans	961,811	962,314
Issued bills	-	77,100
Accrued interests	11,724	14,568
	973,535	1,053,982

The above loans are subordinated, unsecured and subject to the following conditions:

Loan	Nominal Amount	Maturity	Interest Rate	Frequency
Loan 1	USD 350,000,000	16 October 2023	6.75%	Quarterly
Loan 2	USD 112,500,000	11 April 2024	6.55% + Libor 6m	Semi-annually
Loan 3	USD 37,500,000	11 April 2024	6.55% + Libor 6m	Semi-annually
Loan 4	USD 138,017,000	30 September 2024	6.50%	Semi-annually

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:

Loan 1: 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 II);
  - At any time after one year from the date of issuance for reasons related to the amendment of Lebanese taxation laws.

Loans 2 and 3: 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.

Loan 4: on 21 October 2014, Bank Audi sal granted Odea Bank a subordinated loan in the amount of USD 150 million. This loan matures on 30 September 2024 and pays quarterly interest of 6.50%. During 2015, the Bank offered and sold certificates of participation relating to the USD 150 million subordinated loan, of which USD 138 million were sold to third parties. The certificates constitute pass-through obligations of Bank Audi sal. Odea Bank shall repay the loan at maturity and may repay the loan in whole, but not in part (1) within one month 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.
Besides, during 2015, the Group had issued bills denominated in Turkish Lira to domestic investors in the amount of LBP 77,100 million. These bills matured on 28 February 2016 and paid semi-annual interest of 9.75%.

38.0. | OTHER LIABILITIES

	2016 LBP Million	2015 LBP Million
Deferred income (A)	78,300	-
Current tax liabilities (Note 15)	224,762	84,879
Accrued expenses	159,411	132,185
Miscellaneous suppliers and other payables	38,125	133,806
Operational taxes	54,231	52,765
Employee accrued benefits	11,730	8,641
Unearned commissions and premiums	48,881	58,261
Deferred tax liabilities (Note 15)	96,233	57,864
Electronic cards and regularisation accounts	18,360	10,030
Social security dues	6,473	5,295
Due to National Institute for Guarantee of Deposits	2,054	1,563
Other credit balances	31,022	32,711
	769,582	578,000

(A) During 2016, the Central Bank of Lebanon issued Intermediate Circular No. 446 dated 30 December 2016 and relating to the gain realised by banks from certain financial transactions with the Central Bank of Lebanon, consisting of the sale of financial instruments denominated in Lebanese Pounds and the purchase of financial instruments denominated in US Dollars. In accordance with the provisions of this circular, banks should recognise in the Income Statement, only part of the gain net of tax, caped to the extent of the losses recorded to comply with recent regulatory provisioning requirements (refer to Note 23), the impairment losses on goodwill recorded in accordance with IAS 36, and the shortage needed to comply with the capital adequacy requirements. Lebanese banks may further recognise up to 70.00% of the remaining balance of the gain realised net of tax in the Income Statement as non-distributable profits to be appropriated to reserves for capital increase, qualifying for inclusion within regulatory Common Equity Tier 1.

The Bank did not recognise in its Consolidated Income Statement LBP 307,063 million in gains realised from certain financial transactions with the Central Bank of Lebanon, but rather elected to recognise LBP 182,702 million representing 70.00% of the gains, net of taxes, directly in other comprehensive income (refer to Note 43). The remaining 30.00%, equivalent to LBP 78,300 million, was booked as deferred income. The related taxes amounting to LBP 46,061 million were recorded directly in current tax liability (refer to Note 15). The amount recorded as deferred income qualifies for inclusion within regulatory Tier 2 capital, in accordance with the provisions of the circular.

39.0. | PROVISIONS FOR RISKS AND CHARGES

	2016 LBP Million	2015 LBP Million
Provisions for risks and charges	48,797	66,081
End of service benefits	107,795	105,979
	156,592	172,060

A) PROVISIONS FOR RISKS AND CHARGES

	2016 LBP Million	2015 LBP Million
Provision for contingencies	16,671	23,824
Provision for legal claims	2,459	10,724
Provision for bonus	20,325	23,058
Other provisions	9,342	8,475
	48,797	66,081

The movement of provision for risks and charges is as follows:

	2016 LBP Million	2015 LBP Million
Balance at 1 January	**66,081**	48,147
Add:		
Charge for operating expenses (Note 14)	4,125	8,247
Charge for personnel expenses	25,014	27,897
Result of discontinued operations	-	11,068
Transfer from other liabilities	2,688	5,201
	31,827	53,413
Less:		
Paid during the year	23,511	24,155
Net provisions recoveries (Note 11)	1,336	654
Entities deconsolidated during the year	10,675	-
Foreign exchange difference	13,589	9,670
	49,111	34,479
Balance at 31 December	**48,797**	66,081

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 depends 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:

	2016		
	Lebanon LBP Million	Foreign Countries LBP Million	**Total LBP Million**
Balance at 1 January 2016	81,565	24,414	**105,979**
Charge for the year (Note 13)	25,424	6,018	**31,442**
Paid during the year	(16,498)	(3,923)	**(20,421)**
Actuarial loss (gain) on obligation – Experience	8,104	(3,201)	**4,903**
Actuarial loss (gain) on obligation – Economic	(6,402)	563	**(5,839)**
Actuarial loss (gain) on obligation – Demograghic	-	(1,075)	**(1,075)**
Entities deconsolidated during the year	-	(171)	**(171)**
Advances paid	(6,509)	-	**(6,509)**
Indemnities transferred from other entities	569	-	**569**
Foreign exchange difference	-	(1,083)	**(1,083)**
Balance at 31 December 2016	**86,253**	**21,542**	**107,795**

	2015		
	Lebanon LBP Million	Foreign Countries LBP Million	Total LBP Million
Balance at 1 January 2015	86,351	19,463	105,814
Charge for the year (Note 13)	14,169	3,099	17,268
Paid during the year	(4,976)	(3,121)	(8,097)
Entities deconsolidated during the year	-	99	99
Actuarial loss (gain) on obligation – Experience	(3,620)	225	(3,395)
Actuarial loss (gain) on obligation – Economic	(10,359)	4,597	(5,762)
Entities acquired during the year	-	959	959
Provision released (Note 11)	-	(11)	(11)
Advances paid	-	(216)	(216)
Foreign exchange difference	-	(680)	(680)
Balance at 31 December 2015	81,565	24,414	105,979

The charge for the year is broken down as follows:

	2016 LBP Million	2015 LBP Million
Current service cost	12,665	8,308
Past service cost	11,100	-
Interest on obligation	7,677	8,960
	31,442	17,268

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:

	2016	2015
Economic assumptions		
Discount rate (p.a.)	**8.00%**	8.50%
Salary increase (p.a.)		
Employees	**4.00%**	5.00%
Senior Managers	**6.00%**	7.00%
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 – 2016	**(4,560)**	**5,068**	**4,618**	**(4,203)**
Impact on net defined benefit obligation – 2015	(6,615)	6,957	4,526	(4,167)

The sensitivity analysis above was determined based on a method that extrapolates the impact on the net defined benefit obligation as a result of 50 basis point changes in key assumptions occurring at the end of the reporting period.

40.0. | SHARE CAPITAL AND WARRANTS ISSUED ON SUBSIDIARY CAPITAL

SHARE CAPITAL

The share capital of Bank Audi sal as at 31 December is as follows:

		2016		2015	
	Stock Exchange Listing	Number of Shares	**LBP Million**	Number of Shares	LBP Million
Ordinary shares	Beirut	283,511,087	470,192	283,511,087	470,192
Global depository receipts	London SEAQ and Beirut	116,238,117	191,793	116,238,117	191,793
		399,749,204	**661,985**	399,749,204	661,985
Preferred shares series "F"	Beirut	1,500,000	2,484	1,500,000	2,484
Preferred shares series "G"	Beirut	1,500,000	2,484	1,500,000	2,484
Preferred shares series "H"	Beirut	750,000	1,242	750,000	1,242
Preferred shares series "I"	Beirut	2,500,000	4,140	-	-
		6,250,000	**10,350**	3,750,000	6,210
		405,999,204	**672,335**	403,499,204	668,195

1. The Extraordinary General Assembly of shareholders held on 26 August 2014 decided to increase the Bank's capital by LBP 64,950 million through the issuance of 50,000,000 ordinary shares with a nominal value of LBP 1,299 per share. This capital increase was divided into two issuances the first (40,000,000 shares) of which was reserved for the Bank's shareholders of ordinary shares, while the second (10,000,000 shares) was reserved for the Bank's shareholders and new investors. The issuance had the following terms:

- Number of shares:	50,000,000 (of which 11,018,762 were converted to GDRs)
- Share's issue price:	USD 6
- Share's nominal value:	LBP 1,299 (later became LBP 1,656 upon increasing the nominal value).
- Issue premium :	Calculated in USD as the difference between USD 6 and the counter value of the par value per share based on the exchange rate at the underwriting dates.
- Benefits:	Annual dividends starting from the year 2014 results inclusive.
- Warrants right:	3 warrants per newly issued share exercisable in one month during the first semester of the year 2019. The warrant holder has the right to exchange it against 1 share in Odea Bank A.Ş. by paying USD 0.95 per share.

The Extraordinary General Assembly of shareholders held on 23 September 2014 validated and ratified the capital increases according to the aforementioned terms.

2. The Extraordinary General Assembly of shareholders held on 23 September 2014 decided to increase the Bank's capital by LBP 142,067 million through the increase of nominal value per share from LBP 1,299 to LBP 1,650 by transferring the amount of LBP 140,312 million from the Issue Premium – common shares and LBP 1,755 million from the Issue Premium – preferred shares. The Extraordinary General Assembly of shareholders held on 4 December 2014 validated and ratified the capital increases according to the aforementioned terms.

3. The Bank issued preferred shares series "F" under the following terms:

Preferred Shares Series "F"

- Number of shares:	1,500,000
- Share's issue price:	USD 100
- Share's nominal value:	LBP 1,254 (later became LBP 1,656 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 2012, 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.

The Extraordinary General Assembly of shareholders held on 22 June 2012 validated and ratified the capital increases according to the aforementioned terms.

4. Pursuant to the resolution of the Extraordinary General Assembly of shareholders held on 15 April 2013, the Bank issued series "G" and "H" preferred shares 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 1,656 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.

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 1,656 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 "G" and "H".

5. 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
- 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.

WARRANTS ISSUED ON SUBSIDIARY SHARES

As mentioned above, 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 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.

	2016		2015	
	Number of Warrants Outstanding	**Cost LBP Million**	Number of Warrants Outstanding	Cost LBP Million
Balance at 1 January	**154,830,156**	**17,145**	154,933,803	17,195
Purchased during the year	(29,957,852)	(4,516)	(103,647)	(50)
Balance at 31 December	**124,872,304**	**12,629**	154,830,156	17,145

PAID DIVIDENDS

In accordance with the resolution of the General Assembly of shareholders held on 8 April 2016, dividends were distributed as follows:

	2016		
	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**
Common shares and Global Depository Receipts	399,718,174	603	**241,030**
			275,515

In accordance with the resolution of the General Assembly of shareholders held on 7 April 2015, dividends were distributed as follows:

	2015		
	Number of Shares	Distribution per Share LBP	Total LBP Million
Preferred shares series "E"	1,250,000	9,045	11,306
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	7,348
Common shares and Global Depository Receipts	399,280,388	603	240,766
			286,556

41.0. | ISSUE PREMIUMS

	2016 LBP Million	2015 LBP Million
Issue premium – common shares	**883,582**	883,582
Issue premium – preferred shares	**931,837**	559,102
	1,815,419	1,442,684

42.0. | 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.

43.0. | 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 2016	**494,365**	**55,511**	**140**	**550,469**	**30,515**	**7,686**	**40,530**	**1,179,216**
Appropriation of 2015 profits	67,646	2,041	-	63,071	8,635	1,652	91,968	**235,013**
Other comprehensive income (Note 38)	-	182,702	-	-	-	-	-	**182,702**
Entities deconsolidated during the year	(15,370)	-	-	(4,414)	-	-	(120,990)	**(140,774)**
Non-controlling interests share of reserves	(16)	-	-	-	-	-	-	**(16)**
Balance at 31 December 2016	**546,625**	**240,254**	**140**	**609,126**	**39,150**	**9,338**	**11,508**	**1,456,141**

	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 2015	445,767	53,330	140	497,961	21,464	6,865	25,052	1,050,579
Appropriation of 2014 profits	48,748	4,580	-	52,508	9,051	821	27,432	143,140
Increase in share nominal value	-	(2,399)	-	-	-	-	-	(2,399)
Non-controlling interests share of reserves	(150)	-	-	-	-	-	(11,954)	(12,104)
Balance at 31 December 2015	494,365	55,511	140	550,469	30,515	7,686	40,530	1,179,216

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 67,646 million (2015: LBP 48,748 million) as required by the laws applicable in the countries in which they operate.

RESERVES APPROPRIATED FOR CAPITAL INCREASE

During 2016, the Bank recognised directly in reserves appropriated for capital increase an amount of LBP 182,702 million equivalent to 70.00% of net gains realised from trading sovereign financial instruments with the Central Bank of Lebanon (Note 38).

The Group transferred LBP 2,041 million from 2015 profits (2015: LBP 4,580 million from 2014 profits) 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.

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.

RESERVES FOR GENERAL BANKING RISKS

According to the Bank of Lebanon's regulations, banks are required to appropriate from their annual net profit a minimum of 0.20% and a maximum of 0.3 percent of total risk-weighted assets and off-balance sheet accounts based on rates specified by the Central Bank of Lebanon to cover general banking risks. The consolidated ratio should not be less than 2.00% by the year 2017. 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's Circular No. 270 dated 19 September 2011, 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.

OTHER RESERVES

In accordance with decision 362 of the Council of Money and Credit of Syria, unrealised accumulated foreign exchange profits from the revaluation of the structural position in foreign currency maintained by the subsidiary bank in Syria should be appropriated in non-distributable reserve.

Pursuant to the deconsolidation of the Syrian subsidiary in 2016, the balance represents regulatory reserves against retail credit portfolios in Lebanon.

44.0. | 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 2016	**648,871**	**(1,345)**	**(4,661)**	**642,865**
Appropriation of 2015 profits	2,681	-	-	**2,681**
Entities deconsolidated during the year	(10,865)	-	-	**(10,685)**
Non-controlling interests share of reserves	20	-	222	**242**
Cost of issuance of shares	-	-	(7,707)	**(7,707)**
Treasury shares transactions	284	-	-	**284**
Other movements	(2,999)	-	-	**(2,999)**
Balance at 31 December 2016	**637,992**	**(1,345)**	**(12,146)**	**624,501**

	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 2015	622,950	(1,314)	(4,660)	616,976
Appropriation of 2014 profits	25,927	-	-	25,927
Entities acquired during the year	681	-	-	681
Non-controlling interests share of reserves	(687)	-	-	(687)
Warrants issued on subsidiary shares	-	(31)	-	(31)
Other movements	-	-	(1)	(1)
Balance at 31 December 2015	648,871	(1,345)	(4,661)	642,865

45.0. | PROPOSED DIVIDENDS

In its meeting held on 20 March 2017, the Board of Directors of the Bank resolved to propose to the annual Ordinary General Assembly the distribution of dividends of LBP 753.75 per common share and GDR. Proposed dividends related to preferred shares amounted to LBP 45,791 million. These dividends are subject to the General Assembly's approval.

46.0. | TREASURY SHARES

	2016		2015	
	Number of GDRs	Cost LBP Million	Number of GDRs	Cost LBP Million
Balance at 1 January	-	-	496,335	4,929
Purchase of Treasury shares	11,333,625	102,529	881,194	8,242
Sale of Treasury shares	(955,737)	(8,503)	(1,377,529)	(13,171)
Balance at 31 December	**10,377,888**	**94,026**	-	-

47.0. | OTHER COMPONENTS OF EQUITY

	2016						
	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	**Total LBP Million**
Balance at 1 January 2016	**360,488**	**36,211**	**(732,696)**	**(5,592)**	**4,546**	**(53,152)**	**(390,195)**
Other comprehensive income	(2,319)	(4,030)	(401,030)	1,338	-	(4,561)	**(410,602)**
Non-controlling interests share of other comprehensive income	-	(27)	59,517	-	-	-	**59,490**
Deconsolidation effect on non-controlling interests	544	-	(132,055)	-	-	-	**(131,511)**
Balance at 31 December 2016	**358,713**	**32,154**	**(1,206,264)**	**(4,254)**	**4,546**	**(57,713)**	**(872,818)**

	2015						
	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	Total LBP Million
Balance at 1 January 2015	353,974	27,527	(552,183)	(13,155)	4,546	348	(178,943)
Other comprehensive income	5,383	9,879	(202,087)	8,266	-	(53,500)	(232,059)
Non-controlling interests share of reserves	45	-	21,957	-	-	-	22,002
Other movements	1,086	-	(383)	(703)	-	-	-
Sale of financial assets at FVTOCI	-	(1,195)	-	-	-	-	(1,195)
Balance at 31 December 2015	360,488	36,211	(732,696)	(5,592)	4,546	(53,152)	(390,195)

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. During 2015, the Group reversed LBP 4,691 million out of the previously deferred taxes due to the change in applicable tax rates in Egypt.

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 2016	**41,994**	**(5,783)**	**36,211**
Other comprehensive income	(4,463)	433	**(4,030)**
Non-controlling interest share of reserves	(27)	-	**(27)**
Adjustments	(68)	68	**-**
Balance at 31 December 2016	**37,436**	**(5,282)**	**32,154**
Balance at 1 January 2015	32,495	(4,968)	27,527
Other comprehensive income	11,040	(1,161)	9,879
Sale of financial assets at FVTOCI	(1,405)	210	(1,195)
Adjustments	(136)	136	-
Balance at 31 December 2015	41,994	(5,783)	36,211

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 exercised this option with a view to enhance hedge effectiveness. The decrease in fair value of the time value of these options, to the extent that it relates to the hedged item, amounted to LBP 27,861 million for the year ended 31 December 2016 (2015: LBP 75,458 million) and was recognised in other comprehensive income and accumulated in this reserve account. Amortisation of the time value at the date of designation, in addition to other costs of hedging amounted to LBP 23,300 million for the year ended 31 December 2016 (2015: LBP 21,958 million).

