

**Bank Audi**

**ANNUAL REPORT  
2017**



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## STATEMENT OF THE CHAIRMAN AND GROUP CHIEF EXECUTIVE OFFICER

The Bank's performances in the year 2017 closely reflect the strategic choices and orientations adopted by Management, focusing on strengthening the Group's financial standing and reinforcing its financial flexibility, while sustaining its profitability in spite of tough operating conditions. These performances reinforced the Group's leading positioning in the domestic market and among leading regional banking groups at the service of a wide range of customers. Still, continuing tough politico-security conditions in the region have made the Bank adopt a "consolidation mode" in its main markets while maintaining its network, ready to capture growth opportunities as they arise. In parallel, the Group is currently targeting the realisation of better efficiency in the medium term at both revenue and cost levels in order to further reinforce its financial standing and create value to shareholders.

In fact, the Bank maintained in 2017 a sustained activity in a tough operating environment. Consolidated assets reached USD 43.8 billion at end-December 2017, and USD 55 billion when accounting for fiduciary deposits, security accounts and assets under management, sustaining Bank Audi's ranking at the forefront of the Lebanese banking sector. Actually, consolidated assets decreased by USD 515 million relative to end-December 2016, driven by a contraction of Odea Bank's assets by USD 2 billion, within the context of the adoption by Odea Bank's Management of a policy favouring activity consolidation while further reinforcing risk control, aiming at forgoing unstable costly deposits while not renewing some maturing loans with limited contribution to the franchise building.

The Bank's performance 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, primary liquidity placed with central banks and foreign banks continued to increase to reach USD 21.2 billion as at end-December 2017, representing 63.3% of customers' deposits, a high level when compared to regional and global averages.

At the level of asset quality, despite the delicate operating conditions across a number of countries of presence of the Group, consolidated gross doubtful loans continued to represent 3.5% only of gross loans at end-December 2017. In parallel, the coverage ratio of doubtful loans by specific provisions and real guarantees reached 107% at the same date, of which 60% by specific provisions. Management is putting a special emphasis on following up on the quality of the loan portfolio and ensuring an adequate provision coverage. Within this context, Bank Audi had USD 440 million of collective provisions as at end-December 2017, a level which exceeds the requirements of the Central Bank of Lebanon.

At the capitalisation level, consolidated shareholders' equity grew by 13.2%, from USD 3.7 billion as at end-December 2016 to USD 4.2 billion as at end-December 2017, representing 22% of the consolidated equity of the Lebanese banking sector. This translated in an additional improvement of the Bank's capital adequacy ratio as per Basel III to 16.9% as compared to 14.8% at end-December 2016, while core equity ratio (CET1) increased from 9.1% to 10.5%.

At the profitability level, Bank Audi achieved a good performance in 2017, with consolidated net profits of USD 559 million, reaching USD 464 million when excluding profits from discontinued operations, thus representing a net growth of 13% relative to the recurrent net profits of 2016. The contribution of entities outside Lebanon to consolidated net profits reached 45% over the period, of which 19% from Odea Bank. In fact, Odea Bank's net profits after tax reported a net growth by 29%, reaching USD 88 million in 2017, and this after the allocation of USD 95 million of loan loss provisions. The contribution of Bank Audi in Egypt to consolidated net profits reached USD 55 million, i.e. 12%. Those results were realised following an allocation of USD 144 million of consolidated net loan loss provisions, thus reinforcing the Bank's asset quality and resilience.

Based on such results and excluding profits for the sale of the Card and Electronic Payment processing and acquiring activities, the Bank's return on average assets ratio reached 1.1%, while the return on average common equity registered 13.4% in 2017. In parallel, the common book per share increased to USD 8.09, while the earnings per common share reached USD 1.03. This corresponds to a price to book multiple of 0.74 times based on an ordinary share price of USD 6.00 as at 29 January 2018, and a price to earnings multiple of 5.6 times, both levels being quite low when compared to peer regional banks averages in relation to the Group's profitability and to the average growth rate of its earnings per share over the past 5 years at end-December 2017.

As a result of all the above, Bank Audi continues to have an undisputed leadership position among Lebanese banking groups in terms of most business criteria (assets, deposits, loans, equity and net profits) and to sustain its position among the top 20 Arab banks, ranking 18<sup>th</sup> in term of assets.

At the domestic business level, the Bank believes that growing portfolio and rising market shares represent the most telling indicators for customer endorsement and customer satisfaction, underscoring daily votes by customers at branch level. In fact, Bank Audi's market share in domestic retail lending stands at 11.7% in September 2017, as consumer loans grew year-on-year by 4.4%, mainly driven by personal loans, registering a 1.2% growth. Car Loan and Home Loan portfolios grew respectively by 1% and 4.6% over the year. In parallel, retail cross-selling per customer reached 4.43 products as at end-December 2017. In terms of credit cards, the outstanding volume grew by 3% with a market share of 36.9%.

In a competition-driven industry where clients have the luxury to switch banks and financial institutions, quality service and experience remain a major competitive strength that increases customer retention and loyalty. Our aim is to offer a full banking experience across all physical and digital channels. As we move forward with customer centricity, our main objective is to enhance customers' experience and profitability through the provision of a broader products' holding.

That said, among the most important developments of 2017 was probably the completion of the first year of our new SME proposition newly launched in Lebanon, Egypt and Turkey under the directives of the IFC and encompassing a comprehensive array of products and services expected to form a major business line. The year ended with 5,000 files processed in Lebanon and with 3,000 applications approved for a total value of USD 180 million. It is worth mentioning that 30% of the SME customers covered are new to the Bank, which reflects the Bank's efforts to reinforce financial inclusion at large, reaching a large number of untapped companies in the domestic space.

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

At the IT level, we have introduced a number of innovations in branches, such as fully automated electronic branches, ITM in self-service areas that extend service hours over video banking; instant issuing of debit card via the entertaining and informative artificial intelligence robot "NOVOT"; all these are effectively adding convenience and speed to our services while introducing banking to millennials, allowing us to groom the next generation of customers. Capturing the opportunities of digitisation and digital banking services, Bank Audi is always looking to introduce new innovative credit cards and new payment solutions. At cards level, we are implementing Host Card Emulation (HCE) and contactless payment towards establishing a cashless economy. On the e-payment front, we are deploying new payment services seamlessly across all channels, aimed at a frictionless transactions between billers and payers. Both initiatives add to the attractiveness of the Bank's proposition. Areeba, a specialised electronic payment solution, has recently bought the card acquiring activity of Bank Audi and is handling the management of the processing platform for the Bank.

At the HR level, the year 2017 witnessed several important key factors that pushed the Human Resources function even further in the Group's main entities: Bank Audi Lebanon, Odea Bank in Turkey and Bank Audi sae (Egypt).

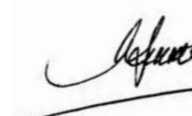
In Lebanon, the Recruitment and Selection (R&S) team hired 281 resources to cover the needs within the different branches and departments at the Bank, while the Training and Development (T&D) team covered over 116,325 training hours targeting the advancement of the human capital technical and behavioural skills. Bank Audi sae (Egypt) continued to maximise the value of human capital while ensuring their alignment with the Bank's strategies, with over 500 employees promoted to higher positions, while training activities mainly focused on promoting higher levels of user adoption and preparing employees to properly use Flexcube and Newgen – the new core banking systems. Last but not least, Odea Bank kept its dedication and strategic business partnering efforts to keep employees motivated, dedicated and performing optimally.

Looking forward, we will be looking throughout 2018 to strengthen our leadership in Lebanon, as well as to consolidate our market profile in Turkey and Egypt, while continuing to grow the AUM for the Private Banking business. This should translate to a sustained, albeit measured, growth in assets in the coming years, with a more than proportional increase in net earnings due to economies of scale and productivity gains. Bank Audi aims at becoming a privileged partner to customers in main countries of presence, through ensuring a wide and diversified array of banking products and services that takes into account technological advancements and the global development of the profession.

In parallel, our CSR practices aim at implementing effective changes enabling growth and economic progress. Those are visible through our contribution to the economy and the alignment of our business proposition with the Sustainable Development Goals we have chosen to champion; empowering the community with quality education, gender equality, climate action, subsidised loans, and transparency and disclosure.

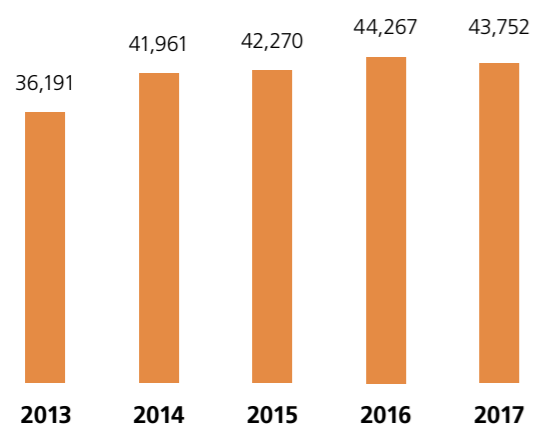
In closing, we leave our final words to our different stakeholders, namely our staff for their exemplary dedication and commitment to our strategies and values, our customers for their continuous faith in us and in our services, and our shareholders for their permanent support to our collective objectives at large.

**Samir N. Hanna**  
Chairman and Group Chief Executive Officer

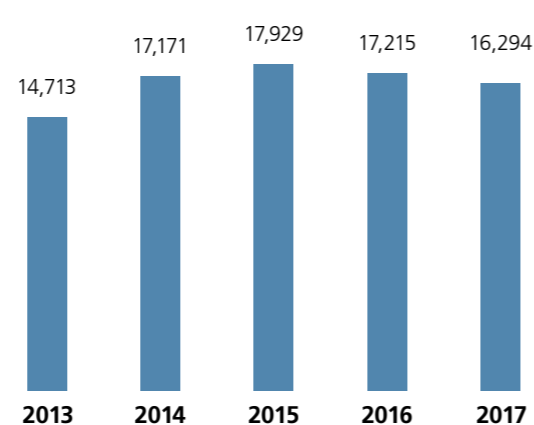


## FINANCIAL HIGHLIGHTS

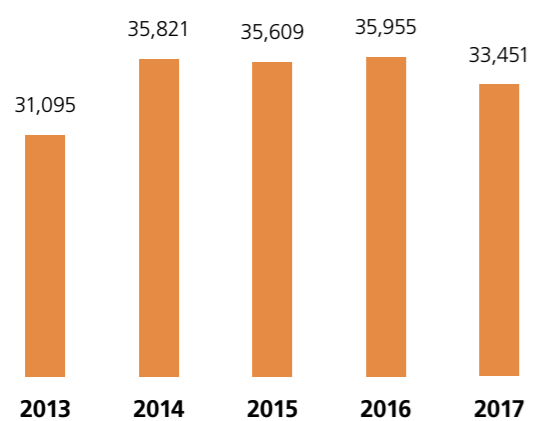
### ASSETS (USD MILLION)



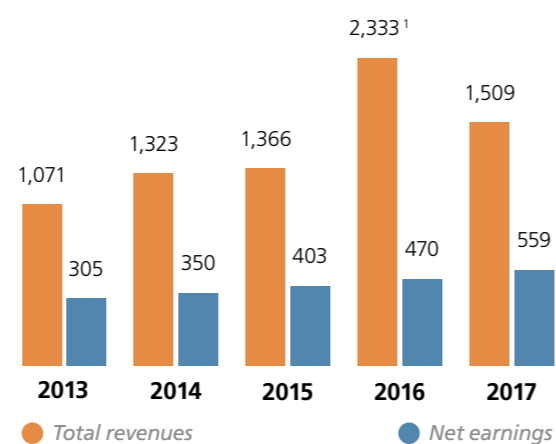
### LOANS TO CUSTOMERS (USD MILLION)



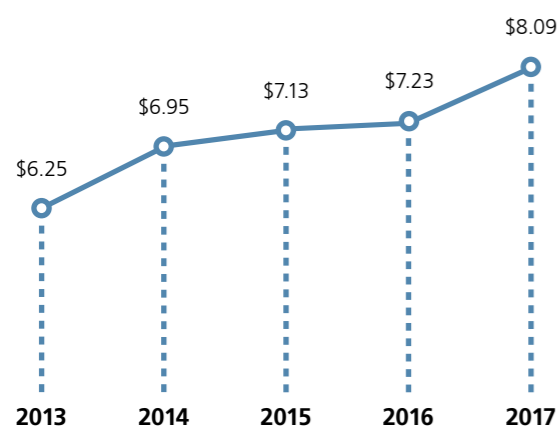
### CUSTOMERS' DEPOSITS (USD MILLION)



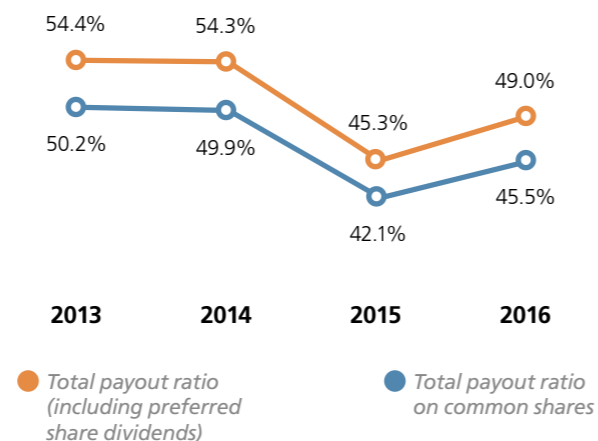
### REVENUES AND NET EARNINGS (USD MILLION)



### COMMON BOOK PER SHARE (USD)



### PAYOUT RATIOS



### BANK AUDI sal: SELECTED FINANCIAL DATA (USD MILLION)

	2013	2014	2015	2016	2017	CAGR 13-17
Assets	36,191	41,961	42,270	44,267	43,752	4.86%
Loans to customers	14,713	17,171	17,929	17,215	16,294	2.58%
Customers' deposits	31,095	35,821	35,609	35,955	33,451	1.84%
Shareholders' equity	2,696	3,348	3,287	3,698	4,188	11.64%
Net earnings	305	350	403	470	559	16.39%
Number of branches	189	207	217	201	204	1.93%
Number of staff	5,894	6,408	6,891	7,017	6,541	2.64%
<b>Liquidity and asset quality</b>						
Liquid assets/Deposits	65.67%	64.84%	64.00%	71.26%	77.31%	
Loans/Deposits	47.32%	47.94%	50.35%	47.88%	48.71%	
Net doubtful loans/Gross loans	1.00%	0.86%	0.93%	0.80%	1.40%	
Loan loss provisions/Gross doubtful loans (including collective provisions)	95.31%	97.38%	98.32%	162.92%	133.38%	
Net doubtful loans/Equity	5.60%	4.57%	5.21%	3.86%	5.72%	
Collective provisions/Net loans	0.89%	0.81%	0.90%	2.43%	2.70%	
<b>Capital adequacy</b>						
Equity/Assets	7.45%	7.98%	7.78%	8.35%	9.57%	
Capital adequacy ratio	13.67%	13.49%	13.36%	14.78%	16.95%	
<b>Profitability</b>						
Cost/Income	56.07%	55.08%	53.82%	46.95%	51.18%	
ROAA	0.91%	0.90%	0.96%	1.10%	1.06%	
ROACE	12.59%	13.63%	13.69%	14.75%	13.41%	

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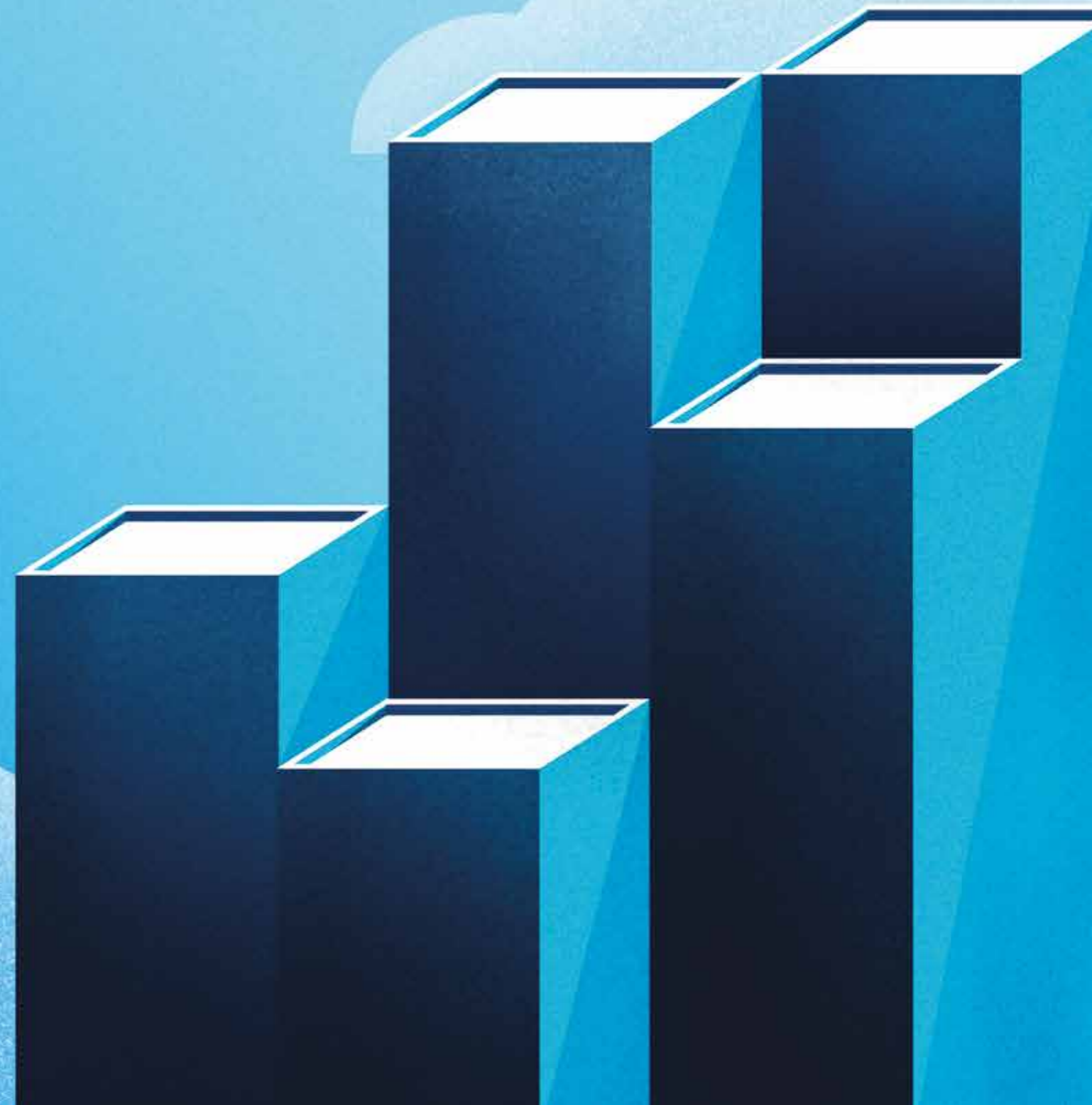
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# GOING BEYOND

*Allow the gap between where you are and  
where you want to be, inspire and motivate you  
to keep marching forward.*

01

**CORPORATE  
GOVERNANCE**



## 1.0. | CORPORATE GOVERNANCE FRAMEWORK

### INTRODUCTION

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

In 2017, and in addition to ensuring strategic direction and management supervision, the Board gave a particular attention to prudent and effective controls in a year characterised by important challenges that entail effective risk assessment and oversight.

Changes introduced to the Governance framework of the Bank during 2017 include, most notably, the taking office of the new Compliance/AML/CFT Board Committee, as well as the adoption, review and/or update of a number of policies. 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, and to ensure that the Bank's business and operations are conducted with integrity and in compliance with the relevant laws, regulations, internationally accepted principles and best practices of corporate governance and business ethics.

The Board is satisfied that, in 2017, it fully discharged all its responsibilities, as mapped in its yearly rolling agenda, and acted on the recommendations of its committees in a way to meet its obligations to its shareholders and to all other stakeholders. The Board is also satisfied that the Bank's Governance framework conforms to applicable directives and guidelines, and is adapted to the Bank's needs and to the high expectations of its stakeholders.

### GOVERNANCE FRAMEWORK

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

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

The Bank's Corporate Governance Guidelines are accessible on the Bank's website at [bankaudigroup.com](http://bankaudigroup.com)

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

- The mission of the Group Audit Committee is to assist the Board in fulfilling its oversight responsibilities as regards:

- (i) the adequacy of accounting and financial reporting policies; (ii) the integrity of the financial statements and the reliability of disclosures; (iii) the appointment, remuneration, qualifications, independence and effectiveness of the external auditors; and (iv) the independence and effectiveness of the internal audit function<sup>(1)</sup>.

- The mission of the Group Risk Committee is to assist the Board in discharging its risk-related responsibilities. The Committee is expected to: (i) consider and recommend the Group's risk policies and risk appetite to the Board; (ii) monitor the Group's risk profile for all types of risks; and (iii) oversee the management framework of the aforementioned risks, and assess its effectiveness.

- The mission of the Remuneration Committee is to assist the Board in maintaining a set of values and incentives for Group executives and employees that are focused on performance and promote integrity, fairness, loyalty and meritocracy.

- The mission of the Compliance/AML/CFT Board Committee is to assist the Board of Directors in its functions and supervisory role with respect to: (i) fighting money laundering and terrorist financing and understanding the related risks, and assisting it with making the appropriate decisions in this regard; (ii) protecting the Bank from other compliance-related risks, and, more generally, overseeing the Bank's compliance with applicable laws, policies and regulations.

- The mission of the Corporate Governance and Nomination Committee is to assist the Board in maintaining an effective institutional and Corporate Governance framework for the Group, an optimal Board composition, and effective Board processes and structure.

- The mission of the Group Executive Committee is to develop and implement business policies for the Bank and to issue guidance for the Group within the strategy approved by the Board. The Group Executive Committee also supports the Group Chief Executive Officer in the day-to-day running of the Bank and in guiding the Group.

## 2.0. | SHAREHOLDING STRUCTURE

The following table sets out the composition of the holders of common shares as at 20 March 2018:

Shareholders/Groups of Shareholders	Country (Ultimate Economic Ownership)	Percentage Ownership <sup>(1)</sup> (%)
FRH Investment Holding sal	Lebanon	9.65
Audi family <sup>(2)</sup>	Lebanon	6.90
Heirs of Late Sheikha Suad Hamad Al Saleh Al Homaizi	Kuwait	5.94
Sheikh Dhiab Bin Zayed Al Nehayan	UAE	4.97
Al Sabbah family <sup>(2)</sup>	Kuwait	4.71
Investment and Business Holding sal	Lebanon	3.61
Ali Ghassan El Merhebi family	Lebanon	2.60
Al Hobayb family <sup>(2)</sup>	KSA	2.55
European Bank for Reconstruction and Development – EBRD	—	2.51
International Finance Corporation – IFC	—	2.50
Said El-Khoury family	Lebanon	2.22
Kel (Cayman) Limited	Lebanon	2.15
Executives and employees <sup>(3)</sup>	Lebanon	3.78
Others	—	15.91
Deutsche Bank Trust Company Americas <sup>(4)</sup>	—	30.00
<b>Total shareholding<sup>(5)</sup></b>		<b>100.00</b>

<sup>(1)</sup> 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.

<sup>(2)</sup> The Audi family, Al Sabbah family, and Al Hobayb family include the following members of the Board (i) Marc Jean Audi and Sherine Raymond Audi, (ii) Mariam Nasser Sabbah Al Nasser Al Sabbah, and (iii) Abdullah Al Hobayb, respectively.

<sup>(3)</sup> Excluding members of the Audi family accounted for in a separate row above.

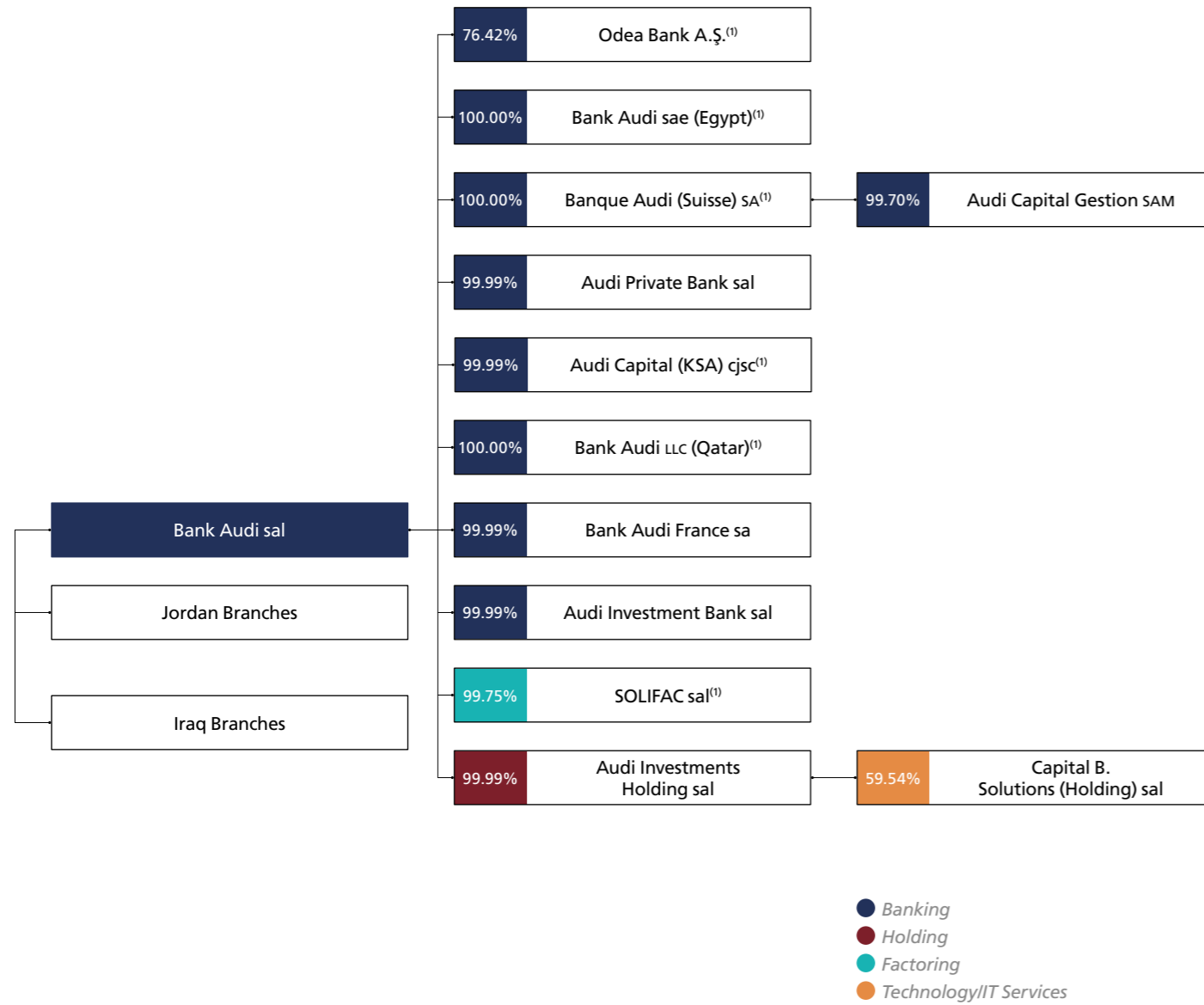
<sup>(4)</sup> Deutsche Bank Trust Company Americas holds common shares in its capacity as depositary under the Bank's GDR Program. In addition to the ownership of common shares mentioned above, 10.60 % of the Bank's common shares are held through GDRs by each of FRH Investment Holding Company sal (including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

<sup>(5)</sup> 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 68.99% of the Bank's common shares.

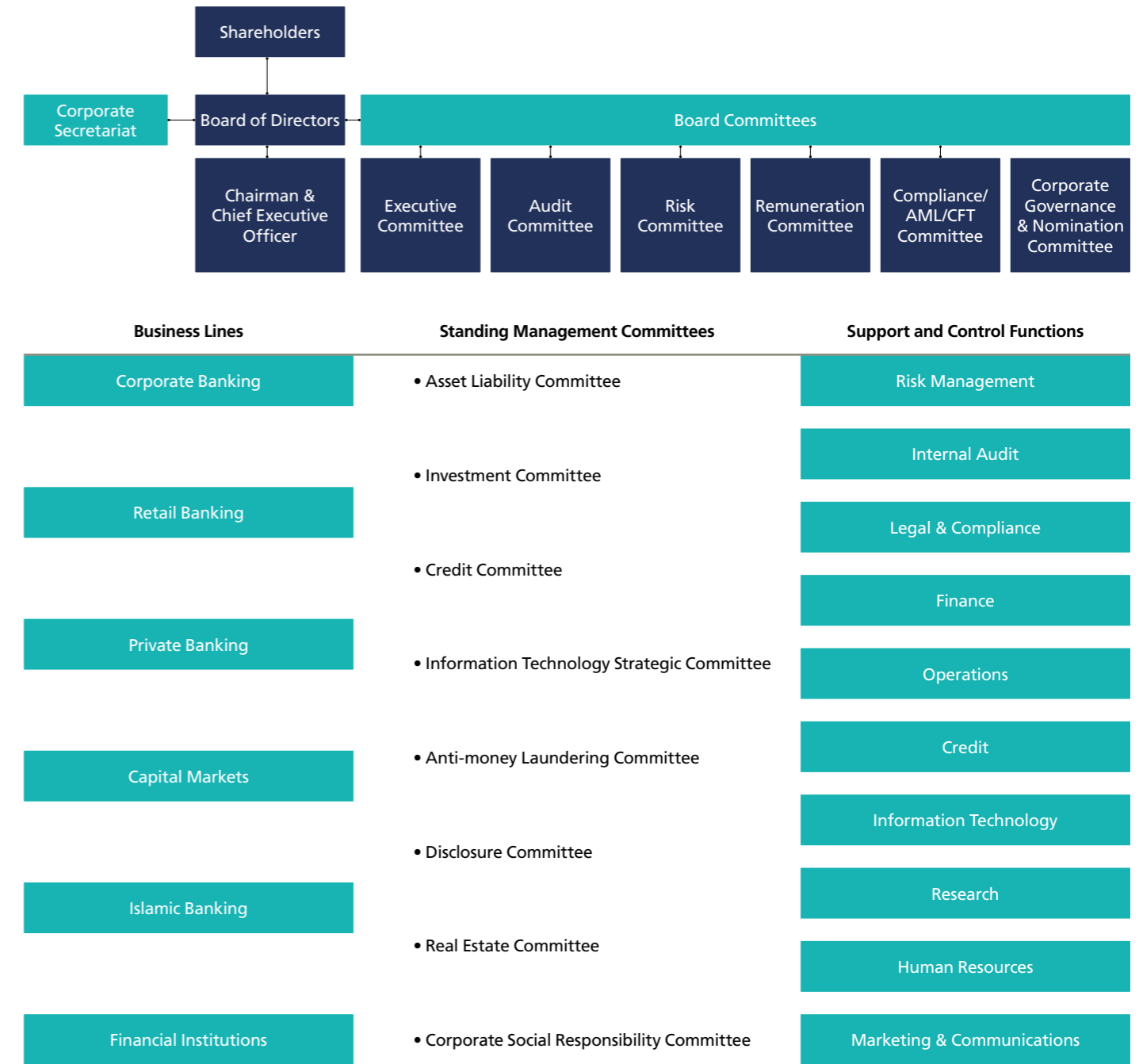
<sup>(1)</sup> It is not the duty of the Audit Committee to plan or to conduct audits or make specific determinations that the Bank's statements and disclosures are complete and accurate, nor is it its duty to assure compliance with laws, regulations and the Bank's Code of Ethics and Conduct. These are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

### 3.0. | CORPORATE STRUCTURE

The major subsidiaries and branches abroad of Bank Audi sal as at 31 December 2017 are:



### 4.0. | GROUP HIGH LEVEL CHART



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

## 5.0. | BOARD OF DIRECTORS

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

### COMPOSITION OF THE BOARD OF DIRECTORS

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

The names of Directors<sup>(1)</sup> serving at the date of this report are the following:

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

#### SECRETARY OF THE BOARD

<b>Mr. Farid F. LAHOUD</b> <i>(Group Corporate Secretary)</i>
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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).

<sup>(1)</sup> Listed according to their dates of appointment (beyond the Group CEO).

<sup>(2)</sup> 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 2017, the Board of Directors held 9 meetings, the Group Audit Committee held 6 meetings, the Group Risk Committee held 4 meetings, the Remuneration Committee held 4 meetings, the Corporate Governance and Nomination Committee held 2 meetings, and the Group Executive Committee held 35 meetings.

### CHANGES TO THE BOARD OF DIRECTORS DURING THE YEAR 2017

The Ordinary General Assembly of shareholders of Bank Audi sal convened on 10 April 2017 and resolved, amongst other things, to:

- Take note of the resignation of the Chairman of the Board of Directors, Mr. Raymond W. Audi, 84, who decided to stand down from the Board of Directors, after having served as Director of the company since its incorporation in 1962 in order to devote more time to his personal life; and express its gratitude to Mr. Raymond Audi for his leadership and dedication throughout his 55 years of service;
- Elect Ms. Sherine R. Audi, Mr. Carlos A. Obeid and Mr. Aristidis I. Vourakis as Directors for the remainder of the current Board's mandate (i.e. until the Annual General Assembly expected to be held in April 2019, that will examine the activity and accounts of the year 2018).

The Board convened following the General Assembly and resolved, amongst other things, to:

- Nominate H.E. Mr. Raymond W. Audi as Honorary Chairman;
- Elect Mr. Samir N. Hanna as Chairman of the Board – General Manager. Mr. Samir Hanna serves, since then, as Chairman of the Board and Group CEO.

**Sheikha Suad Hamad Saleh Al Homaizi**, Board Member of Bank Audi since 1962 and co-founder of the Bank, passed away in August 2017.

### GROUP SHARIA' SUPERVISORY BOARD

<b>Dr. Mohamed A. ELGARI (Chair)</b>
<b>Sheikh Nizam M. YAQOOBI</b>
<b>Dr. Khaled R. AL FAKIH</b>

### LEGAL ADVISORS

<b>Cortbaoui &amp; Kanaan</b>
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### AUDITORS

<b>BDO, Semaan, Gholam &amp; Co.</b>
<b>Ernst &amp; Young p.c.c.</b>

## 6.0. | BIOGRAPHIES OF BOARD MEMBERS

### SAMIR N. HANNA



**CHAIRMAN – GENERAL MANAGER  
GROUP CHIEF EXECUTIVE OFFICER**

Age: 73 – Lebanon

Director since August 1990

**Term expires at the 2019 annual General Assembly of shareholders**

- Executive Director
- Chairman of the Group Executive Committee
- Chairman of the Corporate Governance and Nomination Committee

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

He grew the Bank to its current position as the largest bank in Lebanon (and among the top 20 Arab banking groups), with a presence in 11 countries, consolidated assets exceeding USD 43 billion, consolidated deposits exceeding USD 33 billion, and a group staff headcount exceeding 6,500 employees.

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

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

### MARWAN M. GHANDOUR



**VICE-CHAIRMAN OF THE BOARD**

Age: 74 – Lebanon

Director since March 2000

**Term expires at the 2019 annual General Assembly of shareholders**

- Independent Non-executive Director
- Chairman of the Group Audit Committee
- Chairman of the Remuneration Committee
- Member of the Corporate Governance and Nomination Committee

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

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

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

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

### FREDDIE C. BAZ



**VICE-CHAIRMAN OF THE BOARD**

**GENERAL MANAGER – GROUP STRATEGY DIRECTOR**

Age: 65 – Lebanon

Director since March 1996

**Term expires at the 2019 annual General Assembly of shareholders**

- Executive Director
- Deputy Chairman of the Group Executive Committee
- Member of the Group Risk Committee
- Member of the Compliance/AML/CFT Board Committee
- Member of the Corporate Governance and Nomination Committee

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

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

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

### MARC J. AUDI



**GENERAL MANAGER – COUNTRY MANAGER LEBANON**

Age: 60 – 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.

## MARIAM N. AL SABBAH



### BOARD MEMBER

Age: 69 – Kuwait

Director since March 2001

**Term expires at the 2019 annual General Assembly of shareholders**

- Independent Non-executive Director

**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.

## IMAD I. ITANI



### GENERAL MANAGER – HEAD OF GROUP RETAIL BANKING

Age: 56 – Lebanon

Director since June 2002

**Term expires at the 2019 annual General Assembly of shareholders**

- Executive Director  
- Member of the Group Executive Committee  
- Member of the Compliance/AML/CFT Board Committee

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

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

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

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

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

## ABDULLAH I. AL HOBAYB



### BOARD MEMBER

Age: 75 – Saudi Arabia

Director since April 2010

**Term expires at the 2019 annual General Assembly of shareholders**

- Independent Non-executive Director  
- Member of the Group Audit Committee  
- Member of the Remuneration Committee

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

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

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

## KHALIL M. BITAR



### BOARD MEMBER

Age: 75 – Lebanon

Director since April 2010

**Term expires at the 2019 annual General Assembly of shareholders**

- Independent Non-executive Director  
- Chairman of the Board Group Risk Committee  
- Member of the Remuneration Committee  
- Member of the Group Audit Committee

**Khalil Bitar** is an independent member of the Board of Directors 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.