48.0. | 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
	2016	2015			
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 Syria sa	47.00%	47.00%	Syria	Banking (Commercial)	SYP
National Bank of Sudan	-	76.56%	Sudan	Banking (Commercial)	SDG
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
Societe Libanaise de Factoring sal	94.85%	94.85%	Lebanon	Factoring	LBP
ODEA Bank A.Ş.	76.42%	100.00%	Turkey	Banking (Commercial)	TRY
Infi Gamma Holding sal	99.97%	99.97%	Lebanon	Investment	USD
Audi Investments Holding sal	100.00%	100.00%	Lebanon	Investment	USD
Capital Banking Solutions Ltd	70.50%	70.50%	UAE	IT services	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

	2016 LBP Million	2015 LBP Million
Capital	**359,369**	124,699
Capital reserves	**1,598**	68,056
Retained earnings	**3,852**	(20,672)
Profit for the year	**36,590**	19,779
Other components of equity	**(60,057)**	(132,078)
	341,352	59,784

During 2016, the Group disposed of 23.58% of the ownership interests of Odea Bank A.Ş. pursuant to the capital increase of the latter which was mostly subscribed to with supranational investors. Following the partial disposal, the Group still controls Odea Bank A.Ş. and retains 76.42% of the ownership interests.

The transaction has been accounted for as an equity transaction with non-controlling interests, resulting in the following:

	2016 LBP Million
Proceed from decrease of 23.58% ownership interest	387,543
Net assets attributable to non-controlling interest	(301,805)
Increase in equity attributable to parent	**85,738**
Represented by:	
Increase in foreign currency translation reserve	94,657
Decrease in cumulative changes in fair value	(27)
Decrease in retained earnings	(9,114)
Increase in distributable reserves	222
	85,738

MATERIAL PARTIALLY OWNED SUBSIDIARIES

	Odea Bank A.Ş.	National Bank of Sudan	Bank Audi Syria sa
	2016 %	2015 %	2015 %
Proportion of equity interests held by non-controlling interests	**23.58%**	23.44%	53.00%

SUMMARISED STATEMENT OF PROFIT OR LOSS

	Odea Bank A.Ş.	National Bank of Sudan	Bank Audi Syria sa
	2016	2015	2015
Net interest income	547,447	4,749	7,308
Net fee and commission income	83,990	597	4,116
Net gain on financial assets	86,399	1,371	44,493
Revenues from financial assets at fair value through other comprehensive income	3,110	-	-
Other operating income	1,314	893	27
Total operating income	**722,260**	7,610	55,944
Net credit losses	(266,976)	1,326	(711)
Total operating expenses	(325,923)	(2,967)	(20,976)
Non-operating revenues (expenses)	-	2	25
Profit before tax	**129,361**	5,971	34,282
Income tax	(25,872)	(304)	-
Profit for the period	**103,489**	5,667	34,282
Attributable to non-controlling interests	14,376	1,328	18,169
Dividends paid to non-controlling interests	-	1,357	-

SUMMARISED STATEMENT OF FINANCIAL POSITION

	Odea Bank A.Ş.
	2016 LBP Million
ASSETS	
Cash and balances with central banks	2,017,794
Due from banks and financial institutions	140,168
Loans to banks and financial institutions and reverse repurchase agreements	1,886,858
Due from head office, sister, related banks and financial institutions	-
Derivative financial instruments	179,629
Financial assets at fair value through profit or loss	2,525
Loans and advances to customers at amortised cost	11,159,897
Debtors by acceptances	48,977
Financial assets at amortised cost	584,879
Financial assets at fair value through other comprehensive income	824
Investment in subsidiaries and associates	-
Property and equipment	55,368
Intangible assets	42,256
Non-current assets held for sale	18,002
Other assets	145,744
TOTAL ASSETS	**16,282,921**
LIABILITIES	
Due to Central Bank	99,117
Due to banks and financial institutions	1,475,396
Derivative financial instruments	233,449
Due to head office, sister, related banks and financial institutions	112,388
Customers' deposits	12,419,546
Deposits from related parties	5,071
Debt issued and other borrowed funds	225,983
Engagements by acceptances	48,977
Other liabilities	100,242
Provisions for risks and charges	23,943
TOTAL LIABILITIES	**14,744,112**
TOTAL SHAREHOLDERS' EQUITY	**1,538,809**
Of which: non-controlling interest	*316,181*
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**16,282,921**

The tables below summarises the financial position of the deconsolidated entities as at deconsolidation date:

	2016			
	Bank Audi Syria LBP Million	National Bank of Sudan LBP million	Arabeya Online Brokerage LBP Million	**Total LBP Million**
Cash and balances with central banks	76,346	21,965	128	**98,439**
Due from banks and financial institutions	202,982	62,773	9,805	**275,560**
Loans and advances to customers and related parties at amortised cost	35,819	-	-	**35,819**
Financial assets at fair value through other comprehensive income	-	-	475	**475**
Financial assets at amortised cost	-	25,846	-	**25,846**
Other assets	6,758	5,030	9,774	**21,562**
TOTAL ASSETS	**321,905**	**115,614**	**20,182**	**457,701**
Due to banks and financial institutions	81,711	-	-	**81,711**
Customers' and related parties' deposits	153,673	24,069	-	**177,742**
Other liabilities	4,464	3,183	9,186	**16,833**
Shareholders' equity	82,057	88,362	10,996	**181,415**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**321,905**	**115,614**	**20,182**	**457,701**

	2015			
	Bank Audi Syria LBP Million	National Bank of Sudan LBP million	Arabeya Online Brokerage LBP Million	Total LBP Million
Cash and balances with central banks	87,562	26,682	248	114,492
Due from banks and financial institutions	204,509	67,480	12,436	284,425
Loans and advances to customers and related parties at amortised cost	61,672	103	-	61,775
Financial assets at fair value through other comprehensive income	-	-	585	585
Financial assets at amortised cost	-	30,181	-	30,181
Other assets	13,810	5,587	18,022	37,419
TOTAL ASSETS	367,553	130,033	31,291	528,877
Due to banks and financial institutions	70,230	-	-	70,230
Customers' and related parties' deposits	206,799	33,136	-	239,935
Other liabilities	16,559	3,562	19,935	40,056
Shareholders' equity	73,965	93,335	11,356	178,656
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	367,553	130,033	31,291	528,877

SUMMARISED CASH FLOW INFORMATION

	Share of Non-controlling Interests		
	Odea Bank A.Ş.	National Bank of Sudan	Bank Audi Syria sa
	2016 LBP Million	2015 LBP Million	2015 LBP Million
Operating activities	(123,629)	7,436	22,074
Investing activities	(212,983)	(321)	12,174
Financing activities	361,375	(1,533)	-
	24,763	5,582	34,248

49.0. | CASH AND CASH EQUIVALENTS

	2016 LBP Million	2015 LBP Million
Cash and balances with central banks	2,549,050	1,391,150
Due from banks and financial institutions	2,054,677	2,625,705
Loans to banks and financial institutions and reverse repurchase agreements	24,654	2,563
Due to banks and financial institutions	(1,171,267)	(347,561)
	3,457,114	3,671,857

50.0. | 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 observable in an active market. Such valuation techniques and models incorporate assumptions about factors observable in an active market that other market participants would use in their valuations, including interest rate yield curve, exchange rates, volatilities, and prepayment and defaults rates.

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). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

Fair value measurement hierarchy of the Group's financial assets and liabilities carried at fair value:

	2016			
	Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million	**Total LBP Million**
FINANCIAL ASSETS				
Derivative financial instruments	53,138	336,527	473	**390,138**
Financial assets at fair value through profit or loss				
Lebanese sovereign and Central Bank of Lebanon				
Central Bank's certificates of deposits	-	17,559	-	**17,559**
Treasury bills	-	555,086	-	**555,086**
Eurobonds	13,100	-	-	**13,100**
Other sovereign				
Treasury bills and bonds	2,526	-	-	**2,526**
Private sector and other securities				
Banks and financial institutions	8,973	454	-	**9,427**
Loans and advances to customers	-	21,898	-	**21,898**
Funds	964	35,719	31,018	**67,701**
Equity instruments	5,911	-	6	**5,917**
	31,474	**630,716**	**31,024**	**693,214**
Financial assets designated at fair value through other comprehensive income				
Private sector and other securities				
Equity instruments	1,167	55,335	137,446	**193,948**
	85,779	**1,022,578**	**168,943**	**1,277,300**
FINANCIAL LIABILITIES				
Derivative financial instruments	39,063	233,695	194	**272,952**
Customers' deposits - sight	62,095	-	-	**62,095**
	101,158	**233,695**	**194**	**335,047**

	2015			
	Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million	Total LBP Million
FINANCIAL ASSETS				
Derivative financial instruments	64,201	197,630	4,032	265,863
Financial assets at fair value through profit or loss				
Lebanese sovereign and Central Bank of Lebanon				
Central Bank's certificates of deposits	-	109,520	-	109,520
Treasury bills	-	91,828	-	91,828
Eurobonds	51,684	-	-	51,684
Other sovereign				
Treasury bills and bonds	12,863	-	-	12,863
Private sector and other securities				
Banks and financial institutions	36,051	300	-	36,351
Loans and advances to customers	-	22,185	-	22,185
Funds	7,438	27,480	15,689	50,607
Equity instruments	8,675	-	9	8,684
	116,711	251,313	15,698	383,722
Financial assets designated at fair value through other comprehensive income				
Private sector and other securities				
Equity instruments	1,040	40,021	103,314	144,375
	181,952	488,964	123,044	793,960
FINANCIAL LIABILITIES				
Derivative financial instruments	57,078	74,121	-	131,199
Customers' deposits - sight	68,226	-	-	68,226
	125,304	74,121	-	199,425

The movement of items recurrently measured at fair value categorised within Level 3 during the year is as follows:

	2016			
	Financial Instruments at Fair Value through Profit or Loss LBP Million	Financial Instruments at Fair Value through Other Comprehensive Income LBP Million	Derivative Financial Instruments LBP Million	**Total LBP Million**
FINANCIAL ASSETS				
Balance at 1 January 2016	15,698	103,314	4,032	**123,044**
Re-measurement recognised in other comprehensive income	-	(2,113)	(4,032)	**(6,145)**
Re-measurement recognised in the income statement	(886)	-	473	**(413)**
Entities deconsolidated during the year	-	(552)	-	**(552)**
Purchases	16,212	52,869	-	**69,081**
Sales	-	(15,279)	-	**(15,279)**
Foreign exchange difference	-	(793)	-	**(793)**
Balance at 31 December 2016	**31,024**	**137,446**	**473**	**168,943**

	2015			
	Financial Instruments at Fair Value through Profit or Loss LBP Million	Financial Instruments at Fair Value through Other Comprehensive Income LBP Million	Derivative Financial Instruments LBP Million	Total LBP Million
FINANCIAL ASSETS				
Balance at 1 January 2015	2,197	106,247	1,136	109,580
Re-measurement recognised in other comprehensive income	-	2,655	2,896	5,551
Purchases	13,501	2,781	-	16,282
Sales	-	(8,317)	-	(8,317)
Foreign exchange difference	-	(52)	-	(52)
Balance at 31 December 2015	15,698	103,314	4,032	123,044

ASSETS AND LIABILITIES CARRIED AT FAIR VALUE USING A VALUATION TECHNIQUE WITH SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2)

Derivatives

Derivative products are valued using a valuation technique with market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Government Bonds, Certificates of Deposits and Other Debt Instruments

The Group values these unquoted debt securities using discounted cash flow valuation models where the lowest level input that is significant to the entire measurement is observable in an active market. These inputs include assumptions regarding current rates of interest, commodity prices, implied volatilities, and credit spreads.

ASSETS AND LIABILITIES CARRIED AT FAIR VALUE USING A VALUATION TECHNIQUE WITH SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)

Equity Shares of Non-listed Entities

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.

Derivatives

Collars held by the Group for hedging purposes are valued using a valuation technique with significant unobservable inputs. The applied valuation technique uses a Monte Carlo simulation which requires inputs that cannot be pinned down with precision, given the lack of sufficient liquidity in the USD/TRY options markets and the Turkish Lira yield curve, particularly beyond the shortest maturities. In addition, the valuation need to reflect the substantial volatility skew that exists between USD puts and USD calls with comparable deltas, and specifically the fact that the implied volatility of USD calls is substantially greater than that of USD puts, even when their deltas and tenures are equal.

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 group's financial assets and liabilities for which fair value is disclosed:

	Notional Amount	Fair Value			
31 December 2016	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	18,650,596	377,438	18,267,929	-	**18,645,367**
Due from banks and financial institutions	3,027,228	-	3,027,218	-	**3,027,218**
Loans to banks and financial institutions and reverse repurchase agreements	2,068,815	-	2,068,841	-	**2,068,841**
Net loans and advances to customers	25,732,247	-	-	26,277,004	**26,277,004**
Corporate and SME	*19,023,845*	-	-	*19,522,168*	***19,522,168***
Retail and Personal Banking	*6,248,123*	-	-	*6,294,562*	***6,294,562***
Public sector	*460,279*	-	-	*460,274*	***460,274***
Net loans and advances to related parties	219,193	-	-	219,143	**219,143**
Corporate and SME	*24,099*	-	-	*24,081*	***24,081***
Retail and Personal Banking	*195,094*	-	-	*195,062*	***195,062***
Financial assets classified at amortised cost	13,990,070	1,370,998	12,460,599	93,959	**13,925,556**
Lebanese sovereign and Central Bank	*11,367,616*	*580,260*	*10,706,213*	-	***11,286,473***
Other sovereign	*2,020,863*	*434,624*	*1,599,816*	-	***2,034,440***
Private sector and other securities	*601,591*	*356,114*	*154,570*	*93,959*	***604,643***
	63,688,149	**1,748,436**	**35,824,587**	**26,590,160**	**64,163,129**
FINANCIAL LIABILITIES					
Due to central banks	2,008,163	-	2,008,162	-	**2,008,162**
Due to banks and financial institutions	2,574,005	-	2,574,241	-	**2,574,241**
Customers' deposits	53,327,123	-	53,331,455	-	**53,331,455**
Deposits from related parties	813,548	-	813,550	-	**813,550**
Debt issued and other borrowed funds	973,535	-	976,558	-	**976,558**
	59,696,374	**-**	**59,703,966**	**-**	**59,703,966**

	Notional Amount	Fair Value			
31 December 2015	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	13,754,922	361,802	13,393,197	-	13,754,999
Due from banks and financial institutions	2,704,157	-	2,704,226	-	2,704,226
Loans to banks and financial institutions and reverse repurchase agreements	2,585,553	-	2,585,713	-	2,585,713
Net loans and advances to customers	26,812,807	-	-	27,060,363	27,060,363
Corporate and SME	*19,969,078*			*20,264,471*	*20,264,471*
Retail and Personal Banking	*6,397,405*	-	-	*6,349,489*	*6,349,489*
Public sector	*446,324*	-	-	*446,403*	*446,403*
Net loans and advances to related parties	214,549	-	-	214,535	214,535
Corporate and SME	*17,188*	-	-	*17,183*	*17,183*
Retail and Personal Banking	*197,361*	-	-	*197,352*	*197,352*
Financial assets classified at amortised cost	14,784,574	3,936,183	10,885,032	11,283	14,832,498
Lebanese sovereign and Central Bank	*10,368,572*	*2,934,698*	*7,451,212*	-	*10,385,910*
Other sovereign	*3,816,602*	*565,425*	*3,279,764*	-	*3,845,189*
Private sector and other securities	*599,400*	*436,060*	*154,056*	*11,283*	*601,399*
	60,856,562	4,297,985	29,568,168	27,286,181	61,152,334
FINANCIAL LIABILITIES					
Due to central banks	651,174	-	651,174	-	651,174
Due to banks and financial institutions	2,259,247	-	2,277,657	-	2,277,657
Customers' deposits	52,922,281	-	52,948,432	-	52,948,432
Deposits from related parties	690,111	-	689,837	-	689,837
Debt issued and other borrowed funds	1,053,982	-	1,083,160	-	1,083,160
	57,576,795	-	57,650,260	-	57,650,260

ASSETS AND LIABILITIES FOR WHICH FAIR VALUE IS DISCLOSED USING A VALUATION TECHNIQUE WITH SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) AND/OR SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months), the Group assumed that the carrying values approximate the fair values. This assumption is also applied to demand deposits which have no specific maturity and financial instruments with variable rates.

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.

Government Bonds, Certificates of Deposits and Other Debt Securities

The Group values these unquoted debt securities using discounted cash flow valuation models where the lowest level input that is significant to the entire measurement is observable in an active market. These inputs include assumptions regarding current rates of interest and credit spreads.

Loans and Advances to Customers

For the purpose of this disclosure, fair value of loans and advances to customers is estimated using discounted cash flows by applying current rates for 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, are estimated using discounted cash flows, applying either market rates or current rates for deposits of similar remaining maturities.

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.

51.0. | CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

CREDIT-RELATED COMMITMENTS AND CONTINGENT LIABILITIES

To meet the financial needs of customers, 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.

	2016		
	Banks LBP Million	Customers LBP Million	**Total LBP Million**
Guarantees and contingent liabilities			
Financial guarantees	256,914	856,196	**1,113,110**
Other guarantees	17,009	1,655,817	**1,672,826**
	273,923	**2,512,013**	**2,785,936**
Commitments			
Documentary credits	-	649,916	**649,916**
Loan commitments	-	4,799,560	**4,799,560**
Of which revocable	-	*3,804,675*	***3,804,675***
Of which irrevocable	-	*994,885*	***994,885***
	-	**5,449,476**	**5,449,476**

	2015		
	Banks LBP Million	Customers LBP Million	Total LBP Million
Guarantees and contingent liabilities			
Financial guarantees	136,275	866,225	1,002,500
Other guarantees	95,688	1,676,852	1,772,540
	231,963	2,543,077	2,775,040
Commitments			
Documentary credits	-	548,320	548,320
Loan commitments	-	5,222,426	5,222,426
Of which revocable	-	*4,394,707*	*4,394,707*
Of which irrevocable	-	*827,719*	*827,719*
	-	5,770,746	5,770,746

GUARANTEES

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 factures to the financial guarantee contracts but fail to meet the strict definition of a financial guarantee contract under IFRS. These include mainly 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.