## SHERINE R. AUDI



### GENERAL MANAGER AND BOARD MEMBER OF BANK AUDI FRANCE

Age: 57 – Lebanon

Director since April 2017

**Term expires at the 2019 annual General Assembly of shareholders**

- Executive Director
- Member of the Compliance/AML/CFT Board Committee

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

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

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

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

## ARISTIDIS I. VOURAKIS



### GENERAL MANAGER – DEPUTY GROUP CHIEF EXECUTIVE OFFICER

Age: 42

Director since April 2017

**Term expires at the 2019 annual General Assembly of shareholders**

- Executive Director
- Member of the Group Executive Committee
- Member of the Group Risk Committee

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

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

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

## CARLOS A. OBEID



### BOARD MEMBER

Age: 53 – Lebanon

Director since April 2017

**Term expires at the 2019 annual General Assembly of shareholders**

- Independent Non-executive Director
- Chairman of the Compliance/AML/CFT Board Committee

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

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

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

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

## 7.0. | GROUP EXECUTIVE COMMITTEE

### VOTING MEMBERS

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

### NON-VOTING MEMBERS

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

### INVITEES

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

### SECRETARY

<b>Mr. Farid F. LAHOUD</b>	Group Corporate Secretary
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## 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 key Management personnel (as defined in Note 53 accompanying the financial statements), during the year 2017, amount to LBP 46,359 billion, in addition to post-employment benefits aggregating LBP 1,826 billion. Provision for end of service benefits of key Management personnel amounted to LBP 10,705 billion as of 31 December 2017.

# ACHIEVING UNITY

*Keep moving onward with combined ambition and team drive so that every moment built on is met with triumph.*



02

## MANAGEMENT DISCUSSION AND ANALYSIS



## 1.0. | OVERVIEW OF BANK AUDI sal

Bank Audi sal is one of the largest and most diversified banking groups in the MENA region, with principal operations in Lebanon, Turkey and Egypt, along with ancillary presences in France, Switzerland, Jordan, Saudi Arabia, Qatar, Abu Dhabi (through a representative office), Monaco and Iraq. It ranks first among Lebanese banking groups, is the 7<sup>th</sup> largest in Egypt and the 9<sup>th</sup> in Turkey, while maintaining a leading position in Private Banking in the MENA region. The Group is also positioned among the top Arab banking groups.

The Bank operates through the following four main business segments: Corporate and Commercial Banking; Retail and Personal Banking; Treasury and Capital Markets; and Group Functions and Head Office. Its geographic coverage extends to 11 countries through 10 banks and 3 financial companies, supported by a network of 204 branches, 474 ATMs, 35 ITMs and 6,541 employees, servicing more than 1.2 million clients.

Founded in 1830 in Sidon (Southern Lebanon), 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 2017, 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.

The Group's main purpose is to achieve quality growth by efficiently meeting the needs of both businesses and individuals in the various countries of presence and ensuring long-term sustainable value to all stakeholders. Its main strategic orientation revolves around positioning the Group as a leading MENAT bank.

The discussion and analysis that follows covers the consolidated performance of Bank Audi in 2017. It was prepared based upon the audited consolidated financial statements of the Bank as at and for the fiscal years ended 31 December 2016 and 31 December 2017. 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.

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, and 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, Banque Audi (Suisse), Audi Capital (KSA), and Audi Capital Gestion (Monaco)), other entities (consisting of Bank Audi France sa, Bank Audi sal – Jordan Branches, Bank Audi sal – Iraq Branches, Bank Audi LLC (Qatar) and other European and MENA entities).

Terms such as "Bank Audi", "the Bank" or "the Group" refer to Bank Audi sal and its consolidated subsidiaries, as listed in Note 46 of the Bank's 2017 audited financial statements. Certain statements in this discussion may constitute "forward-looking statements". These statements include statements regarding Bank Audi's intent, belief or current expectations. They can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "is expected to", "will", "will continue", "should", "approximately", "would be", "seeks" or "anticipates", or similar expressions or comparable terminology, or the negatives thereof. Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results, performance or achievements of Bank Audi may differ materially from those expressed or implied in the forward-looking statements as a result of various factors.

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 2016 and 2017). 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 49 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 2017 as compared to end-December 2016. An overview of share information comes next, followed by dividend policy, risk management, resources deployed, investor relations, compliance, environmental & social management system, and corporate social responsibility.

## 2.0. | STRATEGY

Within the context of continuing tough politico-security conditions that the MENAT is passing through and their adverse spillover effects on the operating environment of the countries of presence of the Group, Management adopted a consolidation mode in its 3 main geographic pillars: Lebanon, Turkey and Egypt. This policy revolved around favouring in priority asset quality, efficiency and profitability enhancements over balance sheet growth, while continuing to develop its Private Banking activities.

The main objectives of this strategy, broken down over the main development pillars of the Group, are as follows:

- **Lebanon:** to further reinforce and consolidate the Bank's leading position in the local market while implementing cross-selling tools and rigorous cost control to better earnings generation.
- **Egypt:** to continue to build a resilient and well-regarded franchise in Egypt.
- **Turkey:** to establish a well-fenced banking platform for Odea Bank while focusing on improving asset quality, efficiency and profitability.
- **Private Banking:** to leverage the Group's expertise in Private Banking by reinforcing synergies across entities in Europe, the Near East and the GCC, sustaining the growth momentum and deploying a risk management and control/compliance framework.

In executing this strategy, the Group will be focusing on its core competencies while enhancing synergies across entities, enforcing prudent risk and disciplined cost management policies, and upholding best-in-class compliance practices.

## 3.0. | OPERATING ENVIRONMENT

Despite the strengthening global recovery, economic conditions of the MENA region remain relatively subdued owing to the adjustment to low oil prices and regional conflicts. For MENA oil exporting countries, spillovers from the low oil price environment and fiscal adjustment continue to weigh on non-oil growth, while overall growth is also held down by the OPEC-led agreement to reduce oil production. For oil importers, growth is increasing, supported by the strengthening domestic demand and a cyclical recovery of the global economy. However, at 2.2% in 2017, MENA growth is about half of the 2016 outturn, largely because of developments among oil exporters.

Specifically, when looking at the two sub-regions, oil exporters are continuing to adjust to low oil prices which have dampened economic conditions and contributed to large fiscal and external deficits. GCC overall growth region is bottoming out in 2017 at 0.5%, as the OPEC-led deal reduces oil output. In contrast, non-oil growth recovered to about 2.6% in 2017 as fiscal consolidation generally slows. In parallel, economic activity in MENA's oil importers is expanding by 4.3% in 2017, against a 3.6% growth in 2016. This expansion is characterised to be broad-based, with growth accelerating in most oil importers, supported by domestic demand and exports.

Anticipating a sustained, albeit measured growth in assets in the coming years, the expected benefits of this direction is to allow the Group to sustain double-digit growth in recurrent net profits due to economies of scale and productivity gains without incurring significant additional risk-weighted assets, thus reinforcing the Group's financial flexibility. This strategy would also translate in an improved risk profile across entities, while further consolidating and strengthening the Group's leadership in its home market, Lebanon, and its market positioning in Turkey and Egypt, and realising the Private Banking business line objectives. In fine, the Group would be looking to improve its competitive regional positioning and to access higher visibility.

On the business level, in achieving those targets, Bank Audi aims at becoming a privileged partner to customers in main countries of presence, through ensuring a wide and diversified array of banking products and services that takes into account technological advancements and the global development of the profession.

Despite the short-term uncertainties related to current political and security developments, Management still believes that banking and economic growth potential in Lebanon, Egypt and Turkey present the Bank with potential opportunities. As regional uncertainties alleviate, the Group is expected to resume its growth and expansion strategy.

The MENA banking sectors remained at the image of macroeconomic developments at large. Measured by the consolidated assets of MENA banks, banking activity reported a mild annual growth of 1.3% in November 2017 relative to the same month of the previous year. Likewise, deposits registered a weak growth of 1.9% and loans reported 2.6% over the same period. Not less importantly, MENA banks' net banking profitability remained under pressure within the context of relatively low activity growth and tough operating conditions in their respective economies, underlined by narrowing net interest margins, growing provisioning requirements and slow fee income growth generation at large.

Though economic conditions in the broad surrounding region remain subdued, the key markets of presence of Bank Audi in the region have displayed relative resilience over the past year, especially Egypt that is witnessing key reforms and Turkey which has reported growing stability on its political and security scene, while Lebanon's domestic political settlement did not yield noticeable macro recovery on the overall, as described in what follows.

### 3.1. | LEBANON

Economic activity improved timidly in 2017, as suggested by the average BDL coincident indicator for the first 11 months of the year. In fact, the coincident indicator reported an average of 304.7 over the 11-month period, growing by 5.3% relative to the same period of the previous year. Comparatively, the growth in the average coincident indicator was 4.6% in the first 11 months of 2016, suggesting a slightly better economic activity in the aftermath of presidential elections and Cabinet formation.

The evolution of real sector indicators supports the relative improvement in economic activity during 2017, though the overall pace of changes in real sector indicators suggests no significant recovery in economic conditions at large. Among indicators with positive growth, we mention the value of property sales with a surge of 18.5%, electricity production with a rise of 14.6%, the number of tourists with an increase of 10.0%, the number of passengers at the Airport with an expansion of 8.3%, new car sales with an uptick of 2.5%, and cleared checks with a rise of 0.3%. Among indicators with negative growth, we mention cement deliveries with a contraction of 4.9%, exports with a decrease of 4.5%, construction permits with a decrease of 4.1%, and merchandise at the Port with a fall of 1.2%.

The November political crisis is estimated to have had some adverse spillover effects on the real economy, though the impact was relatively short lived, given the relative crisis settlement in the aftermath of PM Hariri's return to Lebanon. The adverse repercussions on the real economy can be broadly summarised by a month of wait-and-see attitude for the investment climate, putting on hold major private sector investment decisions, in addition to the adverse impact on tourism due to the GCC ban, after the signs of revival Lebanon had gotten earlier during the year.

While real GDP growth is estimated by the Central Bank of Lebanon at 2.5% for full-year 2017, it is still way below the requirements of tangible recovery. The economy is estimated to operate at 80% of potential output and full employment, suggesting a large cyclical output gap in a persistently sluggish demand for goods and services despite the relative improvement post domestic political settlement.

#### LEBANON MACRO/BANKING INDICATORS

(LBP Billion)	Dec-16	Dec-17	% Growth
Nominal GDP	76,065	79,442	4.4%
Real GDP growth	1.0%	2.5%*	1.5%
Domestic banks' assets	307,999	331,433	7.6%
Domestic banks' deposits	244,961	254,261	3.8%
Domestic banks' loans	86,199	90,931	5.5%
(USD Billion)			
Nominal GDP	50.5	52.7	4.4%
Real GDP growth	1.0%	2.5%*	1.5%
Domestic banks' assets	204.3	219.9	7.6%
Domestic banks' deposits	162.5	168.7	3.8%
Domestic banks' loans	57.2	60.3	5.4%

\* As per BDL.

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

### 3.2. | TURKEY

Turkey's economy has shown resilience during past bouts of political instability, security drifts and global financial market volatility, owing largely to the country's solid public finances, its well-regulated banking sector, and its dynamic and diversified private business sector.

Within this environment, the Turkish economy rebounded in 2017, with growth set to reach 5.1% as per the IMF, on the back of a strong economic momentum in the first half of this year and a base effect in the third quarter from a 2016 low base amid the coup attempt. Growth has been domestic driven, thanks to a credit guarantee fund-induced credit impulse, a fiscal stimulus that reflected in strong construction growth and higher exports amid strong Euro area growth and a pick-up in tourism.

At the external sector level, the current account deficit rose by 38% year-on-year in 11M 2017, driven by a widening trade deficit. As goods exported (11% year-on-year) lagged imports (17% year-on-year), surging gold imports (three-fold increase) led to a 40% year-on-year rise overall in the trade deficit. Meanwhile, tourism revenues increased by 19% in 2017, reflecting rising tourist arrivals (+28% year-on-year). However, revenue per tourist in 2017 was still 7% below the 2016 average and is unlikely to recover in the near term given the decline in tourist numbers from Europe with higher spending patterns. It is worth mentioning that portfolio inflows have provided the main source of financing for the current account deficit so far this year, leaving the Lira exposed to a potential reversal of high risk appetite towards emerging markets assets.

At the public sector level, fiscal performance has somewhat weakened in 2017, driven by expansionary fiscal policy, but still remains sound on the overall. Higher government spending to stimulate domestic consumption was driven by an increase in the minimum wage and related subsidies, hiring in the education and health sectors, as well as higher security outlays. The government also granted a number of temporary tax reductions/exemptions and expanded investment incentives during the second half of 2016 and 2017, in an attempt to revive growth.

#### TURKEY MACRO/BANKING INDICATORS

(TRY Billion)	Dec-16	Dec-17	% Growth
Nominal GDP	2,608.5	3,031.1	16.2%
Real GDP growth	3.2%	5.1%	1.9%
Domestic banks' assets	2,731.0	3,257.8	19.3%
Domestic banks' deposits	1,453.7	1,710.9	17.7%
Domestic banks' loans	1,734.3	2,098.3	21.0%
(USD Billion)			
Nominal GDP	863.4	841.2	-2.6%
Real GDP growth	3.2%	5.1%	1.9%
Domestic banks' assets	778.3	862.7	10.8%
Domestic banks' deposits	414.7	453.4	9.3%
Domestic banks' loans	494.5	555.8	12.4%

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

Subsequently, the central government deficit is estimated to report 3.2% of GDP in 2017, against 1.3% of GDP in 2016, with the primary surplus expected to be completely eroded against a net surplus of 0.7% of GDP in 2016.

At the monetary level, faltering capital inflows put the Turkish Lira under significant pressure in late 2016 and early 2017, fuelling an acceleration in inflation that prompted the Central Bank of Turkey to tighten monetary policy after a prolonged period of loosening. Subsequently, inflation remained high and above the authorities' target of 5%. The average consumer price inflation is set to reach 11% in 2017, buoyed by continued exchange rate volatility and higher food prices. To counter increasing inflation, the Central Bank has maintained its tight monetary policy by guiding banks towards more expensive interest rate channels and quantitative tightening. Meanwhile, official FX reserves remained under pressure, further declining to USD 84.1 billion in December 2017, which is considered relatively below prudential levels to absorb potential shocks.

At the banking sector level, the sector has proven resilient over the past years. Despite slight deterioration in asset quality, the banking sector's non-performing loans have remained contained, standing at 3.0% of total loans at end-2017 and comparing well with emerging markets, recently supported by the sales of problem loans, sound loan growth and regulatory forbearance measures. Capital adequacy is very sound, reflected by a comfortable BIS ratio of 16.9%. On the overall, Turkish banks remain well positioned to transition to IFRS 9.

At the capital markets level, a relatively good performance was observed in 2017, mirroring the overall economic rebound. The stock market price index increased by 47.6% over the year amid a decent trading volume, with the turnover ratio reporting a strong 172% of market capitalisation. The surge in prices actually increased stock market capitalisation to GDP from 20.2% at end-2016 to 27.7% at end-2017. At the fixed income level, a net contraction of 5-year CDS spreads by 108 bps was reported over the year, moving from 273 bps at end-2016 to 165 bps at end-2017, and reflecting an improved market perception of sovereign risks at large.

### 3.3. | EGYPT

Egypt's reform process has accelerated over the past year, with further subsidy reductions, VAT increases and interest rate hikes. The fruits of this challenging reform are becoming evident, with real economic activity picking up, foreign currency reserves improving to their highest level on record, tourist arrivals recovering from low levels, and the capital market performing solidly, with parallel improvement in banking activity at large.

At the real sector level, growth is picking up, though moderately. Benefits are becoming apparent across the whole economy, reinforcing the investment aggregate, but the consumer remains quite challenged. Egypt's gross domestic product registered a strong growth of 4.3% during 2017, as a result of the growth in several sectors, including communication, tourism and manufacturing, and supported by the gradual implementation of business climate reforms and improved competitiveness.

At the monetary level, FX reserves increased significantly over the past year to reach USD 37.0 billion in December, their highest level on record. As such, Egypt's reserves have now risen by USD 17 billion since it began its IMF-backed reform program late mid last year. The exchange market mirrored the improvement in the economy, as the Egyptian Pound slightly appreciated against the USD to reach 17.80 EGP/USD today as compared to EGP 18.12 end-December 2016. The main challenge remains inflation, with headline inflation remaining high by year-end. Egypt's core inflation rose by a yearly 19.9% up to December following fuel and energy subsidy cuts as part of the IMF-backed reforms.

A net improvement in the external sector is indeed being reported. Tourist arrivals jumped by 54.7% in the first eleven months of 2017 from a year earlier, as announced by the Ministry of Tourism, marking the sector's revival from its sharp contraction since 2011. The current account deficit recorded its lowest deficit since 2014 on the back of higher exports, declining non-oil imports and recovering receipts from tourism and

workers' remittances. Egypt's current account recorded in the full fiscal year 2016/17 (Jul/Jun) a deficit of USD 15.6 billion, down from USD 19.8 billion a year before. Having said that, the latest external data continue to show significant positive gains, Egypt's shortfall is still large and the adjustment still has some way to go. The trade deficit remains high at 10% of GDP. The challenge for Egypt going forward will be to continue growing its more sustainable sources of foreign inflows, particularly FDI and tourism receipts.

At the fiscal level, Egypt has reported a relative improvement in 2017, with fiscal deficit retreating from 10.9% in 2016 to 9.5% in 2017. Egypt has started its new fiscal year in July with the passing of an ambitious budget that plans to reduce the deficit to around 9% of GDP in 2017/18. The budget, if achieved, would give the government its first single-digit deficit in seven years, and first primary surplus in 11 years.

Capital markets mirrored to a large extent the improving economy. At the stock market level, the stock market index reported a rise in prices of 21.6% over the year amid a recovering economy, favourable corporate financial results and opportunistic buying. At the fixed income market's level, Egypt's CDS spreads reported a yearly contraction of 134 bps to reach a current 316 bps, reflecting a noticeable improvement in the market perception of sovereign risks.

Within this environment, banking activity continues to show resilience. Over the first nine months of 2017, bank assets grew by 18% when expressed in Egyptian Pounds, while deposits grew by 15% over the period. In parallel, bank loans to the private sector grew by 9% over the period. Given the stability of the exchange rate over the period, banking aggregates growth rates in USD terms are almost the same as those in Egyptian Pound. The growth in banking aggregates is not recorded at the detriment of financial standing, as financial soundness indicators continue to show solid performance at the level of liquidity, capital adequacy, asset quality and profitability.

#### EGYPT MACRO/BANKING INDICATORS

(EGP Billion)	Dec-16	Dec-17	% Growth
Nominal GDP*	2,708.3	3,472.8	28.2%
Real GDP growth*	4.3%	4.1%	-0.2%
<b>Domestic banks' assets</b>			
Domestic banks' assets	3,962.6	4,688.6	18.3%
Domestic banks' deposits	2,761.1	3,176.3	15.0%
Domestic banks' loans	1,300.2	1,423.0	9.4%
<b>(USD Billion)</b>			
Nominal GDP*	332.3	262.1	-21.2%
Real GDP growth*	4.3%	4.1%	-0.2%
<b>Domestic banks' assets</b>			
Domestic banks' assets	218.7	265.8	21.5%
Domestic banks' deposits	152.4	180.1	18.2%
Domestic banks' loans	71.8	80.7	12.4%

\* IMF full-year estimates.

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

### 4.0. | CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Bank's performances in the year 2017 sincerely reflect the strategic choices and orientations adopted by Management, focusing on

strengthening the Group's financial standing and reinforcing its financial flexibility, while sustaining its profitability in spite of tough operating

conditions. As priorities across main entities targeted primarily the consolidation of the customers' franchise favouring stable and core customers relationships with ancillary value added business for the Group, consolidated assets decreased by USD 515 million in 2017, corresponding to a contraction of 1.2%, to stand at USD 43.8 billion as at end-December 2017 as compared to USD 44.3 billion as at end-December 2016.

The evolution of assets size has proved not to be critical for the performance of the Bank. Consolidated net profits of Bank Audi increased to USD 559 million, reaching USD 464 million when excluding profits from discontinued operations, representing a net growth of 13%

#### 4.1. | BUSINESS OVERVIEW IN 2017

The distribution of consolidated results over the main development pillars of the Group, defined as Lebanon, Turkey, Egypt and Private Banking business line, bears witness to the diversified credit profile of the Group. As at end-December 2017, 58.6% of assets were accounted for by Lebanese entities (including consolidation adjustments) versus 19.9% by Odea Bank in Turkey, 7.3% by Bank Audi sae (Egypt) and 8.2% by Private Banking entities, with the remaining 6% contributed by other ancillary entities (Bank Audi France, Bank Audi LLC (Qatar), and the networks in Jordan and Iraq).

The table below sets out the evolution of main activity and performance highlights over the main development pillars as at end-December 2017 as compared to end-December 2016:

(USD Million)	Dec-16		Dec-17		Change	
	Volume	Share in Total	Volume	Share in Total	Volume	%
<b>ASSETS</b>						
Lebanese entities	28,628	64.7%	29,648	67.8%	1,020	3.1%
Turkey	10,801	24.4%	8,725	19.9%	-2,076	-4.5%
Egypt	3,017	6.8%	3,187	7.3%	170	0.5%
Private Banking entities	3,088	7.0%	3,608	8.2%	520	1.2%
Other entities	2,827	6.3%	2,591	6.0%	-236	-0.3%
Consolidated adjustment	-4,094	-9.2%	-4,007	-9.2%	87	0.1%
<b>Total</b>	<b>44,267</b>	<b>100%</b>	<b>43,752</b>	<b>100%</b>	<b>-515</b>	
<b>DEPOSITS</b>						
Lebanese entities	21,216	59.0%	19,875	59.4%	-1,341	0.4%
Turkey	8,242	22.9%	6,356	19.0%	-1,886	-3.9%
Egypt	2,480	6.9%	2,654	7.9%	174	1.0%
Private Banking entities	2,393	6.7%	2,935	8.8%	542	2.1%
Other entities	1,820	5.0%	1,720	5.1%	-100	0.1%
Consolidated adjustment	-196	-0.5%	-89	-0.3%	107	0.3%
<b>Total</b>	<b>35,955</b>	<b>100%</b>	<b>33,451</b>	<b>100%</b>	<b>-2,504</b>	
<b>LOANS</b>						
Lebanese entities	6,023	35.0%	6,724	41.3%	701	6.3%
Turkey	7,403	43.0%	5,901	36.2%	-1,502	-6.8%
Egypt	1,611	9.4%	1,637	10.0%	26	0.7%
Private Banking entities	1,045	6.1%	967	6.0%	-78	0.1%
Other entities	1,204	7.0%	1,107	6.8%	-97	-0.2%
Consolidated adjustment	-71	-0.4%	-42	-0.3%	29	0.2%
<b>Total</b>	<b>17,215</b>	<b>100%</b>	<b>16,294</b>	<b>100%</b>	<b>-921</b>	
<b>NET EARNINGS</b>						
		FY-2016	FY-2017		Before Discontinued Operations	
(USD Million)	Volume	Share in Total	Volume	Share in Total	Volume	Share in Total
Lebanese entities	75	15.9%	325	58.1%	229	49.4%
Turkey	69	14.6%	88	15.8%	88	19.0%
Egypt	160	34.0%	55	9.8%	55	11.9%
Private Banking entities	51	10.8%	54	9.6%	54	11.6%
Other entities	115	24.7%	37	6.7%	38	8.1%
<b>Total</b>	<b>470</b>	<b>100%</b>	<b>559</b>	<b>100%</b>	<b>464</b>	<b>100%</b>

Opposite trends in main development pillars drove the 2017 results as follows:

**In Lebanon** – A positive activity growth with assets of Lebanese entities reporting a year-on-year increase by 3.6%, consolidating the Bank's leading position in the domestic market. On this backdrop, Management sustained a margin focus policy favouring improvement in operating conditions over balance sheet growth through a re-pricing of assets and liabilities terms while implementing cross-selling tools across main business segments to boost productivity gains. Management also imposed a rigorous control of operating expenses through freezing hiring and streamlining other expenses, while enforcing a tight follow-up on credit quality. As a result and despite the prevailing sluggish economic conditions, Lebanese entities reported a positive growth in net earnings triggered primarily by a year-on-year improvement in interest margin by 21%. Net profits of Lebanese entities rose to USD 325 million in 2017 and USD 229 million when excluding profits from discontinued operations, representing a net growth of 8% relative to the recurrent net profits of 2016 (see section on Lebanese Entities' performance on Page 50).

**In Turkey** – After the robust growth realised since inception, Odea Bank's Management adopted in 2017 a stringent asset and liability management policy consisting of re-balancing the loan and deposit portfolios to improve productivity gains and enhance asset quality. The policy aimed at not renewing some maturing loans with limited contribution to the franchise building while favouring core corporate and SME lending opportunities with value-added ancillary business. This was made in conjunction with another rebalancing of the loan portfolio towards TRY in support of a further capital optimisation allowing a better matching of risk-weighted assets by currency to capital. In parallel, Management decided to forego unstable costly deposits, translating in a subsequent decrease in assets expressed in TRY by 13.6%. However, this was not realised at the detriment of profitability, as net profits after tax of Odea Bank reported a net growth by 28% in 2017, rising from USD 69 million in 2016 to USD 88 million in 2017, after the allocation of USD 95 million of net loan loss provisions. Furthermore, Odea Bank embarked on an inaugural internal bond issuance in the second quarter of 2017, closing on 1 August 2017 a USD 300 million 10NC5, 144A/RegS Subordinated Basel III Compliant Tier II issuance which was multiple time over-subscribed. Within this process, Odea Bank was granted a Ba3 rating from Moody's and BB- rating from Fitch Ratings, i.e. 3 notches higher than the rating of largest Lebanese banking groups (see section on Odea Bank's performance on Page 51).

## 4.2. | ONE-OFF DEVELOPMENTS IN 2017

Two principal exceptional developments also impacted the Group's performance in 2017:

**Sale of Electronic Payment and Card Services Acquiring and Processing Activity** – In June 2017, the Bank completed the sale of its Electronic Payment and Card Services processing and acquiring activity to M1 Financial Technologies sal (the sole owner of Areeba sal), a subsidiary of M1 Group, thereby adopting a common practice in big corporations, particularly in this sector. The transaction was structured as a sale of Bank Audi's investment in Areeba sal ("Areeba") to M1 Financial Technologies, to which Bank Audi transferred its Electronic Payment and Card Services business and with which the Bank entered into a service level agreement for the provision of these services. The consideration was set at USD 184 million. Simultaneously, the Group obtained the right to buy

**In Egypt** – Bank Audi Egypt continues to show resilience to the persisting ongoing uncertainties in Egypt, sustaining a solid growth trajectory in terms of activity and earnings. The Bank's net profits, adjusted to the increase in FX structural position booked in 2016 following the devaluation of the Egyptian Pound relative to the US Dollar, reported a 24% growth in 2017, increasing from EGP 788 million in 2016 to EGP 981 million in 2017. Nonetheless, the negative translation impact of the depreciation of the EGP versus the USD borne in full in 2017 (average EGP/USD translation rate of 17.8 in 2017 as compared to 10.7 in 2016) totally offset this growth when converting those results at consolidation level (see section on Bank Audi sae (Egypt)'s performance on Page 52).

**Private Banking Business Line** – In 2017, the restructuring of the Private Banking business line continued to move at pace and is expected to consolidate all Private Banking entities and related business under one legal operating holding in the short term. As at end-December 2017, Audi Private Bank had USD 11 billion in client assets, generating total operating revenues of USD 145 million in 2017 and contributing up to USD 54 million to the Group's net profits after tax as compared to USD 51 million in 2016. (see section on the performance of Private Banking entities on Page 52).

The performance of each main development pillar individually reflects its business dynamic, as witnessed by the capacity to attract new customers, as well as to expand its products and services. Both the number of customers and the number of accounts continued to increase, with 59,892 new customers and 102,163 new accounts in 2017. As such, the number of customers grew by 5.5% year-on-year, increasing from 1,090,541 as at end-December 2016 to stand at 1,150,433 as at end-December 2017. Likewise, the number of accounts grew by 4.8%, from 2,127,557 accounts as at end-December 2016 to 2,229,720 as at end-December 2017.

back 30% of M1 Financial Technologies over the next 3 years for a total consideration of USD 55 million, allowing for potential exercisable voting rights in M1 Financial Technologies. The transaction resulted in a gain from discontinued operations amounting to USD 95 million (net of taxes), along with a gain on loss of control of a subsidiary of USD 49 million recorded under other operating income.

This transaction is expected to allow the Bank to concentrate more on business development and sales, while enhancing customer service and streamlining all operations between Retail products and Cards.

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

- the corporate tax rate from a current 15% to 17%;
- the capital gain tax rate from 10% to 15%;
- the withholding tax on dividends of listed companies from 5% to 10%;
- the abolishment of the interest tax deduction clause related to investments in Tbs and CDs that are now subject to 7% tax, directly deducted from interest income.

The net impact at the level of the Lebanese banking sector is estimated to range from USD 300 million to USD 325 million of profit foregone out of USD 2 billion of domestic banking sector profits, equivalent to 15% of profit.

The annual impact of those new tax measures on Bank Audi's operations is estimated to reach circa USD 40 million, which is deemed a manageable level representing a mere 15 basis points of the Bank's domestic assets, although Management has already set in place a mitigating asset and liabilities policy aiming at compensating this impact through an increase in net interest income, with positive results so far.

Having said that, the Ministry of Finance issued on 18 December 2017 a circular which also abolished the 7% interest tax exemption on placements with the Central Bank of Lebanon, as well as money market placements. The enforcement of this tax is still under discussion. However, should it be enforced, the Bank might bear an additional tax cost estimated at USD 43 million per annum.

The total impact of those new tax measures on the 2017 exercise was limited to USD 12.4 million, owing to the number of days remaining till year-end since the application of those measures came into effect in October 2017. This amount includes a USD 6.4 million tax provisions in relation to money market placements. In the event authorities rule to revoke its implementation, this provision would hence be reversed.

## 4.3. | CONSOLIDATED ACTIVITY MANAGEMENT

As in previous years, the Bank's statement of financial position primarily reflects Management's overall risk tolerance/appetite, as well as available business opportunities across countries of presence. In 2017, main priorities focused principally on investments in asset classes which have the highest impact on profitability, while taking into consideration a conservative approach to credit quality and capital consumption. Balance sheet allocation remains nonetheless determined by internal limits and regulatory requirements (see Section on "Risk Management" on Page 60). 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's Credit Risk Department.

Consolidated activity growth remained almost flat during the year as consolidated assets decreased by USD 515 million (-1.2%) to reach USD 43.8 billion at end-December 2017 and USD 54.7 billion when accounting for fiduciary deposits, security accounts and assets under management, sustaining Bank Audi's ranking at the forefront of the Lebanese banking sector and among the top 20 Arab banking groups.

The contraction of consolidated assets relative to end-December 2016 does not reflect the dynamics across entities. It is rather driven by a contraction of Odea Bank's assets by USD 2 billion, within the context of the adoption by Odea Bank's Management of a policy favouring activity consolidation while further reinforcing risk control, while assets of the remaining main entities reported positive albeit limited growth. Subsequently, the contribution of entities outside Lebanon to consolidated assets dropped from 41% as at end-December 2016 to 38% as at end-December 2017.

The table below sets out the evolution of the Group's financial position as at end-December 2017 as compared to end-December 2016:

### BALANCE SHEET (USD MILLION)

	Dec-16	Dec-17	Vol.	%
Primary liquidity	15,752	14,932	-820	-5.2%
Portfolio securities	9,869	10,929	1,060	10.7%
Loans to customers	17,215	16,294	-921	-5.4%
Other assets	750	864	114	15.2%
Fixed assets	681	733	52	7.6%
<b>Assets = Liabilities + Equity</b>	<b>44,267</b>	<b>43,752</b>	<b>-515</b>	<b>-1.2%</b>
Bank deposits	3,040	4,522	1,482	48.8%
Customers' deposits	35,955	33,451	-2,504	-7.0%
Subordinated debt	646	819	173	26.8%
Other liabilities	928	772	-156	-16.8%
Shareholders' equity (profit included)	3,698	4,188	490	13.2%
AUMs + fid. dep. + cust. acc.	10,831	10,990	159	1.5%
<b>Assets + AUMS</b>	<b>55,098</b>	<b>54,742</b>	<b>-356</b>	<b>-0.6%</b>

Likewise, the following table sets out a geographic breakdown of the Bank's assets, customers' deposits and loans as at end-December 2017 as compared to end-December 2016:

**BREAKDOWN BY GEOGRAPHY**

By region	Assets			Deposits			Loans		
	Dec-16	Dec-17	Change	Dec-16	Dec-17	Change	Dec-16	Dec-17	Change
Lebanon	58.5%	62.1%	3.6%	61.7%	63.1%	1.4%	35.4%	41.9%	6.5%
Abroad	41.5%	37.9%	-3.6%	38.3%	36.9%	-1.4%	64.6%	58.1%	-6.5%

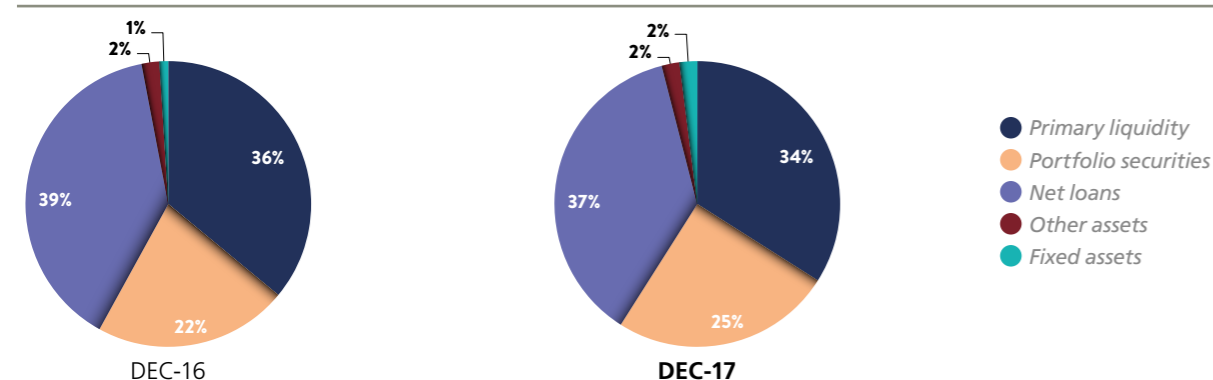
As at end-December 2017, the Bank's credit risk profile was as follows: consolidated primary liquidity (excluding certificates of deposits issued by the Central Bank) represented 44.6% of consolidated customers' deposits (43.8% as at end-December 2016), a high level when compared to regional and global averages. In parallel, the loan to deposits ratio increased from 47.9% as at end-December 2016 to stand at 48.7%. Portfolio securities net of risk ceded represented 31.6% of adjusted

customers' deposits, increasing from 26.7% as at end-December 2016. Albeit increasing, the Bank's net exposure to Lebanese sovereign Eurobonds continues to be immaterial, representing 0.4% of adjusted customers' deposits denominated in foreign currency as at end-December 2017, as compared to 0.03% as at end-December 2016, the lowest level among 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 2017 as compared to end-December 2016. The discussion that follows analyses the evolution of the various asset classes and their respective key indicators over the same period.

**ASSETS BREAKDOWN**



**Changes in Primary Liquidity**

The Bank's broad primary liquidity is composed of cash, as well as amounts held at the central banks of the countries of presence of the Group (including free accounts and compulsory reserves and 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.

Given that Lebanese banks are not allowed by regulation to sustain any FX position exceeding 1% of their shareholders equity, an analysis by currency is deemed necessary to highlight the liquidity dynamics during the year. The latter underscores that the decrease in liquidity is mostly attributed to foreign currency.

Consolidated primary liquidity decreased by 5.2% in 2017, from USD 15.8 billion at end-December 2016 to USD 14.9 billion at end-December 2017, the equivalent of 44.6% of consolidated customers' deposits (43.8% as at end-December 2016).