OPERATING LEASE AND CAPITAL EXPENDITURE COMMITMENTS

	2016 LBP Million	2015 LBP Million
Capital expenditure commitments	56,495	42,019
Operating lease commitments – Group as lessee	65,017	92,982
Within one year	*20,282*	*19,410*
One to five years	*22,638*	*36,774*
More than five years	*22,097*	*36,798*
	121,512	135,001

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 provision for past due loans which includes specific and collective provisions and unrealised interest should not fall below 70 percent of the past due loans;
- The net doubtful 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 that it is applied by the Central Bank of Lebanon.

In addition to the above, the Group has issued letters of intent in the amount of LBP 14,962,625 million as of 31 December 2016 (2015: LBP 15,704,228 million). These letters of intent do not represent loan commitments on behalf of the Group.

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 30,164 million as of 31 December 2016 (2015: LBP 27,211 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.

OTHER COMMITMENTS AND CONTINGENCIES

Financial assets at amortised cost include Lebanese government Treasury bills amounting to LBP 805,013 million (2015: LBP 31,519 million) pledged to the Central Bank of Lebanon against credit facilities. They also include Turkish Treasury bills amounting to LBP 1,055 million (2015: LBP 97,960 million) pledged against repurchase agreements (Note 33).

The Bank's books in Lebanon remain subject to the review of the tax authorities for the period from 1 January 2012 to 31 December 2016 and the review of the National Social Security Fund (NSSF) for the period from 30 September 2011 to 31 December 2016. 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.

52.0. | 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.

	2016 LBP Million	2015 LBP Million
Assets under management	12,919,963	12,592,036
Fiduciary assets	3,407,836	2,255,152
	16,327,799	14,847,188

53.0. | 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.

Key Management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. At the level of the Group, key Management personnel include the members of the Bank's Board of Directors and Group Executive Committee.

Loans to related parties (a) were made in the ordinary course of business, (b) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with others, and (c) did not involve more than a normal risk of collectability or present other unfavourable features.

Related party balances included in the Group's Statement of Financial Position are as follows as of 31 December:

	2016 LBP Million	2015 LBP Million
Loans and advances	**219,193**	214,549
Of which: granted to key Management personnel	***59,676***	*68,134*
Indirect facilities	**3,749**	5,587
Deposits	**813,548**	690,111
Cash collateral received against loans	**221,147**	185,521

Related party balances included in the Group's Income Statement are as follows for the year ended 31 December:

	2016 LBP Million	2015 LBP Million
Interest income on loans	**8,197**	6,232
Interest expense on deposits	**30,961**	27,421

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

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 27 to these financial statements.

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 Bank and its employees. The Bank considers the members of the Board of Directors (and its sub-committees) and Executive Committee to be the key Management personnel.

	2016 LBP Million	2015 LBP Million
Short-term benefits	**59,914**	46,696
Post-employment benefits	**16,413**	3,969

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 29,944 million as of 31 December 2016 (2015: LBP 23,485 million).
During 2016, the Group sold National Bank of Sudan, a subsidiary, to Fondal Limited, a related party, for a total consideration of LBP 22,612 million (Note 16).

54.0. | 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 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, and 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.

55.0. | 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. 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.

CREDIT LIMITS

The Group controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentration, and by monitoring exposures in relation to such limits. These limits include the following:

FINANCIAL INSTITUTIONS

Percentage floors and absolute limits are set on the Group's placements with highly rated financial institutions.

SOVEREIGN EXPOSURE AND OTHER FINANCIAL INSTRUMENTS

Limits are placed on sovereign exposures and other financial instruments according to their ratings.

LOANS AND ADVANCES TO CUSTOMERS

The Group sets risk appetite per country, economic sector, tenure of the loan, rating, and group of obligors, among others, in order to limit undue risk concentrations.

CREDIT GRANTING AND MONITORING PROCESSES

The Group has set clearly established processes related to loan origination, documentation and maintenance of extensions of credits.

INITIATION

Initiation of the credit facilities is done by the business originating function which is shared between branches and the Corporate and Commercial Departments.

ANALYSIS

Credit analysis is performed within the business originating function and is reviewed independently by the Credit Review Department, which, in turn, prepares a written independent credit opinion about the facilities and submits it to the respective approval authority.

APPROVAL

Credit officers and credit committees are responsible for the approval of facilities up to the limit assigned to them, which depends on the size of the exposure and the obligor's creditworthiness as measured by his internal rating. 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.

MONITORING

The Group maintains continuous monitoring of the quality of its portfolio. Regular reports are sent to the Executive Committee and to the Board, detailing the credit risk profile including follow-up accounts, large exposures, risk ratings and concentration by industry, geography and group of obligors.

RECOVERY AND RESTRUCTURING

The Group assesses impaired loans by assessing the expected loss on a case by case basis for non-retail loans and on a collective basis for retail products. They are directly managed by the Recovery and Restructuring Department which is responsible for formulating a workout strategy, in coordination with the Legal and Compliance Department.

PROVISIONING POLICY

As part of the conservative approach to sustain the quality of the Group's loan portfolio, an evaluation of loan loss provisions is made on a regular basis. As such, all adversely classified accounts are reviewed and the Recovery and Restructuring Department makes recommendation for specific provisions against the accounts. These recommendations are submitted to the appropriate approval authority before they are implemented. In this regard, specific approval from the regulatory authority might be necessary depending on the regulatory environment of the concerned entity.

Besides, impairment is assessed on a collective basis for loans that are not individually impaired. The Group is in process of preparing for the adoption of IFRS 9, starting 1 January 2018, at a consolidated level, as required by the Central Bank of Lebanon.

In the normal course of business, some loans may become unrecoverable. Such loans would then be required to be partially or fully written off with proper approval when:

- All efforts to recover the bad debt have failed;
- The borrower's bankruptcy or inability to repay is established;
- Legal remedies have proved to be futile and/or cost prohibitive.

Requests for write-offs are to be submitted to the appropriate authority for approval. Approved write-offs are notified to the Executive Committee and then to the Board.

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.

MANAGEMENT OF RISK CONCENTRATION

Credit concentrations arise when a number of counterparties are engaged in similar business activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political and other conditions.

In order to limit undue credit concentration risk and maintain a diversified portfolio base, the Group has set specific limits by certain asset class and type in the Risk Appetite document.

CREDIT-RELATED COMMITMENTS RISKS

The Group makes available to its customers guarantees which may require payments on their behalf. Such guarantees expose the Group to risks similar to balance sheet exposure and they are mitigated by the same control processes and policies.

ANALYSIS TO 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.

	2016								
	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
Cash and balances with central banks	**18,273,158**	-	-	-	-	-	-	-	**18,273,158**
Due from banks and financial institutions	**3,027,228**	-	-	-	-	-	-	-	**3,027,228**
Loans to banks and financial institutions and reverse repurchase agreements	**2,068,815**	-	-	**1,885,981**	-	-	-	-	**182,834**
Derivative financial instruments	**378,550**	-	-	-	-	-	-	-	**378,550**
Financial assets at fair value through profit or loss	**619,596**	-	-	-	-	-	-	-	**619,596**
Loans and advances to customers at amortised cost	**25,732,247**	**2,905,205**	**1,275,298**	**90,535**	**7,690,285**	**525,093**	**553,098**	**44,299**	**12,648,434**
Corporate and SME	*19,023,845*	*1,873,891*	*545,750*	*89,940*	*5,945,002*	*215,145*	*525,232*	*36,043*	*9,792,842*
Retail and Personal Banking	*6,248,123*	*1,025,871*	*729,548*	*595*	*1,745,283*	*309,948*	*27,866*	*8,256*	*2,400,756*
Public sector	*460,279*	*5,443*	-	-	-	-	-	-	*454,836*
Loans and advances to related parties at amortised cost	**219,193**	**115,522**	**59**	-	**25,788**	**328**	**876**	**688**	**75,932**
Debtors by acceptances	**199,156**	**17,259**	**395**	-	**3,136**	-	**6,198**	**134**	**172,034**
Financial assets at amortised cost	**13,990,070**	-	-	-	-	-	-	**2,507,339**	**11,482,731**
Contingent liabilities	**1,763,026**	**186,013**	**18,110**	**27,952**	**77,318**	**996**	**51,884**	-	**1,400,753**
Letters of credit	*649,916*	*104,361*	*213*	*144*	*1,135*	*60*	*7,612*	-	*536,391*
Financial guarantee given to banks and financial institutions	*256,914*	-	-	-	-	-	-	-	*256,914*
Financial guarantee given to customers	*856,196*	*81,652*	*17,897*	*27,808*	*76,183*	*936*	*44,272*	-	*607,448*
Total	**66,271,039**	**3,223,999**	**1,293,862**	**2,004,468**	**7,796,527**	**526,417**	**612,056**	**2,552,460**	**48,261,250**
Guarantees received from banks, financial institutions and customers									
Utilised collateral		3,223,999	1,293,862	2,004,468	7,796,527	526,417	612,056		15,457,329
Surplus of collateral before undrawn credit lines		2,104,088	2,559,579	38,893	15,432,977	289,591	1,830,993		22,256,121
		5,328,087	**3,853,441**	**2,043,361**	**23,229,504**	**816,008**	**2,443,049**		**37,713,450**

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LBP 4,799,560 million as at 31 December 2016.

	2015								
	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
Cash and balances with central banks	13,393,120	-	-	-	-	-	-	-	13,393,120
Due from banks and financial institutions	2,704,157	-	-	-	-	-	-	-	2,704,157
Loans to banks and financial institutions and reverse repurchase agreements	2,585,553	-	-	2,384,364	-	-	-	-	201,189
Derivative financial instruments	263,285	-	-	-	-	-	-	-	263,285
Financial assets at fair value through profit or loss	324,431	-	-	-	-	-	-	-	324,431
Loans and advances to customers at amortised cost	26,812,807	3,489,488	983,989	140,889	7,523,830	544,741	624,725	4,468	13,500,677
Corporate and SME	*19,969,078*	*1,903,953*	*726,667*	*138,522*	*5,471,767*	*85,283*	*518,859*	*4,124*	*11,119,903*
Retail and Personal Banking	*6,397,405*	*1,564,742*	*257,322*	*2,367*	*2,052,063*	*459,458*	*105,866*	*344*	*1,955,243*
Public sector	*446,324*	*20,793*	-	-	-		-	-	*425,531*
Loans and advances to related parties at amortised cost	214,549	139,328	110	-	19,160	354	1,288	-	54,309
Debtors by acceptances	240,605	17,579	-	41	828	-	3,358	-	218,799
Financial assets at amortised cost	14,784,574	-	-	-	-	-	-	2,325,642	12,458,932
Contingent liabilities	1,550,820	123,773	16,252	24,924	44,472	-	47,819	-	1,293,580
Letters of credit	*548,320*	*18,861*	-	*126*	*1,461*	-	*8,819*	-	*519,053*
Financial guarantee given to banks and financial institutions	*136,275*	-	-	-	-	-	-	-	*136,275*
Financial guarantee given to customers	*866,225*	*104,912*	*16,252*	*24,798*	*43,011*	-	*39,000*	-	*638,252*
Total	62,873,901	3,770,168	1,000,351	2,550,218	7,588,290	545,095	677,190	2,330,110	44,412,479
Guarantees received from banks, financial institutions and customers									
Utilised collateral		3,770,168	1,000,351	2,550,218	7,588,290	545,095	677,190		16,131,312
Surplus of collateral before undrawn credit lines		1,423,208	2,868,124	53,417	16,133,987	381,661	1,829,400		22,689,797
		5,193,376	3,868,475	2,603,635	23,722,277	926,756	2,506,590		38,821,109

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LBP 5,222,426 million as at 31 December 2015.

ANALYSIS TO MAXIMUM EXPOSURE TO CREDIT RISK AND COLLATERAL AND OTHER CREDIT ENHANCEMENTS

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 above 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 above reflects the fair value of the property limited to the related mortgaged amount.

Netting Agreements: the Group makes use of netting agreements where there is a legally enforceable right to offset in the event of counterparty default and where as a result there is a net exposure for credit risk. However, there is no intention to settle these balances on a net basis under normal circumstances, and they do not qualify for offset. The amounts above represent available netting agreements in the event of default of the counterparty.

This includes netting agreements for loans and advances to customers and financial assets at amortised cost. In addition, derivatives may also be settled net when there is a netting agreement in place providing for this in the event of default, reducing the Group's exposure to counterparties on derivative asset positions. The reduction in risk is the amount of liability held.

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.

RESTRUCTURED LOANS

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.

	2016 LBP Million	2015 LBP Million
Corporate and SME	676,721	452,599
Retail and Personal Banking	79,462	19,244
	756,183	471,843

CREDIT RATING SYSTEM

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, a Project Finance model and an Individual models. The Group uses the Facility Risk Rating (FRR) model to rate facilities based on the Obligator Risk Rating and collaterals.
(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.

CREDIT QUALITY

The table below shows the credit quality by asset class for all financial assets with credit risk, based on the past-due status and impaired/non-impaired classification. The amounts presented are gross of impairment allowances.

	2016				
		Past Due and Impaired			
	Neither Past Due nor Impaired LBP Million	Past Due but not Impaired LBP Million	Substandard LBP Million	Doubtful and Bad LBP Million	**Total LBP Million**
Cash and balances with central banks	18,273,158	-	-	-	**18,273,158**
Due from banks and financial institutions	3,026,774	-	-	1,270	**3,028,044**
Loans to banks and financial institutions and reverse repurchase agreements	2,068,815	-	-	-	**2,068,815**
Derivative financial instruments	378,550	-	-	-	**378,550**
Financial assets at fair value through profit or loss	619,596	-	-	-	**619,596**
Loans and advances to customers at amortised cost	25,450,307	639,738	64,240	661,716	**26,816,001**
Loans and advances to related parties at amortised cost	219,193	-	-	-	**219,193**
Financial assets at amortised cost	13,990,070	-	-	-	**13,990,070**
	64,026,463	**639,738**	**64,240**	**662,986**	**65,393,427**
Loans and advances:					
Corporate and SME	18,840,533	475,500	49,105	491,182	**19,856,320**
Retail and Personal Banking	6,364,575	164,238	15,135	170,534	**6,714,482**
Public sector	464,392	-	-	-	**464,392**
	25,669,500	**639,738**	**64,240**	**661,716**	**27,035,194**

	2015				
		Past Due and Impaired			
	Neither Past Due nor Impaired LBP Million	Past Due but not Impaired LBP Million	Substandard LBP Million	Doubtful and Bad LBP Million	Total LBP Million
Cash and balances with central banks	13,393,120	-	-	-	13,393,120
Due from banks and financial institutions	2,703,717	-	-	1,330	2,705,047
Loans to banks and financial institutions and reverse repurchase agreements	2,585,553	-	-	-	2,585,553
Derivative financial instruments	263,285	-	-	-	263,285
Financial assets at fair value through profit or loss	324,431	-	-	-	324,431
Loans and advances to customers at amortised cost	26,177,539	566,299	57,420	817,564	27,618,822
Loans and advances to related parties at amortised cost	214,549	-	-	-	214,549
Financial assets at amortised cost	14,784,574	-	-	4,763	14,789,337
	60,446,768	566,299	57,420	823,657	61,894,144
Loans and advances:					
Corporate and SME	19,491,183	411,579	44,438	634,812	20,582,012
Retail and Personal Banking	6,451,554	154,720	12,982	182,752	6,802,008
Public sector	449,351	-	-	-	449,351
	26,392,088	566,299	57,420	817,564	27,833,371

The aging analysis of past due but not impaired loans and advances to customers at amortised cost as at 31 December is as follows:

	2016				
	Less than 30 Days LBP Million	31 to 60 Days LBP Million	61 to 90 Days LBP Million	More than 90 Days LBP Million	**Total LBP Million**
Corporate and SME	28,393	44,431	103,853	298,823	**475,500**
Retail and Personal Banking	118,147	29,485	9,979	6,627	**164,238**
	146,540	**73,916**	**113,832**	**305,450**	**639,738**

	2015				
	Less than 30 Days LBP Million	31 to 60 Days LBP Million	61 to 90 Days LBP Million	More than 90 Days LBP Million	Total LBP Million
Corporate and SME	54,031	33,608	50,524	273,416	411,579
Retail and Personal Banking	109,859	29,187	7,324	8,350	154,720
	163,890	62,795	57,848	281,766	566,299

The classification of loans and advances to customers and related parties at amortised cost as per supervisory ratings is as follows:

	2016			
	Gross Balance LBP Million	Unrealised Interest LBP Million	Impairment Allowances LBP Million	**Net Balance LBP Million**
Regular	23,507,644	-	-	**23,507,644**
Follow-up	1,521,783	-	-	**1,521,783**
Follow-up and regularisation	1,279,811	-	-	**1,279,811**
Substandard	64,240	(5,672)	-	**58,568**
Doubtful	293,604	(14,541)	(143,555)	**135,508**
Bad	368,112	(43,292)	(245,365)	**79,455**
	27,035,194	**(63,505)**	**(388,920)**	**26,582,769**
Collective impairment	-	-	(631,329)	**(631,329)**
	27,035,194	**(63,505)**	**(1,020,249)**	**25,951,440**

	2015			
	Gross Balance LBP Million	Unrealised Interest LBP Million	Impairment Allowances LBP Million	Net Balance LBP Million
Regular	24,216,982	-	-	24,216,982
Follow-up	942,188	-	-	942,188
Follow-up and regularisation	1,799,217	-	-	1,799,217
Substandard	57,420	(2,214)	-	55,206
Doubtful	368,547	(16,722)	(124,621)	227,204
Bad	449,017	(97,978)	(319,922)	31,117
	27,833,371	(116,914)	(444,543)	27,271,914
Collective impairment	-	-	(244,558)	(244,558)
	27,833,371	(116,914)	(689,101)	27,027,356

EXTERNAL RATING ANALYSIS

The classification of the Group financial instruments and balances due from banks and financial institutions as per external ratings is as follows:

	2016										
	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
Balance with central banks	220,385	-	18,052,773	-	**18,273,158**	-	-	-	-	-	**18,273,158**
Due from banks and financial institutions	-	-	-	-	-	902,323	1,644,545	297,710	182,650	**3,027,228**	**3,027,228**
Loans to banks and financial institutions and reverse repurchase agreements	-	-	-	-	-	-	-	2,000,787	68,028	**2,068,815**	**2,068,815**
Financial assets at fair value through profit or loss	-	-	588,271	-	**588,271**	-	30,870	455	-	**31,325**	**619,596**
Financial assets at amortised cost	63,098	8,355	13,317,026	-	**13,388,479**	170,278	329,679	98,319	3,315	**601,591**	**13,990,070**
	283,483	**8,355**	**31,958,070**	-	**32,249,908**	**1,072,601**	**2,005,094**	**2,397,271**	**253,993**	**5,728,959**	**37,978,867**

	2015										
	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
Balance with central banks	262,692	2,041,151	11,064,008	25,269	13,393,120	-	-	-	-	-	13,393,120
Due from banks and financial institutions	-	-	-	-	-	461,312	1,649,766	268,586	324,493	2,704,157	2,704,157
Loans to banks and financial institutions and reverse repurchase agreements	-	-	282,864	-	282,864	-	2,250,063	16,216	36,410	2,302,689	2,585,553
Financial assets at fair value through profit or loss	-	12,863	253,032	-	265,895	-	58,237	299	-	58,536	324,431
Financial assets at amortised cost	43,816	547,570	13,563,607	30,181	14,185,174	230,416	256,819	99,106	13,059	599,400	14,784,574
	306,508	2,601,584	25,163,511	55,450	28,127,053	691,728	4,214,885	384,207	373,962	5,664,782	33,791,835

GEOGRAPHIC 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:

	2016									
	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	15,389,610	2,017,794	1,020,890	222,302	-	-	-	-	-	**18,650,596**
Due from banks and financial institutions	383,372	4,417	463,290	1,190,763	831,563	148,549	119	-	5,155	**3,027,228**
Loans to banks and financial institutions and reverse repurchase agreements	30,559	2,000,787	37,469	-	-	-	-	-	-	**2,068,815**
Derivative financial instruments	22,297	51,197	358	177,579	137,644	1,063	-	-	-	**390,138**
Financial assets at fair value through profit or loss	622,898	2,525	26,913	35,122	5,756	-	-	-	-	**693,214**
Loans and advances to customers at amortised cost	8,110,715	11,095,913	4,777,043	702,189	193,267	104,416	479,855	123,256	145,593	**25,732,247**
Loans and advances to related parties at amortised cost	169,956	-	48,208	1,029	-	-	-	-	-	**219,193**
Debtors by acceptances	99,499	49,215	14,263	3,935	2,528	1,713	28,003	-	-	**199,156**
Financial assets at amortised cost	11,468,992	375,695	1,847,618	110,162	57,808	107,862	-	-	21,933	**13,990,070**
Financial assets at fair value through other comprehensive income	87,644	-	53,371	17,002	35,931	-	-	-	-	**193,948**
	36,385,542	**15,597,543**	**8,289,423**	**2,460,083**	**1,264,497**	**363,603**	**507,977**	**123,256**	**172,681**	**65,164,605**

	2015									
	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	10,431,052	2,112,346	946,263	265,261	-	-	-	-	-	13,754,922
Due from banks and financial institutions	326,086	139,466	425,863	1,218,731	568,194	18,176	422	-	7,219	2,704,157
Loans to banks and financial institutions and reverse repurchase agreements	313,246	2,269,744	-	2,563	-	-	-	-	-	2,585,553
Derivative financial instruments	21,900	31,326	358	82,075	130,204	-	-	-	-	265,863
Financial assets at fair value through profit or loss	271,947	12,863	24,220	74,692	-	-	-	-	-	383,722
Loans and advances to customers at amortised cost	8,130,981	11,071,793	6,067,861	814,811	63,593	88,120	347,941	30,003	197,704	26,812,807
Loans and advances to related parties at amortised cost	178,147	-	36,355	47	-	-	-	-	-	214,549
Debtors by acceptances	131,654	35,476	29,657	11,371	613	3,198	27,907	-	729	240,605
Financial assets at amortised cost	10,481,953	536,473	3,481,628	116,702	35,210	69,380	-	-	63,228	14,784,574
Financial assets at fair value through other comprehensive income	85,810	-	15,238	7,293	36,034	-	-	-	-	144,375
	30,372,776	16,209,487	11,027,443	2,593,546	833,848	178,874	376,270	30,003	268,880	61,891,127

INDUSTRIAL ANALYSIS

The distribution of financial assets by industry as of 31 December is as follows:

	2016									
	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	377,438	18,273,158	-	-	-	-	-	-	-	**18,650,596**
Due from banks and financial institutions	3,027,228	-	-	-	-	-	-	-	-	**3,027,228**
Loans to banks and financial institutions and reverse repurchase agreements	2,068,815	-	-	-	-	-	-	-	-	**2,068,815**
Derivative financial instruments	298,966	-	14,496	42,833	6,971	13,340	-	12,465	1,067	**390,138**
Financial assets at fair value through profit or loss	104,895	588,271	-	-	43	-	-	5	-	**693,214**
Loans and advances to customers at amortised cost	1,390,749	15,641	6,595,402	2,646,213	4,572,190	3,425,231	2,123,683	4,707,509	255,629	**25,732,247**
Loans and advances to related parties at amortised cost	100,384	-	99,085	-	3,027	57	-	16,640	-	**219,193**
Debtors by acceptances	760	80	-	107,521	6,000	79,165	-	1,850	3,780	**199,156**
Financial assets at amortised cost	535,169	13,388,479	-	-	758	48,437	-	14,170	3,057	**13,990,070**
Financial assets at fair value through other comprehensive income	132,895	-	-	-	653	38,295	-	22,105	-	**193,948**
	8,037,299	**32,265,629**	**6,708,983**	**2,796,567**	**4,589,642**	**3,604,525**	**2,123,683**	**4,774,744**	**263,533**	**65,164,605**

	2015									
	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	361,802	13,393,120	-	-	-	-	-	-	-	13,754,922
Due from banks and financial institutions	2,704,157	-	-	-	-	-	-	-	-	2,704,157
Loans to banks and financial institutions and reverse repurchase agreements	2,585,553	-	-	-	-	-	-	-	-	2,585,553
Derivative financial instruments	183,283	-	10,410	58,897	3,307	9,687	-	270	9	265,863
Financial assets at fair value through profit or loss	117,760	265,895	-	-	67	-	-	-	-	383,722
Loans and advances to customers at amortised cost	1,533,644	11,479	6,562,575	2,882,849	4,312,819	3,816,702	1,857,841	5,596,857	238,041	26,812,807
Loans and advances to related parties at amortised cost	102,564	-	94,759	-	8,943	85	-	8,198	-	214,549
Debtors by acceptances	16,789	-	-	145,223	5,313	64,407	-	4,714	4,159	240,605
Financial assets at amortised cost	547,248	14,185,174	-	-	-	36,663	-	12,444	3,045	14,784,574
Financial assets at fair value through other comprehensive income	122,023	-	-	-	522	580	-	21,250	-	144,375
	8,274,823	27,855,668	6,667,744	3,086,969	4,330,971	3,928,124	1,857,841	5,643,733	245,254	61,891,127

56.0. | 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:

	2016						
	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	5,408,979	10,427,945	1,373,241	583,485	591,330	265,616	**18,650,596**
Due from banks and financial institutions	97,049	1,999,307	375,640	4,754	1,465	549,013	**3,027,228**
Loans to banks and financial institutions and reverse repurchase agreements	30,559	86,894	27,035	1,886,858	37,469	-	**2,068,815**
Derivative financial instruments	1,613	298,074	69,378	4,119	34	16,920	**390,138**
Financial assets at fair value through profit or loss	572,650	55,937	4,319	2,525	1,942	55,841	**693,214**
Loans and advances to customers at amortised cost	1,844,393	12,569,329	3,951,749	4,834,289	1,583,743	948,744	**25,732,247**
Loans and advances to related parties at amortised cost	36,741	179,070	1,362	-	-	2,020	**219,193**
Debtors by acceptances	-	132,455	57,406	4,220	321	4,754	**199,156**
Financial assets at amortised cost	2,517,224	9,603,864	22,724	192,590	777,668	876,000	**13,990,070**
Financial assets at fair value through other comprehensive income	65,204	122,533	501	-	144	5,566	**193,948**
Investments in associates	10,281	-	-	-	-	3,052	**13,333**
Property and equipment	643,354	2,284	1,191	55,368	77,555	101,749	**881,501**
Intangible fixed assets	11,637	121	1,418	42,256	4,573	4,616	**64,621**
Non-current assets held for sale	2,361	59,934	495	18,002	235	-	**81,027**
Other assets	28,593	203,023	17,771	137,339	48,265	50,304	**485,295**
Goodwill	-	-	(372)	-	-	42,199	**41,827**
Total assets	**11,270,638**	**35,740,770**	**5,903,858**	**7,765,805**	**3,124,744**	**2,926,394**	**66,732,209**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Due to central banks	805,013	1,125,694	76,405	1,051	-	-	**2,008,163**
Due to banks and financial institutions	26,234	1,677,037	531,737	4,079	727	334,191	**2,574,005**
Derivative financial instruments	538	23,214	36,145	195,318	229	17,508	**272,952**
Customers' deposits	6,585,518	31,089,956	6,089,197	4,672,015	2,960,499	1,992,033	**53,389,218**
Deposits from related parties	123,474	602,168	25,465	4,932	-	57,509	**813,548**
Debt issued and other borrowed funds	-	973,535	-	-	-	-	**973,535**
Engagements by acceptances	-	132,455	57,406	4,220	321	4,754	**199,156**
Other liabilities	386,969	164,310	54,650	90,951	20,433	52,269	**769,582**
Provisions for risks and charges	98,214	2,585	6,274	23,943	7,358	18,218	**156,592**
Shareholders' equity	3,721,446	1,595,187	(54,167)	(250,758)	(96,122)	659,872	**5,575,458**
Total liabilities and shareholders' equity	**11,747,406**	**37,386,141**	**6,823,112**	**4,745,751**	**2,893,445**	**3,136,354**	**66,732,209**

	2015						
	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	1,209,050	10,514,772	881,593	274,547	442,275	432,685	13,754,922
Due from banks and financial institutions	81,117	1,431,375	574,675	3,277	2,554	611,159	2,704,157
Loans to banks and financial institutions and reverse repurchase agreements	36,410	379,788	63,950	2,105,405	-	-	2,585,553
Derivative financial instruments	-	175,383	27,787	39,488	12	23,193	265,863
Financial assets at fair value through profit or loss	201,347	109,305	5,916	12,863	8,913	45,378	383,722
Loans and advances to customers at amortised cost	1,931,674	12,846,464	3,647,756	4,796,340	2,600,692	989,881	26,812,807
Loans and advances to related parties at amortised cost	31,164	182,227	694	-	-	464	214,549
Debtors by acceptances	-	141,390	82,734	3,927	277	12,277	240,605
Financial assets at amortised cost	5,702,192	5,506,838	32,406	254,304	2,327,694	961,140	14,784,574
Financial assets at fair value through other comprehensive income	63,348	71,691	3,336	-	340	5,660	144,375
Investments in associates	10,043	-	-	-	-	3,946	13,989
Property and equipment	626,765	993	1,477	74,083	163,962	96,158	963,438
Intangible fixed assets	40,866	7	1,759	51,273	3,409	4,050	101,364
Non-current assets held for sale	2,156	53,839	510	15,555	554	165	72,779
Other assets	12,640	244,012	22,859	72,573	53,462	64,960	470,506
Goodwill	-	82,800	(382)	-	81,680	45,336	209,434
Total assets	9,948,772	31,740,884	5,347,070	7,703,635	5,685,824	3,296,452	63,722,637
LIABILITIES AND SHAREHOLDERS' EQUITY							
Due to central banks	569,856	-	-	81,318	-	-	651,174
Due to banks and financial institutions	25,156	1,643,399	388,775	2,778	-	199,139	2,259,247
Derivative financial instruments	966	21,920	20,745	64,660	132	22,776	131,199
Customers' deposits	6,504,410	28,215,722	5,789,507	4,984,173	5,121,906	2,374,789	52,990,507
Deposits from related parties	104,837	527,597	9,235	5,214	-	43,228	690,111
Debt issued and other borrowed funds	-	973,629	-	80,353	-	-	1,053,982
Engagements by acceptances	-	141,390	82,734	3,927	277	12,277	240,605
Other liabilities	197,577	144,532	18,030	74,319	66,771	76,771	578,000
Provisions for risks and charges	91,606	1,193	6,532	25,641	13,939	33,149	172,060
Shareholders' equity	2,312,507	2,238,549	(54,040)	(213,772)	122,395	550,113	4,955,752
Total liabilities and shareholders' equity	9,806,915	33,907,931	6,261,518	5,108,611	5,325,420	3,312,242	63,722,637

THE GROUP'S EXPOSURE TO CURRENCY RISK

The Group is subject to currency risk on financial assets and liabilities that are listed in currencies other than the Lebanese Pounds. Most of these financial assets and liabilities are listed 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.

		2016		2015	
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%	(7,780)	4,422	(7,704)	6,438
EUR	1%	(23)	(9,620)	(130)	(10,652)
TRY	1%	-	27,995	-	17,778

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 contracts to enhance its risk profile and manage the effect of foreign currency translation.

Hedge of Net Investment in Odea Bank A.Ş.

The Hedged Item

During January 2014, the Bank decided to hedge USD 600 million component of its net investment in Odea Bank A.Ş. through currency option contracts, which was increased to USD 700 million in January 2015.

The Hedging Instruments and Hedged Risk

During January 2014, the Group entered in a series of capped calls deals with prime rated financial institutions for a total notional amount of USD 400 million. Each capped call deal comprises a combination of a long plain vanilla call option on USD/TRY and a short plain vanilla call option, both legs having different strike prices. On average, and for all the deals, this strategy is translated in a protection against the upside of the USD against TRY triggered when USD/TRY hits 2.26 and continues until it touches 3.23. The term of the hedging instruments ends during April 2018.

For this strategy, the hedged risk is the change in the USD/TRY spot exchange rate within the range of prices falling between strike price of the long call option and that of the short call. The risk is hedged from January 2014 to April 2018 where the deals mature and settle.

The remaining USD 300 million were hedged through zero-cost collars each comprising a combination of a long call option and a short put option maturing in one month, and the strategy is automatically rolled-over for 36 months ending in December 2016. The roll-over strike prices of the calls and puts depend on whether the spot rate has been trending up or down in the past month. The strikes of each collar may be set at either a "wide" range if the USD has been weakening, or a "narrow" range if the USD has been strengthening.

This strategy hedges the changes in the USD/TRY spot exchange rate beyond the narrow range delimited by the strike price of the bought call option and the strike price of the sold put option. As such, it protects against significant variations of the TRY during the month but not against limited variations. The Group forgoes any profit on the net investment should the TRY price appreciate beyond the strike price of the written put. In return, however, maximum downside protection is assured. The risk was hedged from January 2014 to December 2016.

The Group designated only the change in the intrinsic value as the hedging instrument in both of the above strategies.

Sources of Ineffectiveness

For the capped calls, since the hedge is effective over a range, ineffectiveness arises if the Turkish Lira exchange rate goes below the strike of the bought call option (where changes in foreign exchange position will not be offset by the hedge), or above the strike price of the sold call option (where part of the depreciation will not be captured). As for the collars, ineffectiveness exists when the USD/TRY exchange rate ranges between the strike price of the bought call option and the strike price of the sold put option.

Hedge of Net Investment in Other Subsidiaries

During 2016, the Group renewed its currency swap contracts designated to hedge the net investment in its subsidiaries in Cyprus, France, Kingdom of Saudi Arabia and Qatar. The hedged risk is the risk of weakening EUR, SAR, and QAR exchange rate versus the USD that will result in changes in the value of the Group's net investment in its subsidiaries. The swaps are renewed on annual basis for a period of one year.

Hedged Item	Hedging Instrument	Hedged Currency Exposure	Currency Swap Notional Amount LBP Million	Maturity Date 31 December 2016	Forward Price upon Renewal	Maturity Date 31 December 2015	Forward Price upon Renewal
Bank Audi France sa	Currency Swap	EUR	93,383	22 June 2017	1.1507	22 June 2016	1.1472
Banaudi Holding	CurrencySwap	EUR	9,578	2 June 2017	1.1319	7 June 2016	1.1173
Audi Capital (KSA)	Currency Swap	SAR	42,099	12 June 2017	0.2625	9 June 2016	0.2652
Audi Qatar	Currency Swap	QAR	75,776	8 June 2017	0.2722	8 June 2016	0.2741

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%.

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.

INTEREST RATE SENSITIVITY

The table below shows the sensitivity of interest income and shareholders' equity 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 2016 and 2015. 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.

There is no direct effect for the change in interest rates on equity pursuant to the early adoption of IFRS9 (2013) in 2014 whereby no debt instruments can be classified at fair value through other comprehensive income.
Besides, the effect on equity resulting from the discount rate applied to defined benefit plan obligations is disclosed in Note 39 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

	2016			2015	
	Change in Basis Points	LBP Million Increase	LBP Million Decrease	LBP Million Increase	LBP Million Decrease
LBP	± 100	7,179	(7,179)	(2,980)	2,980
USD	± 50	2,268	(2,268)	2,419	(2,419)
EUR	± 25	(5,505)	5,505	(6,029)	6,029
TRY	± 200	(9,642)	9,642	(22,072)	22,072

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 customer demand deposits.