The table below highlights the breakdown of primary liquidity by type and by currency as at end-December 2017:

**LIQUIDITY (USD MILLION)**

	LBP	USD	EUR	EGP	TRY	JOD	OTHERS	TOTAL
<b>Cash and central banks</b>	4,020	6,860	807	253	395	71	760	13,166
o.w. Reserves requirements	286	3,257	6	176	372	64	31	4,192
o.w. Cash deposits	3,734	3,603	801	77	23	7	729	8,974
<b>Placement with banks</b>	43	534	316	26	730	27	91	1,766
o.w. Deposits with banks	26	501	316	1	3	27	91	965
o.w. Loans to banks and reverse repurchase agreements	17	33		25	727			801
<b>Total liquidity</b>	4,063	7,394	1,123	278	1,125	98	851	14,932

The Bank's primary liquid assets in Lebanese Pounds are essentially composed of cash and deposits with the Central Bank of Lebanon. They increased from USD 3.7 billion as at end-December 2016, the equivalent of 82.5% of customers' deposits in Lebanese Pounds to USD 4.1 billion as at end-December 2017, the equivalent of 92.1% of customers' deposits in Lebanese Pounds. This evolution is the result of the Bank's participation in the exchange transactions of the Central Bank of Lebanon dated August 2017, which allowed banks in Lebanon to benefit from LBP facilities at 2% against placing long-term FX term deposits at the Central Bank of Lebanon with a minimum maturity of 5 years, provided the proceeds are used to purchase Lebanese Pounds-denominated Treasury bills. Taking into consideration the current limited auction offering by the Ministry of Finance, the Central Bank of Lebanon allowed banks to place momentarily the non-invested part of those proceeds in placements at the Central Bank of Lebanon at similar returns, awaiting for further Tbs availability. Bank Audi participation in

those transactions amounted to USD 1.75 billion, most of which were placed at the Central Bank of Lebanon with only USD 450 million placed in Treasury bills.

The Bank's primary liquid assets in foreign currency are essentially composed of cash and 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 banks and reverse repo facilities. The Bank's primary liquid assets in foreign currency decreased from USD 12.1 billion as at end-December 2016, the equivalent of 38.3% of customers' deposits in foreign currency, to USD 10.9 billion as at end-December 2017, the equivalent of 37.4% of customers' deposits in foreign currencies. By geography, this contraction is attributed to Lebanese entities while Odea Bank and Bank Audi Egypt display ample liquidity levels, as is the case with the remaining ancillary entities.

2 events affected the immediate liquidity in foreign currencies in Lebanese entities, as follows:

**Management's Voluntary Reduction of Deposits**

Out of the USD 3.1 billion of fresh deposits that Bank Audi had amassed in the scope of the exchange transactions with the Central Bank of Lebanon in 2016 (see section on "Recent Developments and Extraordinary Revenues" in the 2016 Annual Report on Page 31), USD 1.6 billion had 1-year maturities falling due mostly in the months of September and October 2017. Management succeeded to retain and renew close to USD 1 billion of those deposits at the currently prevailing cost of deposits, while deciding to let go the remaining USD 604 million of costly deposits.

The impact of those evolutions is evident at the level of bank's placements with banks, falling from USD 2 billion as at end-December 2016, the equivalent of 6.2% of customers' deposits in foreign currencies, to circa USD 1 billion as at end-December 2017, the equivalent of 3.2% of customers' deposits, an all-time low level that has been consistently increasing ever since.

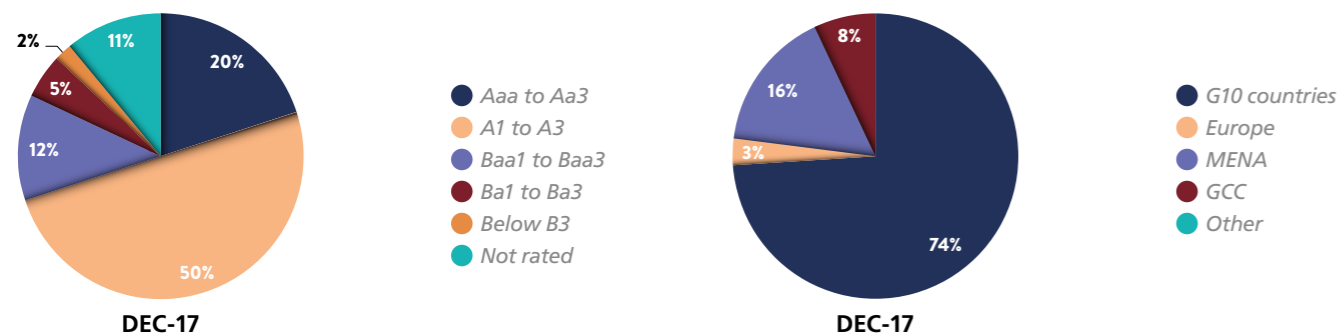
**The crisis following the resignation of Prime Minister Hariri in November 2017** and the subsequent prevailing uncertainty, led to a deposits' outflow estimated at USD 2.6 billion sector wide, of which USD 0.5 billion at the level of Bank Audi.

Liquidity in foreign currencies of Lebanese banks increased by more than 22% in the month of January 2018 and is expected to recuperate its year-end 2016 level during the course of 2018.

Such placements are mainly based in low risk OECD and GCC countries that show high levels of solvency and financial and monetary stability. Over 70% of the placements (excluding reverse repo agreements) denominated in foreign currency are held in banks rated A3 or better.

The charts below set out the breakdown of money markets placements held with banks (excluding reverse repo agreements) as at end-December 2017 by rating and geographic location:

#### BREAKDOWN OF PLACEMENTS WITH BANKS BY RATING IN 2017      BREAKDOWN OF PLACEMENTS WITH BANKS BY REGION IN 2017



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

#### Changes in Securities' Portfolio

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

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.

Consolidated securities' portfolio increased by USD 1 billion in 2017, moving from USD 9.9 billion as at end-December 2016 to USD 10.9 billion as at end-December 2017. Owing to a faster growth in securities than in customers' deposits, the Bank's securities portfolio represented 32.7% of total customers' deposits as at end-December 2017 as compared to 27.4% as at end-December 2016. By currency, the USD 1.1 billion increase in portfolio securities is broken down over an increase by USD 828 million in securities denominated in Lebanese pounds and by USD 232 million in securities denominated in foreign currency.

The following table sets out the distribution of the Bank's securities portfolio, by type of security and currency, as at end-December 2017 as compared to end-December 2016:

#### PORTFOLIO SECURITIES BREAKDOWN (USD MILLION)

	Dec-16	Dec-17	Vol.	%
<b>Central Bank certificates of deposits</b>	6,012	6,256	244	4.06%
LBP-denominated	540	917	377	69.81%
Foreign currency-denominated	5,472	5,339	-133	-2.43%
<b>Net Lebanese Treasury bills and Eurobonds</b>	1,529	2,078	549	35.91%
LBP-denominated	1,520	1,971	451	29.67%
Foreign currency-denominated	9	107	98	1088.89%
<b>Risk-ceded government Eurobonds</b>	388	502	114	29.38%
LBP-denominated	0	0	0	
Foreign currency-denominated	388	502	114	29.38%
<b>Other non-Lebanese sovereign securities</b>	1,342	1,605	263	19.60%
TRY	129	115	-14	-10.85%
EGP	516	797	281	54.46%
JOD	528	427	-101	-19.13%
USD	163	161	-2	-1.23%
Other	6	105	99	1650.00%
<b>Other fixed income securities</b>	420	343	-77	-18.33%
LBP-denominated	0	0	0	
Foreign currency-denominated	420	343	-77	-18.33%
<b>Equity securities</b>	178	145	-33	-18.54%
LBP-denominated	43	43	0	-1.15%
Foreign currency-denominated	135	102	-33	-24.44%
<b>Total portfolio securities</b>	9,869	10,929	1,060	10.74%

#### Lebanese Bond and Central Bank Certificates of Deposits Portfolio

The size of the Lebanese Bond and Central Bank certificates of deposits portfolio increased in 2017 by USD 793 million, of which an increase by USD 828 million in securities denominated in Lebanese Pounds. The change in the composition of this portfolio is a direct function of Management's appetite and opportunistic approach to market transactions with a bearing on profitability.

In Lebanese Pounds, the USD 828 million increase is broken down over USD 377 million of certificates of deposits issued by the Central Bank of Lebanon and USD 451 million of additional holdings of Treasury bills issued by the Republic of Lebanon. This evolution is the result of the Bank's participation in BDL's exchange transactions of August 2017, which allowed banks in Lebanon to benefit from LBP facilities at 2% against placing long-term FX term deposits at the Central Bank of Lebanon with a minimum maturity of 5 years, provided the proceeds are used to purchase Lebanese Pounds-denominated Treasury bills or placed at the Central Bank of Lebanon.

In foreign currency, certificates of deposits issued by the Central Bank of Lebanon decreased by USD 133 million in 2017 while the Group's net exposure to Lebanese sovereign Eurobonds (net of risk-ceded sovereign Eurobonds) increased from a mere USD 8.7 million as at end-December 2016 to USD 107 million as at end-December 2017. In relative terms, the Bank's net exposure to sovereign Eurobonds represented 0.4% of foreign currency-denominated customers' deposits as at end-December 2017, as compared to 0.03% as at end-December 2016.

The Bank's overall exposure to the Lebanese sovereign (Treasury bills and certificates of deposits) as a percentage of regulatory Tier 1 capital improved slightly during the year reaching 2.4 times, of which 0.8 times in Lebanese Pounds and 1.6 times in foreign currency.

#### Loan Portfolio

Bank Audi provides credit facilities to a variety of clients, ranging from large corporate and institutional borrowers (Corporate & Commercial Banking) to small and medium-sized enterprises (SME Banking) (see section on Corporate & Commercial Banking on Page 53), and individual consumers (Retail and Private Banking) (see section on Retail Banking on Page 54 and section on Private Banking on Page 55).

The Bank's loan portfolio consists of direct lending, offered through wide range of banking products and services, namely working capital finance such as overdraft facilities and short-term loans (less than one-year maturities), term loans, syndicated loans and project finance facilities.

As a continuing and concerted effort to strengthen our loan portfolios across the Group, Management maintained its thorough review and close monitoring of the diversified clients base through in-depth client analysis, portfolio reviews and a disciplined approach to credit origination.

The following is a discussion of the evolution of consolidated loans to customers as at end-December 2017 as compared to end-December 2016 (including loans to related parties).

Net loans to related parties dropped to USD 107 million as at end-December 2017 as compared to USD 145 million as at end-December 2016. Article 152 of the Code of Money and Credit and Central Bank basic decision No. 7776 dated 21 February 2001, as amended, provides

#### 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 2017, the non-Lebanese sovereign bonds portfolio increased by USD 263 million, from USD 1,342 million as at end-December 2016 to USD 1,605 million as at end-December 2017. The Bank's exposure to the sovereign risk of Egypt, which is denominated in Egyptian Pounds, increased by USD 281 million to USD 797 million as at end-December 2017. In parallel, the exposure to the sovereign risk of Turkey decreased by USD 14 million, reaching USD 115 million at end-December 2017.

In relative terms, the Bank's portfolio of non-Lebanese sovereign bonds represented 14.7% of the total securities portfolio and 5.5% of foreign currency-denominated customers' deposits as at end-December 2017, as compared to 13.6% and 4.3% respectively as at end-December 2016.

#### Other International Fixed Income Securities

As at end-December 2017, the Bank's exposure to other international fixed income securities decreased by USD 77 million in 2017, moving from USD 420 million as at end-December 2016 to USD 343 million as at end-December 2017. These placements continue to favour highly rated financial institutions, a fact mitigated by issuer diversification within the portfolio, as well as the high proportion of relatively short tenor bonds (with maturities under two years), rendering these investments somewhat similar to ordinary placements with banks in terms of implied risk profile and market risk exposure.

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 2% 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.

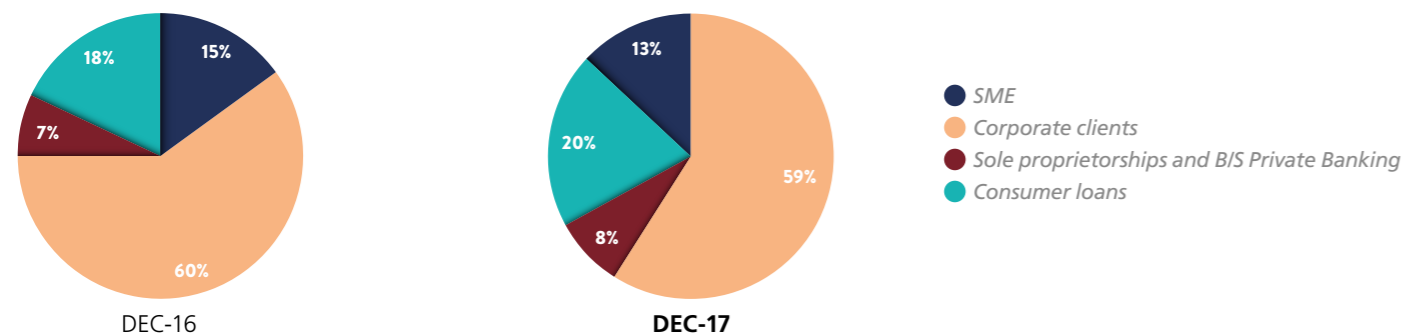
In 2017, the Bank's lending portfolio contracted by 5.4%, with consolidated net loans moving from USD 17.2 billion as at end-December 2016 to USD 16.3 billion as at end-December 2017, corresponding to a decrease by USD 921 million. The latter is the result of a contraction by USD 1,502 million in Odea Bank's loan portfolio, of which USD 1,263 million of real decrease instigated mainly by a voluntary reduction of some names whose returns were either falling short of the Bank's targets or where growth opportunities were limited, and USD 239 million of negative FX translation impact following the depreciation of the Turkish Lira versus the USD by 6% during 2017. The contraction of the loan book at Odea was partially offset by a USD 701 million growth in the loan book at Lebanese entities.

As at end-December 2017, 41% of consolidated net loans were booked in Lebanese entities, 36% in Odea Bank – Turkey, 10% in Bank Audi sae (Egypt), 6% in Private Banking entities and 6.8% 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 2017 as compared to end-December 2016:

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



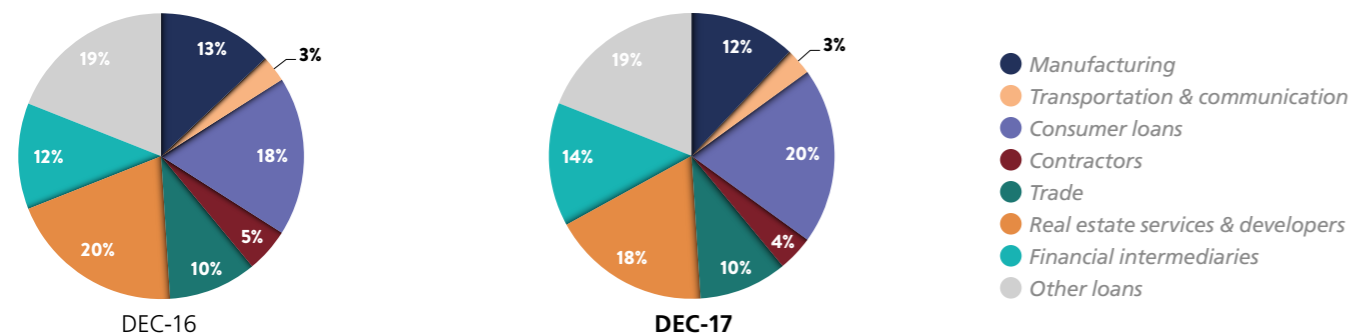
The distribution of the Bank's consolidated loan portfolio by type of borrower continues to indicate a concentration of corporate clients, which constituted 59% of the loan book as at end-December 2017. Corporate relationships constitute the core strategic constituent of the loan portfolio across the Group. Efforts to improve the Bank's share in SME lending have continued in 2017, albeit vigilantly in some markets given challenges

on the socio-political and economic fronts. Nonetheless, Management believes that the SME lending segment is a profitable market and offers a greater diversification of credit risk. Consequently, Management has been investing for the past few years in the development of products, systems and talent to ensure that the Bank's share of wallet grows in this segment, whilst maintaining its qualitative overall targets.

**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 2017 and end-December 2016:

**BREAKDOWN OF NET LOANS & ADVANCES BY ECONOMIC SECTOR (USD MILLION)**



The Bank focuses on diversification of industry exposures in its lending portfolio; exposures to industries which present higher risks due to cyclicality are discussed in-depth during portfolio reviews and early measures and warning signals are agreed to in order to respond to any potential credit deterioration.

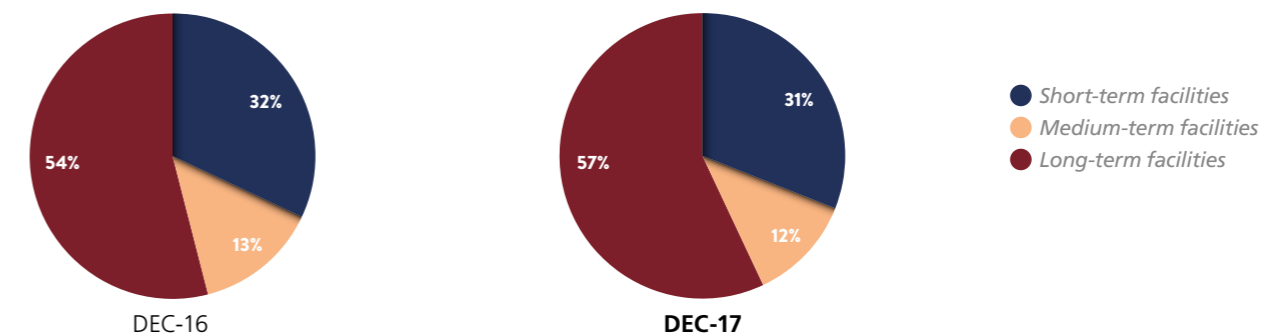
The distribution of the Bank's consolidated loan portfolio by economic sector is well diversified with the largest sectors being Real Estate Services & Developers (18%), Financial Intermediaries (14%), Manufacturing Industries (12%), and Wholesale and Retail Trade (10%)

as at end-December 2017. Relative to end-December 2016, the share of Real Estate Services and Developers decreased by 2% moving from 20% as at end-December 2016, as a result of a decrease by USD 417 million of such loans at Odea Bank. This is compensated by a similar increase in the share of Financial Intermediaries from 12% as at end-December 2016, following the booking of new sizeable loans in Bank Audi Lebanon. Notwithstanding, the concentration of the loan portfolio by economic sector remains within the Board of Directors' approved concentration limits and the Bank's consolidated equity.

**Analysis of Loans by Maturity**

The following charts sets out the maturity profile of the Bank's loan portfolio as at end-December 2017 as compared to end-December 2016:

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



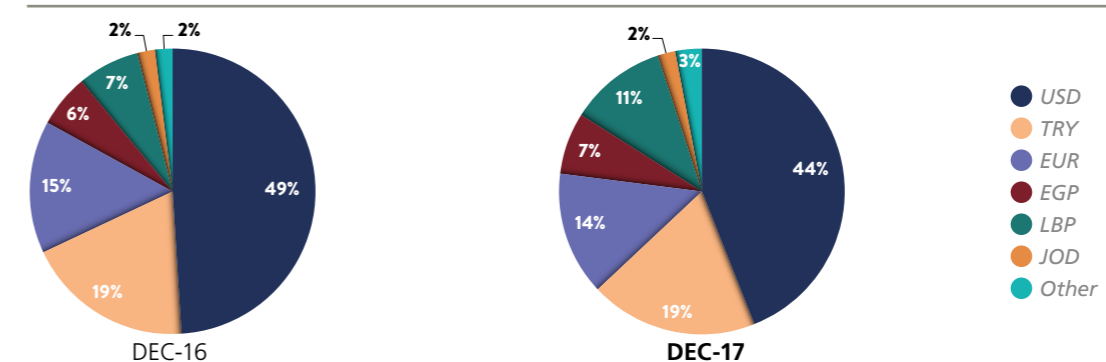
As at end-December 2017, short-term facilities having a maturity of less than one year represented 31% of the Bank's consolidated loan portfolio, while medium-term facilities with maturities between one and three years represented 12% of the Bank's consolidated loan portfolio. Loans with maturities over three years represented 57% 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

2017 as compared to as at end-December 2016. This skewness towards long tenor loans is attributed to (a) participation in a variety of long-term products offered by the Central Bank of Lebanon, including subsidised and environmental loans and (b) participations in project finance or corporate finance loans which are typically large loans with tenor exceeding 5 years. The stickiness and stability of customers' deposits in fact supports this loan maturity profile.

**Analysis of Loans by Currency**

The following chart sets out the distribution of the Bank's loan portfolio by currency as at end-December 2017 as compared to end-December 2016:

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



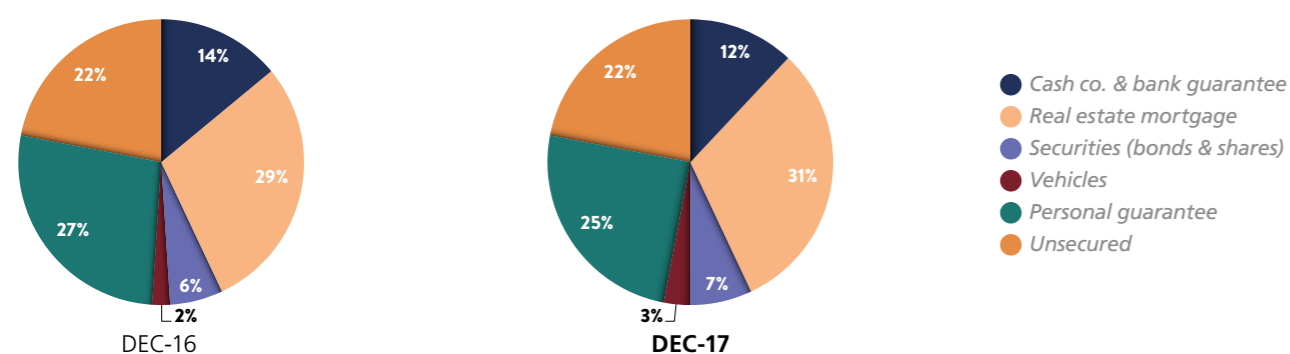
Loans in US Dollars continued to comprise the largest portion of the loan portfolio as at end-December 2017, in line with the dollarization rate of the Bank's balance sheet. However, the proportion of USD loans as compared to loans in other currencies declined from 49% as at end-December 2016 to 44% as at end-December 2017 as a result of the rebalancing of the loan portfolio of Odea Bank towards the LCY for a better capital optimisation. This rebalancing consisted of large repayments of maturing USD loans, as well as large conversions of USD loans into loans in Turkish Lira.

At end-December 2017, the portfolio of Lebanese entities was comprised of a loan book predominantly in foreign currency (74% of loans in foreign currency and 26% in Lebanese Pounds). This mirrors the overall loan dollarization rate of the banking sector in Lebanon, which stood at 70% at the same date. In parallel, 57% of the loan book of Odea Bank was denominated in Turkish Lira with the remainder in foreign currency; while at Bank Audi Egypt, 72% of the loan book was denominated in Egyptian Pounds with the remainder in foreign currency.

### 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 2017 as compared to end-December 2016:

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



Source: company data.

Although the Bank's lending decisions rely primarily on the availability of cash flows as a first source of repayment, the Bank ensures alternative exit strategies, mainly in the form of security, should those cash flows fall

short for any reason. As at end-December 2017, 53% of the consolidated loan portfolio was secured, predominantly by real estate mortgages (31%) and cash collaterals and bank guarantees (12%).

### Loan Quality

In light of the economic and political challenges in key markets of presence, and in the scope of the adopted consolidation mode, Management embarked on tightening controls in its lending procedures and practices. This reflected in a contraction of the loan portfolio as mentioned earlier,

whereby consolidated net loans reduced by 5.4% at end-December 2017 as compared to at end-December 2016. Management believes that such controls will contribute to ensure sustainable quality growth in the coming period.

The following table sets out the Bank's main asset quality indicators as at end-December 2017 as compared to end-December 2016:

#### ASSET QUALITY (USD MILLION)

	Dec-16	Dec-17	Change
<b>Gross DLs</b>	<b>439</b>	<b>600</b>	<b>161</b>
o.w. Corporate	334	453	119
o.w. Retail	105	147	42
<b>Gross SLs</b>	<b>43</b>	<b>64</b>	<b>21</b>
<b>Net loans</b>	<b>17,215</b>	<b>16,294</b>	<b>-921</b>
o.w. Corporate	14,109	12,982	-1,127
o.w. Retail	3,106	3,312	206
<b>Specific provisions</b>	<b>296</b>	<b>360</b>	<b>64</b>
o.w. Corporate	214	247	33
o.w. Retail	82	113	31
<b>Collective provisions</b>	<b>419</b>	<b>440</b>	<b>21</b>
o.w. Corporate	339	360	21
o.w. Retail	80	80	0
<b>Gross DLs/Gross loans</b>	<b>2.45%</b>	<b>3.51%</b>	<b>1.06%</b>
o.w. Corporate	2.28%	3.33%	1.05%
o.w. Retail	3.21%	4.19%	0.99%
<b>Net DLs/Gross loans</b>	<b>0.80%</b>	<b>1.40%</b>	<b>0.61%</b>
o.w. Corporate	0.82%	1.51%	0.70%
o.w. Retail	0.69%	0.96%	0.27%
<b>Coverage (specific)</b>	<b>67.51%</b>	<b>60.07%</b>	<b>-7.45%</b>
o.w. Corporate	64.11%	54.54%	-9.57%
o.w. Retail	78.36%	77.10%	-1.26%
<b>Collective prov./Net loans</b>	<b>2.43%</b>	<b>2.70%</b>	<b>0.27%</b>
o.w. Corporate	2.41%	2.78%	0.37%
o.w. Retail	2.56%	2.40%	-0.16%

Gross substandard loans increased from USD 43 million as at end-December 2016 to USD 64 million as at end-December 2017, driven primarily by a deterioration in one big loan booked in Lebanon. Net substandard loans represented 0.36% of gross loans as at end-December 2017.

Consolidated gross doubtful loans reached USD 600 million as at end-December 2017, increasing by USD 161 million from the previous year. The largest additions to doubtful loans emanated from Lebanese entities and Odea Bank whose portfolios of gross doubtful loans increased by USD 50 million and USD 90 million respectively. The USD 50 million of additional gross doubtful loans in Lebanese entities was mainly on account of a migration of one large customer account into doubtful category, representing by itself an additional USD 29 million of doubtful loans. This comes on the backdrop of USD 19 million of additional doubtful loans in the retail portfolio in Lebanon.

This increase brought the ratio of consolidated gross doubtful loans to gross loans to 3.5% as at end-December 2017 up from 2.5% as at end-December 2016. Based on published data, this ratio still compares favourably to the Bank's peers in Lebanon (average ratio of 4.9%), the Arab world (4.6%), regional peers (average ratio of 4.2%), the European Union (4.4%), and banks in the world (average of 3.9%) (source: Bilanbanques 2017 and The World Bank). By development pillars, the ratio of gross doubtful loans to gross loans reached 3.1% in Lebanese entities at end-December 2017, 1.5% for Bank Audi Egypt, 4.7% for Odea Bank, 1.8% in Private Banking entities and 4.4% in other entities.

The table below sets out the securities' level against the doubtful and substandard portfolio across main entities. The consolidated collateralisation level for those loans stood at 72% as of end-December 2017 versus 61% as of end-December 2016.

	LEBANESE ENTITIES		ODEA BANK		BANK AUDI EGYPT		OTHERS		CONSOLIDATED	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
NET NPLs	56,329	108,565	109,822	167,080	5,674	5,588	9,622	19,628	181,447	300,860
Securities against NPLs*	30,095	75,733	74,091	129,725	4,184	3,264	2,313	7,978	110,683	216,701
NPL collateralisation level**	53%	70%	67%	78%	74%	58%	24%	41%	61%	72%

\* NPLs include doubtful and substandard loans.

\*\* NPL collateralisation level accounts for the weighted exposure of NPL with respect to cash, bank guarantee, securities and mortgage appraisal only.

Source: company data.

As at end-December 2017, Bank Audi had USD 440 million of collective provisions, a level which exceeds the requirements of the Central Bank of Lebanon in connection with the application of IAS 39 and IFRS 9. The Bank had undergone internal calculation of IFRS 9 requirements in line with the directives of the Central Bank of Lebanon and, accordingly, the USD 440 million of collective provisions would be apportioned in 2018 over USD 203 million of IFRS 9 provisions on loans and advances, over and above the outstanding specific provisions, USD 61 million on other financial assets with an excess of USD 176 million (relative to the requirements of the Central Bank of Lebanon), which will be considered as Tier 2 capital. The above assessment is preliminary because not all transition work has been finalised. The actual impact of adopting IFRS 9 on 1 January 2018 may change because:

In turn, specific provisions and interest in suspense for credit losses against those doubtful loans increased by USD 64 million (of which USD 52 million specific provisions) reaching USD 360 million as of end-December 2017. As a result, the coverage ratio of doubtful loans by specific provisions reached 60% as at end-December 2017. By development pillars, coverage ratio by specific provisions reached 78% in Lebanese entities and in Private Banking entities, 77% in Bank Audi Egypt, 41% for Odea Bank, and 70% in other entities.

Given that the coverage by specific provisions is allocated in full abidance with the internal requisites as well as the requirements of auditors and regulators, the discrepancy in the coverage ratio by specific provisions remains a function of the available coverage by real guarantees and collaterals.

- IFRS 9 will require the Group to revise its accounting processes and internal controls and these changes are not yet complete;
- Although parallel runs were carried out in the second half of 2017, the new systems and associated controls in place have not been operational for a more extended period;
- The Group has not finalised the testing and assessment of control over its new IT systems and changes to its governance framework;
- The Group is refining and finalising its models for ECL calculations; and
- The new accounting policies, assumptions, judgments and estimation techniques employed are subject to change until the Group finalises its first financial statements that include the date of initial application.

Once the work completed, the Bank expects to transfer part of the excess provisions to distributable reserve accounted for as CET1 capital.

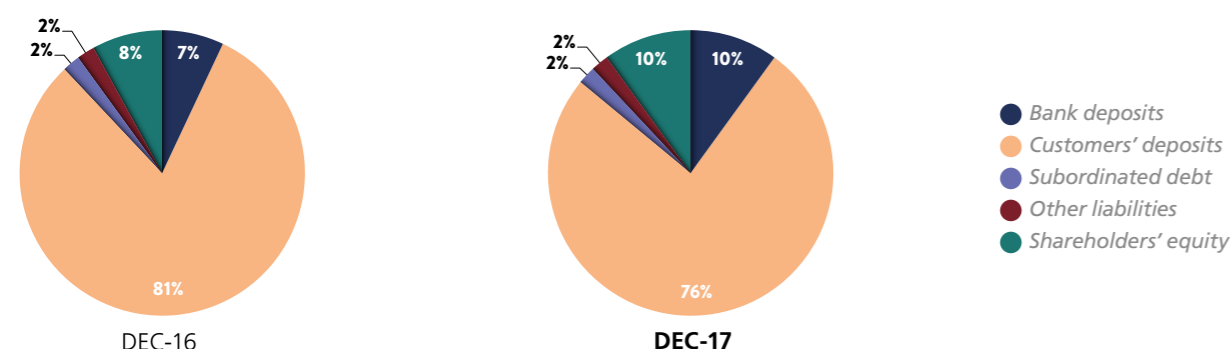
**FUNDING SOURCES**

The Group's core funding resources are customers' deposits which accounted for 76.5% of the Bank's total liabilities and shareholders' equity as at end-December 2017. Other sources of funding include banks' deposits (10.3% of total liabilities and shareholders' equity), other liabilities (1.8% of total liabilities and shareholders' equity), subordinated debt (1.9% of total liabilities and shareholders' equity) and shareholders' equity (9.6% of total liabilities and shareholders' equity). Relative to end-December 2016, the proportion of customers' deposits in total liabilities and shareholders' equity decreased by 4.8% to the advantage

of banks' deposits (whose share increased by 3.5%), shareholders' equity (whose share rose by 1.2%) and subordinated debt (whose share increased by 0.4%), offset by a decrease in the share of other liabilities (-0.3%).

The following chart sets out the distribution of the Bank's sources of funding as at end-December 2017 as compared to end-December 2016. The discussion that follows analyses the evolution of those funding classes and their respective key indicators over the same period.

**LIABILITIES BREAKDOWN**



In 2017, banks' deposits increased from USD 3 billion as at end-December 2016 to USD 4.5 billion as at end-December 2017, corresponding to an increase by USD 1.5 billion. With due to banks and financial institutions (including reverse repo) registering a slight increase from USD 1.7 billion as at end-December 2016 to USD 1.9 billion as at end-December 2017, most of this increase is mainly attributed to a short-term credit agreement and subsidised loans the Group entered with the Central Bank of Lebanon during the year in the aggregate amount of USD 2.6 million. The repayment of the bulk of the loan facility with the Central Bank of Lebanon, which bears an interest of 1%, is expected to occur

in September 2018 (see Notes 32-33 of the 2017 financial statements on Page 137).

Management had a similar credit agreement with the Central Bank of Lebanon at end-December 2016, for a loan facility in the amount of USD 720 million and bearing an interest of 6% which matured in March 2017. In managing its asset and liability, Management opted to enter with such short-term credit transaction with the Central Bank of Lebanon, which also allows reducing the Group's exposure to the Central Bank.

**Customers' Deposits**

Consolidated customers' deposits decreased by USD 2.5 billion in 2017, from USD 36 billion as at end-December 2016 to stand at USD 33.5 billion as at end-December 2017, representing a contraction by 7%.

The decrease in consolidated deposits is mainly attributed to decreases in the deposit bases of Odea Bank and Lebanese entities (including consolidation adjustments) by respectively USD 1.9 billion and USD 1.2 billion, within a positive contribution of

Bank Audi sae (Egypt) and Private Banking entities to the increase by respectively USD 174 million and USD 542 million. As previously mentioned, the deposits' contraction in Lebanon and in Odea Bank reflects the margin focus policy adopted by the Group, whereby costly volatile deposits are being let go in favour of stable deposits adding value to the franchise building. It also underscores the impact of the crisis of the Resignation of Prime Minister Hariri in November 2017 in Lebanon.

As at end-December 2017, 59.1% of consolidated customers' deposits were sourced from Lebanese entities (including consolidation adjustments), 19.0% from Odea Bank, 7.9% from Bank Audi Egypt, 8.8% from Private Banking entities, and 5.1% from other entities. This

is to be compared with a contribution of 58.5% for Lebanese entities to consolidated customers' deposits as at end-December 2016, 22.9% for Odea Bank, 6.9% for Bank Audi Egypt, 6.7% for Private Banking entities, and 5.0% 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 2017 as compared to end-December 2016:

**BREAKDOWN OF CUSTOMERS' DEPOSITS BY SEGMENT (USD MILLION)**

	Dec-16		Dec-17		Change	
	Volume	Structure	Volume	Structure	Volume	Structure
<b>Deposits from customers</b>	<b>35,955</b>	<b>100.0%</b>	<b>33,451</b>	<b>100.0%</b>	<b>-2,504</b>	<b>0.0%</b>
Corporate & SME Banking	9,029	25.1%	8,148	24.4%	-881	-0.8%
Retail & Personal Banking	26,047	72.4%	24,428	73.0%	-1,619	0.6%
Public	879	2.4%	875	2.6%	-4	0.2%

Consolidated customers' deposits are composed of Retail and Personal Banking deposits. In 2017, Retail and Personal Banking deposits decreased by USD 1.6 billion, from USD 26 billion as at end-December 2016 (or 72.4% of total deposits) to USD 24.4 billion (or 73% of total deposits) as at end-December 2017.

In parallel Corporate and SME Banking decreased by USD 0.9 billion, from USD 9 billion as at end-December 2016 to USD 8.1 billion as at end-December 2017

**Analysis of Customers' Deposits by Type**

The following table sets out the breakdown of consolidated customers' deposits by type as at end-December 2017 as compared to end-December 2016:

**BREAKDOWN OF CUSTOMERS' DEPOSITS BY TYPE (USD MILLION)**

	Dec-16		Dec-17		Change	
	Volume	Structure	Volume	Structure	Volume	Structure
<b>Deposits from customers</b>	<b>35,955</b>	<b>100.0%</b>	<b>33,451</b>	<b>100.0%</b>	<b>-2,504</b>	<b>0.0%</b>
Sight deposits	5,388	15.0%	5,826	17.4%	438	2.4%
Time deposits	24,868	69.2%	22,211	66.4%	-2,657	-2.8%
Saving accounts	4,816	13.4%	4,485	13.4%	-331	0.0%
Certificates of deposits	389	1.1%	454	1.4%	65	0.3%
Margin deposits	352	1.0%	332	1.0%	-20	0.0%
Others deposits	142	0.4%	143	0.6%	41	0.0%

Consolidated customers' deposits are predominantly composed of time deposits which include saving deposits and certificates of deposits. In 2017, time deposits decreased by USD 2,923 million, from USD 30.1 billion as at end-December 2016 to USD 27.2 billion as at end-December 2017, accounting for 81.2% of total deposits as compared to 83.7% as at end-December 2016.

In parallel, sight deposits (including margin deposits and other deposits) increased by USD 419 million, rising from USD 5.9 billion as at end-December 2016, the equivalent of 16.4% of total customers' deposits to USD 6.3 billion as at end-December 2017, the equivalent of 18.8% of total customers' deposits.