	2016								
	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	6,201,074	1,868,420	666,500	8,735,994	5,039,210	3,506,750	8,545,960	1,368,642	**18,650,596**
Due from banks and financial institutions	2,647,874	40,757	154	2,688,785	-	-	-	338,443	**3,027,228**
Loans to banks and financial institutions and reverse repurchase agreements	1,947,603	72,131	31,854	2,051,588	2,700	12,224	14,924	2,303	**2,068,815**
Derivative financial instruments	30,058	52,999	94,365	177,422	159,140	2,832	161,972	50,744	**390,138**
Financial assets at fair value through profit or loss	24,240	20,763	208,483	253,486	323,845	32,759	356,604	83,124	**693,214**
Loans and advances to customers at amortised cost	8,066,507	5,476,099	6,039,312	19,581,918	4,910,773	971,038	5,881,811	268,518	**25,732,247**
Loans and advances to related parties at amortised cost	148,666	5,790	51,637	206,093	11,595	871	12,466	634	**219,193**
Debtors by acceptances	-	-	-	-	-	-	-	199,156	**199,156**
Financial assets at amortised cost	92,219	305,874	580,944	979,037	3,137,358	9,656,304	12,793,662	217,371	**13,990,070**
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	193,948	**193,948**
Investments in associates	-	-	-	-	-	-	-	13,333	**13,333**
Property and equipment	-	-	-	-	-	-	-	881,501	**881,501**
Intangible fixed assets	-	-	-	-	-	-	-	64,621	**64,621**
Non-current assets held for sale	-	-	-	-	-	-	-	81,027	**81,027**
Other assets	-	-	-	-	-	-	-	485,295	**485,295**
Goodwill	-	-	-	-	-	-	-	41,827	**41,827**
Total assets	**19,158,241**	**7,842,833**	**7,673,249**	**34,674,323**	**13,584,621**	**14,182,778**	**27,767,399**	**4,290,487**	**66,732,209**
LIABILITIES AND SHAREHOLDERS' EQUITY									
Due to central banks	8,354	1,096,446	165,781	1,270,581	277,759	441,065	718,824	18,758	**2,008,163**
Due to banks and financial institutions	569,499	553,486	977,304	2,100,289	296,356	153,513	449,869	23,847	**2,574,005**
Derivative financial instruments	79,487	31,571	81,067	192,125	43,758	1,234	44,992	35,835	**272,952**
Customers' deposits	30,662,863	8,744,869	6,455,138	45,862,870	4,247,203	15,424	4,262,627	3,263,721	**53,389,218**
Deposits from related parties	340,984	174,503	117,539	633,026	63,293	-	63,293	117,229	**813,548**
Debt issued and other borrowed funds	-	-	226,125	226,125	-	735,685	735,685	11,725	**973,535**
Engagements by acceptances	-	-	-	-	-	-	-	199,156	**199,156**
Other liabilities	-	-	-	-	-	-	-	769,582	**769,582**
Provisions for risks and charges	-	-	-	-	-	-	-	156,592	**156,592**
Shareholders' equity	-	-	-	-	-	-	-	5,575,458	**5,575,458**
Total liabilities and shareholders' equity	**31,661,187**	**10,600,875**	**8,022,954**	**50,285,016**	**4,928,369**	**1,346,921**	**6,275,290**	**10,171,903**	**66,732,209**
Interest rate sensitivity gap	**(12,502,946)**	**(2,758,042)**	**(349,705)**		**8,656,252**	**12,835,857**		**(5,881,416)**	
Cumulative gap	**(12,502,946)**	**(15,260,988)**	**(15,610,693)**		**(6,954,441)**	**5,881,416**		**-**	

	2015								
	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	4,500,859	1,911,311	677,214	7,089,384	4,071,758	1,506,750	5,578,508	1,087,030	13,754,922
Due from banks and financial institutions	2,078,575	282,715	15,049	2,376,339	-	-	-	327,818	2,704,157
Loans to banks and financial institutions and reverse repurchase agreements	2,199,988	296,332	78,305	2,574,625	-	5,929	5,929	4,999	2,585,553
Derivative financial instruments	33,890	33,561	28,677	96,128	140,584	1,316	141,900	27,835	265,863
Financial assets at fair value through profit or loss	53,543	31,596	96,978	182,117	50,150	88,929	139,079	62,526	383,722
Loans and advances to customers at amortised cost	7,407,549	7,003,035	6,282,562	20,693,146	4,683,553	1,222,978	5,906,531	213,130	26,812,807
Loans and advances to related parties at amortised cost	144,373	9,508	49,821	203,702	10,292	96	10,388	459	214,549
Debtors by acceptances	-	-	-	-	-	-	-	240,605	240,605
Financial assets at amortised cost	319,327	757,771	1,430,743	2,507,841	6,304,572	5,741,874	12,046,446	230,287	14,784,574
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	144,375	144,375
Investments in associates	-	-	375	375	-	-	-	13,614	13,989
Property and equipment	-	-	-	-	-	-	-	963,438	963,438
Intangible fixed assets	-	-	-	-	-	-	-	101,364	101,364
Non-current assets held for sale	-	-	-	-	-	-	-	72,779	72,779
Other assets	-	-	-	-	-	-	-	470,506	470,506
Goodwill	-	-	-	-	-	-	-	209,434	209,434
Total assets	16,738,104	10,325,829	8,659,724	35,723,657	15,260,909	8,567,872	23,828,781	4,170,199	63,722,637
LIABILITIES AND SHAREHOLDERS' EQUITY									
Due to central banks	104,463	6,681	55,098	166,242	185,579	299,183	484,762	170	651,174
Due to banks and financial institutions	342,630	215,856	1,072,420	1,630,906	403,838	203,708	607,546	20,795	2,259,247
Derivative financial instruments	37,912	38,169	32,299	108,380	8,432	790	9,222	13,597	131,199
Customers' deposits	32,305,059	11,593,660	6,486,224	50,384,943	1,328,212	19,754	1,347,966	1,257,598	52,990,507
Deposits from related parties	316,842	221,036	44,129	582,007	97,544	-	97,544	10,560	690,111
Debt issued and other borrowed funds	80,353	-	226,125	306,478	-	736,189	736,189	11,315	1,053,982
Engagements by acceptances	-	-	-	-	-	-	-	240,605	240,605
Other liabilities	-	-	-	-	-	-	-	578,000	578,000
Provisions for risks and charges	-	-	-	-	-	-	-	172,060	172,060
Shareholders' equity	-	-	-	-	-	-	-	4,955,752	4,955,752
Total liabilities and shareholders' equity	33,187,259	12,075,402	7,916,295	53,178,956	2,023,605	1,259,624	3,283,229	7,260,452	63,722,637
Interest rate sensitivity gap	(16,449,155)	(1,749,573)	743,429		13,237,304	7,308,248		(3,090,253)	
Cumulative gap	(16,449,155)	(18,198,728)	(17,455,299)		(4,217,995)	3,090,253		-	

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.

57.0. | 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 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	
	2016 %	2015 %
Year-end	48	50
Maximum	53	50
Minimum	48	46
Average	51	47

ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

The table below summarises the maturity profile of the Group's financial assets and liabilities as of 31 December based on contractual undiscounted cash flows. The contractual maturities have been 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.

	2016					
	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 ASSETS						
Cash and balances with central banks	7,235,969	728,525	894,484	8,522,267	4,800,098	**22,181,343**
Due from banks and financial institutions	2,996,829	30,530	-	-	-	**3,027,359**
Loans to banks and financial institutions and reverse repurchase agreements	1,889,603	20,262	124,595	34,344	30,451	**2,099,255**
Derivative financial instruments	29,494	64,796	78,265	214,288	3,296	**390,139**
Financial assets at fair value through profit or loss	25,160	4,331	236,071	384,788	58,162	**708,512**
Loans and advances to customers at amortised cost	4,488,742	1,753,946	5,039,744	10,133,930	4,802,613	**26,218,975**
Loans and advances to related parties at amortised cost	138,080	741	50,520	22,057	13,752	**225,150**
Debtors by acceptances	71,180	50,918	76,873	186	-	**199,157**
Financial assets at amortised cost	279,416	509,739	1,636,923	5,029,812	11,412,246	**18,868,136**
Total financial assets	**17,154,473**	**3,163,788**	**8,137,475**	**24,341,672**	**21,120,618**	**73,918,026**
FINANCIAL LIABILITIES						
Due to central banks	9,654	1,220,461	81,290	301,648	462,661	**2,075,714**
Due to banks and financial institutions	584,240	536,074	747,043	369,913	362,280	**2,599,550**
Derivative financial instruments	112,192	26,539	81,832	50,543	1,847	**272,953**
Customers' deposits	34,741,859	8,437,646	6,098,134	4,636,389	17,061	**53,931,089**
Deposits from related parties	447,442	183,811	123,245	72,193	-	**826,691**
Debt issued and other borrowed funds	9,570	-	45,784	220,626	1,080,839	**1,356,819**
Engagements by acceptances	71,180	50,918	76,873	186	-	**199,157**
Total financial liabilities	**35,976,137**	**10,455,449**	**7,254,201**	**5,651,498**	**1,924,688**	**61,261,973**

	2015					
	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 ASSETS						
Cash and balances with central banks	5,078,809	415,554	1,262,969	7,083,328	1,861,021	15,701,681
Due from banks and financial institutions	2,408,081	282,515	15,059	-	-	2,705,655
Loans to banks and financial institutions and reverse repurchase agreements	2,395,737	19,310	146,313	23,398	25,968	2,610,726
Derivative financial instruments	9,141	25,336	63,247	154,699	13,440	265,863
Financial assets at fair value through profit or loss	54,294	10,690	106,229	91,360	115,734	378,307
Loans and advances to customers at amortised cost	5,180,284	1,610,046	5,727,474	10,016,629	4,929,910	27,464,343
Financial assets at fair value through other comprehensive income	142,950	919	47,667	18,511	9,122	219,169
Debtors by acceptances	50,680	88,637	85,158	12,587	3,543	240,605
Financial assets at amortised cost	343,250	755,995	2,274,768	8,964,264	7,077,755	19,416,032
Total financial assets	15,663,226	3,209,002	9,728,884	26,364,776	14,036,493	69,002,381
FINANCIAL LIABILITIES						
Due to central banks	104,519	6,681	24,434	235,299	317,108	688,041
Due to banks and financial institutions	1,049,939	116,859	571,842	316,571	229,904	2,285,115
Derivative financial instruments	5,676	30,218	59,652	27,956	7,697	131,199
Customers' deposits	35,651,597	10,573,761	5,867,911	1,632,683	25,618	53,751,570
Deposits from related parties	343,485	203,431	47,775	111,930	-	706,621
Debt issued and other borrowed funds	89,766	-	44,114	-	1,157,275	1,291,155
Engagements by acceptances	50,680	88,637	85,158	12,587	3,543	240,605
Total financial liabilities	37,295,662	11,019,587	6,700,886	2,337,026	1,741,145	59,094,306

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.

	2016					
	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	844,304	7,364	131,421	99,559	30,462	**1,113,110**
Other guarantees	868,456	95,995	628,959	62,994	16,422	**1,672,826**
Documentary credits	401,068	55,426	182,637	10,529	256	**649,916**
Loan commitments	3,679,964	33,052	480,527	545,250	60,767	**4,799,560**
	5,793,792	**191,837**	**1,423,544**	**718,332**	**107,907**	**8,235,412**

	2015					
	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	691,590	21,499	148,491	110,053	30,867	1,002,500
Other guarantees	609,147	137,708	864,407	135,052	26,226	1,772,540
Documentary credits	271,080	122,307	127,151	27,353	429	548,320
Loan commitments	3,176,026	49,295	833,777	1,090,790	72,538	5,222,426
	4,747,843	330,809	1,973,826	1,363,248	130,060	8,545,786

MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the Statement of Financial Position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds. The maturity profile is monitored by Management to ensure adequate liquidity is maintained.

The maturity profile of the assets and liabilities at 31 December 2016 is as follows:

	2016								
	Less than 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	Amount without Maturity LBP Million	**Total LBP Million**
ASSETS									
Cash and balances with central banks	7,069,396	575,496	508,109	8,153,001	6,863,887	3,506,750	10,370,637	126,958	**18,650,596**
Due from banks and financial institutions	2,996,775	30,453	-	3,027,228	-	-	-	-	**3,027,228**
Loans to banks and financial institutions and reverse repurchase agreements	1,889,316	19,923	122,826	2,032,065	15,004	21,746	36,750	-	**2,068,815**
Derivative financial instruments	29,494	64,796	78,265	172,555	214,288	3,295	217,583	-	**390,138**
Financial assets at fair value through profit or loss	25,040	4,118	211,876	241,034	354,612	52,112	406,724	45,456	**693,214**
Loans and advances to customers at amortised cost	4,485,445	1,745,129	4,980,428	11,211,002	9,924,576	4,596,669	14,521,245	-	**25,732,247**
Loans and advances to related parties at amortised cost	138,051	594	49,839	188,484	19,560	11,149	30,709	-	**219,193**
Debtors by acceptances	71,180	50,918	76,873	198,971	185	-	185	-	**199,156**
Financial assets at amortised cost	270,468	444,571	1,169,110	1,884,149	2,443,483	9,662,438	12,105,921	-	**13,990,070**
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	193,948	**193,948**
Investments in associates	-	-	-	-	-	-	-	13,333	**13,333**
Property and equipment	-	-	-	-	-	-	-	881,501	**881,501**
Intangible fixed assets	-	-	-	-	-	-	-	64,621	**64,621**
Non-current assets held for sale	-	-	-	-	-	-	-	81,027	**81,027**
Other assets	109,339	3,338	24,228	136,905	42,844	-	42,844	305,546	**485,295**
Goodwill	-	-	-	-	-	-	-	41,827	**41,827**
Total assets	**17,084,504**	**2,939,336**	**7,221,554**	**27,245,394**	**19,878,439**	**17,854,159**	**37,732,598**	**1,754,217**	**66,732,209**
LIABILITIES AND SHAREHOLDERS' EQUITY									
Due to central banks	9,654	1,206,365	73,320	1,289,339	277,759	441,065	718,824	-	**2,008,163**
Due to banks and financial institutions	584,145	533,634	739,573	1,857,352	355,413	361,240	716,653	-	**2,574,005**
Derivative financial instruments	112,191	26,539	81,832	220,562	50,543	1,847	52,390	-	**272,952**
Customers' deposits	34,712,500	8,411,998	5,968,534	49,093,032	4,279,269	16,917	4,296,186	-	**53,389,218**
Deposits from related parties	446,421	182,978	120,833	750,232	63,316	-	63,316	-	**813,548**
Debt issued and other borrowed funds	8,112	-	3,731	11,843	-	961,692	961,692	-	**973,535**
Engagements by acceptances	71,180	50,918	76,873	198,971	185	-	185	-	**199,156**
Other liabilities	136,028	72,693	252,822	461,543	31,513	7,839	39,352	268,687	**769,582**
Provision for risks and charges	-	-	-	-	-	-	-	156,592	**156,592**
Shareholders' equity	-	-	-	-	-	-	-	5,575,458	**5,575,458**
Total liabilities and shareholders' equity	**36,080,231**	**10,485,125**	**7,317,518**	**53,882,874**	**5,057,998**	**1,790,600**	**6,848,598**	**6,000,737**	**66,732,209**
Liquidity gap	**(18,995,727)**	**(7,545,789)**	**(95,964)**		**14,820,441**	**16,063,559**		**(4,246,520)**	
Cumulative gap	**(18,995,727)**	**(26,541,516)**	**(26,637,480)**		**(11,817,039)**	**4,246,520**		-	

The maturity profile of the assets and liabilities at 31 December 2015 is as follows:

	2015								
	Less than 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	Amount without Maturity LBP Million	Total LBP Million
ASSETS									
Cash and balances with central banks	4,908,406	286,912	1,249,137	6,444,455	5,770,517	1,518,119	7,288,636	21,831	13,754,922
Due from banks and financial institutions	2,406,772	282,337	15,048	2,704,157	-	-	-	-	2,704,157
Loans to banks and financial institutions and reverse repurchase agreements	2,391,088	19,009	127,321	2,537,418	22,300	25,835	48,135	-	2,585,553
Derivative financial instruments	9,141	25,336	63,247	97,724	154,699	13,440	168,139	-	265,863
Financial assets at fair value through profit or loss	54,294	10,507	97,960	162,761	72,344	102,817	175,161	45,800	383,722
Loans and advances to customers at amortised cost	5,162,396	1,594,170	5,647,223	12,403,789	9,717,523	4,691,495	14,409,018	-	26,812,807
Loans and advances to related parties at amortised cost	142,946	846	47,164	190,956	16,223	7,370	23,593	-	214,549
Debtors by acceptances	50,680	88,637	85,158	224,475	12,587	3,543	16,130	-	240,605
Financial assets at amortised cost	274,931	689,138	1,607,634	2,571,703	6,469,698	5,743,173	12,212,871	-	14,784,574
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	144,375	144,375
Investments in associates	-	-	375	375	-	-	-	13,614	13,989
Property and equipment	-	-	-	-	-	-	-	963,438	963,438
Intangible fixed assets	-	-	-	-	-	-	-	101,364	101,364
Non-current assets held for sale	-	-	-	-	-	-	-	72,779	72,779
Other assets	74,313	3,552	6,924	84,789	19,923	72	19,995	365,722	470,506
Goodwill	-	-	-	-	-	-	-	209,434	209,434
Total assets	15,474,967	3,000,444	8,947,191	27,422,602	22,255,814	12,105,864	34,361,678	1,938,357	63,722,637
LIABILITIES AND SHAREHOLDERS' EQUITY									
Due to central banks	83,456	6,816	24,250	114,522	225,631	311,021	536,652	-	651,174
Due to banks and financial institutions	1,049,552	115,417	564,555	1,729,524	301,341	228,382	529,723	-	2,259,247
Derivative financial instruments	5,676	30,218	59,652	95,546	27,956	7,697	35,653	-	131,199
Customers' deposits	35,524,104	10,485,249	5,609,939	51,619,292	1,349,418	21,797	1,371,215	-	52,990,507
Deposits from related parties	342,958	201,894	47,691	592,543	97,568	-	97,568	-	690,111
Debt issued and other borrowed funds	88,204	-	3,466	91,670	-	962,312	962,312	-	1,053,982
Engagements by acceptances	50,680	88,637	85,158	224,475	12,587	3,543	16,130	-	240,605
Other liabilities	241,216	21,347	157,191	419,754	6,227	10,128	16,355	141,891	578,000
Provision for risks and charges	-	-	-	-	-	-	-	172,060	172,060
Shareholders' equity	-	-	-	-	-	-	-	4,955,752	4,955,752
Total liabilities and shareholders' equity	37,385,846	10,949,578	6,551,902	54,887,326	2,020,728	1,544,880	3,565,608	5,269,703	63,722,637
Liquidity gap	(21,910,879)	(7,949,134)	2,395,289		20,235,086	10,560,984		(3,331,346)	
Cumulative gap	(21,910,879)	(29,860,013)	(27,464,724)		(7,229,638)	3,331,346		-	

58.0. | OPERATIONAL RISK

Operational risk is the risk of loss or damage resulting from inadequate or failed internal processes, people, systems or external events. 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.

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 effectiveness of this framework through annual reviews.

Operational risks are controlled based on a set of principles detailed in the Board-approved operational risk management framework. These principles include: redundancy of mission-critical systems, segregation of duties, four-eyes principle, independency of employees performing controls, reconciliations, mandatory vacations, awareness, training and rotation of employees of specific functions. Controls are also embedded within the applications modules and process workflows. In addition, specific processes are controlled through client identity checks, end-of-day reports and dual validations.