### Analysis of Customers' Deposits by Maturity

The following table sets out the maturity profile of the Bank's consolidated customers' deposits as at end-December 2017 and as at end-December 2016:

#### BREAKDOWN OF DEPOSITS BY MATURITY (USD MILLION)

	Dec-16		Dec-17		Change	
	Volume	Share in Total	Volume	Share in Total	Volume	Share in Total
Less than 1 month	23,323	64.9%	20,664	61.8%	-2,659	-3.1%
1-3 months	5,701	15.9%	6,229	18.6%	528	2.8%
3-12 months	4,039	11.2%	4,538	13.6%	499	2.3%
<b>Less than 1 year</b>	<b>33,063</b>	<b>92.0%</b>	<b>31,431</b>	<b>94.0%</b>	<b>-1,632</b>	<b>2.0%</b>
1-5 years	2,881	8.0%	2,019	6.0%	-862	-2.0%
Over 5 years	11	0.0%	1	0.0%	-10	-0.0%
<b>More than 1 year</b>	<b>2,892</b>	<b>8.0%</b>	<b>2,020</b>	<b>6.0%</b>	<b>-872</b>	<b>-2.0%</b>
<b>Total</b>	<b>35,955</b>	<b>100.0%</b>	<b>33,451</b>	<b>100.0%</b>	<b>-2,504</b>	<b>0.0%</b>

The Bank's deposits continues to be predominantly composed of deposits with maturities of less than one month, accounting for 61.8% of total deposits as at end-December 2017 as compared to 64.9% as at end-December 2016, 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 2017, the maturity profile

of deposits continued to shift to the advantage of deposits with maturities between 3-12 months, which accounted for 13.6% of total deposits as at end-December 2017 as compared to 11.2% as at end-December 2016. This shift came also at the detriment of deposits with maturities of 1-5 years accounting for 6% of total deposits as at end-December 2017 as compared to 8% of total deposits as at end-December 2016.

### 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 2017 as compared to end-December 2016:

#### BREAKDOWN OF DEPOSITS BY CURRENCY (USD MILLION)

	Dec-16		Dec-17		Change	
	Volume	Share in Total	Volume	Share in Total	Volume	Share in Total
Lebanese Pound	4,450	12.4%	4,410	13.2%	-40	0.8%
US Dollar	21,023	58.5%	20,046	59.9%	-977	1.4%
Turkish Lira	3,102	8.6%	2,744	8.2%	-358	-0.4%
Euro	4,056	11.3%	2,735	8.2%	-1,321	-3.1%
Egyptian Pound	1,964	5.5%	2,057	6.1%	93	0.6%
Other currencies	1,360	3.7%	1,459	4.4%	99	0.7%
<b>Total</b>	<b>35,955</b>	<b>100.0%</b>	<b>33,451</b>	<b>100.0%</b>	<b>-2,504</b>	<b>0.0%</b>

The decrease in consolidated customers' deposits by USD 2.5 billion is accounted predominantly by deposits denominated in Euro decreasing by the equivalent of USD 1.3 billion, followed by USD deposits decreasing by USD 977 million and deposits in Turkish Lira decreasing by USD 358 million. Notwithstanding, USD deposits continue to represent the bulk of consolidated deposits, accounting for 59.9% of total deposits as at end-December 2017 as compared to 58.5% as at end-December 2016.

Euro deposits accounted for 8.2% of total deposits as at end-December 2017 as compared to 11.3% as at end-December 2016 while the share of deposits denominated in Turkish Lira dropped by 0.4% to 8.2% of total deposits, with the movement reflecting mainly the negative impact of the depreciation of the Turkish Lira versus the US Dollar by 6% over the year, within a real decrease deposits denominated in TRY by USD 138 million.

### Subordinated Debt

As at end-December 2017, the Bank had four unsecured subordinated loans of an aggregate amount of USD 819 million, or 2.4% of consolidated customers' deposits. This is to be compared to an amount of USD 646 million as at end-December 2016, representing 1.8% of customers' deposits. As a matter of fact:

On 1 August 2017, Odea Bank embarked on an inaugural internal bond issuance in the second quarter of 2017, closing a USD 300 million 10NC5, 144A/RegS Subordinated Basel III Compliant Tier 2 issuance which was multiple time over-subscribed. The bond's repayment date is set for August 2027. The loans bear interest at a rate of 7.625% over 6-month LIBOR and applicable fees, payable on a semiannual basis per annum. This issue comes in replacement of the USD 150 million subordinated loans issuance extended by Bank Audi to Odea Bank and which was bearing an interest rate of 6.5%. USD 138 million of the latter issue was securitised with third party investors and accounted as Tier 2 as per applicable rules and regulations.

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 36 to the 2017 financial statements on Page 139).

### Shareholders' Equity

Consolidated shareholders' equity grew by 13.2% in 2017, from USD 3.7 billion as at end-December 2016 to USD 4.2 billion as at end-December 2017, representing 22% of the consolidated equity of the Lebanese banking sector.

The increase in shareholders' equity by USD 489 million was primarily due to:

- USD 559 million of net profits realised in 2017.
- USD 275 million issuance of series "J" preferred share closed in November 2017. The purpose of this issuance which was oversubscribed is to replace the series "F" preferred shares (USD 150 million) redeemed in August 2017. It is worth noting that the series "J" preferred shares is fully compliant with the recent and stricter

### Capital Adequacy

In parallel, regulatory equity increased from USD 3,920 million at end-December 2016 to USD 4,398 million at end-December 2017, corresponding to an increase by USD 478 million, broken down over an increase of USD 319 million in core Tier 1 capital, USD 131 million of additional Tier 1 capital and USD 28 million of Tier 2 capital.

The increase in Tier 2 capital results from the issuance by Odea Bank on international markets of USD 300 million 10NC5, 144A/RegS Subordinated Basel III Compliant Tier 2 issuance in replacement of the USD 150 million issuance extended by the Bank to Odea Bank, of which

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 52 million of previously accounted for deferred liabilities which are now included in the Bank's common equity following the approval of the Central Bank of Lebanon.
- USD 66 million of negative change in foreign currency translation reserves.
- USD 230 million of common and preferred dividends distribution in April 2017 for the 2016 exercise.
- USD 49 million of other positive equity changes.

USD 138 million was securitised with third party investors and accounted as Tier 2 as per applicable rules and regulations. This increase was offset by the transfer of USD 52 million of deferred liabilities accounted for as Tier 2 into core equity Tier 1 capital over the same period, as well as consolidation adjustments.

Based on the above, the Bank's capital adequacy ratio as per Basel III further strengthened to 16.9% as compared to 14.8% at end-December 2016, while core equity ratio (CET1) increased from 9.1% to 10.5% over the same period.

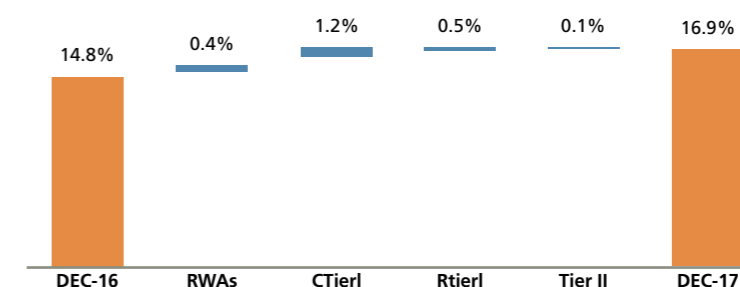
The following table sets out the calculation of the Bank's capital adequacy ratios as at end-December 2016 and end-December 2017:

#### CAPITAL ADEQUACY RATIO (USD MILLION)

	Dec-16	Dec-17	Change
<b>Risk-weighted assets</b>	<b>26,526</b>	<b>25,977</b>	<b>-549</b>
o.w. Credit risk	23,805	22,603	-1,202
o.w. Market risk	360	821	461
o.w. Operational risk	2,361	2,553	192
<b>Tier 1 capital (including net profit less proposed dividends)</b>	<b>3,085</b>	<b>3,534</b>	<b>449</b>
<b>Common Tier 1 ratio</b>	<b>9.1%</b>	<b>10.5%</b>	<b>1.43%</b>
+ Additional Tier 1 ratio	2.5%	3.1%	0.56%
<b>= Tier 1 ratio</b>	<b>11.6%</b>	<b>13.6%</b>	<b>1.99%</b>
Tier 2 ratio	3.2%	3.3%	0.18%
<b>Total ratio</b>	<b>14.8%</b>	<b>16.9%</b>	<b>2.1%</b>

The 2.1% increase in total capital adequacy ratio results from positive contributions across all components with 1.2% increase from the strengthening CET1 capital, 0.5% from additional Tier 1 capital as a result

of the issuance of series "J" preferred shares in replacement of the series "F" preferred shares, 0.4% from the contraction in risk-weighted assets and 0.1% from Tier 2 capital.



In parallel, the capital adequacy ratio of Odea Bank and Bank Audi Egypt reached 20.2% and 16.6% respectively, with most of this ratio accounted for by CET1, clearly highlighting the availability of sufficient capital at the level of those entities to fund the expected activity growth over the medium term.

### Internal Capital Adequacy Assessment

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

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

## 4.4. | RESULTS OF OPERATIONS

Bank Audi achieved a good performance in 2017, with consolidated audited net profits of USD 559 million, reaching USD 464 million when excluding profits from discontinued operations, representing a net growth of 13% relative to the recurrent net profits of 2016. It is important to note that the 2016 net profits included non-recurrent flows relating principally to the 2016 exchange transactions with the Central Bank of Lebanon and some one-off foreign exchange gains realised on the structural position in Egypt following the depreciation of the Egyptian Pound versus the US Dollar by 58% mainly in the last quarter of 2016.

Thereby, the 2016 recurrent net profits are adjusted from:

- USD 630 million of exceptional net fees and commissions and USD 272 million of exceptional revenues on financial instruments and one-off FX gains.
- USD 234 million of impairment of goodwill and investments and write-off of intangible assets and one-off expenses.
- USD 306 million of collective provisions.
- USD 127 million of exceptional tax expense related to the above.
- USD 205 million of write-off of investments in Syria and Sudan.

The following table sets out an overview of the Bank's consolidated financial results in 2017 and 2016 as published, with an additional column for the recurrent net profits of 2016. It also highlights the income statement's flows realised in 2017 as compared to the recurrent net profits of 2016:

### (USD MILLION)

	2016	2016 Norm	2017	YOY 2017/2016 Normalised	
Interest income	999	1,014	1,051	37	3.7%
Non-interest income	1,334	418	458	40	9.5%
<b>Total income</b>	<b>2,333</b>	<b>1,432</b>	<b>1,509</b>	<b>77</b>	<b>5.4%</b>
Operating expenses	1,013	778	772	-6	-0.8%
Credit expense	441	136	144	8	6.4%
Income tax	233	106	129	23	21.6%
<b>Total expenses</b>	<b>1,687</b>	<b>1,020</b>	<b>1,045</b>	<b>25</b>	<b>2.5%</b>
<b>Net profits after tax</b>	<b>646</b>	<b>412</b>	<b>464</b>	<b>52</b>	<b>12.6%</b>
Results of discontinued operations	-176	29	95	66	231.0%
<b>= Profit after tax &amp; discontinued operations</b>	<b>470</b>	<b>441</b>	<b>559</b>	<b>118</b>	<b>26.8%</b>

The contribution of entities outside Lebanon to the 2017 consolidated net profits reached 45% over the period, of which 19% from Odea Bank. In fact, Odea Bank's net profits after tax reported a net growth by 29%, reaching USD 88 million in 2017, and this after the allocation of USD 95 million of net loan loss provisions. The contribution of Bank Audi Egypt to consolidated net profits reached USD 55 million, i.e. 12%, while the contribution of Private Banking entities reached USD 54 million, i.e. 12%.

In relative terms, entities outside Lebanon contributed to 67% of the USD 52 million increase in net profits before discontinued operations

(as compared to the 2016 recurrent net profits). Odea Bank and Private Banking entities had positive contributions by 79% and 6% respectively, partially offset by negative contribution from Bank Audi sae (Egypt) and other entities by 10% and 8% respectively. The negative contribution of Bank Audi sae (Egypt) is justified by the negative FX translation effect at consolidation level, whereby the average conversion rate evolved from EGP 10.7 per each US Dollar in 2016 to EGP 17.8 per US Dollar in 2017. Expressed in Egyptian Pounds, the net profits of Bank Audi Egypt grew by 24% year-on-year to reach EGP 981 million in 2017 (see section on the performance of Bank Audi Egypt on Page 52).

The following analysis compares the Group's performance in 2017 relative to the 2016 recurrent income statement.

The increase in net profits before discontinued operations by USD 52 million (12.6%) results from a rise in total income by USD 77 million (5.4%), partially offset by an increase in total costs by USD 26 million (2.5%). Total costs include net loan loss provisions, net other provisions, income tax expense and general operating expenses.

The increase in consolidated total income is apportioned over USD 37 million of additional interest income and USD 40 million additional non-interest income.

### INTEREST INCOME

In 2017, consolidated interest income, including interest revenues from financial assets at fair value through P&L, grew by 4% relative to the recurrent position in 2016, rising from USD 1,014 million in 2016 to USD 1,051 million in 2017, corresponding to an increase by USD 37 million. The USD 15 million of non-recurrent items included in the 2016 net interest income refer to realised interest income gains of financial assets at fair value through P&L, which underlying assets have been discounted in the scope of the transactions with the Central Bank of Lebanon.

The increase in consolidated net interest income results from both a quantity effect and a price effect. Average assets expanded by 2.6% in 2017 while consolidated spread improved by 2 basis points from 2.37% in 2016 to 2.39% in 2017. The evolution of consolidated interest income is a function of numerous drivers, in particular the mix and overall size of earning assets, the evolution in yields on assets as well as cost of deposits, and changes in foreign currency exchange rates in the various countries of presence of the Group.

Entities in Lebanon, Private Banking entities and other entities contributed positively to the change in consolidated interest income with USD 75 million, USD 5 million, and USD 1 million respectively. On the other hand, Bank Audi Egypt and Odea Bank had a negative contribution to this increase by USD 33 million and USD 10 million respectively.

### NON-INTEREST INCOME

Consolidated non-interest income increased by USD 40 million in 2017, reaching USD 458 million, of which USD 243 million of net fees and commissions, representing 53% of the total. Amid lower fees and commissions as well as lower gains on financial investments, the increase in non-interest income results from USD 77 million of additional other operating income. USD 49 million of the latter represents the revaluation of the Bank's Electronic Payment and Card Services processing and acquiring activity following its sale in March 2017 (see section "One-off Developments" on Page 32).

### COST OF CREDIT

In 2017, the Bank took USD 144 million of net loan loss provision charges, USD 121 million of which in the form of specific provisions net of recoveries and write-offs, with USD 22 million of collective provisions.

The USD 121 million specific provisions were mostly allocated by Odea Bank (USD 85 million) and Lebanese entities (USD 31 million), as well

**In Lebanese Entities** – The evolution of net interest income was impacted on the one hand by increased pressure on the cost of deposits as a result of increased competition in the market on the backdrop of encouragement from the Governor of the Central Bank to hike the cost of deposits in USD to attract funds from international markets while maintaining a 2% spread relative to the cost of deposits in Lebanese Pounds. Nonetheless, it was driven by an increase in the yields on assets, translating in a growth in monthly interest income by 23%, representing 34 basis points of additional spread on assets.

The negative contribution of **Odea Bank and Bank Audi Egypt** to the increase in consolidated net interest income relates to negative impact of the FX translation effect at consolidation level. In real terms at constant exchange rate, net interest income of Odea Bank increased by USD 42 million (i.e. + 16%) on the back of an FX impact by USD 52 million. Likewise, the net interest income of Bank Audi Egypt reported an increase in real terms by USD 23 million (i.e. 28%), totally wiped out by a negative conversion FX impact of USD 56 million.

Consolidated fees and commissions decreased by USD 13 million in 2017, amid a similar decrease at Bank Audi Egypt, justified in full by the negative FX translation impact. Net fees and commission of Lebanese entities reported a contraction by USD 8 million, in spite of USD 25 million of foregone net commission from the credit card activity following the sale of the acquiring and processing activities.

At end-December 2017, non-interest income represented 1.04% of average assets, up from 0.98% as end-December 2016.

as by Bank Audi Jordan (USD 4 million) and Bank Audi sae (Egypt) (USD 3 million), amid recoveries and write-offs realised in other ancillary entities. This allocation is consistent with the prudent credit risk policy enforced across the Group and in particular in Odea Bank and Lebanese entities, amid persisting uncertainties prevailing in both markets and the seasoning of the loan book at Odea Bank.

The limited allocation to collective provisions is justified by the significant collective provisions the Bank booked in 2016 as a result of the exchange transaction with the BDL (see section entitled “Recent Developments and Extraordinary Revenues” – Page 31 of the 2016 Annual Report). As at end-December 2017, collective provisions amounted to USD 440 million, a sizeable reserve that would enable the Bank to manage future impairments and facilitate the transition to the expected loss framework under IFRS 9 accounting rules starting January 2018. The Bank had undergone internal calculation of IAS 39 and IFRS 9 requirements in line with the directives of the Central Bank of Lebanon. Accordingly, the USD 440 million of collective provisions would be apportioned over USD 203 million of IFRS 9 provisions on loans and advances over and above

### TOTAL OPERATING EXPENSES

Owing to the disciplined cost management policy initiated in particular in Bank Audi Lebanon and Odea Bank starting the third quarter of 2017, the Bank’s total operating expenses started to decrease, moving from USD 778 million in 2016 to USD 772 million in 2017, corresponding to a contraction by 1%. This decrease is accounted for principally by staff expenses, which dropped by USD 30 million mainly through a hiring freeze and bonus cuts, totally offset by an increase in other operating

### INCOME TAX

Consolidated income taxes moved from USD 106 million in 2016 to USD 129 million, i.e. an increase by USD 23 million. In Lebanon, income tax increased by 17 million.

This is to be added to a positive contribution by USD 9 million in Odea Bank and USD 5 million in Private Banking entities due to an increase in

### NET PROFITS FROM DISCONTINUED OPERATIONS

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

In 2016, the Bank reported net losses from discontinued operations of USD 176.1 million, following the write-off in September 2016 of its

the outstanding specific provisions, USD 61 million on other financial assets with an excess of USD 176 million (relative to the requirement of the Central Bank of Lebanon), which will be considered as Tier 2 capital. The above assessment is preliminary because not all transition work has been finalised (see Note 2.3. of the enclosed audited financial statements). Once it is, the Bank expects to transfer part of the excess provisions to distributable reserve accounted for as CET1 capital.

In relative terms, net loan loss provisions represented 9.5% of revenues, while the consolidated cost of risk ratio, calculated as the ratio of net loan loss provisions over net loans, stood at 0.9% in 2017, exceeding the global and MENA region averages of 0.8% in 2017 (34 banks).

expenses by USD 31 million. Management is looking to set an action plan to optimise operating expenses over the short term. Subsequently, the decrease in total general operating expenses reflects lower depreciation and amortisation charges mainly in Lebanon.

As a result of a faster revenue growth rate than expenses growth rate, the Bank’s cost to income ratio improved from 54% in 2016 to 51% in 2017.

profits before tax, totally offsetting a negative contribution at the level of Bank Audi Egypt justified by negative FX translation effects.

Subsequently, the effective tax rate of the Group increased from 20.5% in 2016 to 21.8% in 2017.

investments in Bank Audi Syria, National Bank of Sudan and Arabeya Online. Among the requirements of the Central Bank of Lebanon in terms of use of exceptional proceeds from the exchange transaction in 2016, this 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 for 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.

### COMPONENTS OF ROAA AND ROAE

Based on such results and excluding profits from discontinued operations, the Bank’s return on average assets ratio improved from 1% in 2016 to 1.1%. In parallel, the return on average common equity also enhanced from 12.8% in 2016 to 13.4% in 2017, rising to 16.4% when including profits from discontinued operations.

The table below sets a breakdown of key performance indicators in 2017 and 2016:

#### KEY PERFORMANCE METRICS

	2016	2016 Norm.	2017 *	Change 2017/2016 Norm.
Spread	2.33%	2.37%	2.39%	0.02%
+ Non-interest income/AA	2.71%	0.98%	1.04%	0.06%
= Asset utilisation	5.04%	3.34%	3.44%	0.10%
X Net operating margin	21.79%	28.78%	30.74%	1.96%
o.w. Cost to income	46.95%	54.36%	51.18%	-3.18%
o.w. Provisions	20.46%	9.44%	9.53%	0.09%
o.w. Tax cost	10.81%	7.42%	8.56%	1.16%
= ROAA	1.10%	0.96%	1.06%	0.10%
X Leverage	12.66	12.63	11.62	-1.01
= ROAE	13.91%	12.16%	12.28%	0.12%
ROACE	14.76%	12.77%	13.41%	0.64%

\* Excluding net profits from discontinued operations.

#### Earnings per Common Share and Common Book per Share

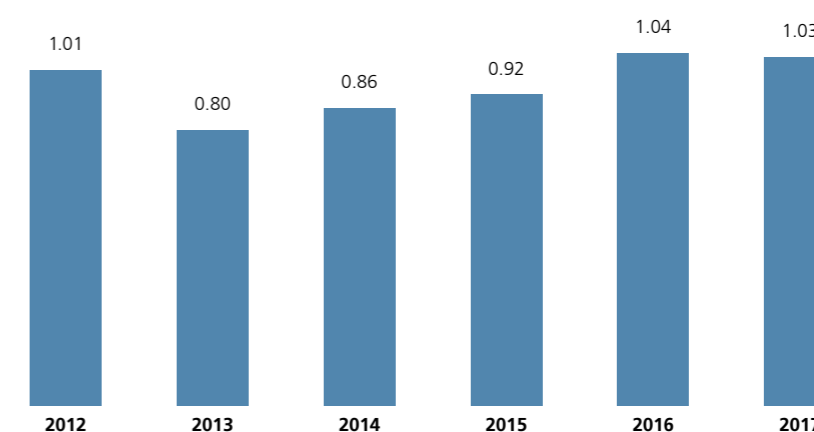
Basic earnings per common share are calculated based on the weighted number of common shares in issue over the period and net common profits after tax. For a comparison on equal basis, we exclude from the calculation net profits from discontinued operations in 2017.

USD 6.0 as at 29 January 2018, this corresponds to a price to earnings multiple of 5.8 times, a very low level when compared to peer regional banks’ averages in relation to the average growth rate of its earnings per share over the past 5 years.

In 2017, basic earnings per common share reported USD 1.03, almost the same level as in 2016 of USD 1.04. Based on an ordinary share price of

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

#### EARNINGS PER COMMON SHARE GROWTH (USD)



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

The table below sets out the common book per share as at end-December 2017 as compared to end-December 2016:

#### EQUITY METRICS (USD THOUSANDS)

	Dec-16	Dec-17	Change	Percent
<b>Shareholders' equity</b>	<b>3,698,480</b>	<b>4,187,901</b>	<b>489,421</b>	<b>13.2%</b>
- Minority shares	226,436	247,166	20,730	9.2%
<b>= Shareholders' equity group share</b>	<b>3,472,044</b>	<b>3,940,735</b>	<b>468,691</b>	<b>13.5%</b>
- Preferred stock (including dividends)	655,375	792,375	137,000	20.9%
<b>= Common shareholders' equity</b>	<b>2,816,669</b>	<b>3,148,360</b>	<b>331,691</b>	<b>11.8%</b>
Outstanding number of shares (net of Treasury stock)	389,371,316	389,286,168	-85,148	-0.0%
<b>Common book per share</b>	<b>7.23</b>	<b>8.09</b>	<b>0.85</b>	<b>11.8%</b>
Share price at end-December	6.80	6.00	-0.80	-11.8%
<b>P/Common book</b>	<b>0.94</b>	<b>0.74</b>	<b>-0.20</b>	<b>-21.1%</b>

In 2017, the common book per share increased from USD 7.23 as at end-December 2016 to USD 8.09 in 2017, corresponding to a growth by 11.8%. Based on an ordinary share price of USD 6.0 as at 29 January 2018,

this corresponds to a price to book multiple of 0.74 times, being very low when compared to peer regional banks' averages in relation to the Group's profitability.

#### 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 sae (Egypt)) and its Private Banking business line. Following a continued growth, Bank Audi's Lebanese operations continued in 2017 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 12% across main banking criteria (assets, deposits and loans). In Turkey, Odea Bank ranks 9<sup>th</sup> in terms of assets, loans and deposits among non-state owned conventional banks. In Egypt, Bank Audi sae (Egypt) ranks 7<sup>th</sup> among private sector banks.

#### LEBANESE ENTITIES

Assets of the Bank's Lebanese entities (excluding Audi Private Bank and consolidation adjustments) increased by USD 1,020 million, from USD 28.6 billion at end-December 2016 to USD 29.6 billion at end-December 2017, corresponding to a growth by 3.6%. Nonetheless, deposits of Lebanese entities decreased by USD 1,341 million over the same period, i.e. a contraction by 6.3%, to USD 19.9 billion as at end-December 2017. As mentioned earlier, this decrease was principally driven by Management's

voluntary decision to forgo USD 604 million of costly deposits, in addition to an outflow of deposits by close to USD 0.5 billion resulting from the crisis of the resignation of the Prime Minister of Lebanon in November 2017. Subsequently, the increase in assets was funded by banks' deposits and borrowings, increasing by USD 1,838 million and shareholders' equity by USD 603 million.

#### LEBANESE ENTITIES (EXCLUDING CONSOLIDATION ADJUSTMENTS)

(USD Million)	Dec-16	Dec-17	Change
<b>Balance sheet data</b>			
<b>Assets</b>	<b>28,628</b>	<b>29,648</b>	<b>1,020</b>
<b>Deposits</b>	<b>21,216</b>	<b>19,875</b>	<b>-1,341</b>
<b>Loans</b>	<b>6,023</b>	<b>6,724</b>	<b>701</b>
<b>Equity</b>	<b>3,625</b>	<b>4,228</b>	<b>603</b>
<b>Outstanding LCs + LGs</b>	<b>979</b>	<b>1,050</b>	<b>71</b>
<b>Earnings data</b>	<b>2016</b>	<b>2017</b>	<b>Change</b>
<b>Total income</b>	<b>1154</b>	<b>682</b>	<b>-472</b>
<b>Net profits</b>	<b>245</b>	<b>229</b>	<b>-16</b>
<b>Net profits after discontinued operations</b>	<b>75</b>	<b>325</b>	<b>250</b>
<b>Spread</b>	<b>1.64%</b>	<b>1.79%</b>	<b>0.15%</b>
<b>ROAA</b>	<b>0.95%</b>	<b>0.80%</b>	<b>-0.1%</b>
<b>RORRC (before discontinued operations)</b>	<b>16.1%</b>	<b>12.6%</b>	<b>-3.6%</b>
<b>ROAA including discontinued operations</b>	<b>0.3%</b>	<b>1.1%</b>	<b>0.8%</b>
<b>RORRC including discontinued operations</b>	<b>4.9%</b>	<b>17.8%</b>	<b>12.9%</b>

Over the same period, the loan portfolio increased by USD 701 million, from USD 6,023 million as at end-December 2016 to USD 6,724 million as at end-December 2017, growing by 11.6%.

In parallel, and owing to the adopted prudent credit management policy within persisting tough operating conditions, Management's voluntarily downgraded a number of file to initiate remedial and collection procedures. Therefore, the ratio of gross doubtful loans to gross loans of Lebanese entities moved from 2.64% at end-December 2016 to 3.07% as at end-December 2017. In parallel, coverage ratio by specific provisions and real guarantees stood at 100%, of which 77% by specific provisions. Coverage by collective provisions continues to be ample, with USD 271 million of collective provisions as at end-December 2017, the same level as at end-December 2016.

#### ODEA BANK

Following the robust growth achieved over the past 5 years which have enabled the Bank to reach a critical size, Odea Bank adopted in 2017 a consolidation mode focusing on a rebalancing of the loan and deposits portfolio in support of improved efficiency, profitability and asset quality. The policy entailed forgoing unstable costly deposits while not renewing some maturing loans with limited contribution to the franchise building. This was made in conjunction with another rebalancing of the loan portfolio towards TRY in support of a further capital optimisation allowing a better matching of risk-weighted assets by currency to capital.

At the profitability level, relative to the recurrent net income statement in 2016, net interest margin of Lebanese entities increased by USD 75 million, corresponding to a growth of 17%. On the backdrop of a hike in the cost of deposits sector-wide, this improvement results from improved productivity gains on the assets side. In parallel, general operating expenses stabilised at their normalised level of 2016. This results in net profits for Lebanese entities of USD 325 million in 2017, and USD 229 million when excluding profits from discontinued operations, representing a net growth of 8% relative to the recurrent net profits of 2016.

Within this context, assets of Odea Bank reached TRY 32.9 billion at end-December 2017, of which TRY 22.2 billion of loans and TRY 24 billion of customers' deposits. Relative to end-December 2016, this implies a decrease by TRY 5.2 billion in assets (i.e. a contraction by 13.6%), with loans decreasing by TRY 3.9 billion (i.e. a contraction by 14.8%) and deposits by TRY 5.1 billion (i.e. a contraction by 17.5%).

#### ODEA BANK

(TRY Million)	Dec-16	Dec-17	Change
<b>Balance sheet data</b>			
<b>Assets</b>	<b>38,074</b>	<b>32,891</b>	<b>-5,184</b>
<b>Deposits</b>	<b>29,053</b>	<b>23,961</b>	<b>-5,092</b>
<b>Loans</b>	<b>26,095</b>	<b>22,242</b>	<b>-3,853</b>
<b>Equity</b>	<b>3,598</b>	<b>3,920</b>	<b>322</b>
<b>Outstanding LCs + LGs</b>	<b>2,779</b>	<b>2,264</b>	<b>-515</b>
<b>Earnings data</b>	<b>2016</b>	<b>2017</b>	<b>Change</b>
<b>Total income</b>	<b>1444</b>	<b>1481</b>	<b>37</b>
<b>Net profits</b>	<b>207</b>	<b>320</b>	<b>114</b>
<b>Spread</b>	<b>2.84%</b>	<b>2.90%</b>	<b>0.06%</b>
<b>ROAA</b>	<b>0.6%</b>	<b>0.9%</b>	<b>0.2%</b>
<b>ROACE</b>	<b>7.2%</b>	<b>8.6%</b>	<b>1.4%</b>

The ratio of gross doubtful loans to gross loans deteriorated from 2.57% as at end-December 2016 to 4.66% as at end-December 2017, with coverage ratio by specific provisions declining from 44% to 41%. These movements reflect Management's voluntary decision to migrate certain asset backed files from watch list to NPL in order to initiate proper remedial and collections procedures, in addition to the seasoning of the loan portfolio amid tough operating conditions. Notwithstanding, large collaterals make up for the low coverage by specific provision, which rise to 111% when adding real guarantees (as compared to 90% as at end-December 2016). Collective provisions continue to amount to USD 103 million as at end-December 2017 as compared to USD 100 million as at end-December 2016.

Primary liquidity of Odea Bank comprising of cash, central bank, banks and money market placements represented at end-December 2017 32.1% of total deposits, while capital adequacy ratio reached 20.2% and core equity Tier 1 ratio 14.6%, all comparing competitively with other Turkish banks. Odea Bank had completed on 1 August an inaugural international bond issuance of USD 300 million 10NC5, 144A/RegS Subordinated Basel III Compliant Tier 2 issuance that replaced a previously outstanding USD 150 million subordinated bond (see section on subordinated debt on Page 44).

Based on the above, Odea Bank recorded net profits (after provisions and taxes) of TRY 320 million in 2017 as compared to TRY 207 million in 2016, within the allocation of TRY 344 million to loan loss provision.

### BANK AUDI sae (EGYPT)

Bank Audi sae (Egypt) continues to show resilience to the persisting ongoing uncertainties in Egypt. It continues to sustain a targeted growth trajectory in terms of activity and earnings. The Bank's assets increased slightly from EGP 55.8 billion as at end-December 2016 to EGP 56.7 billion as at end-December 2017, while deposits increased by EGP 1.3 billion to stand at EGP 47.2 billion and loans contracted by EGP 0.7 billion to EGP 29.1 billion. The evolution of loans in Bank Audi sae (Egypt) does not reflect the business dynamics, but rather Management's voluntary decision not to renew maturing loans denominated in foreign currency, in a capital optimisation effort aiming at matching risk-weighted assets to resources by currency. In fact, FCY loans of Bank Audi sae (Egypt) decreased by EGP 2,336 million in 2017 (23%) while loans in EGP increased by EGP 1,643 million (8%).

### BANK AUDI sae (EGYPT)

(EGP Million)	Dec-16	Dec-17	Change
<b>Balance sheet data</b>			
<b>Assets</b>	55,803	56,659	856
<b>Deposits</b>	45,872	47,182	1,310
<b>Loans</b>	29,795	29,102	-693
<b>Equity</b>	4,925	5,838	913
<b>Outstanding LCs + LGs</b>	4,090	4,970	880
<b>Earnings data</b>	2016	2017	Change
<b>Total income</b>	3,461	2,394	-1,067
<b>Net profits</b>	1,709	913	-796
<b>Net profits adj to increase in FX structural position</b>	788	981	193
<b>Spread</b>	3.55%	3.37%	-0.18%
<b>ROAA</b>	1.9%	1.7%	-0.1%
<b>ROACE</b>	20.6%	19.6%	-1.1%

Net profits of Bank Audi sae (Egypt), adjusted to the increase in FX structural position booked in 2016 following the devaluation of the Egyptian Pound relative to the US Dollar, reported a 24% growth in 2017, increasing from EGP 788 million in 2016 to EGP 981 million in 2017.

### PRIVATE BANKING ENTITIES

Audi Private Bank enjoys a strong expertise and know-how in Private Banking and wealth management. The Bank's Private Banking entities comprise three 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

Subsequently, Odea Bank's profitability ratios strengthened, realising an ROAA of 0.9% in 2017 (as compared to 0.6% in 2016), while the ROACE increased from 7.2% in 2016 to 8.6% in 2017.

In terms of credit quality, the ratio of gross doubtful loans to gross loans moved from 1.4% as at end-December 2016 to 1.5% as at end-December 2017, still largely below that of the sector. Coverage by specific provisions improved from 75% to 77% while collective provisions increased by 43% to USD 24 million. Primary liquidity of Bank Audi sae (Egypt) comprising of cash, central bank, banks and money market placements represented at end-December 2017 21.5% of total deposits, while capital adequacy ratio reached 16.6% and core equity Tier 1 ratio 12.6%.

in Lebanon) and Saudi Arabia, 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.

Based on those adjusted results, Bank Audi Egypt's ROAA stood at 1.7%, as compared to 1.9% in 2016, and the ROAE at 19.6% as compared to 20.6% in 2016, with the movements justified by a faster pace of growth in average balances relative to net profits.

### PRIVATE BANKING ENTITIES

(USD Million)	Dec-16	Dec-17	Change
<b>Balance sheet data</b>			
<b>Assets</b>	3,050	3,551	499
<b>Client assets</b>	10,789	11,005	217
o.w. Deposits	2,392	2,934	542
o.w. AuMs & fiduciary deposits	8,397	8,071	-326
<b>Client loans</b>	1,046	968	-78
<b>Equity</b>	415	378	-37
<b>Staff</b>	221	236	15
<b>Earnings data</b>	2016	2017	Change
<b>Total income</b>	126.2	144.7	18.4
<b>Net profits</b>	50.6	53.7	3.1
<b>Spread</b>	0.53%	0.53%	-0.00%
<b>ROAA</b>	0.48%	0.46%	-0.02%
<b>ROACE</b>	12.50%	12.92%	0.42%

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 to USD 11 billion at end-December 2017. In 2017,

Private Banking entities generated net profits of USD 53.7 million, as compared to USD 50.6 million in 2016, corresponding to a growth of 6%.

## 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 principally through its established headquarters in Lebanon and its entities in Turkey, Egypt, Jordan, Qatar, Iraq and France.

Bank Audi leveraged on the strength of its franchise to further develop and consolidate its regional Corporate and Commercial Banking footprint. In its countries of presence, Bank Audi customised a tailor-made lending strategy reflecting the Group's capabilities, as well as each market's dynamics and specificities.

In 2017, consolidated net loans of the corporate and commercial segment decreased from USD 14.1 billion as at end-December 2016 to USD 13.0 billion as at end-December 2017, corresponding to a contraction by 8%, largely driven by a contraction of the corporate and commercial loan portfolio of Odea Bank in Turkey.

The following analysis highlights the Group's corporate and commercial activity and its evolution in 2017 across main geographic development pillars:

**In Lebanon** – Bank Audi continues to be the largest commercial and corporate lender in the Lebanese banking sector, with a corporate and commercial loan portfolio standing at USD 4.5 billion as at end-December 2017, a similar level to end-December 2016. The Bank's lending activity is directed towards (i) maintaining key strategic relationships with top tier corporates, (ii) supporting local businesses and (iii) playing a pivotal role in developing infrastructure projects (wind, solar, etc.).