Incidents are captured and analysed to identify their root causes. Corrective and preventive measures are recommended to prevent their reoccurrence. Risk and Control Assessments (RCAs) are conducted on an ongoing basis to identify risks and control vulnerabilities associated to changes pertaining to 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 on a quarterly basis.

Insurance coverage is used as an additional layer of mitigation and is commensurate with the Group business activities, in terms of volume and nature.

59.0. | CAPITAL MANAGEMENT

By maintaining an actively managed capital base, the Group's objectives are to cover risks inherent in the business, to retain sufficient financial strength and flexibility to support new business growth, and to 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 Central Bank of Lebanon according to the provisions of Basic Circular No. 44. These ratios measure capital adequacy by comparing the Group's eligible capital to regulatory required capital derived by assigning standard risk weights to on and off-balance sheet exposures depending on their relative risk.

During 2016, the Central Bank of Lebanon issued Intermediary Circular No. 436 by which it amended Basic Circular No. 44 related to the minimum Capital Adequacy Ratios (CAR). These ratios are set to increase gradually between December 2016 and December 2018, to reach 10.00%, 13.00% and 15.00% for CET1, Tier 1 and Total CAR respectively in 2018, including a capital conservation buffer of 4.50% in 2018. The following table shows the applicable regulatory capital ratios from end of 2015 to end of 2018:

	Common Tier 1 Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio
Year ended 31 December 2015*	8.00%	10.00%	12.00%
Year ended 31 December 2016*	8.50%	11.00%	14.00%
Year ended 31 December 2017*	9.00%	12.00%	14.50%
Year ended 31 December 2018*	10.00%	13.00%	15.00%

** Include Capital Conservation Buffer (CCB). This CCB, which will reach 4.50% of risk-weighted assets by end of 2018, must be met through Common Equity Tier 1 capital.*

	2016 LBP Million	2015 LBP Million
Risk-weighted assets:		
Credit risk	35,885,526	34,094,449
Market risk	543,016	700,170
Operational risk	3,559,749	2,966,760
Total risk-weighted assets	**39,988,291**	37,761,379

The regulatory capital including net income for the year less proposed dividends as of 31 December is as follows:

	2016 LBP Million	2015 LBP Million
Tier 1 capital	4,650,121	3,859,588
Of which: common Tier 1	*3,635,151*	*3,289,950*
Tier 2 capital	1,260,672	1,185,534
Total capital*	**5,910,793**	5,045,122

The capital adequacy ratio including net income for the year less proposed dividends as of 31 December is as follows:

	2016	2015
Capital adequacy – common Tier 1	**9.09%**	8.71%
Capital adequacy – Tier 1	**11.63%**	10.22%
Capital adequacy – Total capital*	**14.78%**	13.36%

** Total capital includes LBP 182,702 million transferred to equity reserves and LBP 78,300 million of deferred income treated as Tier 2 capital following the Central Bank of Lebanon Intermediary Circular No. 446 dated 30 December 2016 (refer to Note 38). In addition, preferred shares of LBP 376,875 million were issued during 2016.*

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, return capital to shareholders or issue capital securities.

04

MANAGEMENT

TURNING SIMPLE
INTO INNOVATION.

1.0. | GROUP MANAGEMENT

BANK AUDI sal

GENERAL MANAGERS

Mr. Samir N. HANNA	Group Chief Executive Officer
Dr. Freddie C. BAZ	Group Strategy Director
Dr. Imad I. ITANI	Group Head of Retail Banking
Mr. Chahdan E. JEBEYLI	Group Chief Legal & Compliance Officer
Mr. Elia S. SAMAHA	Group Chief Credit Officer
Mr. Adel N. SATEL	Group Chief Risk Officer

REGULATORY RELATIONS

Mr. Gaby G. KASSIS	General Manager

ASSISTANT GENERAL MANAGERS

Mr. Michel E. ARAMOUNI	Group Capital Markets
Dr. Marwan S. BARAKAT	Group Chief Economist & Head of Research
Mr. Danny N. DAGHER	Group Chief Information Officer
Mr. Khalil I. DEBS	Group Head of Corporate Banking
Mr. Tamer M. GHAZALEH	Group Chief Financial Officer
Mr. Joseph I. KESROUANI	Head of Business Development – South America & Africa

CENTRAL DEPARTMENTS

Mrs. Bassima G. HARB	Head of Regional Corporate Banking & Structured Finance
Mr. Farid F. LAHOUD	Group Corporate Secretary
Mr. Mahmoud M. MAJZOUB	Group Head of Internal Audit
Mr. Elie A. NAHAS	Group Head of Real Estate
Mr. Antoine N. NAJM	Group Head of Corporate Credit Management

ADVISORS TO THE GROUP CEO

Mrs. Randa T. BDEIR
Mr. Redouane G. BENHAMADI

GROUP FINANCIAL INSTITUTIONS & CORRESPONDENT BANKING

Mr. Khalil G. GEAGEA	Group Head of Financial Institutions & Correspondent Banking
	Tel: (961-1) 964817. Fax: (961-1) 989494.
	E-mail: khalil.geagea@banqueaudi.com
Mr. Joseph A. NADER	Deputy Group Head of Financial Institutions & Correspondent Banking
	Tel: (961-1) 977644. Fax: (961-1) 989494.
	E-mail: joseph.nader@banqueaudi.com

ISLAMIC BANKING

Dr. Khaled R. AL-FAKIH	Group Head of Sharia Compliance
	Tel: (961-1) 977364. Fax: (961-1) 973585.
	E-mail: khaled.Al-Fakih@banqueaudi.com

INVESTOR RELATIONS

Ms. Sana M. SABRA	Investor Relations
	Tel: (961-1) 977496. Fax: (961-1) 999399.
	E- mail: sana.sabra@banqueaudi.com

2.0. | ENTITIES' MANAGEMENT

BANK AUDI sal
LEBANON

Mr. Marc J. AUDI	General Manager – Country Manager
Mr. Hassan A. SALEH	Assistant General Manager – Chief Operating Officer

BRANCHES NETWORK MANAGEMENT

Mrs. Wafaa' S. DAOUK	Assistant General Manager – Network Manager
Mr. Salam G. NADDA	Assistant General Manager – Network Manager
Mrs. Ghina M. DANDAN	Network Manager
Mr. Rabih E. BERBERY	Network Manager
Mr. Kamal S. TABBARA	Network Manager
Mr. Abdo M. ABI-NADER	Senior Regional Manager
Mrs. Lina T. CHERIF	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

CENTRAL DEPARTMENTS

Mr. Antoine G. BOUFARAH	Assistant General Manager – Chief Compliance Officer
Mr. Ibrahim M. SALIBI	Assistant General Manager – Head of Corporate & Commercial Banking
Mr. Toufic S. ARIDA	Head of Transformation
Mrs. Marcelle R. ATTAR	Head of Information Technology
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
Mr. Hassan H. SABBAH	Head of SME
Mr. Jean N. TRABOULSI	Head of Marketing & Communications

ODEA BANK A.Ş.
TURKEY

BOARD OF DIRECTORS

		Member of the Credit Committee	Member of the Audit Committee	Member of the Corporate Governance Committee	Member of the Risk Committee	Member of the Remuneration Committee
Mr. Samir N. HANNA	Chairman					Chair •
Dr. Marwan M. GHANDOUR	Vice-chairman		Chair •	Chair •	Chair •	•
Dr. Freddie C. BAZ	Member	Alternate •				•
Mr. Khalil I. DEBS	Member	•				
Dr. Imad I. ITANI	Member	Alternate •				
Mr. Philippe F. EL KHOURY	Member					
Mrs. Ayşe Ö. KORKMAZ	Member		•	•	•	
Mr. Hüseyin V. ÖZKAYA	Member, Chief Executive Officer	•				
Mr. Hatem A. SADEK	Member					
Mr. Elia S. SAMAHA	Member	Chair •				

MANAGEMENT

Mr. Hüseyin V. ÖZKAYA	General Manager – Chief Executive Officer
Mr. Naim H. HAKIM	Assistant General Manager – Deputy Chief Executive Officer & Chief Financial Officer
Mr. Gökhan A. SUN	Assistant General Manager – SME Banking
Mr. Yalçin F. AVCI	Assistant General Manager – Corporate & Commercial Banking
Mr. Aytaç A. AYDIN	Assistant General Manager – Operations & Central Administration, Chief Operating Officer
Mr. Gökhan D. ERKIRALP	Assistant General Manager – Treasury & Capital Markets
Mr. Fevzi T. KÜÇÜK	Assistant General Manager – Business Solutions & Transactional & Direct Banking and IT
Mr. Cem A. MURATOĞLU	Assistant General Manager – Retail Banking
Mr. Alpaslan M. YURDAGÜL	Assistant General Manager – Financial Institutions & Investment Banking

BANK AUDI sae
EGYPT

BOARD OF DIRECTORS

		Member of the Executive Committee	Member of the Corporate Governance, Nomination & Remuneration Committee	Member of the Risk Committee	Member of the High Credit Committee	Member of the Audit Committee
Mr. Hatem A. SADEK	Chairman & Managing Director	Chair •	Invitee •	•	Chair •	
Mr. Mohamed A. FAYED	Deputy Chairman & Managing Director	•			•	
Mr. Mohamed M. BEDEIR	Deputy Managing Director	•				
Mr. Raymond W. AUDI	Member					
Dr. Freddie C. BAZ	Member		•	Chair •		
Dr. Marwan M. GHANDOUR	Member		Chair •			Chair •
Mr. Samir N. HANNA	Member				•	
Dr. Imad I. ITANI	Member					
Mr. Maurice H. SAYDE	Member					•
Dr. Mohamed E. TAYMOUR	Member		•	•		•
Mr. Ahmed F. IBRAHIM	Secretary of the Board					

EXECUTIVE DIRECTORS

Mr. Hatem A. SADEK[1]	Chairman & Managing Director
Mr. Mohamed A. FAYED[1]	Deputy Chairman & Managing Director
Mr. Mohamed M. BEDEIR[1]	Deputy Managing Director

[1] Member of the Executive Committee.

BUSINESS LINES

Mr. Amr F. EL-AASAR	Senior General Manager – Chief Corporate Banking Officer
Mr. Sherif M. SABRY	General Manager – Head of Large Corporate
Mr. Tamer A. MOSTAFA	General Manager – Head of Commercial
Mr. Maroun A. AOUAD	General Manager – Head of SME Banking & Global Transaction Services
Mr. Mostafa A. GAMAL	Senior General Manager – Head of Treasury & Capital Markets
Mr. Ihab E. DORRA	Senior General Manager – Head of Retail Banking
Mr. Mohamed L. AHMED	General Manager – Head of Branch Network
Mr. Mohamed R. LATIF	General Manager – Chief Institutional and Islamic Banking Officer
Mr. Mohamed A. ABDEL LATIF	Deputy General Manager – Head of Islamic Banking

SUPPORT FUNCTIONS

Mr. Mohamed A. SHAWKY	Deputy General Manager – Chief Financial Officer
Mr. Helal O. OMAR	Senior General Manager – Chief Non-banking Services Officer
Mr. Hesham F. RAGAB	Senior General Counsel – Head of Legal Affairs
Mr. Maher M. HAMED	Senior General Manager – Chief Information Officer
Mr. Khaled A. BESHIR	General Manager – Head of Operations
Mr. Hany Y. RAMZY	Deputy General Manager – Head of MIS
Mrs. Nevine S. EL MAHDY	Assistant General Manager – Head of Service Excellence
Mr. Hazem N. SHAARAWY	Executive Manager – Head of Market Research
Mr. Walid K. EL-WATANY	General Manager – Head of Human Resources
Mr. Ahmed F. IBRAHIM	General Manager – Head of Strategic Support and PMO
Ms. Heba M. GABALLA	Deputy General Manager – Head of Communication

RISK MANAGEMENT

Mr. Afdal E. NAGUIB	Senior General Manager – Chief Risk Officer
Mr. Bassel E. KELADA	Senior General Manager – Head of Retail Credit

CONTROL FUNCTIONS

Mr. Mohamed A. EL GUEZIRY	Senior General Manager – Head of Internal Audit
Mr. Ali M. AMER	General Manager – Head of Compliance

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. Michel G. NASSIF	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

AUDI PRIVATE BANK sal
LEBANON

BOARD OF DIRECTORS

		Member of the Audit Committee	Member of the Risk Committee	Member of the Remuneration Committee
Mr. Philippe R. SEDNAOUI	Chairman			•
Mr. Fady G. AMATOURY	Member			
Mr. Toufic R. AOUAD	Member		•	
Dr. Khalil M. BITAR	Member		Chair •	•
Mrs. Wafaa S. DAOUK	Member			
Dr. Joe A. DEBBANE	Member	•		Chair •
Mr. Georges S. DOUMITH	Member	Chair •	•	
Mr. Salam G. NADDA	Member	•		
BANK AUDI sal	Member			

MANAGEMENT

Mr. Philippe R. SEDNAOUI	Chairman & General Manager
Mr. Toufic R. AOUAD	General Manager

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. Chahdan E. JEBEYLI	Member	Chair •	
Mr. Youssef A. NIZAM	Member		•
Mr. Philippe R. SEDNAOUI	Member		•
Dr. Asem T. ARAB	Independent member	•	
Dr. Khalil A. KORDI	Independent member	•	

MANAGEMENT

Mr. Faisal M. SHAKER	Chief Executive Officer & Head of Private Banking
Mr. Ammar H. BAKHEET	Executive Director – Head of Asset Management
Mr. Bassam L. NASSAR	Head of Investment Banking
Mr. Tony G. ABOU FAYSSAL	Chief Operating Officer *(since 26 October 2016)*
Mr. Hikmat B. NASSAR	Finance Manager *(since 5 October 2016)*
Mr. Raafat F. EL-ZOUHEIRY	Compliance Manager & Money Laundering Reporting Officer

BANK AUDI LLC
QATAR

Authorised by the QFC Regulatory Authority
License No. 00027

BOARD OF DIRECTORS

		Member of the Executive Credit Committee
Mr. Fady G. AMATOURY	Chairman	
Mrs. Ghina M. DANDAN	Member	
Mr. Khalil I. DEBS	Member	•
Mr. Rashed Nasser S. AL-KAABI	Member	
Mr. Elia S. SAMAHA	Member	•
Mr. Philippe R. SEDNAOUI	Member	

MANAGEMENT

Mr. Hani R. ZAOUK	General Manager •

BANK AUDI FRANCE sa
FRANCE

BOARD OF DIRECTORS

		Member of the Audit & Risk Committee
Dr. Freddie C. BAZ	Chairman	•
Mrs. Sherine R. AUDI	Member & General Manager	
H.E. Mr. Raymond W. AUDI	Member	
Mr. Antoine G. BOUFARAH	Member	
Mr. Maurice H. SAYDE	Member	•
Mr. Pierre A. SOULEIL	Member	•
BANK AUDI sal *(represented by Mr. Samir N. HANNA)*	Member	

MANAGEMENT

Mrs. Sherine R. AUDI	General Manager
Mr. Noel J. HAKIM	Deputy General Manager
Mr. Emile G. GHAZI	Assistant General Manager – Head of Corporate Banking

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. Georges S. DOUMITH	Member	•	Chair •	•
Mr. Farid F. LAHOUD	Member	•		•
Mr. Maurice H. SAYDE	Member	Chair •		Chair •
BANK AUDI sal	Member			
Mrs. Marie-Josette A. AFTIMOS	Secretary of the Board			

MANAGEMENT

Dr. Imad I. ITANI	Chairman & General Manager

SOLIFAC sal
LEBANON

BOARD OF DIRECTORS

		Member of the Risk & Audit Committee	Member of the ALCO Committee	Member of the Credit Committee
Mr. Khalil I. DEBS	Chairman	Chair •	•	Chair •
Mr. Elie J. KAMAR	Chief Executive Officer	•	•	•
Mr. Tamer M. GHAZALEH	Member	•	Chair •	
Mr. Hassan A. SALEH	Member	•	•	
Mr. Ibrahim M. SALIBI	Member	•	•	•

MANAGEMENT

Mr. Elie J. KAMAR	Chief Executive Officer
Mrs. Lina F. SALEM	Assistant Chief Executive Officer

BANK AUDI sal - JORDAN BRANCHES
JORDAN

MANAGEMENT

Mr. Yousef A. ENSOUR	General Manager
Mr. Samer I. AL ALOUL	Deputy General Manager

BANK AUDI sal - IRAQ BRANCHES
IRAQ

MANAGEMENT

Mr. Jamil R. CHOUCAIR	Country Manager
Mr. Akil A. EZZEDDINE	COO & Deputy Country Manager

05

ADDRESSES

ENHANCING YOUR
BANKING EXPERIENCE.