### Recent Developments in SME Banking in Lebanon

Probably the most important development was the completion of the first year of our new SME proposition launched recently in Lebanon under the directives of the IFC and encompassing a comprehensive array of products and services expected to form a major business line. The importance of this new SME strategy lies in the fact that it allows the Group to extend its services to a high potential and untapped segment of the SME market since it covers only the lower part of this segment having an annual turnover of less than USD 2 million. Recognising the fact that traditional commercial and retail activities do not have the adequate products and approach to cover this niche, the Bank decided to dedicate a value added proposition to such SMEs, unparalleled in the market, combining a "retail-like approach" and a "commercial flair". The Bank differentiated itself with the design of a total wallet solution aiming at securing a long-term business relationship with a client and a simplified modus operandi aiming at optimising efficiency. The first year ended with 5,570 files processed of which 3,470 applications approved for a total value of USD 183 million. Moreover, 32% of SME customers covered by the Bank in 2017 are new relationships, which reflects the Bank's efforts to reinforce financial inclusion at large, reaching a large number of untapped companies in the domestic space. The Bank's commitment to this development is clearly visible through the sizeable number of human, technical and financial resources it has dedicated to it. By way example, the Bank has made available to this segment a loan envelope amounting to USD 663 million. Those commitments, along with the depth of its offering, has positioned Bank Audi as the top player in this market.

**In Turkey** – The contribution of the corporate and commercial loan portfolio of Odea Bank to the consolidated position moved from USD 6.6 billion as at end-December 2016 to USD 5.2 billion as at end-December 2017. The movement mainly reflects a decision by the Bank to consolidate the business and focus on core relationships clients that provide cross-selling and ancillary business, as well as franchise building opportunities. This evolution is also attributable to a reduction of concentrations by obligor and by sector on the backdrop of a 6% devaluation of the Turkish Lira.

**Egypt** remains a key pillar of the corporate and commercial lending activity at Group level. The corporate and commercial loan portfolio of Bank Audi sae (Egypt) stood at USD 1.3 billion as at end-December 2017, almost the same level as at end-December 2016. Lending activity in Egypt favours in priority top tier clients in the corporate and commercial segments with a significant contribution to profitability and franchise building, enabling the Bank to actively grow the portfolio across all

## RETAIL BANKING

Bank Audi currently offers more than 150 retail products and services catered to more than 1 million active retail clients across various Retail Banking entities. 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 served through an omni-channel network of close to 500 advanced self-service machines (ITMs, ATMs and Novo), digital channels (online and mobile) and more than 190 branches. In fact, Bank Audi's digital transformation journey began several years ago through the introduction of Novo, touchscreens, video banking services and many other self-service channels. Over the coming period, the Bank is focusing on different verticals such as advanced analytics, integrated payments, remote advisory and servicing, Artificial Intelligence (AI), and smart servicing models.

On this backdrop, the retail business line succeeded in sustaining growth in 2017 in spite of an ongoing vulnerable political and economic uncertainty prevailing in the region. Translated in USD at consolidated level, retail loans reported a year-on-year growth of 6.6% to reach USD 3.3 billion at end-December 2017, an evolution in line with the Group's rather conservative retail credit policy favouring in priority asset quality enhancement and profitability over size.

By product, the growth of retail lending stems from a 15.4% increase in credit cards and a 4.6% increase in housing loans, amid a stabilisation of personal loan and car loan portfolios at their last year's level. As at end-December 2017, housing loans backed by mortgages made up 40.4% of the consolidated retail loan portfolio, followed by personal loans with 36.5%, credit cards with 14.1%, and car loans with 7.9%, in addition to 1.1% of small/multipurpose loans.

The ratio of gross doubtful retail loans to gross retail loans deteriorated in 2017, reaching 4.2% as at end-December 2017, from 3.2% the previous year. The ratio takes into account fully provided for bad debt or loans identified as subject to write-off, but not written off due to regulatory requirements and or market practices. Excluding these loans, the ratio of gross doubtful retail loans would drop to 2.3% of gross retail loans as at end of December 2017. 77% of gross doubtful retail loans are covered by specific provisions (excluding collaterals), while collective provisions amounted to USD 79 million.

sub-segments including the SME business, particularly that lending activity in Egypt is characterised by health margins. The Bank will continue to play a leading role in terms of co-arranging a number of club deals with other lenders in Egypt.

The corporate and commercial business segment generated total revenues of USD 452 million in 2017 as compared to USD 492 million in 2016, corresponding to a contraction by 8%. Relative to an asset's contraction by 7%, this decrease underscores an efficiency enhancement, in line with the Bank's strategy to focus on core value added relationships.

During 2017, 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 this, the Retail Banking business line generated consolidated revenues of USD 323 million in 2016 as compared to USD 331 million in 2016, corresponding to a 2% contraction. The USD 8 million decrease in total revenues is mainly attributed to a USD 25 million decrease in net commission representing the foregone income as a result of the sale of the Electronic and Card Payment acquiring and processing solution within a decrease by USD 10 million in net commissions on retails loans, offset by an increase in interest income by USD 24 million.

The following analysis highlights the Group's Retail Banking activity and its evolution in 2017 across main geographic development pillars:

In 2017, **Bank Audi Lebanon** engaged in a restructuring operation focusing on three pillars: (1) Cards Business Management & Marketing, (2) Loans & Accounts Business Management & Marketing and (3) Customer Segments, Direct Sales & Business Development. The objective was to orient the business towards profitable and strategic products and customer segments.

The retail business continued to grow in 2017 despite the economic and political instability supported by a customer-centric approach and new marketing initiatives focusing on customer value proposition. As a result, the retail lending portfolio grew by 12%, corresponding to an increase by USD 226 million.

On the digital optimisation level, Bank Audi Lebanon launched an updated version of Audi Online, bringing with it the same interface and functionalities of Bank Audi's Mobile App. This release adds another stepping stone to the ongoing Omni-channel project which is also expected to witness the pilot launch of a brand new ATM interface early 2018. During 2017, the number of transactions performed on the Bank Audi App and Audi Online combined constituted 54% of the Bank's movable transfers as compared to 39% in 2016. This 15% increase in transactional migration further cements clients' tendency towards using ADCs for simple banking transactions. It is worth noting that 55% of the transactions on digital channels were made on the Bank Audi App during 2017 vs. 45 % on the Audi Online platform, highlighting clients' appetite for mobile technology.

Given that payment technologies are evolving at a fast pace, and in light of the Lebanese market's maturity, the Bank decided to spin off and sell the Electronic and Card Payment acquiring and processing activities to a separate entity, "Areeba", to cope with the constant

evolution and to cater for a larger audience. This operation aimed at broadening Bank Audi's business horizons, allowing it to focus more on business development and sales, while enhancing customer service and streamlining all operations between retail products and cards.

In 2017, **Bank Audi Jordan** made a remarkable progress in expanding its services and programs, striving to provide great customer experience to a diverse clientele and meet its long-term vision. Being a niche player in the market, the Bank elevated its services and standards by offering prestigious products and increasing its market penetration.

**Bank Audi Egypt** has always been active when it comes to extending financial support and adapting to clients' ever-changing needs. As such, expressed in EGP, the retail loan portfolio of Bank Audi Egypt expanded year-on-year by 15%.

Committing to customer relationships, Bank Audi Egypt launched phase 2 of the Internet Banking service "Audi Online", creating the new bill payments features while continuing to migrate customers to reach more than 40K users. 40% of credit card payments were conducted via alternative channels, following the launch of the new mobile wallet application "Audi 2 Pay" with multiple access points depending on customer's preferred ease and flexibility.

## PRIVATE BANKING

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

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.

## TREASURY AND CAPITAL MARKETS

The Bank offers Capital Markets and Investment Banking products and services, including securities trading activities. Since 1996, the Bank has developed a substantial Capital Markets franchise. It is active in the equities markets, as well as in fixed income markets. In Lebanon, the Bank is a market maker on the Beirut Stock Exchange and had a 24% market share of Beirut Stock Exchange equities trading volumes by value as at end-December 2017. The Bank also has a significant share of the government's Eurobond and Treasury notes markets, with an annual trading volume exceeding USD 8 billion in 2017 as compared to USD 16 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.

In Turkey, **Odea Bank** hit record levels, with the number of Retail Banking customers acquired to date exceeding the 1.2 million customers' threshold just before the end of 2017, and achieving a year-on-year growth of 34% coupled with a 31% growth in total balances. In 2017, priority was given to the non-interest income generation, supported 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 102 million in 2017. In addition, a 10-year exclusivity partnership with Aviva SA's know-how in the insurance business helped the Bank increase its commissions, enhance user experience and diversify product offerings for its customers.

On the digital front, Direct Banking activities focused on promoting sales in an effort to deliver advanced solutions to customers and ensure that transactions are carried out quickly and easily. In 2017, 92% of the overall cash advance and installment advance transactions, amounting to TRY 322 million, were generated by Direct Banking channels, mainly ATMs and Contact Center. In parallel, the retail loan disbursement service in Direct Banking accounted for 13% of the total Retail Banking loan disbursement volume.

Consolidated assets under management (comprising of assets under management, fiduciary deposits and custody accounts) stand at USD 11 billion at end-December 2017. In Switzerland, Banque Audi (Suisse) represents the main Private Banking arm of the Group with over USD 6 billion in AuMs, while in Lebanon, Audi Private Bank is the largest wholly-owned Private Banking entity, with circa USD 4 billion in AuMs. In Saudi Arabia, Audi Capital (KSA) serves as the Group's main Private Banking hub for GCC markets, with AuMs of USD 1.0 billion.

The restructuring of the Private Banking business line continues to move at pace and aims to consolidate all Private Banking entities and related business under one legal operating holding. Thus, all entities will progressively have the same management structure to ensure better synergy and accountability, effective management, corporate governance, and alignment of business objectives while serving Private Banking clients within their jurisdiction with one overall product offering.

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

Assets of the Treasury and Capital Markets segment reached USD 24.6 billion as at end-December 2017, as compared to USD 24.6 billion as at end-December 2016. In parallel, those activities generated net revenues of USD 370 million in 2017 as compared 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.

## 5.0. | DIVIDEND POLICY

Since 1996, the Bank's Board of Directors has recommended 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 reserves reach one-third of the Bank's share capital. The legal reserve is distributable only upon the liquidation of the Bank. In 2017, the Bank and its subsidiaries transferred LBP 51,105 million to the legal reserve in accordance with applicable law.

The determination to pay any dividend in respect of the common shares will depend, among other things, upon 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

	Common Tier 1 Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio
Year ended 31 December 2017	9.00%	12.00%	14.50%
Year ended 31 December 2018	10.00%	13.00%	15.00%

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 9 April 2017, the Ordinary General Assembly resolved the payment of dividends on

### CONSOLIDATED PAYOUT RATIO (USD THOUSANDS)

	2011	2012	2013	2014	2015	2016
<b>Common earnings</b>	<b>348,021</b>	<b>360,420</b>	<b>278,681</b>	<b>319,956</b>	<b>380,260</b>	<b>439,731</b>
Dividends on common shares	139,776	139,420	139,900	159,701	159,900	199,875
Dividends per common shares (USD)	0.40	0.40	0.40	0.40	0.40	0.50
Payout ratio on common shares	40.2%	38.7%	50.2%	49.9%	42.1%	45.5%
<b>Dividends on preferred shares</b>	<b>17,188</b>	<b>23,188</b>	<b>25,875</b>	<b>30,375</b>	<b>22,875</b>	<b>30,375</b>
<b>Total dividends</b>	<b>156,964</b>	<b>162,608</b>	<b>165,775</b>	<b>190,076</b>	<b>182,775</b>	<b>230,250</b>
<b>Net earnings</b>	<b>365,208</b>	<b>383,608</b>	<b>304,556</b>	<b>350,331</b>	<b>403,135</b>	<b>470,106</b>
<b>Total payout ratio</b>	<b>43.0%</b>	<b>42.4%</b>	<b>54.4%</b>	<b>54.3%</b>	<b>45.3%</b>	<b>49.0%</b>

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

## 6.0. | RISK MANAGEMENT

Sound risk management remained a top strategic priority at Bank Audi in 2017. During the year, the Bank continued enhancing its risk management framework by leveraging on its strategic program, common for Risk and Finance.

### 6.1. | STRENGTHENING THE RISK MANAGEMENT FRAMEWORK

In 2017, 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 balance that is in line with the Bank's risk appetite.

#### IFRS 9 Preparation

During the past couple of years, the Bank has put significant efforts in the preparation of the IFRS 9 standard that has become applicable beginning 2018 on a consolidated basis. These efforts included the enhancement of the estimation of Probability of Default (PD) and Loss Given Default (LGD), the development of macro-economic models as part of the forward-looking scenarios, and the improvement of the rating system, usage and quality.

In 2017, the Bank focused on the automation of the Expected Credit Loss (ECL) calculation, by building an in-house engine that is fed directly from the Integrated Finance and Risk Data Warehouse, thus minimising to the lowest extent possible manual calculations and reconciliation between risk and finance data. The Bank, through its risk data governance activities, worked with various entities to improve data quality and therefore enhance the estimation of the ECL and provisioning requirements. For more assurances, the Bank mandated an external party to validate the entire IFRS 9 framework, including policy, models, estimations and methodologies.

#### Recovery Plans

As part of an internal initiative and in line with the new Central Bank of Lebanon directive (basic circular No. 141 issued in 2017) requiring banks operating in Lebanon to submit recovery plans for material entities of a banking group, Bank Audi updated its recovery plans for 2017. Starting 2018, the Bank will submit these plans to the Lebanese supervisory authority on an annual basis (or more frequently if required).

The purpose of the recovery plan is to prepare recovery actions that can be triggered to facilitate the response of the Bank to a crisis. In order to identify the recovery actions' trigger points, the Bank has set quantitative indicators related to solvency, liquidity, profitability and asset quality that are closely linked to the Bank's risk appetite. The plan also includes identifications of core business lines and critical functions around which the recovery actions are set and takes into account interconnectedness and contagion effect among entities of the Group. During 2018, the Bank will be working on strengthening the governance aspect around these plans.

#### Risk-adjusted Profitability Framework

Building on the Bank's previous efforts towards integrating risk and profitability, Risk and Finance initiated during 2017 a project to develop a new framework for Risk-Adjusted Return on Capital (RAROC). This framework was applied on the Lebanese entity as the first pilot case.

The Bank maintained close risk oversight on its various entities, especially regarding its exposures in Turkey following the depreciation of the Turkish Lira during the second half of 2017 and the spillover effects of the resignation announcement of Lebanon's Prime Minister. 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.

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

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

Going forward, the Bank will gradually rollout the new RAROC framework to all entities of the Group.

#### Risk and Finance Summit 2017

During 2017, Group Risk and Group Finance organised a Risk and Finance Summit that gathered around 200 participants including CEOs, CROs, CFOs, Senior Managers, and Risk and Finance teams from all entities of the Group. The summit was organised around the theme of "Creating Sustainable Value (CSV)" that covered various domains including profitability, asset quality, solvency and liquidity.

During this summit, the new RAROC framework was introduced. The summit also emphasised the increasingly important topic of cybersecurity in protecting business data, and stressed on the importance of promoting business awareness around protecting information assets. Topics addressed also included: IFRS9 business implications, capital optimisation, cost allocation, mobility and cloud computing, information security compliance, data governance, risk culture and risk intelligence, in addition to presentations around major risk types (corporate and retail credit, market, liquidity and operational risks).

#### ICAAP

During 2017, the Internal Capital Adequacy Assessment Process (ICAAP) was further integrated in the budgeting and capital planning process. ICAAP, which is performed on a yearly basis, complements Pillar 1 regulatory capital calculations and allows Management and the Board of Directors to assess the capital adequacy of the Group by taking into account all material risks that the Bank is facing under normal, but also severe stress scenarios. It also enables the use and reporting of economic capital, which reflects the Bank's own views of capital requirements. The ICAAP exercise is conducted annually on a consolidated basis and at the level of our subsidiaries in Turkey, Egypt, Saudi Arabia, as well as the Jordanian branch network.

#### Risk Data Governance

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

During 2017, 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 from Risk, Finance, IT and the business lines. This effort will continue in 2018.

#### **Risk Intelligence**

Bank Audi maintained its efforts to enhance its reporting and early detection initiative at group level. The Bank, through an established Risk Intelligence function within Group Risk, continued to centrally build and maintain automated risk dashboard capabilities, 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**

Credit Inspection, which is part of Group Risk, has the mission to provide an independent evaluation of the quality of the Bank's credit portfolios and the effectiveness of the credit process used to manage these portfolios.

During 2017, this function has conducted three major on-site reviews in different entities of the Group, namely for the entities in Jordan, Egypt and Lebanon (the latter focusing on the new SME business line), as well as other missions related to rating reviews and rating models assessment. These forward-looking reviews produced detailed reports and proposed action plans when necessary.

#### **Risk Culture**

In 2017, Bank Audi developed a risk culture assessment framework in order to evaluate its risk culture along its various lines of defence, starting from the line of business where the risk is initially originated and managed.

Risk culture relates to the norms, attitudes and behaviours related to risk awareness, risk-taking and risk management, and the controls that shape decisions on risk.

## 6.2. | PRIORITIES FOR 2018

In 2018, the priorities, from a risk perspective, include tightening our underwriting criteria for credit risk and strengthening our cybersecurity resilience. These two types of risk, in addition to compliance risk, remain the focus of Bank Audi's Management.

In order to maintain good asset quality, the Bank will continue to increase its efforts on collection of delinquent loans, as well as on following up with borrowers that are exhibiting increased credit risk due to, among other, delinquency or restructured status. To minimise potential earnings volatility as a result of a default of a large obligor, the Bank has started

## 6.3. | CREDIT RISK

### CORPORATE CREDIT

The consolidated corporate net loan portfolio contracted by 8% in 2017, from USD 14.1 billion as at end-December 2016 to USD 13 billion as at end-December 2017. As mentioned earlier, this was mainly driven by a reduction of 22% of Odea Bank's corporate portfolio, from USD 6.6 million in 2016 to USD 5.2 million as of end-December 2017. Excluding

A good risk culture rests on the right behaviours developing in a well-designed and well-functioning governance. This can only happen in an environment where the tone at the top fosters risk awareness, candour and compliance, where risk competence is high, and where the right incentives and strong accountability are in place. This is about creating value sustainably.

Self-assessments are made, with the help of a facilitator, along a checklist of good risk culture principles, and, when weaknesses are identified, action plans are agreed upon and followed up.

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

#### **Stress Testing**

Stress testing continues to be an integral part of the risk management framework, and events that occurred during 2017 have been integrated into our scenarios. Stress testing is used to measure the Bank's vulnerability to severe and plausible events, and its impact on solvency, profitability, liquidity and franchise.

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

establishing limits to a group of obligors in function of their internal ratings. This new limit structure is being rolled out gradually in the major entities of the Group as part of the Risk Appetite update. From a credit risk framework perspective, the Bank will continue its strengthening efforts by ensuring adequate approaches for provisioning requirements and the availability of effective early warning systems that support Management in its timely identification of problematic borrowers.

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

Odea Bank, the consolidated portfolio would have displayed a 4.2% annual growth during 2017. 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).

## RETAIL CREDIT RISK

The development and deployment of application scorecards continued throughout 2017 and covered the various consumer products in all entities. 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 (retention, collection, cross-sell, up-sell, etc.).

In addition to scorecards, and following the development and assessment of IFRS 9 compliant retail impairment models in 2016, the Bank used these models during the 2017 parallel-run to calculate provisioning requirements, in preparation for the full adoption of the standard expected to begin in January 2018.

## 6.4. | OPERATIONAL RISK

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

In parallel, reviews of portfolios' quality, a core process within the risk management framework, were particularly critical throughout 2017 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.

#### **Business Continuity and Information Security Risk**

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

#### **Information Security**

The Bank 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 ensure compliance with Information Security regulatory requirements and to raise the awareness level of staff and Management, to enhance the governance framework and improve the monitoring of critical activities, as well as the effectiveness of information security controls, especially those pertaining to cybersecurity, data leak prevention, data privacy, asset classification, change management, and logical and physical access.

#### **Cyber Resilience**

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

**Business Continuity**

Bank Audi's Business Continuity framework was designed to ensure the continuity of critical business activities in the event of an unforeseen event 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. | ALM AND LIQUIDITY RISK MANAGEMENT**

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

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

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

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

The Bank deployed Fund Transfer Pricing (FTP) systems in its two largest entities (Lebanon and Turkey) to allow better pricing and risk management of liquidity, interest rate and FX risks. The Group is also developing dynamic ALM tools at the same entities to further enhance its ability to manage these risks under multiple balance sheet and market scenarios.

**Liquidity Adequacy**

Management considers the Bank's liquidity position to remain strong, based on its liquidity metrics as of 31 December 2017, 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 its funding sources to meet actual and contingent liabilities in both normal and stressed periods.

The Bank continues to source funds by relying on a stable customers' deposits base constituting 76.5% of its funding (liabilities + equity). The Bank maintains its franchise in Retail/Personal Banking at nearly 73% of deposits, while about 24% 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 the Liquidity Coverage Ratio (LCR) has come into effect are compliant with their jurisdictional minimum. There is still no requirement for LCR in Lebanon, neither at entity standalone nor consolidated levels. Internal assessments show that should it be implemented, the Bank is expected to 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 25%.

The Bank maintains pools of liquid unencumbered securities and short-term placements with highly rated bank counterparts or the Central Bank in the relevant jurisdiction, and engages in short-term reverse repo agreements whose underlying securities' risk-weighting is equal or better than the sovereigns where the liquidity risk is being taken. 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.

The Bank monitors its liquidity position daily. Its liquidity risk management ability in Turkey, Egypt and Lebanon has been tried and tested in several instances during unsettled periods, including most recently the coup attempt of July 2016 in Turkey, the instability of Egypt in 2011, and the recent crisis in Lebanon following the Prime Minister's sudden resignation announcement in November 2017.

**Interest Rate Risk in the Banking Book (IRRBB)**

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

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

The interest rate risk profile of the Bank is within acceptable bounds. The impact of a change in rates in any currency takes away less than 1% of net interest income.

Except where markets are developed enough to allow the use of derivatives, interest rate hedging activities are mainly undertaken through natural balance sheet hedges in most jurisdictions.

**ALM Risk Governance**

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

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

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

**Liquidity and IRRBB Monitoring and Risk Appetite**

Monitoring and setting of risk appetite for liquidity and IRRBB are set at each entity. While the Group aims to harmonise measurement approaches

and methodologies, a small margin is given to allow for local market intricacies. For IRRBB, entity exposures are aggregated to obtain a group-wide IRRBB exposure.

The Bank employs a variety of metrics to monitor and manage liquidity under different conditions, such as:

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

As for IRRBB, the following measurements are used, in addition to others, to enable greater understanding of:

- Changes in the Bank's net interest income to given interest rate scenarios.
- Changes in the Bank's economic value of equity to given interest rate scenarios.

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

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

**6.6. | MARKET RISK MANAGEMENT**

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

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

**7.0. | DEPLOYED RESOURCES****7.1. | INFORMATION TECHNOLOGY**

Bank Audi, a leading financial institution in the region and a pioneer in embracing innovation and adopting state-of-the-art technologies, has always thrived to achieve excellence in the services it provides to its customers. This is one of the Bank's strategic goals.

In that perspective, the Information Technology (IT) Department has constantly been considered as a pillar and a full-fledged partner in the Bank's strategic roadmap.

The year 2017 was no exception to that tradition: it witnessed big leaps towards transforming the banking activity to comply with today's

international standards, enabling continuous growth despite difficult times, political turmoil and tough competition, through the successful achievement of major milestones, whether in Lebanon or across the Bank's entities.

Moreover, to protect both the Bank's operations and data against ever-growing cyberattack threats, the IT department, through its IT Security unit, aggressively pursued its ongoing endeavour that spans across the Group entities, by providing advisory security directives and on-demand support, and by implementing security enhancements to offer the Bank's customers a safe banking experience.

**Bank Audi Lebanon** is currently in the process of changing its core banking application, a project initiated in 2016. In addition, an Omni-channel solution is now available for the Bank's customers, through revamped Internet and Mobile Banking applications, an enhanced solution for customer on-boarding and loan initiation, and an advanced ATM experience. Furthermore, a thorough assessment of the IT governance and IT infrastructure was conducted in 2017 and led to multiple initiatives, some of which are currently underway.

**Bank Audi France** continued with its technology transformation program, leveraging latest technologies and cloud computing offerings. It is also aiming at revamping its money transfer services to fully comply with recent regulatory requirements.

**Bank Audi Jordan** completed a revamp of its infrastructure and performed upgrades to provide its end-users with an enhanced workspace and experience. It also went live with new anti-money laundering and KYC applications.

## 7.2. | HUMAN RESOURCES DEVELOPMENT

The year 2017 witnessed several important key factors that pushed the Human Resources function even further in the Group's main entities: Bank Audi in Lebanon, Odea Bank in Turkey and Bank Audi sae in Egypt.

### BANK AUDI LEBANON

Employee experience guided the Human Resources Department's accomplishments during the year 2017.

To give employees the opportunity to express their opinions, the first Bank Audi Employee Engagement Survey, entitled "Your Voice", was launched in October 2017. Administered by an independent HR consulting firm in order to ensure confidentiality, the results of the survey aim at (1) improving the Bank's policies based on best practice and tangible results benchmarked against relevant employers in the region; and (2) developing and implementing an action plan focused on boosting engagement, employee satisfaction and overall performance.

An impressive 88% participation marked the first survey with an overall engagement placing the institution above major banks in the region and at equal level with global international banks. More specifically, high scores were achieved in the "Brand Reputation", "Innovation" and "Learning & Development" categories, confirming Bank Audi's positioning as a socially responsible and innovative industry leader that highly supports the growth of its employees.

As expected, the survey also identified areas that need improvement. For that, HR will be working closely with Management to address the prioritised issues, as well as to create and execute change initiatives and programs in order to enhance the overall employee engagement and experience.

As for recruitment efforts in 2017, and given the necessity to keep up-to-date with the new selection methodologies, the Recruitment and Selection (R&S) team revamped the selection tests used to assess candidates and introduced a new assessment tool – a combination of technical tests and role-play – targeting potential personal bankers and relationship managers.

As for **Bank Audi Egypt**, the highlight of 2017 was the successful migration of its core banking application to a new core banking solution which earned the Bank a nomination for the "Asian Banker Financial Technology Innovation Awards 2018". In addition, the infrastructure of a private cloud was completed, along with a new customer on-boarding and loan initiation solution, and the second phase of a document management system.

Bank Audi Egypt is currently assessing a new Online Banking solution and a new customer management system.

In short, in all of the aforementioned projects and innovations, the IT Department in each entity was a major stakeholder. All these efforts were orchestrated in coordination with Bank Audi Lebanon's IT Department which played an advisory and guidance role.

The R&S team hired 281 resources to cover the needs within the Bank's different branches and departments. In addition to the routinely recruited positions, 2017 focused more on the recently created SME business line and the launch of the Contact Center. In fact, in 2017, a state-of-the-art Digital Banking Platform was put in place where a joint effort between HR and concerned managers resulted in the recruitment and rigorous technical and behavioural trainings of the required resources.

R&S activities do not end at the basic concept of finding and recruiting candidates. They extend to contribute to the Bank's civic engagement and create the Bank Audi experience for both existing and potential employees. For that, around 500 university students and 73 high school students were offered the opportunity to live the corporate life, which allowed them to get involved in banking activities based on their interests, and to be exposed to social responsibility through a full day volunteering in a CSR activity.

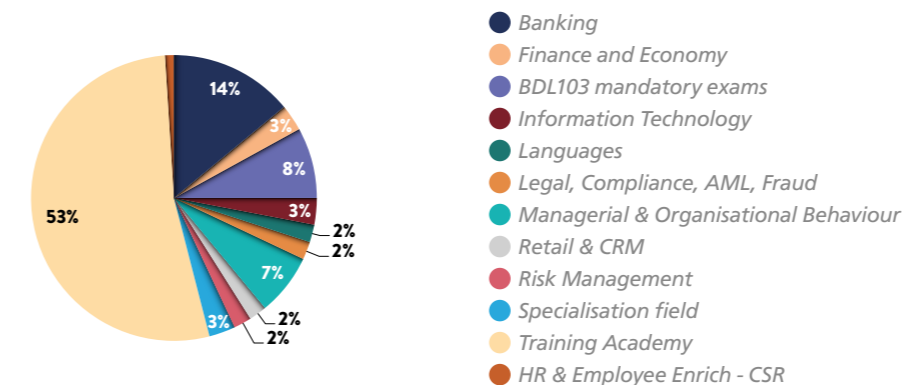
In addition, the R&S team participated in several job fairs organised within the most reputable local and international universities. R&S also hosted the traditional lunch for international students for the seventh consecutive year, and took part in the career fair at the Arab Conference in Harvard Business School.

Concerned with employee wellbeing and career planning, 22 field visits to different branches and head office departments were carried out by the Relationship Management (RM) team and 690 lateral and vertical moves/appointments took place during 2017. Moreover, the "Talent Management" process, initiated during 2017, covered 80% of the branch and department population allowing both HR and respective managers an overall view on the performance and potential of their team members.

Throughout the year 2017, the Training and Development (T&D) team covered over 116,325 training hours 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 certification requirements of the Central Bank of Lebanon by enrolling employees in specific certifications related to regulatory banking functions.

The chart below sets out the breakdown of training activities in 2017 by topic:

### TRAINING IN 2017



A 3,970 employee participation was logged in the Training Academy – spread out over 276 sessions covering specialised technical/behavioural courses. On another note, the Risk Training Program under Risk Academy allowed over 85 head office employees to attend sessions on various topics, thus widening their knowledge and understanding of risk-related subjects.

With reference to the Core Banking Transformation Project, and in order to familiarise employees with the new system, Flexcube Banking System End User Training sessions were launched with the target to cover all concerned employees, whether from branches or head office departments. The training efforts will extend throughout 2018.

Furthermore, and to ensure proper exposure of managers and subject matter experts to international best practices and trends, 44 employees attended overseas trainings on 34 various topics related to their areas of expertise.

Moreover, and for the third consecutive year, 14 qualified employees joined the Branch Management Program, which will eventually allow them to assume senior branch positions after exposure to an intensive learning environment for a period ranging from one to three years.

On a parallel note, educational advancement remained a focal point for the Bank. As such, Bank Audi granted 27 employees from various departments and branches sponsorships to advance and pursue higher education in local top-tiered and international universities such as

### ODEA BANK

During 2017, the Human Resources department at Odea Bank maintained its dedication and strategic business partnering efforts to keep employees motivated and performing well.

In fact, one of the chief factors behind corporate success lies within an effective and properly designed organisational structure – strongly supported by a fair, objective and efficient reward system. During the pay review period in 2017, salary review and bonus studies were carried out by 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.

Imperial College and London Business School in the UK, and Instituto de Empresa in Spain. Among the 27 employees, the Bank sponsored 14 to obtain professional certifications and banking studies related to their lines of work.

On a different level, and given the extensive experience HR has acquired over the past years in terms of system acquisition and implementation, the team assisted a sister company by providing needed knowledge and expertise in the implementation phase of their human resources information system. HR ensured a post-go-live support and kept guiding them over a period of 6 months to guarantee a smooth handover, transition and day-to-day processing of tasks on the system.

On the other hand, and endorsing the concept that employee experience starts prior to recruitment, the Career Website portal was reshaped in terms of content and design, which gave it a modern feel likely to attract top young talents while still appealing to experienced professionals. Two main new features, the "Careers Video" showcasing employees from diverse backgrounds, who have grown within the Bank, and the "Employee Video Testimonials" introducing applicants to the different job opportunities within the Bank, were also added. Those give interested applicants a sneak-peek into the Bank's culture and work environment, and provide guidance by listing the various paths one can take – thus creating the entire experience for potential employees.

Engagement and experience go hand in hand to shape the atmosphere in which the HR team in Bank Audi Lebanon will evolve during the year 2018.

Moreover, the HR team remained very aware of the importance of providing employees with needed openings to grow. As such, job rotations, as well as vertical and horizontal movement opportunities, were offered within the framework of the authorities and responsibilities that employees can assume based on their competencies.

Conducted assessment programs provided HR with a solid ground to manage development programs and employee career paths. HR has the additional capability to support staff by providing advice to employees in light of their competencies and areas of specialisation, and offering career opportunities for personal development within the Bank.

In addition, Training & Development (T&D) continued to represent one of the main pillars to enhance employee – and ultimately the Bank’s – overall performance. With this in mind, T&D activities kept being effectively planned: a comprehensive range of trainings were conducted, thus contributing to the advancement and development of employees. Soft and technical trainings were well-aligned with the Bank’s strategies and corporate culture, with an overall training hour figure reaching over 25,000, an average of 2.5 working days per employee. The learning process was made easier through the full access employees have to “e-Odea HR Training Platform” and “Vide’O”.

### BANK AUDI sae (EGYPT)

In 2017, the HR department of Bank Audi sae (Egypt) continued to maximise the value of human capital while ensuring their alignment with the Bank’s strategies.

For that, HR sustained its recruitment efforts by matching and filling their required vacancies within the different functions. In addition, over 500 employees were promoted to higher positions and 134 employees went through assessment centres to be placed on enhanced career paths.

During 2017, training activities mainly focused on promoting higher levels of user adoption and preparing employees to properly use Flexcube and

During 2017, HR also organised general trainings, exclusive leadership programs, legal trainings, external trainings, meetings, congresses and conferences, all planned to improve the staff’s behavioural and technical skills, as well as training programs specially designed for the Bank.

On a final note, HR practices and processes continued to be integrated with the Bank’s HR system. In this context, several modules were put to use: Absence Management, Payroll Management & Pay Statement Viewing, Self-Service – My HR – Module, Performance Management System, Web-based Recruitment Module and Human Resources Training Platform – “e-Odea”. All aimed at providing quick and quality HR services to employees.

Newgen – the new core banking system: 167 sessions targeted 1,458 employees from the Bank’s different functions, with 29,079 training hours.

On a different level, a new grading structure was developed to include 15 grades with new competitive grade titles.

The Salary Administration policy was also finalised in 2017, and an upgraded reward strategy was implemented. Its main purpose is to ensure employee remuneration compatibility and competitiveness with the peer industry.

## 8.0. | INVESTOR RELATIONS

### 8.1. | INVESTOR RELATIONS ACTIVITY IN 2017

Bank Audi’s ordinary shares and GDRs have been listed on both the Beirut Stock Exchange and the London Stock Exchange for more than 3 decades now, compelling the Bank to apply high standards of disclosure and transparency. To that end, the investor 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 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 continue to weigh down on the investor relations activity in 2017. The number of MENA equity conferences decreased significantly, 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 2017 was limited to 3 conferences, whereby it fulfilled 34 meetings with 41 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	2017	Total
Equity conferences	4	3	6	2	10	13	14	7	7	5	5	2	3	81
Number of meetings	87	66	139	68	201	207	170	68	72	83	71	21	34	1,253
Number of companies met with	74	54	120	66	141	151	116	60	61	65	56	25	41	1,030
Number of portfolio managers met with	122	88	171	94	244	248	185	73	95	102	75	33	62	1,592
<b>Company/Roadshow</b>	<b>18.5</b>	<b>18.0</b>	<b>20.0</b>	<b>33.0</b>	<b>14.1</b>	<b>11.6</b>	<b>8.3</b>	<b>8.6</b>	<b>8.7</b>	<b>13.0</b>	<b>11.2</b>	<b>12.5</b>	<b>14</b>	<b>12.7</b>
<b>Meeting/Company</b>	<b>1.2</b>	<b>1.2</b>	<b>1.2</b>	<b>1.0</b>	<b>1.4</b>	<b>1.4</b>	<b>1.5</b>	<b>1.1</b>	<b>1.2</b>	<b>1.3</b>	<b>1.3</b>	<b>0.8</b>	<b>1</b>	<b>1.2</b>
<b>Portfolio manager/Company</b>	<b>1.6</b>	<b>1.6</b>	<b>1.4</b>	<b>1.4</b>	<b>1.7</b>	<b>1.6</b>	<b>1.6</b>	<b>1.2</b>	<b>1.6</b>	<b>1.6</b>	<b>1.3</b>	<b>1.3</b>	<b>2</b>	<b>1.5</b>

## 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 covered the Bank’s stock till December 2017:

### 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

\* In March 2018, FFA Private Bank sal announced its decision to discontinue its equity sell side research business and has hence dropped the coverage of Bank Audi stock, as well as other Lebanese listed equities.

## 9.0. | COMPLIANCE

The Board of Directors and Senior Management of Bank Audi Group 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 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 entities 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 2017, Compliance group-wide continued to ensure that risks deriving from heightened regulatory scrutiny over the various areas of financial crime compliance, at both local and global levels, are appropriately monitored and managed with suitable mitigating measures effectively implemented. The Group expects the trend of increasing compliance requirements facing the banking industry to continue in the coming period.

As a response, Compliance keeps on strengthening its enterprise-wide compliance management framework based on (i) its compliance risk appetite framework and (ii) its enterprise-wide compliance program.

### COMPLIANCE RISK APPETITE FRAMEWORK

The Group’s risk appetite framework outlines the compliance risk appetite, how the Group manages its adherence to its compliance risk appetite, and how it evaluates the effectiveness of its controls for managing compliance risks. This framework is executed through:

- Establishing a risk appetite: the Group establishes its compliance risk appetite by setting limits on the types of business in which it will engage, the products and services it will offer, the types of customers which it will service, the counterparties with which it will deal, and the locations where it will do business. These limits are guided by compliance risk assessments at group and local levels, internal policies, in addition to relevant and applicable laws, rules and regulations.
- Adhering to this risk appetite: the Group manages adherence to its

### ENTERPRISE-WIDE COMPLIANCE PROGRAM

Compliance aims to operate the Group’s compliance risk appetite – and thus minimise, mitigate or manage compliance risks – through its Enterprise-wide Compliance Program. To achieve this mission, Compliance seeks to:

1. Understand the regulatory environment, requirements and expectations to which Group activities are subject. Compliance coordinates with Legal and other independent control functions, as appropriate, to identify, communicate and document key regulatory requirements and changes.
2. Assess the compliance risks of business activities and the state of mitigating controls, including the risks and controls in group entities in which activity is conducted. To facilitate the identification and assessment of compliance risk, Compliance works with the businesses and other independent control functions to review and provide adequate advice, corrective actions and/or recommendations for improvement regarding significant compliance and regulatory issues, and the results of testing, monitoring, and internal and external examinations and audits.
3. Define the Group’s appetite, in coordination with Senior Management and the Board of Directors, for prudent compliance and regulatory risk consistent with its culture of compliance and control. As noted above, the Group develops a compliance risk appetite framework designed to identify, measure, monitor, mitigate and control compliance risk.
4. Develop controls and execute programs reasonably designed to promote conduct that is consistent with the Group’s compliance risk appetite, and promptly detect and mitigate behaviour that is inconsistent with this appetite. Compliance has programs that focus on broad Regulatory Compliance, Anti-money Laundering and Combating the Financing of Terrorism, Sanctions Compliance, Capital Markets Compliance, Tax Compliance and Anti-Bribery & Corruption. Each of

compliance risk appetite through the execution of its compliance program which includes governance arrangements, a policy framework, customer on-boarding and maintenance processes, product development processes, transaction monitoring processes, initiatives to foster the compliance culture, monitoring regulatory changes, new products, services and complex transactions approval processes, and training.

- Evaluating the effectiveness of risk appetite controls: business and Compliance together evaluate the effectiveness of controls for managing compliance risk. The Group relies on compliance risk assessments, a policy framework, compliance testing and monitoring processes, compliance metrics related to key operating risks, key risk indicators, and control-effectiveness indicators, in addition to Internal Audit’s reviews and reports.

these programs aims at mitigating the Group’s exposure to conduct that is inconsistent with its compliance risk appetite.

5. Detect, report on, escalate and remediate key compliance and franchise risks and control issues; test controls for design and operating effectiveness; promptly address issues and track remediation efforts. Compliance designs and implements policies, standards, procedures, guidelines, monitoring reports and other solutions for use by business and Compliance to promptly detect, address and remediate issues, test controls for design and operating effectiveness, and track remediation efforts.
6. Engage with the Board of Directors, Senior Management and Business Heads, Board and Management Committees, and regulators to foster effective global governance. Compliance provides regular reports on emerging risks and other issues and their implications, as well as the performance of the compliance program, to the Board of Directors, including the Board Compliance & AML/CFT Committee, as well as other committees of the Board. Compliance also engages with business management on an ongoing basis through various mechanisms, and supports and advises the businesses and other functions in managing regulatory expectations.
7. Advise and train group employees across businesses, functions and entities in conforming to laws, regulations and other relevant compliance standards. Compliance helps promote a strong culture of compliance and control by increasing awareness and capability across the Group on key compliance issues through training and communication programs.
8. Enhance the compliance program. Compliance fulfills its obligation to enhance the compliance program by using results from compliance risk assessments, testing, monitoring, and internal and external examinations and audits to shape future program enhancements.

The desired objective is to avoid failures or mistakes with adverse impact on the Group on the one hand, and missing out on good business opportunities on the other, while operating in high risk geographies. Compliance constantly works on improving itself, its governance, policies, procedures, and measurement methods 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 Group 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 Board and Senior Management involvement in Compliance, a clear, risk-based approach to fighting financial crime, compliance policies embedded within the business, compliance procedures applied consistently, a robust procedure for reporting suspicious transactions, and a clear lack of complacency. This places the Group today in a leadership position in the Middle East region in terms of efficiency and effectiveness of its Compliance program.

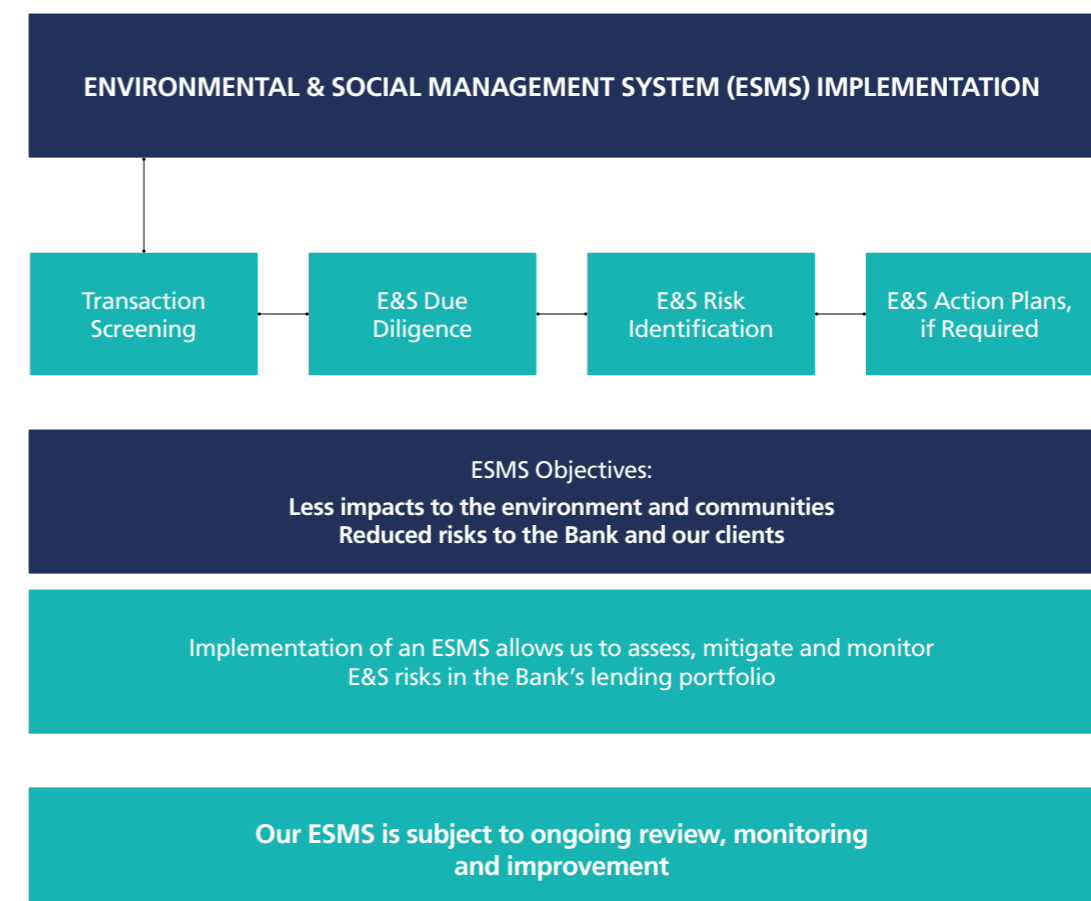
## 10.0. | ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM

*For information on commitments, procedures, organisational capacity and performance associated with Environmental and Social (E&S) Risk Management, please refer to Bank Audi Lebanon’s 2014-2016 CSR and Annual Reports.*

### ESMS: ONGOING IMPROVEMENTS TO STRENGTHEN OUR MANAGEMENT OF E&S RISKS

Throughout 2017, the Bank maintained its commitment to managing environmental and social (E&S) risks in its Corporate and Commercial Banking activities and introduced several enhancements to its Environmental & Social Management System (ESMS), which helped improve implementation and applicability. In 2017, the Bank prioritised updating its ESMS procedures, taking

into consideration challenges experienced during implementation and recommendations made by the International Finance Corporation (IFC) to enhance the process. It is worth noting that updates to the Bank’s ESMS procedures did not entail material changes to the ESMS, but rather, provided a comprehensive review and improvement to the original procedures, in order to ensure that they remain relevant to the E&S risks associated with the Bank’s portfolio. The updated procedures will be rolled out in 2018, and we believe that they will further strengthen our ESMS and generate better information and results. In an additional effort to reinforce our ESMS, in 2017, we worked on developing our own Bank Audi Group ESMS training module. While historically, the Bank has had to commission external resources to provide E&S Risk Management and ESMS training to the Group, we now have the capacity and resources to carry out such training internally.



**E&S TRAINING**

In 2017, Bank Audi Lebanon underwent coached ESMS site visits with an IFC E&S specialist to an industrial manufacturing facility, where ESMS officers and relationship managers received a comprehensive guide through the process of conducting an ESMS site visit. The coached site visit was attended by three of the Bank’s dedicated Country and Group ESMS Officers. In Odea Bank, a virtual training on our ESMS was developed and rolled out to relevant staff, to provide further training on banking sustainability, national environmental law and impact assessment requirements, as well as IFC Performance Standards. This course was completed by 93 staff members in Odea Bank during 2017.

In addition, three of the Bank’s ESMS Country Officers attended a technical training workshop on the application and implementation of the IFC Performance Standards and World Bank Group Environmental, Health and Safety (EHS) Guidelines. The training was hosted by the IFC and an external E&S consultant.

Finally, it is also worth mentioning that, in Lebanon, a training session on “Energy Efficiency, Renewable Energy, and Environmental

Implementations in Lebanon” was conducted. The training was dedicated to expanding our internal know-how, capacity and expertise in providing green loans. It covered National Energy Efficiency and Renewable Energy Action (NEEREA) and Lebanese Environmental Action (LEA) mechanisms and their working procedures under the BDL green loans mechanism. The training also included coverage of renewable energy and energy efficiency measures, environmental measures, as well as case studies.

**TRANSACTION E&S RISK REVIEWS**

During 2017, 624 transactions across the Group were subject to E&S Risk Review, as per requirements set out by our ESMS. A breakdown of E&S risk categorisations for these transactions is provided below. 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 <sup>(1)</sup>	Number of Reviews
A	179
B	230
C	215
<b>Total</b>	<b>624</b>

**11.0. | CORPORATE SOCIAL RESPONSIBILITY**

Today’s world requires institutions to be in constant transformation and to evolve in such a way as to meet clients’ ever-changing behaviours. In parallel, customers demand more transparency than ever before, which implies a firm commitment from the brand they choose to create a relationship with. This is why digital solutions, sustainability, responsible financing, and being good citizens are key assets for successful 21<sup>st</sup> century brands, including Bank Audi.

Our commitment to make a positive and significant difference in people’s lives has been an integral part of our culture ever since Bank Audi was founded in 1830. This is closely related to the Bank’s historic thrive to create added value in the communities it is present in, and to its firm belief in revealing untapped talents. With this in mind, our “Grow Beyond Your Potential” motto drives both our employees and clients to work in synergy to realise those purposes, whether in day-to-day operations or through ongoing CSR initiatives.

**IN LEBANON**

The year 2017 was further marked by major CSR achievements, of which those related to Corporate Governance aimed at sustaining transparency and applying environmental and social management systems across our compliance. Bank Audi continued to comply with the ISO 26000 Social Responsibility standard and reporting according to internationally recognised Global Reporting Initiative (GRI) Standards. The Bank is actually a pioneer in this respect and is part of the GRI Gold Community, setting regional benchmarks in knowledge and reporting. The Bank maintains its position as the first and unique Lebanese institution to join the GRI Organisational Stakeholders Network. Additionally, it upholds the pledge of its commitment to the United Nations Global Compact’s (UNGC) ten principles and actively participates in the UNGC Lebanon Steering Committee which aims at engaging other institutions to adhere

and implement accordingly. At the local scale, Bank Audi is, since 2017, goalkeeper for SDG 8. It also continues to sustain its pledge to five of the Sustainable Development Goals (SDGs), in particular Decent Work and Economic Growth (SDG 8) and Industry, Innovation and Infrastructure (SDG 9) as aligned to our business strategy. Additional and on-going commitments have been kept in the realm of Quality Education (SDG 4) and Gender Equality (SDG 5) in an institution that has always strived to ensure dignity, appreciation and worth to every member of its human capital equally. Finally, the role we cherish in protecting our environment innovatively is also of importance to future generations and our own sustainability as Climate Action (SDG13).

As part of our Economic Development, the extensive outreach in 2017 was made towards SMEs whose empowerment was a top priority, coupled with various initiatives geared towards that objective. Among those was “Grow My Business” and initiatives with specific women’s organisations for gender parity empowerment, such as the Lebanese League for Women in Business (LLWB). Various economic collaborations with the likes of the Arab Economic Forum, the Lebanese Diaspora Energy and the Beirut International Franchise Forum and Exhibition, among others, aimed at enhancing investments in Lebanon and boosting its economy. Under infrastructure investments, particularly in the field of innovation, our partnerships in digital technology raised the bar, while other similar start-up incentive efforts took place in partnership with Microsoft for the Imagine Cup of MENA, Arabnet and Banking for Millennials.

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, empowering the youth and entrepreneurs. Our gender parity of 46% female and 54% male employment, coupled with an 18% female representation at Board level and annual human capital turnover of 4.9%, are valid activation of our inclination in this sphere. 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 in particular, with a focus on financial inclusion as part of the Community Development pillar. It inspired the concerned stakeholder group to explore their creativity and innovative minds in order to set impactful CSR initiatives. With that, the Responsible Millennial competition was launched for the fourth consecutive year, inviting students to formulate suggestions or potential realisable initiatives related to financial inclusion, that Bank Audi could implement. The second competition, within the Environmental Protection pillar, consisted in allowing school students to measure their households’ environmental impact and find means to reduce their energy consumption through a dedicated microsite called “My Carbon Footprint”, in collaboration with the Ministry of the Environment and the United Nations Development Program (UNDP). We are also proud to have hosted the first regional forum on biodiversity in Lebanon, in collaboration with the IUCN and the Ministry of the Environment. Activating our Climate Action is also emphasised by championing the Lebanon Climate Act in its introductory year. For the sixth consecutive year, we continue to measure our own carbon footprint and to recycle as part of the “Grow Green” program we initiated.

Expanding financial inclusion, special efforts were made to embrace physically disabled persons and encompass them in our plans for accessibility, as well as for e-banking and mobile application use. Special induction sessions for the visually impaired were hosted at our e-branch where one-on-one training took place. Across Lebanon, ATMs and branches were made accessible, where applicable, giving this selective group financial independence.

Economic empowerment, philanthropic initiatives and numerous pledged causes are also revealed in the Annual CSR Report under the Economic Development, Community Development and Human Development pillars. For instance, in the realm of Human Development, we hosted, for the third consecutive year, a record of more than 450 eleventh graders for the Global Money Week, introducing financial literacy and compliance issues under the theme of “Learn. Earn. Save.”. “Let’s Talk Money” is another financial literacy module consisting of a six-module game on our website, where one can get certified for properly acquiring the needed information to become financially knowledgeable.

Another example is the employees’ community engagement through the corporate Volunteer Program which reaches out to over 7,200 beneficiaries and extends a helpful hand to eighteen NGOs. A specific outreach was realised through our “Spring” clientele, by engaging 18 to 24 year-olds in our volunteer culture was also a welcomed opportunity. Bank Audi also encourages its interns to join in the Program every summer, with, on average, 100 interns taking part in programs especially conceived to encourage pro-bono giving back.

To top the above achievements and continuously create stakeholder value, Bank Audi organised, yet again, an annual stakeholders panel grouping industry representatives, suppliers, regulatory bodies, correspondents, managers, employees and competitors, to benchmark the Bank’s CSR strategies, propose ideas to enhance CSR 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. In addition, Bank Audi got international recognition for its numerous CSR efforts. Bank Audi’s CSR Case Study, “Bank Audi: Leading through Sustainability”, written by Professor Dima Jamali, was published by Ivey Publishing and has recently been further acknowledged as “innovative case material”.

Throughout the year, we also use social media to convey our activities and attract participation where applicable, and the outreach has hit over 100,000 on average. Building on all the above and backed by the numerous milestones marked in the context of our firm belief in CSR, we invite you to view Bank Audi’s interactive 2017 CSR Report online which will give you further details on CSR-related projects and their effect on the Bank’s stakeholders and on society at large.

<sup>(1)</sup> As per IFC definitions for E&S Risk Categorisation.

## IN TURKEY

Since its foundation, Odea Bank has taken significant steps to actively and authentically integrate the principles of corporate citizenship into its business applications.

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

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

In this regard, Odea Bank aims to encourage a sound and sustainable development environmentally and socially in all banking operations. Therefore, it aims to minimise the environmental and social impacts that may arise directly or indirectly from its activities. From this point of view, and taking the best practices of international financial institutions as an example, the Bank has developed and implemented the "Environmental and Social Management System". In this framework, Odea Bank is able to reduce the negative environmental and social effects which may occur as a result of its activities.

- It has adopted the Prohibited List of Activities of the International Finance Corporation (IFC) within its regulations.
- It acts in accordance with all national laws and regulations on environmental and social issues in its activities, and aims to ensure that customers who are in loan relationship act in this way.
- It evaluates customers in the corporate and commercial segments through the Environmental and Social Management System tools in terms of environmental and social risks before lending.
- It makes additional assessments of activities that are credited to the environmentally and socially high risk, and sets out measures that can be taken to eliminate or reduce the environmental and social risks of the activity to be credited.
- It supports lending to projects aiming at improving environmental conditions, such as renewable energy investments, waste recycling investments, carbon emissions reduction, and productivity enhancing investments.
- It has organised trainings to ensure the development and implementation of the environmental and social awareness of the Bank with the support of IFC, Finance in Motion, and the Banks Association of Turkey .

Odea Bank is environmentally responsible when it conducts its activities:

- In an effort to build an optimal service area with the right technical equipment to provide the best services to its customers, it carefully evaluates its' customers' journey at the Bank.
- It prioritises environmental practices in its premises, with all meetings held on Apple TV and using "whiteboard" technology and no paper.
- It adopts eco-friendly business processes that do not make use of paper while utilising "business intelligence" applications to analyze data. At the same time, it saves all documents related to its customers in digital form, using a document management system which allows business processes to flow quickly between departments.

- Its branches only use paper for certificates that require signatures, and documents kept in branches are presented in an electronic environment.
- Another "green approach" of Odea Bank's branches is the mobile Q-matic application which allocates queue numbers to customers without using paper.
- Odea Bank also protects the environment and broadens its customer service network by offering the SMS or e-mail option instead of receipts to its customers after ATM transactions.
- It launched the "Odea Bank Secures the Oxygen of the Future" project with TEMA Foundation. Through this project and through the Bank's "Oksijen" Account, customers who perform banking transactions can ask the Bank to plant a tree or provide education on nature to a child every month. Aiming to raise social awareness on the environment, Odea Bank plans to plant 50,000 trees or provide nature education to 50,000 children within two years.

As an institution, Odea Bank ensures that all people feel respected and have equal access to resources, services and opportunities to succeed. The Bank makes sure that discrimination based on sex, age, condition, pregnancy, race, religion or disability is not allowed within its premises, and guarantees equal treatment and equal career opportunities to all employees alike. Throughout the year 2017, it continued to provide the appropriate guidance, training and supervision to all its employees for ultimate efficiency and success at work, by implementing advanced learning and development methods, in line with its values and culture. In addition, the Bank 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 2017.

In terms of civil responsibility, Odea Bank continued to support basketball through a sponsorship agreement with Galatasaray's men and women basketball teams. In 2016, the Bank took its basketball support one step further by sponsoring the THY Euroleague, the pinnacle of European basketball, which it continued to sponsor in 2017. As one of its sponsorship activities, it also donated EUR 333 for each three-point basket scored in the Final Four. The Bank donated a total of EUR 25,974 corresponding to 78 three-point baskets scored in the Final Four, a donation which provided the necessary resources for the renovation of the public basketball court in Istanbul.

Furthermore, in a contribution 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 of training 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 2017, the school was further expanded to become a sports school catering for judo and basketball trainings, under the supervision of professional trainers.

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

## IN EGYPT

In 2017, Bank Audi sae (BAEGY) focused on activities targeting its responsibility towards its employees. This included collaborating with social/medical institutions and ensuring they are granted regular donations, community work through the blood donation exercise that was orchestrated by the Bank, and last but not least, our commitment to Egypt's economic development through the financial inclusion" exercise that was carried out in 2017.

Because BAEGY believes in its staff, it was keen on giving employees the opportunity to represent Egypt in sports activities taking place outside Egypt by providing them with travel and accommodation facilities.

Furthermore, and in an attempt to make regular donations to cancer institutions, BAEGY collaborated with the Baheya Breast Cancer Foundation through a co-branded card allowing up to 1% of customers' transactions to be donated to the foundation.

In the same perspective, the Bank carried out a nationwide blood donation exercise targeting not only the head office staff, but the whole network through a road show encouraging employees to donate blood to the National Blood Bank of Egypt.

On a different note and as part of the Central Bank of Egypt's financial inclusion initiative, BAEGY launched a number of initiatives, among which:

- Organising a road show to selected cities to raise awareness on financial inclusion.
- Developing activations in school and universities to explain the concept.
- Waiving off administrative fees for a certain time to encourage people to deal with banks.
- Offering tailor-made products targeting the youth.

Over and above, BAEGY sustained its commitment to Egypt's economic development, particularly in the context of the persisting challenges touching the operating environment. This was achieved through quarterly financial publishing, participating in and sponsoring economic forums and conferences, donating to "Tahya Misr" fund which is dedicated to Egypt's economic development, and finally supporting local businesses with adapted lending strategies.

To top all that, and in compliance with international technical standards, BAEGY was granted the "Leadership in Energy and Environmental Design (LEED) Gold Certification" for its new headquarters, a building outfitted with solar panels, solar heaters, a water treatment system, green air conditioning systems, and large windows to save energy consumption.

# EMBRACING CHALLENGES

*Meet every challenge with confidence and  
positivity to achieve life long goals  
and optimal success.*

03

**CONSOLIDATED  
FINANCIAL  
STATEMENTS**

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

## RESOLUTIONS PROPOSED BY THE BOARD OF DIRECTORS TO THE ANNUAL GENERAL ASSEMBLY OF SHAREHOLDERS OF 10 APRIL 2018

relating to the approval of the financial statements and the appropriation of profits

On 20 March 2018, the Board of Directors of the Bank adopted the following proposals to the Annual General Assembly of shareholders relating to the approval of the financial statements and the appropriation of profits:

### Proposal No. 1

The Ordinary General Assembly of shareholders of the Bank is invited to approve the Bank's accounts, in particular the balance sheet and the profit and loss statement as at and for the year ended 31 December 2017, 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 2017.

### Proposal No. 2

The Ordinary General Assembly of shareholders of the Bank is invited to appropriate the 2017 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 "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 7.00 per share at the exchange rate of LBP 1,507.50 per USD.
- To holders of 2,750,000 series "J" preferred shares on the basis of USD 4.00 per share at the exchange rate of LBP 1,507.50 per USD.
- To holders of 399,749,204 common shares on the basis of LBP 829.125 per common share.

### Proposal No. 3

In line with the aforementioned proposed resolutions, the Ordinary General Assembly of shareholders of the Bank is invited to announce distributions and dividends subject to the withholding of distribution tax, and is invited to resolve that all distributions and dividends will be paid starting 16 April 2018, to the holders of shares on record as at 13 April 2018 ("Record Date") as per the records of Midclear sal.



You can view the Bank Audi 2017 Annual Report on our Investor Relations app



## 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 2017, 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 2017, 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 37 to the consolidated financial statements, during the year ended 31 December 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 22 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.

During the year ended 31 December 2017, the Group recognized in other comprehensive income the amount of LBP 78,300 million previously accounted for under other liabilities in 2016. Furthermore, as disclosed in Note 22 to the consolidated financial statements, the excess collective impairment allowances for loans and advances to customers mentioned above decreased to LBP 377,833 million due to foreign exchange differences of LBP 6,206 million.

The Group's accounting for the above-mentioned transactions departs from the requirements of International Financial Reporting Standards. This caused us to qualify our audit opinion on the consolidated financial statements relating to the years ended 31 December 2017 and 31 December 2016.

### Basis for Qualified Opinion (continued)

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;
- Other comprehensive income for the years ended 31 December 2017 and 2016 would have decreased by LBP 83,265 million and LBP 195,673 million respectively, through:
  - a decrease in "Other gains" of LBP 78,300 million and LBP 182,702 million for the years 2017 and 2016 respectively;
  - a decrease in "Net foreign currency translation" of LBP 4,965 million and LBP 12,971 million for the years 2017 and 2016 respectively;
- Total assets as at 31 December 2017 and 31 December 2016 would have increased by LBP 359,977 million and LBP 364,942 million respectively through:
  - an increase in loans and advances to customers of LBP 377,833 million and LBP 384,039 million as at 31 December 2017 and 2016 respectively;
  - a decrease in deferred tax assets of LBP 17,856 and LBP 19,097 million as at 31 December 2017 and 2016 respectively;
- 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 2017 and 31 December 2016 would have increased by LBP 359,977 million and LBP 443,242 million respectively through:
  - an increase in "Result of the year" of LBP 617,844 million as at 31 December 2016;
  - a decrease in "Non-distributable reserves" of LBP 78,300 million and LBP 182,702 million as at 31 December 2017 and 2016 respectively;
  - a decrease in "Other components of equity" of LBP 13,706 million and LBP 9,912 million as at 31 December 2017 and 31 December 2016 respectively;
  - an increase in non-controlling interests of LBP 16,841 million and LBP 18,012 million as at 31 December 2017 and 2016 respectively; and
  - an increase in retained earnings of LBP 435,142 million as at 31 December 2017.

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 2017 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 2017 Annual Report of the matters described in the *Basis for qualified opinion* section above.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2017. 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)**

Key Audit Matter	How our audit addresses the key audit matter
<b>Impairment of Loans and Advances</b>	
<p>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.</p>	<p>The risks outlined above were addressed by us as follows:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> </ul>
<b>Impairment of Goodwill</b>	
<p>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.</p>	<p>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.</p>

#### **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 Ramzi Ackawi for Ernst & Young and Antoine Gholam for BDO, Semaan, Gholam & Co.



Ernst & Young

20 March 2018  
Beirut, Lebanon



BDO, Semaan, Gholam & Co.

**CONSOLIDATED INCOME STATEMENT**

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 LBP Million	2016 LBP Million
<b>CONTINUING OPERATIONS</b>			
Interest and similar income	4	4,252,849	3,867,438
Interest and similar expense	5	(2,655,435)	(2,331,623)
<b>Net interest income</b>		<b>1,597,414</b>	<b>1,535,815</b>
Fee and commission income	6	441,600	1,441,911
Fee and commission expense	7	(75,793)	(106,760)
<b>Net fee and commission income</b>		<b>365,807</b>	<b>1,335,151</b>
Net gain on financial assets at fair value through profit or loss	8	95,634	396,931
Net gain on sale of financial assets at amortised cost	9	23,655	199,033
Revenues from financial assets at fair value through other comprehensive income	25	21,454	26,619
Share of profit of associates under equity method	26	3,047	1,090
Other operating income	10	167,092	46,579
<b>Total operating income</b>		<b>2,274,103</b>	<b>3,541,218</b>
Net credit losses	11	(216,716)	(665,384)
<b>Net operating income</b>		<b>2,057,387</b>	<b>2,875,834</b>
Personnel expenses	12	(630,727)	(733,910)
Other operating expenses	13	(436,062)	(490,546)
Depreciation of property and equipment	27	(74,397)	(77,802)
Amortisation of intangible assets	28	(22,968)	(30,913)
Impairment of goodwill and other assets	30 & 31	-	(193,660)
<b>Total operating expenses</b>		<b>(1,164,154)</b>	<b>(1,526,831)</b>
<b>Operating profit</b>		<b>893,233</b>	<b>1,349,003</b>
Net gain (loss) on disposal of fixed assets		734	(23,188)
<b>Profit before tax from continuing operations</b>		<b>893,967</b>	<b>1,325,815</b>
Income tax	14	(194,737)	(351,618)
<b>Profit after tax from continuing operations</b>		<b>699,230</b>	<b>974,197</b>
<b>DISCONTINUED OPERATIONS</b>			
Profit (loss) from discontinued operations, net of tax	15	143,394	(265,512)
<b>Profit for the year</b>		<b>842,624</b>	<b>708,685</b>
<b>Attributable to:</b>			
<b>Equity holders of the Parent:</b>			
Profit for the year from continuing operations		667,823	959,594
Profit (loss) for the year from discontinued operations	15	143,394	(287,499)
<b>Non-controlling interests:</b>		<b>31,407</b>	<b>36,590</b>
Profit for the year from continuing operations		31,407	14,603
Profit for the year from discontinued operations		-	21,987
		<b>842,624</b>	<b>708,685</b>
<b>Earnings per share:</b>			
		<b>LBP</b>	<b>LBP</b>
Basic and diluted earnings per share	16	1,919	1,572
Basic and diluted earnings per share from continuing operations		1,550	2,294

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 LBP Million	2016 LBP Million
<b>Profit for the year from continuing operations</b>		<b>699,230</b>	<b>974,197</b>
<b>Profit (loss) for the year from discontinued operations</b>		<b>143,394</b>	<b>(265,512)</b>
<b>Profit for the year</b>		<b>842,624</b>	<b>708,685</b>
<b>Other comprehensive income that will be reclassified to the income statement in subsequent periods</b>			
<i>Foreign currency translation</i>			
Exchange differences on translation of foreign operations		(72,369)	(758,094)
Loss reclassified to income statement		-	180,571
Net gain on hedge of net investments	20	(24,658)	46,250
Net deferred income taxes	14	1,890	(1,812)
<b>Net foreign currency translation</b>	<b>45</b>	<b>(95,137)</b>	<b>(533,085)</b>
<i>Time value of hedging</i>			
Change in fair value of the time value of an option	20	31,946	(27,955)
Amortisation to profit or loss of cumulative (gain)/loss arising on changes in fair value of the time value of option	20	23,236	23,300
Net deferred income taxes	14	(9,193)	94
<b>Net change in time value of hedging</b>		<b>45,989</b>	<b>(4,561)</b>
<b>Total other comprehensive loss that will be reclassified to the income statement in subsequent periods</b>		<b>(49,148)</b>	<b>(537,646)</b>
<b>Other comprehensive income that will not be reclassified to the income statement in subsequent periods</b>			
<i>Remeasurement gains (losses) on defined benefit plans</i>			
Actuarial (loss) gain on defined benefits plans	38	(9,852)	2,011
Net deferred income taxes	14	1,299	(673)
<b>Net remeasurement (losses) gains on defined benefit plans</b>		<b>(8,553)</b>	<b>1,338</b>
<i>Financial assets at fair value through other comprehensive income</i>			
Net unrealised loss	45	(1,450)	(4,463)
Net deferred income taxes	14	34	433
<b>Net unrealised loss on financial assets at fair value through other comprehensive income</b>	<b>45</b>	<b>(1,416)</b>	<b>(4,030)</b>
<i>Revaluation of lands and buildings</i>			
Effect of entities deconsolidated during the year		-	(2,319)
<b>Net loss on revaluation of lands and buildings</b>	<b>45</b>	<b>-</b>	<b>(2,319)</b>
<i>Other gains</i>			
Net gain from sale of financial assets	37 & 41	78,300	182,702
<b>Net other gains</b>		<b>78,300</b>	<b>182,702</b>
<b>Total other comprehensive income that will not be reclassified to the income statement in subsequent periods</b>		<b>68,331</b>	<b>177,691</b>
<b>Other comprehensive income for the year, net of tax</b>		<b>19,183</b>	<b>(359,955)</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>861,807</b>	<b>348,730</b>
<b>Attributable to:</b>			
<b>Equity holders of the Parent</b>		<b>854,006</b>	<b>372,174</b>
<b>Non-controlling interests</b>		<b>7,801</b>	<b>(23,444)</b>
		<b>861,807</b>	<b>348,730</b>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 LBP Million	2016 LBP Million
<b>ASSETS</b>			
Cash and balances with central banks	17	19,846,859	18,650,596
Due from banks and financial institutions	18	1,454,753	3,027,228
Loans to banks and financial institutions and reverse repurchase agreements	19	1,208,536	2,068,815
Derivative financial instruments	20	398,084	390,138
Financial assets at fair value through profit or loss	21	1,495,450	693,214
Loans and advances to customers at amortised cost	22	24,400,781	25,732,247
Loans and advances to related parties at amortised cost	23	161,814	219,193
Debtors by acceptances		226,896	199,156
Financial assets at amortised cost	24	14,822,345	13,990,070
Financial assets at fair value through other comprehensive income	25	158,027	193,948
Investments in associates	26	134,457	13,333
Property and equipment	27	884,400	881,501
Intangible assets	28	76,243	64,621
Non-current assets held for sale	29	144,058	81,027
Other assets	30	396,228	377,871
Deferred tax assets	14	104,253	107,424
Goodwill	31	42,713	41,827
<b>TOTAL ASSETS</b>		<b>65,955,897</b>	<b>66,732,209</b>
<b>LIABILITIES</b>			
Due to central banks	32	3,971,498	2,008,163
Due to banks and financial institutions	33	2,626,173	2,574,005
Due to banks under repurchase agreements	33	218,922	-
Derivative financial instruments	20	205,384	272,952
Customers' deposits	34	49,677,857	53,389,218
Deposits from related parties	35	750,222	813,548
Debt issued and other borrowed funds	36	1,235,268	973,535
Engagements by acceptances		226,896	199,156
Other liabilities	37	427,391	448,587
Current tax liabilities	14	94,702	224,762
Deferred tax liabilities	14	66,592	96,233
Provisions for risks and charges	38	141,731	156,592
<b>TOTAL LIABILITIES</b>		<b>59,642,636</b>	<b>61,156,751</b>
<b>SHAREHOLDERS' EQUITY – GROUP SHARE</b>			
Share capital – common shares	39	664,783	661,985
Share capital – preferred shares	39	12,472	10,350
Issue premium – common shares	39	883,582	883,582
Issue premium – preferred shares	39	1,118,153	931,837
Warrants issued on subsidiary shares	39	12,629	12,629
Cash contribution to capital	40	72,586	72,586
Non-distributable reserves	41	1,719,917	1,456,141
Distributable reserves	42	430,592	624,501
Treasury shares	44	(94,532)	(94,026)
Retained earnings		1,249,004	875,244
Other components of equity	45	(939,745)	(872,818)
Result of the year		811,217	672,095
		5,940,658	5,234,106
<b>NON-CONTROLLING INTERESTS</b>	46	<b>372,603</b>	<b>341,352</b>
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>6,313,261</b>	<b>5,575,458</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>65,955,897</b>	<b>66,732,209</b>

**CONSOLIDATED CASH FLOW STATEMENT**

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 LBP Million	2016 LBP Million
<b>OPERATING ACTIVITIES</b>			
Profit before tax from continuing operations		893,967	1,325,815
Profit (loss) before tax from discontinued operations		159,275	(263,749)
<b>Adjustments for non-cash items:</b>			
Depreciation and amortisation	27 & 28	97,365	108,715
Impairment of assets acquired in settlement of debt	29	75	310
Net (gain) loss on financial instruments at amortised cost	9	(23,655)	(199,033)
Provisions for loans and advances	11	276,618	715,797
Recoveries of provision for loans and advances	11	(59,902)	(50,413)
Share of net profit of associates	26	(3,047)	(1,090)
Net gain on disposal of assets acquired in settlement of debt	10	(324)	(11)
Net (gain) loss on sale or disposal of fixed assets		(734)	23,188
Provision for risks and charges		32,281	60,581
Write-back of provisions for risks and charges	10	(5,759)	(1,336)
Gain on revaluation of interest retained	10	(74,943)	-
Write-back of other provisions	10	(17,814)	-
Impairment of goodwill	31	-	148,439
Effect of entities deconsolidated during the year		(164,163)	73,738
		<b>1,109,240</b>	<b>1,940,951</b>
<b>Changes in operating assets and liabilities:</b>			
Balances with the central banks, banks and financial institutions maturing in more than 3 months		7,325,356	(3,245,003)
Change in derivatives and financial assets held for trading		(877,750)	(194,955)
Change in loans and advances to customers and related parties		1,172,129	397,823
Change in other assets		(121,687)	(56,116)
Change in deposits from customers and related parties		(3,774,687)	522,148
Change in other liabilities		38,520	126,870
<b>Cash from (used in) operations</b>		<b>4,871,121</b>	<b>(508,282)</b>
Provisions for risks and charges paid		(53,741)	(49,872)
Taxation paid		(333,991)	(208,891)
<b>Net cash from (used in) operating activities</b>		<b>4,483,389</b>	<b>(767,045)</b>
<b>INVESTING ACTIVITIES</b>			
Change in financial assets – other than trading		(767,541)	1,025,577
Purchase of property and equipment and intangibles	27 & 28	(116,150)	(171,857)
Change in investments under equity method and related loans		(118,077)	1,746
Proceeds from sale of property and equipment and intangibles		5,138	384
Proceed from sale of subsidiaries	15	276,640	30,150
<b>Net cash from (used in) investing activities</b>		<b>(719,990)</b>	<b>886,000</b>
<b>FINANCING ACTIVITIES</b>			
Subsidiary shares warrants	39	-	(4,516)
Issuance of preferred shares	39	411,616	369,168
Cancellation of preferred shares series "F"	39	(226,124)	-
Dividends paid	39	(339,935)	(275,515)
Treasury shares transactions		(290)	(93,742)
Debt issued and other borrowed funds	36	261,733	(80,447)
Change in non-controlling interests		23,450	359,368
Others		671	-
<b>Net cash from (used in) financing activities</b>		<b>131,121</b>	<b>274,316</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>3,894,520</b>	<b>393,271</b>
<b>Net foreign exchange difference</b>		<b>(40,080)</b>	<b>(608,014)</b>
<b>Cash and cash equivalents at 1 January</b>		<b>3,457,114</b>	<b>3,671,857</b>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	47	<b>7,311,554</b>	<b>3,457,114</b>
<b>Operational cash flows from interest and dividends</b>			
Interest paid		(2,618,233)	(2,322,153)
Interest received		4,244,913	3,846,153
Dividends received		21,935	27,024

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Attributable to the equity holders of the Parent														
	Share Capital – Common Shares	Share Capital – Preferred Shares	Issue Premium – Common Shares	Issue Premium – Preferred Shares	Warrants Issued on Subsidiary Shares	Cash Contribution to Capital	Non- distributable Reserves	Distributable Reserves	Treasury Shares	Retained Earnings	Other Components of Equity	Result of the Year	Total	Non- controlling Interests	Total Shareholders' Equity
	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million
<b>Balance at 1 January 2017</b>	661,985	10,350	883,582	931,837	12,629	72,586	1,456,141	624,501	(94,026)	875,244	(872,818)	672,095	5,234,106	341,352	5,575,458
Net profits for the year	-	-	-	-	-	-	-	-	-	-	-	811,217	811,217	31,407	842,624
Other comprehensive income	-	-	-	-	-	-	78,300	-	-	-	(35,511)	-	42,789	(23,606)	19,183
<b>Total comprehensive income</b>	-	-	-	-	-	-	78,300	-	-	-	(35,511)	811,217	854,006	7,801	861,807
Appropriation of 2016 profits	-	-	-	-	-	-	129,078	1,631	-	201,451	-	(332,160)	-	-	-
Issuance of series "J" preferred shares	-	4,573	-	409,989	-	-	-	(2,946)	-	-	-	-	411,616	-	411,616
Redemption of preferred share series "F"	-	(2,484)	-	(223,640)	-	-	-	-	-	-	-	-	(226,124)	-	(226,124)
Distribution of dividends on common shares	-	-	-	-	-	-	-	-	-	-	-	(294,145)	(294,145)	-	(294,145)
Distribution of dividends on preferred shares	-	-	-	-	-	-	-	-	-	-	-	(45,790)	(45,790)	-	(45,790)
Capital increase	2,798	33	-	(33)	-	-	(51,528)	(13,328)	-	62,058	-	-	-	-	-
Treasury shares transactions	-	-	-	-	-	-	-	216	(506)	-	-	-	(290)	-	(290)
Sale of financial assets at FVTOCI	-	-	-	-	-	-	-	-	-	36,382	(29,774)	-	6,608	-	6,608
Transfers	-	-	-	-	-	-	107,926	(181,795)	-	73,869	-	-	-	-	-
Other movements	-	-	-	-	-	-	-	2,313	-	-	(1,642)	-	671	23,450	24,121
<b>Balance at 31 December 2017</b>	664,783	12,472	883,582	1,118,153	12,629	72,586	1,719,917	430,592	(94,532)	1,249,004	(939,745)	811,217	5,940,658	372,603	6,313,261
<b>Balance at 1 January 2016</b>	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)
<b>Total comprehensive income</b>	-	-	-	-	-	-	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 series "I" preferred shares	-	4,140	-	372,735	-	-	-	(7,707)	-	-	-	-	369,168	-	369,168
Distribution of dividends on common shares	-	-	-	-	-	-	-	-	-	-	-	(241,030)	(241,030)	-	(241,030)
Distribution of dividends on preferred shares	-	-	-	-	-	-	-	-	-	-	-	(34,485)	(34,485)	-	(34,485)
Treasury share transactions	-	-	-	-	-	-	-	284	(94,026)	-	-	-	(93,742)	-	(93,742)
Warrants issued on subsidiary shares	-	-	-	-	(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)
<b>Balance at 31 December 2016</b>	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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

AS AT 31 DECEMBER 2017

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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 2018.