LEBANON

BANK AUDI sal

Member of the Association of Banks in Lebanon
Capital: LBP 672,334,681,824 *(as at December 2016)*
Consolidated shareholders' equity:
LBP 5,575,458,574,550 *(as at December 2016)*
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: (961-4) 727777.
Swift: AUDBLBBX.
E-mail: 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: (961-4) 727777.
Swift: AUDBLBBX.
E-mail: 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: (961-4) 727777.
Swift: AUDBLBBX.
E-mail: contactus@bankaudi.com.lb –
www.bankaudi.com.lb

BRANCHES

COMMERCIAL BANKING NETWORK

DORA
Cité Dora 1, Dora Highway.
Tel: (961-1) 255686. Fax: (961-1) 255695, 259071.
Senior Branch Manager: Mrs. Hilda G. Sadek

GEFINOR
Gefinor Center, Clemenceau Street.
Tel: (961-1) 743400. Fax: (961-1) 743412.
Branch Manager: Ms. Rima M. Hoss

HAZMIEH
Dar Assayad Bldg., Saïd Freiha Street, Hazmieh Roundabout.
Tel: (961-5) 451850. Fax: (961-5) 457963.
Branch Manager: Mr. Ibrahim M. Harati

JNAH
Tahseen Khayat Bldg., Khalil Moutran Street.
Tel: (961-1) 844870. Fax: (961-1) 844875.
Branch Manager: Mrs. Elissar A. Halawi

MAZRAA
Wakf El-Roum Bldg., Saeb Salam Blvd.
Tel: (961-1) 305612. Fax: (961-1) 316873, 300451.
Branch Manager: Mr. Moustafa M. Anouty

NABATIEH
Office 2000 Bldg., Hassan Kamel El-Sabbah Street.
Tel: (961-7) 767812. Fax: (961-7) 767816.
Branch Manager: Mrs. Zeina H. Kehil

SAIDA – SOUTH
Moustapha Saad Street.
Tel: (961-7) 728601. Fax: (961-7) 752704.
Branch Manager: Mr. Mohamad M. Kalo

SHTAURA
Daher Bldg., Main Road.
Tel: (961-8) 542960. Fax: (961-8) 544853.
Branch Manager: Mr. Joseph E. Makdessi

TABARIS
Bourj El-Ghazal Bldg., Fouad Shehab Avenue, Ashrafieh.
Tel: (961-1) 332130. Fax: (961-1) 201992, 204827.
Branch Manager: Mrs. Raghida N. Bacha

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

TYRE
Abou Saleh & Moughnieh Bldg., Main Road.
Tel: (961-7) 345196. Fax: (961-7) 345201.
Branch Manager: Mrs. Mounira I. Khalife

ZOUK
Val de Zouk Center, Zouk Mikhael.
Tel: (961-9) 211140. Fax: (961-9) 223603, 225505.
Branch Manager: Mr. Pierre E. Harb

CORPORATE BANKING NETWORK

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
Senior Branch Manager: Mrs. Rania J. Tamraz

VERDUN
Verdun 2000 Center, Rashid Karameh Avenue.
Tel: (961-1) 805805. Fax: (961-1) 865635, 861885.
Network Manager – Corporate Banking:
Mrs. Wafaa S. Daouk

RETAIL & PERSONAL BANKING NETWORK

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.
Acting 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.
Acting 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

HAMRA
Mroueh Bldg., Hamra Street.
Tel: (961-1) 341491. Fax: (961-1) 344680.
Acting Branch Manager: Mrs. Dima R. Chahine

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

ZARIF
Salhab Center, Algeria Street.
Tel: (961-1) 747550. Fax: (961-1) 747553.
Branch Manager: Mr. Zahi K. Chatila

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

BHAMDOUN
Main Road.
Tel: (961-5) 261285. Fax: (961-5) 261289.
SOS 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. Jihad W. Haddad

DEKWANEH
El-Nefaa, Main Road.
Tel: (961-1) 693790. Fax: (961-1) 693795.
Branch Manager: Mr. Salam N. Dagher

DORA – CITY MALL
City Mall, Dora Highway.
Tel: (961-1) 884114. Fax: (961-1) 884115.
Branch Manager: Mr. Edgard A. Aoun

DORA – VARTANIAN
Vartanian Center, Dora Highway.
Tel: (961-1) 250404. Fax: (961-1) 241647.
Branch Manager: Mrs. Nancy S. Boustany

ELYSSAR
Elyssar Main Road, Mazraat Yashouh.
Tel: (961-4) 913928. Fax: (961-4) 913932.
Branch Manager: Mrs. Lizia E. 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. Rachelle J. Sarkis

GHAZIR
Haddad Bldg., Main Road, 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.
SOS Branch Manager: Mrs. Leila K. Barakat

HADATH
El-Ain Square, Main Road.
Tel: (961-5) 464050. Fax: (961-5) 471854.
Branch Manager: Mr. Charles A. Berberi

HARET HREIK
Ahmad Abbas Bldg., Baajour Street, Main Road.
Tel: (961-1) 277270. Fax: (961-1) 547265.
Branch Manager: Mr. Yasser A. Zein

JAL EL-DIB
Milad Sarkis Bldg., Main Road.
Tel: (961-4) 710393. Fax: (961-4) 710395.
Branch Manager: Mrs. Haifa A. Awad

JBEIL
Byblos Sun Bldg., Jbeil Roundabout.
Tel: (961-9) 543890. Fax: (961-9) 543895.
Branch Manager: Mr. Chady F. Kassis

JDEIDEH
Joseph Kassouf Bldg., Mar Youhanna Street.
Tel: (961-1) 892674, 892698, 892701.
Fax: (961-1) 892428.

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: Mr. Antoine F. Boueri

JOUNIEH – EL-SHIR
Beaino Bldg., Notre Dame du Liban Hospital Street.
Tel: (961-9) 638060. Fax: (961-9) 915511.
SOS Branch Manager: Mr. Abdo E. Andraos

KHALDEH
Lebanese Commercial Mall, Saida Highway.
Tel: (961-5) 801988. Fax: (961-5) 806405.
Branch Manager: Mr. Ghassan M. Kaed Bey

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. Hilal N. Zeineddine

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. Ali A. Jaber

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 – 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. Rana A. Khoury

HALBA
Main Road.
Tel: (961-6) 692020. Fax: (961-6) 692024.
Branch Manager: Mr. Tannous N. Abi-Saab

SHEKKA
Main Road.
Tel: (961-6) 545379. Fax: (961-6) 541526.
SOS Branch Manager: Mr. Tony F. Nabhan

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. Nasser N. Chahal

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

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

TYRE ABBASSIEH
Tyre North Entrance, Main Road, Abbassieh.
Tel: (961-7) 741830. Fax: (961-7) 741835.

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

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.

URUGUAY STREET
Downtown, Beirut.

ZAITUNAY BAY
Beirut Waterfront.

ZGHARTA
North Palace Hotel, Kfarhata.

BEIRUT DIGITAL DISTRICT (BDD)
Beshara El-Khoury Street.

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.
E-mail: 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.
E-mail: 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.

TURKEY

ODEA BANK A.Ş.

HEADQUARTERS

Odea Bank A.Ş. headquarters, Levent 199, Buyukdere Street, No. 199, Floors 33-39, 34394 Sisli, Istanbul.
Tel: (90-212) 3048444. Fax: (90-212) 3048445.
E-mail: 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. Ayhan Sahin (Commercial); Mr. Kudret Uslu (Corporate); Ms. Ciler Durmaz (Retail)

GUNESLI
Baglar District, Osmanpasa Street, No. 65, 34209, Bagcilar, Istanbul.
Tel: (90-212) 4646000. Fax: (90-212) 3481840.
Branch Managers: Mr. Murat Altun (SME); Mr. Irfan Sahinkaya (Corporate); Ms. Arzu Aydin (Retail)

KOZYATAGI
Saniye Ermutlu Street, G. Kemal Persentili Business Center, 34742, Kadikoy, Istanbul.
Tel: (90-216) 6657000. Fax: (90-212) 3481839.
Branch Managers: Ms. Arzu Ertekin (Commercial & SME); Mr. Zafer Seyar (Corporate); Ms. Cagla Yavuzoglu Yilmaz (Retail)

CADDEBOSTAN
Bagdat Street, No. 270, Ak Bldg. No. 17-18, Goztepe, Istanbul.
Tel: (90-216) 4686800. Fax: (90-212) 3481850.
Branch Manager: Ms. Seda Tokgoz (Retail)

NISANTASI
Valikonagi Street, No. 91-93/A & 91-93/1, Sisli, Istanbul.
Tel: (90-212) 3738100. Fax: (90-212) 3481853.
Branch Manager: Ms. Hulya Kucuk (Retail)

BEBEK
Bebek District, Cevdetpasa Street, No. 36, 34342, Besiktas, Istanbul.
Tel: (90-212) 3624700. Fax: (90-212) 3481851.
Branch Manager: Ms. Aylin Bakay Tercan (Retail)

IKITELLI
Ikitelli Industrial Region, Ataturk Avenue, Mahmut Torun Business Center, No. 54, Basaksehir, Istanbul.
Tel: (90-212) 6920900. Fax: (90-212) 3481867.
Branch Manager: Mr. Mehmet Toker (SME & Retail)

BESIKTAS
Barbaros Avenue, 23/A, Besiktas, Istanbul.
Tel: (90-212) 3961500. Fax: (90-212) 3481879.
Branch Manager: Ms. Aysun Ozkan (Retail)

ETILER
Nispetiye Street, No. 60/A-B, Etiler, Besiktas, Istanbul.
Tel: (90-212) 3591600. Fax: (90-212) 3481872.
Branch Manager: Ms. Aysen Kirtas (Retail); Mr. Ozan Kok (SME)

MECIDIYEKOY
Mecidiyekoy District, Mecidiye Street, No. 2, Sisli, Istanbul.
Tel: (90-212) 3555900. Fax: (90-212) 3481878.
Branch Manager: Ms. Canan Deniz Atabas (SME & Retail)

SISLI
Halaskargazi Street, No. 169, Sisli, Istanbul.
Tel: (90-212) 3734300. Fax: (90-212) 3481874.
Branch Managers: Ms. Mehrzad Senefe (Retail); Mr. Serdar Uzelli (SME)

YESILYURT
Sipahioglu Street, No. 2/B, Yesilyurt, Istanbul.
Tel: (90-212) 4631100. Fax: (90-212) 3481875.
Branch Manager: Mr. Umut Kilic (Retail)

GAZIOSMANPASA
Sarigol District, Cumhuriyet Square, No. 16-17a, Gaziosmanpasa, Istanbul.
Tel: (90-212) 6001300. Fax: (90-212) 3488188.
Branch Manager: Ms. Aysun Citlak (SME & Retail)

ALTUNIZADE
Altunizade District, Kisikli Street, No. 35/1, Uskudar, Istanbul.
Tel: (90-212) 4001600. Fax: (90-212) 3481886.
Branch Manager: Mrs. Ozlem Morova (SME & Retail)

HADIMKOY
Akcaburgaz District, Hadimkoy Road, No. 154-156, Esenyurt, Istanbul.
Tel: (90-212) 8667800. Fax: (90-212) 3481885.
Branch Manager: Ms. Ufuk Kiziltan (SME & Retail)

BATI ATASEHIR
Barbaros District, Halk Street, No. 59, D:1 Atasehir, Istanbul.
Tel: (90-216) 5471200. Fax: (90-212) 3481890.
Branch Manager: Ms. Pinar Turan (Retail); Mr. Ercan Yakal (SME)

BOSTANCI
Semsettin Gunaltay District, Suadiye Street, No. 97/A, Kadikoy, Istanbul.
Tel: (90-216) 5791400. Fax: (90-212) 3481894.
Branch Manager: Ms. Gamze Vural (Retail)

KADIKOY
Sogutlu Cesme Street, No. 46-48, Kadikoy, Istanbul.
Tel: (90-216) 5421300. Fax: (90-212) 3481898.
Branch Managers: Ms. Ebru Topdemir (Retail); Ms. Birsen Tümer Basaran (SME)

KARTAL
Ankara Street, No. 88, Kartal, Istanbul.
Tel: (90-216) 5865300. Fax: (90-212) 3481895.
Branch Manager: Mr. Sinan Mahmut Erdal (SME & Retail)

TAKSIM
Sehitmuhtar District, Tarlabasi Street, No. 10/1, Taksim, Beyoglu, Istanbul.
Tel: (90-212) 3134100. Fax: (90-212) 3481899.
Branch Manager: Ms. Hayal 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 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 Dogan (Retail)

IMES
Imes Industrial Region, OSB District, Imes-501, E Blok, No. 34/ 7, Umraniye, Istanbul.
Tel: (90-216) 6001900. Fax: (90-212) 3481904.
Branch Manager: Mr. Serkan Enisel (SME & Retail)

EMINONU
Hobyar District, Buyuk Postane Street, No. 32, Fatih, Istanbul.
Tel: (90-212) 4027000. Fax: (90-212) 3481905.
Branch Managers: Mr. Faysal Ozkut (SME); Ms. Neslihan Kiymaz (Retail)

CEVAHIR
Cevahir Shopping Center, Buyukdere Street, No. 22, K123, Mecidiyekoy, Sisli, Istanbul.
Tel: (90-212) 3800295. Fax: (90-212) 3481910.
Branch Manager: Ms. Mehrzad Senefe (Retail)

SUADIYE
Bagdat Street, No. 406, Suadiye, Istanbul.
Tel: (90-216) 4685400. Fax: (90-212) 3481908.
Branch Manager: Ms. Asli Yasar (Retail)

ANKARA

ANKARA
Eskisehir State District (Dumlupinar Avenue), 9 Km, Block B, Ground Floor, No. 11, Cankaya, Ankara.
Tel: (90-312) 2489800. Fax: (90-312) 2489801.
Branch Managers: Mr. Mustafa Bora Gencer (Commercial & SME); Ms. Gulhan Pervan (Corporate); Mrs. Nurdan Senocak (Retail)

GOP
Kazim Özalp District, Uğur Mumcu Street, No 16, Cankaya, Ankara.
Tel: (90-312) 4553800. Fax: (90-212) 3481858.
Branch Manager: Ms. Hulya Gurdal (Retail); Mr. Gökhan Kaynak (SME)

OSTIM
Serhat District, 1171/1 Street, No. 5, Ostim Yenimahalle, Ankara.
Tel: (90-312) 5927500. Fax: (90-212) 3481877.
Branch Manager: Mr. Aytac Hacioglu (SME & Retail)

IZMIR

IZMIR
Anadolu Street, No. 41/20A, Bayrakli, Izmir.
Tel: (90-232) 4951500. Fax: (90-212) 3481837.
Branch Managers: Mr. Orhan Timurhan (Commercial & SME); Mr. Huseyin Cem Taner (Corporate); Ms. Nursel Esen (Retail)

ALSANCAK
Cumhuriyet Avenue, No. 176-A, Alsancak, Konak, Izmir.
Tel: (90-232) 4981800. Fax: (90-212) 3481868.
Branch Manager: Ms. Ebru 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 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 Gurle (Retail)

KOCAELI

IZMIT
Korfez District, Sureyya Street, No. 22, Izmit, Kocaeli.
Tel: (90-262) 2812400. Fax: (90-262) 2812401.
Branch Manager: Mr. Osman Sinan Ergin (SME & Retail)

GEBZE
Hacihalil District, Ismetpasa Street, No. 34, Gebze, Kocaeli.
Tel: (90-262) 6742400. Fax: (90-212) 3481873.
Branch Manager: Mr. Kadir Kutlu (SME & Retail)

IZMIT CARSI
Cumhuriyet Street, No. 104, Izmit, Kocaeli.
Tel: (90-262) 2812500. Fax: (90-212) 3481889.
Branch Manager: Ms. Nur Esin Keles (Retail)

BURSA

BURSA
Izmir Road, No. 116, No. 13-14, Nilufer, Bursa.
Tel: (90-224) 2753400. Fax: (90-224) 2753401.
Branch Managers: Ms. Sebnem Cengiz (Commercial & SME); Ms. Aysegul 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: Mr. Bulent Koc (SME & Retail); Mr. Ersoy Kilic (Corporate)

ADANA

ADANA
Resatbey District, Ataturk Street, No. 18-18/1, Seyhan, Adana.
Tel: (90-322) 4551600. Fax: (90-212) 3481866.
Branch Managers: Mr. Ahmet Can Karaoglu (SME); Ms. Banu Gurer (Retail)

KAYSERI

KAYSERI CARSI
Cumhuriyet District, Serdar Street, No. 21, Melikgazi, Kayseri.
Tel: (90-352) 2210271. Fax: (90-212) 3481870.
Branch Manager: Mr. Ismail Murat (Retail)

KAYSERI SANAYI
Anbar District, Osman Kavuncu Avenue, No. 394, Ankara Road, 7 Km, Melikgazi, Kayseri.
Tel: (90-352) 3261066. Fax: (90-212) 3481871.
Branch Manager: Mr. Orhan Caliskan (SME & Retail)

DENIZLI

DENIZLI
Saltak Avenue, M. Korkut Street, No. 2, Merkez Denizli.
Tel: (90-258) 2952000. Fax: (90-212) 3481883.
Branch Manager: Ms. Pelin Bozbay Yazici (SME); Mrs. Aliye Ozlem Ozkok (Retail)

KONYA

KONYA BUSAN
Fevzi Cakmak District, Kosgeb Street, No. 3/C, Karatay, Konya.
Tel: (90-332) 2216800. Fax: (90-212) 3481880.
Branch Manager: Ms. Muhsine Bahadir (SME & Retail)

ANTALYA

ANTALYA MURATPASA
Mehmetcik District, Aspendos Avenue, No. 71/1, Muratpasa, Antalya.
Tel: (90-242) 3207400. Fax: (90-212) 3481884.
Branch Manager: Mr. Ali Zafer Kacar (SME & Retail)

ANTALYA LARA
Yesilbahce District, Metin Kasapoglu Street, No. 49/A, Muratpasa Antalya.
Tel: (90-242) 3204300. Fax: (90-212) 3481902.
Branch Manager: Ms. Furgan Cakan (Retail)

MUGLA

BODRUM
Hasan Resat Oncu Street, No. 12, Bodrum, Mugla.
Tel: (90-252) 3115000. Fax: (90-212) 3481881.
Branch Manager: Ms. Asli Yilmaz (SME & Retail)

ESKISEHIR

ESKISEHIR
Eskibaglar District, Hatboyu-1 Street, 1/A, Eskisehir.
Tel: (90-222) 2131000. Fax: (90-212) 3481891.
Branch Manager: Mr. Atik Yavuz Yıldırım (SME & Retail)

MERSIN

MERSIN
Camiserif District, Kuvai Milliye Street, No. 20/A, Mersin.
Tel: (90-324) 2418300. Fax: (90-212) 3481882.
Branch Manager: Mr. Onur Altinli (SME & Retail)

HATAY

ISKENDERUN
Cay District, Ataturk Avenue, No. 33, Iskendurun, Hatay.
Tel: (90-326) 6291300. Fax: (90-212) 3481900.
Branch Managers: Ms. Canan Yerli (Retail); Mr. Akin Herzem (SME)

SAMSUN

SAMSUN
Kale District, Kazimpasa Avenue, No. 21, Ilkadim, Samsun.
Tel: (90-362) 3118800. Fax: (90-212) 3481907.
Branch Managers: Mr. Ilkay Karaali (SME); Mr. Ismail Aytek (Retail)

EGYPT

BANK AUDI sae

HEADQUARTERS

Pyramids Heights Office Park, Cairo-Alexandria Desert Road, Km 22, Sixth of October City.
P.O. Box 300 El Haram. Postal Code 12556.
Tel: (20-2) 35343300. Fax: (20-2) 35362120.
E-mail: contactus@bankaudi.com.eg – bankaudi.com.eg

BRANCHES

GIZA

DOKKI (MAIN BRANCH)
104 El Nile Street, Dokki.
Tel: (20-2) 33362516-7-8. Fax: (20-2) 37483818.
Branch Manager: Mrs. Sally F. Sallam