## 2.0. | ACCOUNTING POLICIES

### 2.1. | BASIS OF PREPARATION

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

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

### STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and the

regulations of the Central Bank of Lebanon and the Banking Control Commission ("BCC").

### PRESENTATION OF FINANCIAL STATEMENTS

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

of the following circumstances: a) the normal course of business, b) the event of default, and c) the event of insolvency or bankruptcy of the Group and/or its counterparties. Only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement. This is not generally the case with master netting agreements, therefore the related assets and liabilities are presented gross in the consolidated statement of financial position. Income and expense will not be offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

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

### 2.2. | BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of Bank Audi sal and its subsidiaries as at 31 December 2017. Details of the principal subsidiaries are given in Note 46.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. However, under individual circumstances, the Group may still exercise control with less than 50% shareholding or may not be able to exercise control even with ownership over 50% of an entity's shares. When assessing whether it has power over an investee and therefore controls the variability of its returns, the Group considers all relevant facts and circumstances, including:

- The purpose and design of the investee;
- The relevant activities and how decisions about those activities are made and whether the Bank can direct those activities;
- Contractual arrangements such as call rights, put rights and liquidation rights; and
- Whether the Group is exposed, or has rights, to variable returns from its involvement with the investee, and has the power to affect the variability of such returns.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

### NON-CONTROLLING INTERESTS

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

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

### NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2017. The nature and the impact of each amendment is described below:

#### Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The amendments have no impact on the Group's financial statements as all of these changes are cash flow changes.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

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

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.

#### Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group applied amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

## ANNUAL IMPROVEMENTS CYCLE – 2014-2016

### Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the Scope of Disclosure Requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

As at 31 December 2017, the Group had no interest in a subsidiary, joint venture or associate classified as held for sale, and as such, these amendments did not affect the Group's financial statements.

## 2.3. | STANDARDS ISSUED BUT NOT YET EFFECTIVE

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2017, with the Group not opting for early adoption. These have therefore not been applied in preparing these consolidated financial statements.

### IFRS 9 Financial Instruments

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

In accordance with the transition provisions of IFRS 9 (2014), the Group will apply this standard retrospectively. The changes in measures arising on initial application will be incorporated through an adjustment to opening retained earnings or reserves (as applicable) as at 1 January 2018.

### Estimated Impact of the Adoption of IFRS 9 on the Opening Equity at 1 January 2018 :

- Based on assessments undertaken to date, the expected increase in impairment allowances when measured in accordance with IFRS 9 "Expected Credit Losses Model" (see II below) is compared to IAS 39 "Incurred Loss Model" is estimated at approximately LBP 115 billion, which is already covered by the Group's excess collective provisions disclosed in Note 22. Accordingly, there will be no impact on the Group's equity from the adoption of the IFRS 9 impairment requirements.

- Total estimated adjustments related to classification and measurements other than impairment (see I below) will reduce opening equity by approximately LBP 3 billion.

The above assessment is preliminary because not all transition work has been finalised. The actual impact of adopting IFRS 9 on 1 January 2018 may change because:

- IFRS 9 will require the Group to revise its accounting processes and internal controls and these changes are not yet complete;
- Although parallel runs were carried out in the second half of 2017, the new systems and associated controls in place have not been operational for a more extended period;
- The Group has not finalised the testing and assessment of control over its new IT systems and changes to its governance framework;
- The Group is refining and finalising its models for ECL calculations; and
- The new accounting policies, assumptions, judgments and estimation techniques employed are subject to change until the Group finalises its first financial statements that include the date of initial application.

## IFRS 9 Financial Instruments

### I. Classification and Measurement

The Group has early adopted classification and measurement requirements as issued in IFRS 9 (2009) and IFRS 9 (2010). In the July 2014 publication of IFRS 9, the new measurement category FVOCI was introduced for financial assets that satisfy the contractual cash flow characteristics (SPPI test). This category is aimed at portfolio of debt instruments for which amortised cost information, as well as fair value information is relevant and useful. This will be the case if these assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets.

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

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

The expected impact on the classification of the Group's financial assets and their carrying values and equity is discussed above.

### II. Impairment

The standard introduces a new single model for the measurement of impairment losses on all financial assets including loans and debt securities measured at amortised cost or at fair value through OCI. The IFRS 9 expected credit loss (ECL) model replaces the current model of IAS 39.

The ECL model contains a three-stage approach which is based on the change in credit quality of financial assets since initial recognition. The ECL model is forward-looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

#### Stage 1

12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk (SICR) since origination and are not credit impaired. The ECL will be computed using a factor that represents the Probability of Default (PD) occurring over the next 12 months.

#### Stage 2

Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded. Provisions are expected to be higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.

#### Stage 3

Under Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

### Key Considerations

Some of the key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Group while determining the impact assessment, are:

#### Assessment of Significant Increase in Credit Risk

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Group compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Group existing risk management processes.

Our assessment of significant increases in credit risk will be performed at least quarterly for each individual exposure based on three factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:

- We have established thresholds for significant increases in credit risk based on movement in PDs relative to initial recognition.
- Additional qualitative reviews will be performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk.
- IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk. Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of credit-impairment under IFRS 9 will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39.

#### Macroeconomic Factors, Forward-looking Information (FLI) and Multiple Scenarios

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will require significant judgment.

PD, Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in our expected credit loss calculation will have forecasts of the relevant macroeconomic variables.

IFRS 9 Financial Instruments	
<b>II. Impairment</b>	<p>Our estimation of expected credit losses in Stage 1 and Stage 2 will be a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios.</p> <p>Our base case scenario will be based on macroeconomic forecasts published by our internal economics group. Upside and downside scenarios will be set relative to our base case scenario based on reasonably possible alternative macroeconomic conditions. Scenario design, including the identification of additional downside scenarios will occur on at least an annual basis and more frequently if conditions warrant.</p> <p>Scenarios will be probability-weighted according to our best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights will be updated on a quarterly basis. All scenarios considered will be applied to all portfolios subject to expected credit losses with the same probabilities.</p> <p><b>Definition of Default</b> The definition of default used in the measurement of expected credit losses and the assessment to determine movement between stages will be consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.</p> <p><b>Expected Life</b> When measuring ECL, the Group must consider the maximum contractual period over which the Group is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Group is exposed to credit risk and where the credit losses would not be mitigated by management actions.</p> <p><b>Governance</b> In addition to the existing risk management framework, we have established an Internal Committee to provide oversight to the IFRS 9 implementation. The Committee is comprised of senior representatives from Finance and Risk Management and main business lines, and will be responsible for reviewing and approving staging of financial assets and other key inputs and assumptions used in our expected credit loss estimates. It also assesses the appropriateness of the overall allowance to be provided for expected credit losses.</p> <p>The expected impact on the Group's statement of financial position and equity is discussed above.</p>
<b>III. Hedge Accounting</b>	<p>The Group has early adopted hedge accounting requirements as issued in IFRS 9 (2013). These requirements were first published in November 2013 and remain unchanged in the July 2014 publication of IFRS 9, except to reflect the addition of the FVOCI measurement category to IFRS 9.</p> <p>The Group does not expect an impact on its financial statements as the Group does not have hedged items measured at FVOCI.</p>
<b>IV. Financial Instruments: Disclosures (IFRS 7)</b>	<p>The Group will be amending the disclosures for 2018 financial statements to include more extensive qualitative and quantitative disclosures relating to IFRS 9 such as new classification categories, three stage impairment model, new hedge accounting requirements and transition provisions.</p>

Standard	Description	Effective Date (Early Adoption Permitted)
<b>IFRS 15, "Revenue from Contracts with Customers"</b>	<p>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.</p>	1 January 2018
<b>IFRS 16, "Leases"</b>	<p>The IASB issued the new standard for accounting for leases in January 2016.</p> <p>(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.</p> <p>(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.</p> <p>(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.</p> <p>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.</p>	1 January 2019
<b>Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities – Applying the Consolidation Exception"</b>	<p>The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.</p>	Indefinite
<b>IFRS 2 "Classification and Measurement of Share-based Payment Transactions" — Amendments to IFRS 2</b>	<p>The IASB issued amendments to IFRS 2 "Share-based Payment" that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.</p> <p>On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met.</p>	1 January 2018
<b>IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration"</b>	<p>The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:</p> <p>(i) The beginning of the reporting period in which the entity first applies the interpretation; or (ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.</p>	1 January 2018
<b>IFRIC Interpretation 23 "Uncertainty over Income Tax Treatment"</b>	<p>The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.</p> <p>The Interpretation specifically addresses the following:</p> <ul style="list-style-type: none"> <li>• Whether an entity considers uncertain tax treatments separately.</li> <li>• The assumptions an entity makes about the examination of tax treatments by taxation authorities.</li> <li>• How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.</li> <li>• How an entity considers changes in facts and circumstances.</li> </ul> <p>An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. Since the Group operates in a complex multinational tax environment, applying the Interpretation may affect its consolidated financial statements and the required disclosures. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.</p>	1 January 2019

The Group is currently assessing the impact of adopting the above changes as it plans to adopt the new standards on the required effective dates.

## 2.5. | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### BUSINESS COMBINATIONS AND GOODWILL

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

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured 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. Contingent consideration classified as equity is not remeasured until it is finally settled within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

### INVESTMENTS IN ASSOCIATES

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

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

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

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

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

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

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.

### FOREIGN CURRENCIES

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

#### Transactions and Balances

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation

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.

of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

#### 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 recognised in OCI. On disposal of a foreign entity, the deferred cumulative amount recognised in OCI relating to that particular foreign operation is reclassified to the consolidated income statement.

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

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

	2017		2016	
	Year-end Rate LBP	Average Rate LBP	Year-end Rate LBP	Average Rate LBP
US Dollar	1,507.50	1,507.50	1,507.50	1,507.50
Euro	1,806.56	1,704.73	1,596.29	1,662.26
Swiss Franc	1,545.04	1,531.52	1,485.81	1,524.89
Turkish Lira	399.92	415.53	427.66	500.28
Jordanian Dinar	2,126.23	2,125.57	2,124.74	2,125.11
Egyptian Pound	84.79	84.61	81.49	141.22
Saudi Riyal	401.99	401.96	401.91	401.88
Qatari Riyal	414.03	413.03	413.99	414.01
Iraqi Dinar	1.26	1.29	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.

#### 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 financial investments”.

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.

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

After initial measurement, these 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”.

#### 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 and Loans and Advances at Fair Value*

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.

#### 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 rate method, except for:

- Financial liabilities at fair value through profit or loss (including derivatives);
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
- 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”;
- Contingent consideration recognised in a business combination in accordance with IFRS 3.

The Group may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when:

- Doing so results in more relevant information, because it either eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as “an accounting mismatch”) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- A group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's Key Management Personnel.

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.

#### Debt Issued and Other Borrowed Funds

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

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

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the

date of issue based on its fair value (which is generally determined based on the quoted market prices for similar debt instruments). The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the debt component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component is included in the debt component.

*Due to Central Banks, Banks and Financial Institutions 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. Customer 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

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (aka the “underlying”).
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The Group enters into derivative transactions with various counterparties. These include interest rate swaps, 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, unless hedge accounting is applied, which is discussed in under “hedge accounting policy” below.

An embedded derivative is separated from the host and accounted for as a derivative if, and only if:

- The hybrid contract contains a host that is not an asset within the scope of IFRS 9;
- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host;
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- 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

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised (i.e. removed from the Group’s consolidated statement of financial position) when:

- The contractual rights to the cash flows from the financial asset expire; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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, it evaluates, and to what extent, it has retained the risks and rewards of ownership. When it 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”.

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

## 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.

## 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.

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.

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

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

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

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

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

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

### Renegotiated Loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment

## 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.

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.

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".

When an entity separates the intrinsic value and time value of an option contract and designates as the hedging instrument only the change in intrinsic value of the option, it shall account for the time value of the option as follows:

- (a) An entity shall distinguish the time value of options by the type of hedged item that the option hedges:
  - (i) A transaction-related hedged item; or
  - (ii) A time-period related hedged item.
- (b) The change in fair value of the time value shall be recognised in other comprehensive income to the extent that it relates to the hedged item and shall be accumulated in a separate component of equity. The cumulative change in fair value shall be accounted for as follows:

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

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

### (i) Fair Value Hedges

For qualifying fair value hedges, the gain or loss on the hedging instrument is recognised in the consolidated income statement under "net gain on financial assets at fair value through profit or loss" (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

## LEASES

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

### Group as a Lessee

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

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.

Contingent rental payables are recognised as an expense in the period in which they are incurred.

### Group as a Lessor

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

## REVENUE RECOGNITION

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

### 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, are recognised on completion of the underlying transaction. Fee or components of fee that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

### 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 all 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 comprises balances with original maturities of a period of three months or less including cash and balances with central banks, deposits with banks and financial institutions, deposits due to banks and financial institutions, and repurchase and reverse repurchased agreements.

## PROPERTY AND EQUIPMENT

“Property and equipment”, except for land and buildings, is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment. When significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the consolidated income statement as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised since the date of revaluation. Valuations are performed by internal or external valuers with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

A revaluation surplus is recorded in other comprehensive income and credited to the real estate revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the 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

Any item of property and equipment and any significant part initially recognised are derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement when the asset is derecognised.

## INTANGIBLE ASSETS

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement.

## 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

## 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

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

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.

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

## PROVISIONS FOR RISKS AND CHARGES

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, the Bank determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the consolidated income statement net of any reimbursement.

The Group operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory investigations and proceedings both in Lebanon and in other jurisdictions, arising in the ordinary course of the Group's business.

## PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

The Group provides retirement benefits obligation to its employees under defined benefit plans, which requires contributions to be made to separately administered funds. The cost of providing these benefits is determined using the projected unit credit method which involves making actuarial assumptions about discount rates and future salary increases. Those assumptions are unbiased and mutually compatible.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest and the return on plan assets (excluding net interest), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

## 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.

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.

When the Group can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Group records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Group is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Group does not include detailed, case-specific disclosures in its financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Group takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment; and
- The date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "personnel expenses" in consolidated statement of income:

- Service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements.
- Net interest expense or income.

### 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.

## 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

## DIVIDENDS ON COMMON SHARES

Dividends on common shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no

## TREASURY SHARES

Own equity instruments of the Group which are acquired by it or by any of its subsidiaries (Treasury shares) are deducted from equity and accounted for at cost. Consideration paid or received on the purchase sale, issue or cancellation of the Group's own equity instruments is recognised directly in equity. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

When the Group holds own equity instruments on behalf of its clients, those holdings are not included in the Group's consolidated statement of financial position.

## 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,

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.

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.

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.

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.

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:

- 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.

### 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;

## ESTIMATES AND ASSUMPTIONS

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

### Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, estimation is required to establish fair values. The judgments and estimates include considerations of liquidity and model inputs such as credit risk (both own and counterparty) funding value adjustments, correlation and volatility.

### Impairment Losses on 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 buildings 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. | SEGMENT REPORTING

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segments are evaluated based on information relating to net operating income and financial position. Income taxes and operating expenses are managed on a group basis and are not allocated to operating segments.

Interest income is reported net, since Management monitors net interest income as a performance measure and not the gross income and expense amounts. Net interest income is allocated to the business segment based

#### 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.

on the assumption that all positions are funded or invested via a central funding unit. An internal Funds Transfer Pricing (FTP) mechanism was implemented between operating segments. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The assets and liabilities that are reported in the segments are net from inter-segments' assets and liabilities since they constitute the basis of Management's measures of the segments' assets and liabilities and the basis of the allocation of resources between segments.

**Treasury and Capital Markets** provides Treasury services including transactions in money and capital markets for the Group's customers, manages investment and trading transactions (locally and internationally), and manages liquidity and market risks. This segment also offers Investment Banking and brokerage services, and manages the Group's own portfolio of stocks, bonds, and other financial instruments.

**Group Functions and Head Office** consists of capital and strategic investments, exceptional profits and losses, as well as operating results of subsidiaries which offer non-banking services.

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

#### NET OPERATING INCOME INFORMATION

	2017				
	Corporate and Commercial Banking LBP Million	Retail and Personal Banking LBP Million	Treasury and Capital Markets LBP Million	Group Functions and Head Office LBP Million	Total LBP Million
<b>Net interest income</b>	531,567	442,774	469,678	153,395	<b>1,597,414</b>
<b>Non-interest income</b>					
Net fee and commission income	156,356	200,704	10,097	(1,350)	<b>365,807</b>
Foreign exchange operations	(6,695)	40,985	(14,296)	716	<b>20,710</b>
Financial operations	-	7,499	92,882	19,652	<b>120,033</b>
Share of profit of associates	-	-	-	3,047	<b>3,047</b>
Other operating income	522	6,543	108	159,919	<b>167,092</b>
<b>Total non-interest income</b>	<b>150,183</b>	<b>255,731</b>	<b>88,791</b>	<b>181,984</b>	<b>676,689</b>
<b>Total operating income</b>	<b>681,750</b>	<b>698,505</b>	<b>558,469</b>	<b>335,379</b>	<b>2,274,103</b>
Net credit losses	(143,398)	(73,318)	-	-	<b>(216,716)</b>
<b>Net operating income</b>	<b>538,352</b>	<b>625,187</b>	<b>558,469</b>	<b>335,379</b>	<b>2,057,387</b>

	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
<b>Non-interest income</b>					
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
<b>Total non-interest income</b>	<b>134,097</b>	<b>281,485</b>	<b>1,509,181</b>	<b>80,640</b>	<b>2,005,403</b>
<b>Total operating income</b>	<b>741,665</b>	<b>676,897</b>	<b>1,941,325</b>	<b>181,331</b>	<b>3,541,218</b>
Net credit losses	(521,963)	(143,421)	-	-	(665,384)
<b>Net operating income</b>	<b>219,702</b>	<b>533,476</b>	<b>1,941,325</b>	<b>181,331</b>	<b>2,875,834</b>

#### FINANCIAL POSITION INFORMATION

	2017				
	Corporate and Commercial Banking LBP Million	Retail and Personal Banking LBP Million	Treasury and Capital Markets LBP Million	Group Functions and Head Office LBP Million	Total LBP Million
Investments in associates	-	-	-	134,457	<b>134,457</b>
<b>Total assets</b>	<b>17,966,923</b>	<b>8,953,739</b>	<b>37,034,222</b>	<b>2,001,013</b>	<b>65,955,897</b>
<b>Total liabilities</b>	<b>13,271,945</b>	<b>37,285,138</b>	<b>7,663,725</b>	<b>1,421,828</b>	<b>59,642,636</b>

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

Capital expenditures amounting to LBP 116,150 million for the year 2017 (2016: LBP 171,857 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. 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

	2017			
	Lebanon LBP Million	MENAT LBP Million	Europe LBP Million	Total LBP Million
<b>Net interest income</b>	<b>747,758</b>	<b>775,589</b>	<b>74,067</b>	<b>1,597,414</b>
<b>Non-interest income</b>				
Net fee and commission income	157,410	150,317	58,080	365,807
Foreign exchange operations	21,351	(27,328)	26,687	20,710
Financial operations	89,213	26,119	4,701	120,033
Share of profit or loss of associates	3,338	(291)	-	3,047
Other operating income	152,306	9,505	5,281	167,092
<b>Total non-interest income</b>	<b>423,618</b>	<b>158,322</b>	<b>94,749</b>	<b>676,689</b>
<b>Total external operating income</b>	<b>1,171,376</b>	<b>933,911</b>	<b>168,816</b>	<b>2,274,103</b>
Net credit losses	(44,652)	(167,053)	(5,011)	(216,716)
<b>Net external operating income</b>	<b>1,126,724</b>	<b>766,858</b>	<b>163,805</b>	<b>2,057,387</b>

	2016			
	Lebanon LBP Million	MENAT LBP Million	Europe LBP Million	Total LBP Million
<b>Net interest income</b>	<b>629,935</b>	<b>841,430</b>	<b>64,450</b>	<b>1,535,815</b>
<b>Non-interest income</b>				
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
<b>Total non-interest income</b>	<b>1,201,223</b>	<b>520,094</b>	<b>284,086</b>	<b>2,005,403</b>
<b>Total external operating income</b>	<b>1,831,158</b>	<b>1,361,524</b>	<b>348,536</b>	<b>3,541,218</b>
Net credit losses	(343,725)	(315,191)	(6,468)	(665,384)
<b>Net external operating income</b>	<b>1,487,433</b>	<b>1,046,333</b>	<b>342,068</b>	<b>2,875,834</b>

### FINANCIAL POSITION INFORMATION

	2017			
	Lebanon LBP Million	MENAT LBP Million	Europe LBP Million	Total LBP Million
Capital expenditures	33,927	80,690	1,533	116,150
Investments in associates	131,734	2,723	-	134,457
<b>Total assets</b>	<b>44,413,246</b>	<b>17,489,692</b>	<b>4,052,959</b>	<b>65,955,897</b>
<b>Total liabilities</b>	<b>38,448,785</b>	<b>17,597,815</b>	<b>3,596,036</b>	<b>59,642,636</b>

	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
<b>Total assets</b>	<b>42,823,697</b>	<b>20,312,789</b>	<b>3,595,723</b>	<b>66,732,209</b>
<b>Total liabilities</b>	<b>38,254,444</b>	<b>20,012,766</b>	<b>2,889,541</b>	<b>61,156,751</b>

## 4.0. | INTEREST AND SIMILAR INCOME

	2017 LBP Million	2016 LBP Million
Balances with central banks	729,391	524,543
Due from banks and financial institutions	79,603	45,219
Loans to banks and financial institutions and reverse repurchase agreements	110,250	113,153
Loans and advances to customers at amortised cost	2,375,573	2,294,647
Loans and advances to related parties at amortised cost	6,584	8,197
Financial assets classified at amortised cost	951,448	881,679
	<b>4,252,849</b>	<b>3,867,438</b>

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

	2017 LBP Million	2016 LBP Million
Corporate and SME	1,818,584	1,719,003
Retail and Personal Banking	511,796	513,166
Public sector	45,193	62,478
	<b>2,375,573</b>	<b>2,294,647</b>

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

	2017 LBP Million	2016 LBP Million
Lebanese sovereign and Central Bank of Lebanon	738,428	605,918
Other sovereign	193,615	255,566
Private sector and other securities	19,405	20,195
	<b>951,448</b>	<b>881,679</b>

## 5.0. | INTEREST AND SIMILAR EXPENSE

	2017 LBP Million	2016 LBP Million
Due to central banks	30,102	32,814
Due to banks and financial institutions	88,824	58,791
Due to banks under repurchase agreement	2,338	-
Customers' deposits	2,423,821	2,135,480
Deposits from related parties	29,914	30,961
Debt issued and other borrowed funds	80,436	73,577
	<b>2,655,435</b>	<b>2,331,623</b>

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

	2017 LBP Million	2016 LBP Million
Corporate and SME	715,464	606,918
Retail and Personal Banking	1,703,883	1,526,516
Public sector	4,474	2,046
	<b>2,423,821</b>	<b>2,135,480</b>

## 6.0. | FEE AND COMMISSION INCOME

	2017 LBP Million	2016 LBP Million
Commercial Banking income	68,950	87,133
Credit-related fees and commissions	79,274	88,782
Brokerage and custody income	75,866	1,009,019
Trust and fiduciary activities	21,796	16,059
Trade finance income	65,640	56,578
Electronic Banking	68,859	127,654
Corporate finance fees	45,908	36,957
Insurance brokerage income	11,480	12,591
Other fees and commissions	3,827	7,138
	<b>441,600</b>	<b>1,441,911</b>

During 2016, commissions from brokerage and custody activities included 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.

## 7.0. | FEE AND COMMISSION EXPENSE

	2017 LBP Million	2016 LBP Million
Commercial Banking expenses	9,557	9,757
Brokerage and custody fees	17,867	14,831
Electronic Banking	37,637	66,936
Insurance brokerage fees	1,063	1,124
Other fees and commissions	9,669	14,112
	<b>75,793</b>	<b>106,760</b>

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

	2017			2016		
	Trading Gain (Loss) LBP Million	Interest Income LBP Million	Total LBP Million	Trading Gain (Loss) LBP Million	Interest Income LBP Million	Total LBP Million
<b>a) Net gain on financial instruments</b>						
<b>Lebanese sovereign and Central Bank of Lebanon</b>						
Certificates of deposits	97,208	26,571	123,779	176,792	15,158	191,950
Treasury bills	(9,201)	40,825	31,624	(2,730)	33,137	30,407
Eurobonds	(8,820)	11,959	3,139	1,644	3,177	4,821
	<b>79,187</b>	<b>79,355</b>	<b>158,542</b>	<b>175,706</b>	<b>51,472</b>	<b>227,178</b>
<b>Other sovereign</b>						
Treasury bills	151	126	277	(6,095)	690	(5,405)
Eurobonds	106	-	106	113	-	113
	<b>257</b>	<b>126</b>	<b>383</b>	<b>(5,982)</b>	<b>690</b>	<b>(5,292)</b>
<b>Private sector and other securities</b>						
Banks and financial institutions debt instruments	319	151	470	478	21	499
Loans and advances	-	1,261	1,261	(9,465)	1,521	(7,944)
Corporate debt instruments	37	-	37	119	-	119
Structured product	-	-	-	4	-	4
Funds	1,046	-	1,046	807	-	807
Equity instruments	445	-	445	79	-	79
	<b>1,847</b>	<b>1,412</b>	<b>3,259</b>	<b>(7,978)</b>	<b>1,542</b>	<b>(6,436)</b>
<b>b) Other trading income</b>						
Foreign exchange	20,710	-	20,710	246,005	-	246,005
Currency swaps and forwards	(73,345)	-	(73,345)	(66,899)	-	(66,899)
Currency options	(30,528)	-	(30,528)	(22,319)	-	(22,319)
Credit derivatives	8,225	-	8,225	9,046	-	9,046
Other derivatives	7,907	-	7,907	15,243	-	15,243
Dividends	481	-	481	405	-	405
	<b>(66,550)</b>	<b>-</b>	<b>(66,550)</b>	<b>181,481</b>	<b>-</b>	<b>181,481</b>
	<b>14,741</b>	<b>80,893</b>	<b>95,634</b>	<b>343,227</b>	<b>53,704</b>	<b>396,931</b>

Trading gain on financial assets at fair value through profit or loss includes the results of trading in the above classes of securities, as well as the result of the change in their fair values.

Currency derivatives include gains and losses from spot transactions, forward and swap currency contracts, and amortisation of time value of options designated for hedging purposes.

Foreign exchange includes the result of the revaluation of the daily open foreign currency positions. 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 2017, derivatives include a gain of LBP 8,225 million (2016: gain of LBP 9,046 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 34 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 37).

## 9.0. | NET GAIN ON SALE OF FINANCIAL ASSETS AT AMORTISED COST

The Group derecognises some debt instruments classified at amortised cost due to the following reasons:

- Deterioration of the credit rating below the ceiling allowed in the Group's investment policy;
- Liquidity gap and yield management;
- Exchange of certificates of deposits by the Central Bank of Lebanon; or

- Currency risk management as a result of change in the currency base of deposits.

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

	2017			2016		
	Gains LBP Million	Losses LBP Million	Net LBP Million	Gains LBP Million	Losses LBP Million	Net LBP Million
<b>Lebanese sovereign and Central Bank of Lebanon</b>						
Certificates of deposits	16,923	(187)	16,736	241,106	(1,707)	239,399
Treasury bills	6,470	(596)	5,874	4,706	(406)	4,300
Eurobonds	4,106	(3,776)	330	12,689	(57,989)	(45,300)
	<b>27,499</b>	<b>(4,559)</b>	<b>22,940</b>	<b>258,501</b>	<b>(60,102)</b>	<b>198,399</b>
<b>Other sovereign</b>						
Treasury bills	8,100	(7,657)	443	2,185	(1,548)	637
Other governmental securities	880	-	880	6	-	6
Eurobonds	-	(342)	(342)	-	-	-
	<b>8,980</b>	<b>(7,999)</b>	<b>981</b>	<b>2,191</b>	<b>(1,548)</b>	<b>643</b>
<b>Private sector and other securities</b>						
Banks and financial institutions debt instruments	1	(239)	(238)	9	(2)	7
Corporate and other debt instruments	-	(28)	(28)	1	(17)	(16)
	<b>1</b>	<b>(267)</b>	<b>(266)</b>	<b>10</b>	<b>(19)</b>	<b>(9)</b>
	<b>36,480</b>	<b>(12,825)</b>	<b>23,655</b>	<b>260,702</b>	<b>(61,669)</b>	<b>199,033</b>

Refer to Note 8 for the effect of unrealised gains on certain financial transactions carried out with the Central Bank of Lebanon.

## 10.0. | OTHER OPERATING INCOME

	2017 LBP Million	2016 LBP Million
Revenue from non-banking activities*	43,706	37,955
Recovery from insurance claim	9,870	-
Safe rental	1,660	1,647
Release of provision for risks and charges (Note 38)	1,347	1,336
Gain on revaluation of interest retained (Note 15)	74,943	-
Income from disposal of assets acquired against debts	324	11
Release of provision for end of service benefits (Note 38)	4,412	-
Release of other provision	17,814	-
Other income	13,016	5,630
	<b>167,092</b>	<b>46,579</b>

\* Revenue from non-banking activities represent software license and IT-services revenue earned by Capital Banking Solutions Ltd, a subsidiary.

## 11.0. | NET CREDIT LOSSES

	2017 LBP Million	2016 LBP Million
<b>Loans and advances to customers (Note 22)</b>		
New and increased impairment allowances (Note 22)	276,618	715,797
	<b>276,618</b>	<b>715,797</b>
Impairment allowances recovered (Note 22)	(38,566)	(26,178)
Unrealised interest recovered (Note 22)	(10,187)	(1,116)
Recoveries of debts previously written off (Note 22)	(11,149)	(23,119)
	<b>(59,902)</b>	<b>(50,413)</b>
	<b>216,716</b>	<b>665,384</b>

## 12.0. | PERSONNEL EXPENSES

	2017 LBP Million	2016 LBP Million
Salaries and related benefits	499,873	591,718
Social security contributions	53,057	51,322
End of service benefits (Note 38)	17,705	31,442
Transportation	20,091	18,374
Schooling	10,165	9,704
Medical expenses	6,440	6,102
Food and beverage	7,332	7,726
Training and seminars	5,043	6,620
Others	11,021	10,902
	<b>630,727</b>	<b>733,910</b>

## 13.0. | OTHER OPERATING EXPENSES

	2017 LBP Million	2016 LBP Million
Operating leases	67,938	68,496
Professional fees	36,854	52,572
Board of Directors' fees	5,241	5,723
Advertising fees	43,779	50,063
Taxes and similar disbursements	31,868	35,988
Outsourcing services	31,545	34,799
Premium for guarantee of deposits	27,860	24,843
Information technology	46,856	69,050
Donations and social aids	4,771	12,924
Provisions for risks and charges (Note 38)	2,843	4,125
Travel and related expenses	14,829	15,501
Telephone and mail	13,816	14,099
Electricity, water and fuel	10,483	10,597
Maintenance	12,877	12,144
Insurance premiums	7,931	8,135
Facilities services	12,549	11,586
Subscription to communication services	10,530	9,996
Office supplies	5,344	6,633
Receptions and gifts	4,481	6,896
Electronic cards expenses	9,548	10,019
Regulatory charges	9,216	9,780
Documentation and miscellaneous subscriptions	3,678	2,843
Others	21,225	13,734
	<b>436,062</b>	<b>490,546</b>

## 14.0. | INCOME TAX

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

	2017 LBP Million	2016 LBP Million
<b>Current tax</b>		
Current income tax	167,434	299,910
Adjustment in respect of current income tax of prior years	851	6,689
Other taxes treated as income tax	26,516	4,343
	<b>194,801</b>	<b>310,942</b>
<b>Deferred tax</b>		
Relating to origination and reversal of temporary differences	(64)	40,676
	<b>194,737</b>	<b>351,618</b>

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:

	2017 LBP Million	2016 LBP Million
<b>Operating profit before tax</b>	<b>893,967</b>	<b>1,325,815</b>
<b>At applicable tax</b>	<b>213,393</b>	<b>214,107</b>
<b>Non-deductible expenses:</b>		
Non-deductible expenses	17,815	22,957
Non-deductible provisions	12,496	91,795
Unrealised losses on financial instruments	47,402	39,286
Unearned commissions	-	7,629
Other non-deductibles	16,210	15,309
	<b>96,923</b>	<b>176,976</b>
<b>Income not subject to tax:</b>		
Revenues previously subject to tax	86,172	6,773
Provision recoveries previously subject to tax	1,228	12,876
Exempted revenues	27	48,397
Unrealised gains on financial instruments	20,635	13,323
Other deductibles	32,536	3,694
	<b>140,596</b>	<b>85,063</b>
<b>Income tax</b>	<b>167,434</b>	<b>299,910</b>
<b>Effective income tax rate</b>	<b>18.73%</b>	<b>22.62%</b>

The tax rates applicable to the parent and subsidiaries vary from 7.25% to 35% in accordance with the income tax laws of the countries where the Group operates. For the purpose of determining the taxable results of the subsidiaries for the year, the accounting results have been adjusted for tax purposes. Such adjustments include items relating to both income and expense, and are based on the current understanding of the existing tax laws and regulations and tax practices.