MOSADDAK (ISLAMIC BRANCH)
56 Mosaddak Street, Dokki.
Tel: (20-2) 37603520, 37480241.
Fax: (20-2) 37480242.
Branch Manager: Mr. Mohammed A. Hussein

LEBANON
60 Lebanon Street (Lebanon Tower), Lebanon Square, Mohandesseen.
Tel: (20-2) 33026436, 33026423. Fax: (20-2) 33026454.
Branch Manager: Mr. Karim M. Morsi

EL BATAL AHMED ABDEL AZIZ
44 El Batal Ahmed Abdel Aziz Street, Mohandesseen.
Tel: (20-2) 33332000. Fax: (20-2) 37480599.
Regional Manager: Mrs. Khayria M. Akef

SHOOTING CLUB
13 Shooting Club Street, Dokki.
Tel: (20-2) 37486542. Fax: (20-2) 37486546.
Branch Manager: Mrs. Marwa M. El-Mougy

EL HARAM (ISLAMIC BRANCH)
42 El Haram Street, El Haram.
Tel: (20-2) 33864002, 33865056.
Fax: (20-2): 33865103.
Branch Manager: Mr. Sherif S. El Sonbaty

TAHRIR
94 Tahrir Street, Dokki.
Tel: (20-2) 37486659, 37486412, 37486357, 37486342, 37486439, 37486274-8, 37486238.
Fax: (20-2) 37486310.
Branch Manager: Mr. Mohamed S. Abdel-Fattah

SIXTH OF OCTOBER
Plot 2/23, Central District, Sixth of October City.
Tel: (20-2) 38353790, 38353781-3.
Fax: (20-2) 38353780.
Branch Manager: Mr. Mohamed A. Abd-Elrahman

PYRAMIDS HEIGHTS
Pyramids Heights Office Park, Cairo-Alexandria Desert Road, Km 22, Sixth of October City.
Tel: (20-2) 35362053. Fax: (20-2) 35362052.
Branch Manager: Mr. Tarek A. Negm

SHEIKH ZAYED
Units 002 & 101, Bldg. B3, Capital Business Park, Phase 1, Sheikh Zayed, Sixth of October City.
Tel: (20-2) 38653551. Fax: (20-2) 38653553.
Branch Manager: Ms. Rehab R. Ragab

CAIRO

MAKRAM EBEID
1 Makram Ebeid Street, Nasr City.
Tel: (20-2) 22731771-2-3. Fax: (20-2) 22726755.
Branch Manager: Mr. Omar M. Wally

ABBASS EL-AKKAD
70 Abbass El-Akkad Street, Nasr City.
Tel: (20-2) 22708810. Fax: (20-2) 22708790.
Branch Manager: Mr. Ayman M. Farrag

BEIRUT
54 Demeshk Street, Heliopolis.
Tel: (20-2) 24508655, 24508633-6, 24508644, 24508610. Fax: (20-2) 24508653.
Branch Manager: Mr. Mohamed A. Abdel Wahed

SHOUBRA
128 Shoubra Street, Shoubra.
Tel: (20-2) 22075682, 22075767, 22075774.
Fax: (20-2) 22075779.
Branch Manager: Mr. Hesham A. Awaad

ZAMALEK
1B Hassan Sabry Street, Zamalek.
Tel: (20-2) 27285236. Fax: (20-2) 27375008.
Branch Manager: Ms. Ghada M. El-Garrahy

MASAKEN SHERATON
11 Khaled Ibn El Waleed Street, Masaken Sheraton.
Tel: (20-2) 22683371, 22683303.
Fax: (20-2) 22683433.
Branch Manager: Mrs. Christine R. Farag

NADY EL SHAMS
17 Abdel Hamid Badawy Street, Heliopolis.
Tel: (20-2) 26210941-2-3-4. Fax: (20-2) 26210945.
Branch Manager: Ms. Nancy N. Helmy

MUKATTAM
Plot 6034, Street 9, Mukattam.
Tel: (20-2) 25057040, 25056927, 25056978.
Fax: (20-2) 25057566.
Branch Manager: Mr. Ahmed M. El-Sheikh

ABBASSIA
109 Abbassia Street, Abbassia.
Tel: (20-2) 24871906-8. Fax: (20-2) 24871957.
Branch Manager: Mr. Ahmed S. Abouel-Hadid

EL OBOUR
Shops 43, 44, 45, Golf City, El Obour City.
Tel: (20-2) 46104323-5-6-7, (20-10) 68822189.
Fax: (20-2) 46104324.
Branch Manager: Mr. Karim A. Abdel Baky

EL MANIAL
90 El Manial Street, El Manial.
Tel: (20-2) 23629955, 23630163, 23630080, 23629935.
Fax: (20-2) 23630099.
Acting Branch Manager: Mr. Mohamed M. Selim

TRIUMPH
8 Plot 740, intersection of Othman Ibn Affan Street
and Adly Kaffafi Street, Heliopolis.
Tel: (20-2) 26347549, 26352929, 26347320, 22404055,
26342243, 26352220. Fax: (20-2) 26352929.
Area Manager: Mrs. Sandra G. Cossery

ABD EL KHALEK THARWAT
42 Abd El Khalek Tharwat Street, Downtown.
Tel: (20-2) 23904162, 23904853, 23904866.
Fax: (20-2) 23904162.
Area Manager: Mr. Samir M. Osman

GARDEN CITY
1 Aisha El Taymoria Street, Garden City.
Tel: (20-2) 27928975-6. Fax: (20-2) 27928977.
Area Manager: Mr. Samir M. Osman

SALAH SALEM
15 Salah Salem Street, Heliopolis.
Tel: (20-2) 22607438, 22607125. Fax: (20-2) 22607168.
Area Manager: Mrs. Rasha M. Ramadan

MAADI – DEGLA
1-B, 256 Street, Degla, Maadi.
Tel: (20-2) 25193243, 25162044, 25162038, 25195238.
Fax: (20-2) 25194938.
Branch Manager: Mr. Mohamed A. Kandil

NEW MAADI
Plot 1/2 D/5, intersection of Laselky Street
and Nasr Street, New Maadi.
Tel: (20-2) 25197901. Fax: (20-2) 25197921.
Branch Manager: Ms. Mai M. Saeed

TAYARAN
40 Tayaran Street, Nasr City.
Tel: (20-2) 24048617. Fax: (20-2) 22708757.
Branch Manager: Mr. Mr. Bassel H. Zohdy

MERGHANY
100 A Merghany Street, Heliopolis.
Tel: (20-2) 24635765. Fax: (20-2) 24508653.
Branch Manager: Mr. Sherif A. El-Aidy

TAGAMOU EL KHAMES
Waterway – Phase One, Ground & First Floors,
Commercial Units CGS4-CFS4, Investors' Zone – North,
New Cairo.
Tel: (20-2): 24508633. Fax: (20-2) 24508653.
Branch Manager: Mr. Moataz M. Hussein

MADINATY
Plot 6, Banks Zone, Madinaty, New Cairo.
Branch Manager: Ms. Radwa F. Ezz El Din

ALEXANDRIA

SMOUHA
35 Victor Emmanuel Square, Smouha.
Tel: (20-3) 4245089, 4245204, 4245261.
Fax: (20-3) 4244510.
Branch Manager: Mr. Ismail M. Ghanem

SULTAN HUSSEIN
45 Sultan Hussein Street, Azarita.
Tel: (20-3) 4855791-2, 4841096. Fax: (20-3) 4877198
Branch Manager: Mr. Tamer S. Youssef

MIAMI (ISLAMIC BRANCH)
4 El Asafra Al Bahariya, Street 489,
Montazah, Alexandria.
Tel: (20-3) 5485319, 5505212-3. Fax: (20-3) 5505136.
Branch Manager: Mr. Sherif M. Saad

SAN STEFANO
413 El-Gaish Road, San Stefano.
Tel: (20-3) 5505227, 5485312-9, 5505212-3, 5505127.
Fax: (20-3) 5505136.
Area Manager: Mr. Ahmed H. ElSayed

GLEEM
1 Mostafa Fahmy Street, Gleem.
Tel: (20-3) 5825547, 5825742.
Fax: (20-3) 5825866.
Branch Manager: Mrs. Nihal I. El Sawy

ALEX DOWNTOWN
Merosa Compound, Alexandria.
Tel: (20-3) 4880501. 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.
Regional Manager: Mr. Amr Y. Rizk

GHARBIA

TANTA
Intersection of El Gueish Street and
El Nahda Street, Tanta.
Tel: (20-40) 3403306-7-8-9. Fax: (20-40) 3403100.
Branch Manager: Mr. Amr A. Dorgham

SHARQIYA

ZAGAZIK
95 Saad Zaghloul Street.
Tel: (20-55) 2369837. Fax: (20-55) 2369815.
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) 3604513-4-5-6-9.
Fax: (20-69) 3604520.
Branch Manager: Mr. Mohamed K. Abbas

SWITZERLAND

BANQUE AUDI (SUISSE) SA

18, Cours des Bastions.
P.O. Box: 384. 1211 Geneva 12, Switzerland.
Tel: (41-22) 704 11 11. Fax: (41-22) 704 11 00.
E-mail: contactus.gva@bankaudipb.com –
bankaudipb.com

Beirut Representative Office
Bank Audi Plaza, Bab Idriss.
P.O. Box: 11-2666 Beirut - Lebanon.
Tel: (961-1) 977 544. Fax: (961-1) 980 535.

MONACO

AUDI CAPITAL GESTION SAM

Monte-Carlo Palace, 3-9 Boulevard des Moulins.
MC - 98000 Monaco.
Tel: (377) 97 97 65 11. Fax: (377) 97 97 65 19.
E-mail: contactus.mc@bankaudipb.com –
bankaudipb.com

SAUDI ARABIA

AUDI CAPITAL (KSA) cjsc

Centria Bldg., 3rd Floor, 2908 Prince Mohammad
Bin AbdulAziz Road (Tahlia).
Postal Address: Unit No. 28, Ar Riyadh 12241-6055.
P.O. Box: 250744 Riyadh 11391 Kingdom of Saudi Arabia.
Tel: (966-11) 2199300. Fax: (966-11) 4627942.
E-mail: contactus@audicapital.com –
audicapital.com

QATAR

BANK AUDI LLC

Authorised by the QFC Regulatory Authority
License No. 00027

Qatar Financial Centre Tower, 18th Floor,
Diplomatic Area, West Bay.
P.O. Box: 23270 Doha, Qatar.
Tel: (974) 44967365. Fax: (974) 44967373.
E-mail: contactus.qatar@bankaudipb.com –
bankaudipb.com

FRANCE

BANK AUDI FRANCE sa

73, Avenue des Champs-Elysées. 75008 Paris, France.
Tel: (33-1) 53 83 50 00. Fax: (33-1) 42 56 09 74.
E-mail: contactus@bankaudi.fr – bankaudi.fr

JORDAN

BANK AUDI sal -
JORDAN BRANCHES

HEADQUARTERS

Bldg. 26, Suleiman Al-Nabulsi Street, Abdali, Amman.
P.O. Box 840006 Amman. 11184, Jordan.
Tel: (962-6) 4604000. Fax: (962-6) 4680015.
E-mail: contactus@bankaudi.com.jo –
bankaudi.com.jo

BRANCHES

ABDALI (MAIN BRANCH)
Bldg. 26, Suleiman Al-Nabulsi Street,
Abdali, Amman.
Tel: (962-6) 4604010. Fax: (962-6) 5604719.
Branch Manager: Mrs. Samar B. Homsi

SHMEISSANI
Salah Center, Al-Shareef Abdul Hameed Sharaf Street,
Shmeissani, Amman.
Tel: (962-6) 5606020. Fax: (962-6) 5604545.
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. Safaa E. Sahouri

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

MECCA MALL
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.
Branch Manager: Mrs. Rula M. Bawadi

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.
Tel: (962-6) 5865432. Fax: (962-6) 5853185.
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.
Assistant Branch Manager: Mr. George N. Twal

AL-MADINA AL-MOUNAWARA STREET
Al-Ameer Complex, Al-Madina Al-Mounawara
Street, Amman.
Tel: (962-6) 5563850. Fax: (962-6) 5563851.
Acting Branch Manager: Ms. Rihab A. Jadallah

WADI SAQRA
Saqra Complex, Wadi Saqra Street, Amman.
Tel: (962-6) 5672227. Fax: (962-6) 5652321.
Branch Manager: Mrs. Layal F. Sweidan

DABOUQ
Bldg. 179, King Abdullah II Street, Amman.
Tel: (962-6) 5333305. Fax: (962-6) 5332704.
Branch Manager: Mrs. Shada S. Abu-Saad

IRBID
Al Busoul Complex, Feras Al Ajlouni Street,
Al Qubbeh Circle, Irbid.
Tel: (962-2) 7261550. Fax: (962-2) 7261660.
Branch Manager: Mr. Jihad A. Al-Zubi

AQABA
Dream Mall, Sharif Hussein Bin Ali Street, Aqaba.
Tel: (962-3) 2063200. Fax: (962-3) 2063201.
Branch Manager: Mr. Odeh T. Odeh

IRAQ

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IRAQ BRANCHES

HEADQUARTERS

Bank Audi Bldg., District 923, Al-Jadriya
Main Street, Baghdad.
P.O. Box 2080 Al-Jadriya, Iraq.
Tel: (964-772) 9768900.
E-mail: contactus.iraq@banqueaudi.com –
www.bankaudiiraq.com

BRANCHES

BAGHDAD
Al-Jadriya Street, District 923, Baghdad.
Tel: (964-772) 9768921, (964-770) 9682282.
Branch Manager: Mr. Wafic A. Jammoul

SULAYMANIYAH
Salem Street, Sulaymaniyah.
Tel: (964-751) 2897561.
Branch Manager: Mr. Fadi B. El-Kaed

BASRA
Bldg. No. 85, Minawi Pasha Street, District 89, Basra.
Tel: (964-751) 1269273.

NAJAF
Al Amir Street, Najaf City.
Tel: (964-780) 3320268.
Branch Manager: Mr. Hisham A. Zein

ERBIL
Plaza BC Building, Bakhtiary District, Ainkawa Road, Erbil.
Tel: (964-751) 5129884.
Erbil Branch Manager and Regional Manager for
Kurdistan region: Mr. Jean E. Nseir

UNITED ARAB EMIRATES

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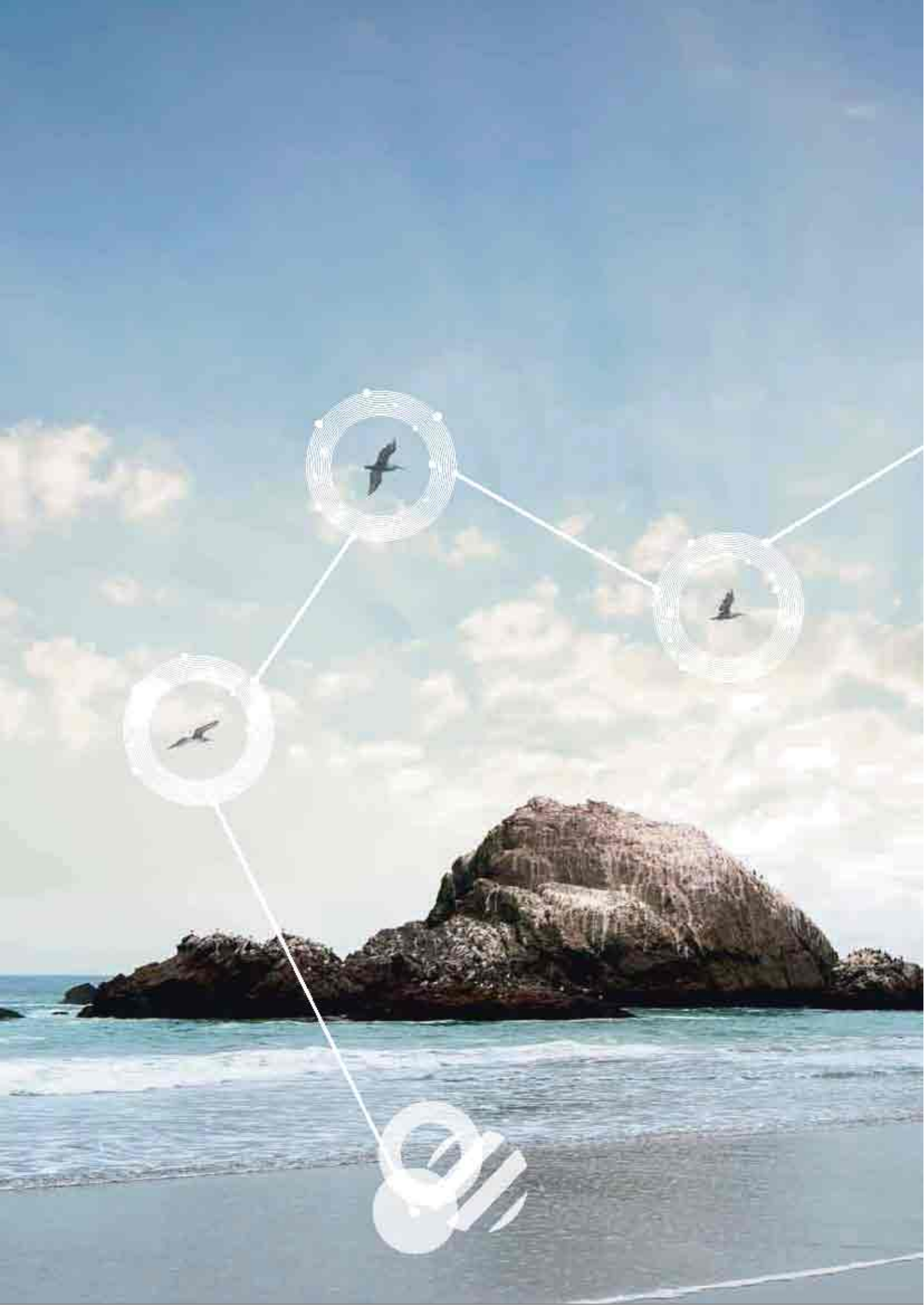
REPRESENTATIVE OFFICE

Etihad Towers, Tower 3, 15th Floor, Office 1503,
Corniche Street.
P.O. Box 94409 Abu Dhabi, United Arab Emirates.
Tel: (971-2) 6331180. Fax: (971-2) 6336044.
E-mail: contactus.abu-dhabi@bankaudipb.com –
bankaudipb.com