Effective October 2017, the applicable tax rates for entities operating in Lebanon increased from 15% to 17%.

Furthermore, tax on interest increased from 5% to 7% and is no longer allowed as a tax credit. Instead, it became a deductible expense for the purpose of calculation of taxable profit.

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

	2017 LBP Million	2016 LBP Million
<b>Balance at 1 January</b>	<b>224,762</b>	<b>84,879</b>
Charges for the year	194,801	310,942
Taxes on discontinued operations	15,881	1,763
Transfer from deferred tax liabilities	-	32,571
Transfer to deferred tax liabilities	-	(2,894)
Taxes on gain recognised directly in other comprehensive income	9,979	46,061
Transfer to tax regularisation accounts	(15,770)	(2,750)
Other transfers	(209)	1,258
	<b>204,682</b>	<b>386,951</b>
Less taxes paid:		
Current year tax liability*	(116,819)	(134,498)
Prior year tax liabilities	(217,172)	(76,156)
	<b>(333,991)</b>	<b>210,654</b>
Foreign exchange difference	(751)	(36,414)
<b>Balance at 31 December</b>	<b>94,702</b>	<b>224,762</b>

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

Deferred taxes recorded in the consolidated statement of financial position result from the following items:

	2017			
	Deferred Tax Assets LBP Million	Deferred Tax Liabilities LBP Million	Income Statement LBP Million	Other Comprehensive Income LBP Million
Provisions	10,729	16,030	9,163	-
Impairment allowance for loans and advances	62,054	-	8,313	-
Financial instruments at FVTOCI	3,276	2,717	-	34
Difference in depreciation rates	(2,928)	5,666	(2,945)	-
Defined benefit obligation	3,327	75	-	1,299
Revaluation of real estate	-	6,960	-	-
Financial instruments at FVTPL	(7,671)	-	(15,165)	-
Foreign currency translation reserve	16,762	25,823	3,027	1,890
Net gain on hedge of net investment	10,185	9,193	-	(9,193)
Other temporary differences	8,519	128	(2,329)	-
	<b>104,253</b>	<b>66,592</b>	<b>64</b>	<b>(5,970)</b>

	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	-
	<b>107,424</b>	<b>96,233</b>	<b>(40,676)</b>	<b>(1,958)</b>

## 15.0. | PROFIT FROM DISCONTINUED OPERATIONS

### DISCONTINUED OPERATIONS DURING 2017:

• During 2017, the Group disposed its investment in Areeba sal (previously known as Audi Investment House sal) to a third party for a total consideration of USD 183.5 million (equivalent to LBP 276,640 million). Simultaneously, the Group obtained the right to buy back 30% in M1 Financial Technologies Holding sal (the sole owner of Areeba sal) during the next 3 years for a total consideration of USD 55 million (equivalent to LBP 82,920 million).

This fact gave the Group exercisable potential voting rights in M1 Financial Technologies Holding sal that represent in substance an existing ownership in an associate. As such, the Group recognised USD 55 million (equivalent to LBP 82,920 million) as an investment in associate (refer to Note 26).

The disposal of this subsidiary resulted in a gain from discontinued operations amounting to USD 95 million (equivalent to LBP 143,394 million), representing the gain on interest disposed, and which was recorded under "profit from discontinued operations, net of tax" in the consolidated income statement. The disposal of this subsidiary resulted as well in a gain on loss of control of a subsidiary amounting to USD 49 million (equivalent to LBP 74,943 million), representing the gain on the revaluation of indirect interest retained, and which was recorded under "other operating income" in the consolidated income statement (Note 10).

### DISCONTINUED OPERATIONS DURING 2016:

• Bank Audi Syria SA ("BASY"), which is 47% 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.

As a result of the violent war, international sanctions, exchange restrictions and other conditions which are expected to continue for the foreseeable future, effective 31 August 2016, the Group has a

determined 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.

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 Corporate & Commercial Banking, Retail & Personal Banking, and Treasury & 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 and sold it for a total consideration of LBP 7,538 million.

	2017	2016			
	Areeba sal LBP Million	Bank Audi Syria LBP Million	National Bank of Sudan LBP Million	Arabeya Online for Securities 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)
<b>Net interest income</b>	-	3,573	4,392	400	8,365
Fee and commission income	20,071	2,012	140	2,338	4,490
Fee and commission expense	(13,696)	(148)	(1)	(97)	(246)
<b>Net fee and commission income</b>	6,375	1,864	139	2,241	4,244
Other operating income	18	42,861	6,795	589	50,245
<b>Total operating income</b>	6,393	48,298	11,326	3,230	62,854
Total operating expenses	(11,281)	(6,031)	(3,484)	(1,918)	(11,433)
<b>Operating profit</b>	(4,888)	42,267	7,842	1,312	51,421
Gain (loss) on derecognition of discontinued operations	164,163	(155,594)	(127,164)	(32,412)	(315,170)
Tax attributable to operating profit	(15,881)	(1,418)	(74)	(271)	(1,763)
<b>Gain (loss) for the period from discontinued operations</b>	143,394	(114,745)	(119,396)	(31,371)	(265,512)
<b>Cash inflow from sale:</b>					
<b>Total consideration received</b>	276,640	-	22,612	7,538	30,150
	LBP				LBP
<b>Earnings per share:</b>					
Basic and diluted, from discontinued operations	369				(722)

The net cash flows from discontinued operations are as follows:

	2017	2016			
	Areeba sal LBP Million	Bank Audi Syria LBP Million	National Bank of Sudan LBP Million	Arabeya Online for Securities Brokerage LBP Million	Total LBP Million
Operating activities	20,561	19,302	3,060	51	22,413
Investing activities	(263,730)	(178)	(242)	3,219	2,799
Financing activities	268,702	-	(3,354)	-	(3,354)
<b>Net cash inflows</b>	25,533	19,124	(536)	3,270	21,858

## 16.0. | EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of common shares outstanding during the year.

The Bank does not have arrangements that might result in dilutive shares. As such, diluted earnings per share was not separately calculated.

The following table shows the income and share data used to calculate earnings per share:

	2017 LBP Million	2016 LBP Million
Profit attributable to equity holders of the Bank	811,217	672,095
Less: dividends attributable to preferred shares	(63,880)	(45,791)
<b>Profit available to holders of common shares</b>	747,337	626,304
Weighted average number of shares outstanding	389,528,435	398,332,801
<b>Basic and diluted earnings per share</b>	1,919	1,572

There were no transactions involving common shares or potential common shares between the reporting date and the date of the

completion of these consolidated financial statements which would require the restatement of earnings per share.

## 17.0. | CASH AND BALANCES WITH CENTRAL BANKS

	2017 LBP Million	2016 LBP Million
<b>Cash on hand</b>	<b>456,331</b>	<b>377,438</b>
<b>Central Bank of Lebanon</b>		
Current accounts	581,358	655,206
Time deposits	15,401,211	14,356,065
Accrued interest	154,684	148,729
	<b>16,137,253</b>	<b>15,160,000</b>
<b>Other central banks</b>		
Current accounts	1,531,604	484,049
Time deposits	1,713,286	2,618,881
Accrued interest	8,385	10,228
	<b>3,253,275</b>	<b>3,113,158</b>
	<b>19,846,859</b>	<b>18,650,596</b>

At 31 December 2017, time deposits with the Central Bank of Lebanon amounting to LBP 2,431,840 million and maturing in 2018 were blocked

against term borrowings granted by the Central Bank of Lebanon with the same value and maturing in 2018 (2016: none).

## OBLIGATORY RESERVES

- In accordance with the regulations of the Central Bank of Lebanon, banks operating in Lebanon are required to deposit with the Central Bank of Lebanon an obligatory reserve calculated on the basis of 25% of sight commitments and 15% of term commitments denominated in Lebanese Pounds. This is not applicable for investment banks which are exempted from obligatory reserve requirements on commitments denominated in Lebanese Pounds. Additionally, all banks operating in Lebanon are

required to deposit with the Central Bank of Lebanon interest-bearing placements representing 15% of total deposits in foreign currencies regardless of nature.

- Subsidiary banks operating in foreign countries are also subject to obligatory reserve requirements determined based on the banking regulations of the countries in which they operate.

The following table summarises the Group's placements in central banks available against the obligatory reserves as of 31 December:

	2017			2016		
	Lebanese Pounds LBP Million	Foreign Currencies LBP Million	Total LBP Million	Lebanese Pounds LBP Million	Foreign Currencies LBP Million	Total LBP Million
<b>Central Bank of Lebanon</b>						
Current accounts	417,617	-	417,617	453,810	-	453,810
Time deposits	12,938	3,937,015	3,949,953	28,833	4,278,108	4,306,941
	<b>430,555</b>	<b>3,937,015</b>	<b>4,367,570</b>	<b>482,643</b>	<b>4,278,108</b>	<b>4,760,751</b>
<b>Other central banks</b>						
Current accounts	-	355,851	355,851	-	200,058	200,058
Time deposits	-	1,596,055	1,596,055	-	2,092,859	2,092,859
	-	1,951,906	1,951,906	-	2,292,917	2,292,917
	<b>430,555</b>	<b>5,888,921</b>	<b>6,319,476</b>	<b>482,643</b>	<b>6,571,025</b>	<b>7,053,668</b>

## 18.0. | DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2017 LBP Million	2016 LBP Million
Current accounts	916,662	1,576,045
Time deposits	362,985	1,264,222
Checks for collection	143,100	141,997
Other amounts due	32,537	45,243
Accrued interest	290	537
Less: impairment allowance	(821)	(816)
	<b>1,454,753</b>	<b>3,027,228</b>

The movement of the impairment allowance was as follows:

	2017 LBP Million	2016 LBP Million
Balance at 1 January	816	890
Foreign exchange difference	5	(74)
<b>Balance at 31 December</b>	<b>821</b>	<b>816</b>

## 19.0. | LOANS TO BANKS AND FINANCIAL INSTITUTIONS AND REVERSE REPURCHASE AGREEMENTS

	2017 LBP Million	2016 LBP Million
Loans and advances	111,127	180,403
Reverse repurchase agreements	1,095,781	1,885,981
Accrued interest	1,628	2,431
	<b>1,208,536</b>	<b>2,068,815</b>

The Group purchased Turkish Treasury bills under a commitment to resell them (reverse repurchase agreements). The securities are not included in the balance sheet as the Group does not acquire the risks and rewards of

ownership. Consideration paid (or cash collateral provided) is accounted for as a loan and amounted to LBP 1,095,781 million at 31 December 2017, including accrued interest (2016: LBP 1,885,981 million).

## 20.0. | DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into derivatives for trading and for risk management purposes. The table below shows the fair values of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount, recorded gross, is the quantity of the derivative contracts' underlying instrument (being an equity instrument, commodity product, reference rate or index, etc.). The notional amounts indicate the volume of transactions outstanding at year-end and are not indicative of either the market risk or credit risk.

### FORWARDS AND FUTURES

Forwards and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements.

### OPTIONS

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or to sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

### SWAPS

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate, commodity index or equity index.

Interest rate swaps relate to contracts taken out by the Group with other counterparties (customers and financial institutions) in which the Group either receives or pays a floating rate of interest, respectively, in return for paying or receiving a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

Credit default swaps are contractual agreements between two parties to make payments with respect to defined credit events, based on specified notional amounts. The Group purchases credit default swaps in order to

The Group has positions in the following types of derivatives:

mitigate the risk of default by the counterparty on the underlying security referenced by the swap.

The notional amount of credit default swaps represents the carrying value of certain time deposits held by the Group as of 31 December 2017 and 2016.

31 December 2017	Positive Fair Value LBP Million	Negative Fair Value LBP Million	Notional Amount LBP Million
<b>Derivatives held for trading</b>			
Forward foreign exchange contracts	9,805	3,425	884,945
Forward precious metals contracts	-	143	5,899
Currency swaps	157,763	161,225	10,023,434
Precious metals swaps	12	2,152	67,158
Currency options	28,382	16,274	3,453,083
Interest rate swaps	15,122	8,584	4,992,274
Interest rate options	-	-	173,660
Credit default swaps	19,813	-	2,687,493
Equity options	18,120	6,699	79,677
<b>Total</b>	<b>249,017</b>	<b>198,502</b>	<b>22,367,623</b>
<b>Derivatives held to hedge net investments in foreign operations</b>			
Currency swaps	-	6,882	191,977
Currency options	149,067	-	603,000
	<b>149,067</b>	<b>6,882</b>	<b>794,977</b>
	<b>398,084</b>	<b>205,384</b>	<b>23,162,600</b>

31 December 2016	Positive Fair Value LBP Million	Negative Fair Value LBP Million	Notional Amount LBP Million
<b>Derivatives held for trading</b>			
Forward foreign exchange contracts	19,298	27,464	1,730,653
Forward precious metals contracts	5	13	998
Currency swaps	135,404	179,681	8,290,097
Precious metals swaps	1,309	491	84,526
Currency options	49,307	51,809	6,945,481
Interest rate swaps	17,176	10,365	4,932,735
Interest rate options	-	-	205,239
Credit default swaps	11,588	-	2,539,916
Equity options	9,654	1,814	41,390
<b>Total</b>	<b>243,741</b>	<b>271,637</b>	<b>24,771,035</b>
<b>Derivatives held to hedge net investments in foreign operations</b>			
Currency swaps	8,753	1,315	220,836
Currency options	137,644	-	603,000
	<b>146,397</b>	<b>1,315</b>	<b>823,836</b>
	<b>390,138</b>	<b>272,952</b>	<b>25,594,871</b>

## DERIVATIVE FINANCIAL INSTRUMENTS HELD FOR TRADING PURPOSES

Most of the Group's derivative trading activities relate to deals with customers which are normally offset by transactions with other counterparties. Also included under this heading are any derivatives entered into for risk management purposes which do not meet the IFRS 9 hedge accounting criteria.

## DERIVATIVE FINANCIAL INSTRUMENTS HELD FOR HEDGING PURPOSES

The Group uses derivatives for hedging purposes in order to reduce its exposure to credit and market risks. This is achieved by hedging specific financial instruments, portfolios of fixed rate financial instruments and forecast transaction, as well as strategic hedging against overall financial position exposures.

## HEDGES OF NET INVESTMENTS

At 31 December 2017, the Group had USD 400 million of its net investment in Odea Bank A.Ş. hedged through currency option contracts (capped calls) with a notional amount of USD 400 million (LBP 603,000 million) as of December 2017 (2016: the same). At 31 December 2017,

the positive fair value of the capped call contracts amounted to USD 99 million (LBP 149,067 million) (2016: USD 91 million (LBP 137,644 million)). The Group designated only the intrinsic value of these options as the hedging instrument.

At 31 December 2017, the Group had currency swap contracts designated to hedge the net investment in its subsidiaries in Cyprus, France, Kingdom of Saudi Arabia and Qatar. The notional amount of these contracts amounted to LBP 191,977 million as of 31 December 2017 (2016: LBP 220,836 million). The negative fair value of these contracts amounted to LBP 6,882 million as at 31 December 2017 (2016: positive fair value of LBP 8,753 million and negative fair value LBP 1,315 million).

The table below illustrates the amounts relating to the items designated as the hedging instruments. Hedges of net investments in foreign operations are considered as time period-related hedges. No ineffectiveness from these hedges was recognised in profit or loss during the year as the hedging instrument and the hedged item are closely aligned (2016: the same). Amounts reclassified from deferred cost of hedging (time value) to profit or loss were reflected under net gain on financial assets at fair value through profit or loss in the consolidated income statement. As at 31 December 2017, there were no balances remaining in the foreign currency translation reserve from hedge relationships for which hedge accounting is no longer applied (2016: the same).

The amounts relating to items designated as hedging instruments were as follows (the amounts are gross of tax):

(LBP Million)	Currency	Notional Amount	Fair value		Change in Value of Hedging Instrument Recognised in OCI	Time Value			
			Positive	Negative		Change in Time Value Recognised in OCI	Amount Reclassified to Profit or Loss	Time Value at 31 December	
<b>31 December 2017</b>									
Odea Bank A.Ş.	Capped calls	TRY	603,000	149,067	-	(11,118)	31,946	23,236	(12,715)
<b>Other subsidiaries</b>									
Bank Audi France sa	Currency swap	EUR	105,686	-	5,229	(12,292)	-	-	-
Banaudi Holding	Currency swap	EUR	10,840	-	522	(1,262)	-	-	-
Audi Capital KSA	Currency swap	SAR	-	-	-	21	-	-	-
Bank Audi LLC (Qatar)	Currency swap	QAR	75,451	-	1,131	(7)	-	-	-
			<b>149,067</b>	<b>6,882</b>	<b>(24,658)</b>	<b>31,946</b>	<b>23,236</b>	<b>(12,715)</b>	
<b>31 December 2016</b>									
Odea Bank A.Ş.	Capped calls	TRY	603,000	137,644	-	26,659	(23,923)	23,300	(67,897)
Odea Bank A.Ş.	Collars	TRY	-	-	-	16,398	(4,032)	-	-
<b>Other subsidiaries</b>									
Bank Audi France sa	Currency swap	EUR	93,383	8,092	-	2,943	-	-	-
Banaudi Holding	Currency swap	EUR	9,578	661	-	302	-	-	-
Audi Capital KSA	Currency swap	SAR	42,099	-	643	(34)	-	-	-
Bank Audi LLC (Qatar)	Currency swap	QAR	75,776	-	672	(18)	-	-	-
			<b>146,397</b>	<b>1,315</b>	<b>46,250</b>	<b>(27,955)</b>	<b>23,300</b>	<b>(67,897)</b>	

## 21.0. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 LBP Million	2016 LBP Million
<b>Lebanese sovereign and Central Bank of Lebanon</b>		
Certificates of deposits	797,414	17,559
Treasury bills	357,021	555,086
Eurobonds	163,030	13,100
	<b>1,317,465</b>	<b>585,745</b>
<b>Other sovereign</b>		
Treasury bills	306	2,526
<b>Private sector and other securities</b>		
Banks and financial institutions	68,991	9,427
Loans and advances to customers	47,658	21,898
Mutual funds	61,030	67,701
Equity instruments	-	5,917
	<b>177,679</b>	<b>104,943</b>
	<b>1,495,450</b>	<b>693,214</b>

Lebanese Eurobonds amounting to USD 52 million (equivalent to LBP 77,719 million) were pledged against repurchase agreements entered with international commercial banks during the year ended 31 December 2017 (2016: nil) (refer to Note 33).

## 22.0. LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST

	2017 LBP Million	2016 LBP Million
Corporate and SME	18,074,665	19,832,221
Retail and Personal Banking	7,117,336	6,519,388
Public sector	418,920	464,392
	<b>25,610,921</b>	<b>26,816,001</b>
Impairment allowance	(1,129,722)	(1,020,249)
Unrealised interest	(80,418)	(63,505)
	<b>24,400,781</b>	<b>25,732,247</b>

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

	2017			Total LBP Million
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	Public Sector LBP Million	
<b>Balance at 1 January</b>	<b>770,264</b>	<b>245,872</b>	<b>4,113</b>	<b>1,020,249</b>
<b>Add:</b>				
Charges for the year (Note 11)	172,137	102,301	2,180	<b>276,618</b>
Transfers	(10,833)	6,430	4,403	-
<b>Less:</b>				
Recoveries (Note 11)	(27,813)	(9,657)	(1,096)	<b>(38,566)</b>
Write-offs	(75,415)	(37,753)	-	<b>(113,168)</b>
Foreign exchange difference	(7,715)	(7,874)	178	<b>(15,411)</b>
<b>Balance at 31 December</b>	<b>820,625</b>	<b>299,319</b>	<b>9,778</b>	<b>1,129,722</b>
Individual impairment	295,193	168,235	3,314	<b>466,742</b>
Collective impairment	525,432	131,084	6,464	<b>662,980</b>
	<b>820,625</b>	<b>299,319</b>	<b>9,778</b>	<b>1,129,722</b>

	2016			Total LBP Million
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	Public Sector LBP Million	
<b>Balance at 1 January</b>	<b>502,235</b>	<b>183,839</b>	<b>3,027</b>	<b>689,101</b>
<b>Add:</b>				
Charges for the year (Note 11)	543,820	171,977	-	<b>715,797</b>
Transfers	(1,757)	(3,154)	4,911	-
<b>Less:</b>				
Recoveries (Note 11)	(15,723)	(10,455)	-	<b>(26,178)</b>
Entities deconsolidated during the year	(34,622)	(3,662)	-	<b>(38,284)</b>
Write-offs	(154,627)	(66,826)	-	<b>(221,453)</b>
Foreign exchange difference	(69,062)	(25,847)	(3,825)	<b>(98,734)</b>
<b>Balance at 31 December</b>	<b>770,264</b>	<b>245,872</b>	<b>4,113</b>	<b>1,020,249</b>
Individual impairment	268,710	120,210	-	<b>388,920</b>
Collective impairment	501,554	125,662	4,113	<b>631,329</b>
	<b>770,264</b>	<b>245,872</b>	<b>4,113</b>	<b>1,020,249</b>

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

	2017			Total LBP Million
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million		
<b>Balance at 1 January</b>	<b>38,112</b>	<b>25,393</b>		<b>63,505</b>
<b>Add:</b>				
Unrealised interest applied on non-performing loans	18,101	9,412		<b>27,513</b>
Transfers	(1,080)	1,080		-
<b>Less:</b>				
Unrealised interest written off	(205)	(444)		<b>(649)</b>
Unrealised interest recovered (Note 11)	(9,682)	(505)		<b>(10,187)</b>
Foreign exchange difference	437	(201)		<b>236</b>
<b>Balance at 31 December</b>	<b>45,683</b>	<b>34,735</b>		<b>80,418</b>

	2016			Total LBP Million
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million		
<b>Balance at 1 January</b>	<b>93,511</b>	<b>23,403</b>		<b>116,914</b>
<b>Add:</b>				
Unrealised interest applied on non-performing loans	30,599	7,030		<b>37,629</b>
Transfers	(1,054)	1,054		-
<b>Less:</b>				
Unrealised interest written off	(79,226)	(5,204)		<b>(84,430)</b>
Entities deconsolidated during the year	(2,553)	(871)		<b>(3,424)</b>
Unrealised interest recovered (Note 11)	(851)	(265)		<b>(1,116)</b>
Foreign exchange difference	(2,314)	246		<b>(2,068)</b>
<b>Balance at 31 December</b>	<b>38,112</b>	<b>25,393</b>		<b>63,505</b>

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 2017 amounted to LBP 4,968 million (2016: LBP 183,991 million). Besides, amounts recovered from off-balance sheet accounts during 2017 amounted to LBP 11,149 million (2016: LBP 23,119 million) (Note 11).

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 2017 include an amount of LBP 377,833 million in excess of the provisioning requirements of IAS 39 (2016: LBP 384,039 million) (refer to Note 37).

### 23.0. | LOANS AND ADVANCES TO RELATED PARTIES AT AMORTISED COST

	2017 LBP Million	2016 LBP Million
Corporate and SME	17,928	24,099
Retail and Personal Banking	143,886	195,094
	<b>161,814</b>	<b>219,193</b>

### 24.0. | FINANCIAL ASSETS AT AMORTISED COST

	2017 LBP Million	2016 LBP Million
<b>Lebanese sovereign and Central Bank of Lebanon</b>		
Certificates of deposits	8,633,915	9,045,756
Treasury bills	2,613,727	1,736,610
Eurobonds	755,495	585,250
	<b>12,003,137</b>	<b>11,367,616</b>
<b>Other sovereign</b>		
Treasury bills	2,027,312	1,742,254
Eurobonds	314,909	232,335
Other governmental securities	77,248	46,274
	<b>2,419,469</b>	<b>2,020,863</b>
<b>Private sector and other securities</b>		
Banks and financial institutions debt instruments	252,658	520,264
Corporate debt instruments	147,081	81,327
	<b>399,739</b>	<b>601,591</b>
	<b>14,822,345</b>	<b>13,990,070</b>

The movement of the impairment allowance was as follows:

	2017 LBP Million	2016 LBP Million
Balance at 1 January	-	4,763
Entities deconsolidated during the year	-	(4,763)
<b>Balance at 31 December</b>	<b>-</b>	<b>-</b>

As at 31 December 2017, Lebanese Treasury bills amounting to LBP 620,847 million and maturing in 2027 were pledged against term borrowings with the same value (2016: nil) (refer to Note 32). Moreover, Lebanese Eurobonds amounting to USD 199 million (equivalent to

LBP 299,673 million) were pledged against repurchase agreements entered with international commercial banks as at 31 December 2017 (2016: nil) (refer to Note 33).

### 25.0. | 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:

	2017		
	Fair Value LBP Million	Cumulative Changes in Fair Value LBP Million	Dividends LBP Million
LIA Insurance sal	36,253	3,649	2,501
Mass Global Energy (SUL) LTD	37,688	-	-
Visa NC – Class “C”	-	-	88
Phoenicia – Aer Rianta Co. SAL	10,729	-	15,467
Banque de l’Habitat SAL	21,914	12,597	434
Crossbridge Capital Holding Limit	11,798	(4,296)	-
Solidere International Limited	7,925	(3,095)	-
Liban Lait SAL	5,232	-	-
Saraya Aqaba Real Estate Development	4,459	-	-
Master Card Inc Class B	-	-	27
BA Capital Holding PLC	3,015	-	-
Visa Europe Ltd	1,163	298	-
Kafa Holding SAL	2,049	-	-
Kafalat	2,841	1,265	-
International Payment Network SAL	1,541	740	110
Arab Trade Finance Program	2,087	213	15
Abdel Wahab 618 Holding SAL	1,203	-	-
Fransabank SAL	-	-	85
C-Mobile Group Holding Ltd	1	(10,619)	-
Other equity instruments	8,129	125	2,727
	<b>158,027</b>	<b>877</b>	<b>21,454</b>

	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	-	17,599
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	2,308
	<b>193,948</b>	<b>32,154</b>	<b>26,619</b>

## 26.0. | INVESTMENTS IN ASSOCIATES

	Country of Incorporation	Activity	2017		2016	
			Ownership %	Carrying Value LBP Million	Ownership %	Carrying Value LBP Million
GlobalCom Holding SAL	Lebanon	Communication	31.00%	37,856	-	-
M1 Financial Technologies Holding sal	Lebanon	Services	30.00%	82,920	-	-
Assurex SAL	Lebanon	Insurance and reinsurance	23.82%	10,958	23.82%	10,278
Other associates				2,723		3,055
				<b>134,457</b>		<b>13,333</b>

During 2017, the Group acquired 31.00% interest in GlobalCom Holding SAL for a consideration of USD 23,900,000 (LBP 36,029 million) from a third party.

As disclosed in Note 15, during 2017, the Group acquired exercisable potential voting rights in M1 Financial Technologies Holding sal, that

represent in substance an existing ownership in an associate. As such, the Group recognised USD 55 million (equivalent to LBP 82,920 million) as an investment in associate.

The Group's investments accounted for under the equity method are not listed on public exchanges.

## INDIVIDUALLY MATERIAL ASSOCIATES

GlobalCom Holding SAL, Assurex SAL and M1 Financial Technologies Holding sal are the only individually material investments in associates held by the Group. As at 31 December 2017, the net assets of the associate M1 Financial Technologies Holding sal amounted to LBP 276,640 million based on management-prepared IFRS financial information. The associate did not complete the initial accounting for the net identifiable assets acquired and the liabilities assumed as an independent expert has been engaged for the valuation of the intangible assets acquired. The

valuation was not complete by the date the Group's financial statements were approved by the Board of Directors for issue, nor were provisional amounts estimated. As such, it is impracticable for the Group to disclose financial information for this associate before the receipt of IFRS financial statements from the latter showing the amounts of the acquired assets and assumed liabilities. The following table illustrates the summarised financial information of the other two material associates: Global Com Holding SAL and Assurex SAL.

	2017		2016
	GlobalCom Holding SAL LBP Million	Assurex SAL LBP Million	Assurex SAL LBP Million
Current assets	47,806	72,754	69,925
Non-current assets	43,558	51,092	35,956
Current liabilities	(42,477)	(76,281)	(61,987)
Non-current liabilities	(13,678)	(1,562)	(2,408)
<b>Equity</b>	<b>35,209</b>	<b>46,003</b>	<b>41,486</b>
Group's share of equity	10,915	10,958	10,278
Goodwill	26,941	-	-
	<b>37,856</b>	<b>10,958</b>	<b>10,278</b>

	2017		2016
	GlobalCom Holding SAL LBP Million	Assurex SAL LBP Million	Assurex SAL LBP Million
Revenues	69,518	57,303	69,655
Expenses	(60,610)	(54,883)	(66,332)
<b>Profit for the period</b>	<b>8,908</b>	<b>2,420</b>	<b>3,323</b>
<b>Group's share of profit for the period</b>	<b>2,762</b>	<b>577</b>	<b>808</b>

GlobalCom Holding SAL and M1 Financial Technologies Holding sal had no contingent liabilities or capital commitments as at 31 December 2017. Assurex SAL has contingent liabilities of LBP 3,181 of which LBP 3,100

relate to guarantees issued in accordance with regulatory requirements (2016: LBP 3,228 million of which LBP 3,100 million relate to guarantees issued).

## OTHER ASSOCIATES

The aggregate amount of the Group's share of profit of its individually immaterial associates amounted to a loss of LBP 292 million for the year ended 31 December 2017 (2016: a profit of LBP 282 million).

## 27.0. | PROPERTY AND EQUIPMENT

	Land LBP Million	Buildings and Freehold Improvements LBP Million	Leasehold Improvements LBP Million	Motor Vehicles LBP Million	Office Equipment and Computer Hardware LBP Million	Office Machinery and Furniture LBP Million	Other LBP Million	Total LBP Million
<b>Cost or revaluation:</b>								
At 1 January 2017	195,912	551,601	150,091	2,264	216,073	103,561	8,610	<b>1,228,112</b>
Additions	1,517	40,979	11,262	787	21,756	2,849	43	<b>79,193</b>
Disposals	-	(262)	(2,359)	(178)	(16,433)	(3,779)	(10)	<b>(23,021)</b>
Foreign exchange difference	77	4,783	(2,278)	33	(1,958)	(216)	326	<b>767</b>
<b>At 31 December 2017</b>	<b>197,506</b>	<b>597,101</b>	<b>156,716</b>	<b>2,906</b>	<b>219,438</b>	<b>102,415</b>	<b>8,969</b>	<b>1,285,051</b>
<b>Depreciation:</b>								
At 1 January 2017	-	32,291	88,527	1,417	146,808	70,964	6,604	<b>346,611</b>
Depreciation during the year	-	21,428	21,179	343	24,223	7,110	114	<b>74,397</b>
Disposals	-	(25)	(2,359)	(163)	(12,666)	(3,506)	-	<b>(18,719)</b>
Foreign exchange difference	-	551	(1,200)	18	(1,205)	(68)	266	<b>(1,638)</b>
<b>At 31 December 2017</b>	<b>-</b>	<b>54,245</b>	<b>106,147</b>	<b>1,615</b>	<b>157,160</b>	<b>74,500</b>	<b>6,984</b>	<b>400,651</b>
<b>Net book value:</b>								
<b>At 31 December 2017</b>	<b>197,506</b>	<b>542,856</b>	<b>50,569</b>	<b>1,291</b>	<b>62,278</b>	<b>27,915</b>	<b>1,985</b>	<b>884,400</b>

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

## REVALUATION OF LAND AND BUILDINGS

Pursuant to the decision of the Board of Directors held on 3 September 2014, the Group changed its accounting policy for measuring land and buildings and related improvements from the cost model to the revaluation model. Management determined that each constitutes a single class of asset under IFRS 13, based on the nature, characteristics and risks of the property. These assets are classified under Level 3 in the fair value hierarchy.

### SIGNIFICANT UNOBSERVABLE VALUATION INPUT

Significant increase (decrease) in the fair value estimation within a range of 5% relative to the adopted fair value measurement would result in a higher (lower) value of revaluation recognised in other comprehensive income by LBP 32,785 million before the effect of applicable taxes (2016: LBP 32,671 million). The reconciliation of fair value between 1 January and 31 December is provided in the property and equipment table presented above.

Fair value of the land and buildings and freehold improvements was determined using the market comparable method. This means that valuations performed by the valuers are based on market prices and significantly adjusted for differences in the nature, location or condition of the specific property. As at the date of revaluation, the properties' fair values are based on valuations carried out by independent valuers accredited by the local regulators in the countries in which the properties are situated.

The Group changed the accounting policy with respect to measurement of land and buildings and freehold improvements during 2014. If land, buildings, and related improvements were measured using the cost model, the carrying amounts as of 31 December would have been as follows:

	2017	
	Land LBP Million	Buildings and Freehold Improvements LBP Million
Cost	70,414	514,542
Accumulated depreciation	-	(181,881)
<b>Net book value</b>	<b>70,414</b>	<b>332,661</b>

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

## 28.0. | INTANGIBLE ASSETS

	Key Money LBP Million	Computer Software LBP Million	Other LBP Million	Total LBP Million
<b>Cost:</b>				
At 1 January 2017	-	155,637	319	155,956
Additions	-	36,927	30	36,957
Disposals	-	(1,079)	-	(1,079)
Foreign exchange difference	-	(3,865)	(21)	(3,886)
<b>At 31 December 2017</b>	<b>-</b>	<b>187,620</b>	<b>328</b>	<b>187,948</b>
<b>Amortisation:</b>				
At 1 January 2017	-	91,108	227	91,335
Amortisation during the year	-	22,951	17	22,968
Disposals	-	(977)	-	(977)
Foreign exchange difference	-	(1,626)	5	(1,621)
<b>At 31 December 2017</b>	<b>-</b>	<b>111,456</b>	<b>249</b>	<b>111,705</b>
<b>Net book value:</b>				
<b>At 31 December 2017</b>	<b>-</b>	<b>76,164</b>	<b>79</b>	<b>76,243</b>

	Key Money LBP Million	Computer Software LBP Million	Other LBP Million	Total LBP Million
<b>Cost:</b>				
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)
<b>At 31 December 2016</b>	<b>-</b>	<b>155,637</b>	<b>319</b>	<b>155,956</b>
<b>Amortisation:</b>				
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)
<b>At 31 December 2016</b>	<b>-</b>	<b>91,108</b>	<b>227</b>	<b>91,335</b>
<b>Net book value:</b>				
<b>At 31 December 2016</b>	<b>-</b>	<b>64,529</b>	<b>92</b>	<b>64,621</b>

## 29.0. | 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 which are, as such, included in non-current assets held for sale.

Gains or losses on disposal are recognised in the consolidated income statement for the year.

### PROPERTIES ACQUIRED IN SETTLEMENT OF DEBTS

	2017 LBP Million	2016 LBP Million
<b>Cost:</b>		
At 1 January	83,616	75,315
Entities deconsolidated during the year	-	(413)
Additions	82,680	12,728
Disposals	(16,469)	(8)
Foreign exchange difference	(3,069)	(4,006)
<b>At 31 December</b>	<b>146,758</b>	<b>83,616</b>
<b>Impairment:</b>		
At 1 January	2,589	2,536
Impairment for the year	75	332
Entities deconsolidated during the year	-	(248)
Disposal	(14)	-
Foreign exchange difference	50	(31)
<b>At 31 December</b>	<b>2,700</b>	<b>2,589</b>
<b>Net book value:</b>		
<b>At 31 December</b>	<b>144,058</b>	<b>81,027</b>

## 30.0. | OTHER ASSETS

	2017 LBP Million	2016 LBP Million
Advances on acquisition of property and equipment	95,735	131,692
Advances on acquisition of intangible assets	33,947	28,450
Prepaid charges	76,196	68,321
Electronic cards and regularisation accounts	37,836	38,778
Receivables related to non-banking operations	44,363	8,064
Advances to staff	3,240	4,050
Hospitalisation and medical care under collection	34,697	32,591
Advances on investments	-	5,058
Interest and commissions receivable	5,386	5,880
Funds Management fees	87	1,835
Fiscal stamps, bullions and commemorative coins	1,972	2,007
Management and advisory fees receivable	733	1,200
Tax regularisation account	12,456	6,787
Other debtor accounts	49,580	43,158
	<b>396,228</b>	<b>377,871</b>

During 2016, the Group wrote off advances on investment amounting to 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.

## 31.0. | GOODWILL

	2017 LBP Million	2016 LBP Million
<b>Cost:</b>		
At 1 January	198,332	217,906
Entities deconsolidated during the year	-	(10,221)
Foreign exchange difference	1,948	(9,353)
<b>At 31 December</b>	<b>200,280</b>	<b>198,332</b>
<b>Impairment:</b>		
At 1 January	156,505	8,472
Impairment for the year	-	148,439
Foreign exchange difference	1,062	(406)
<b>At 31 December</b>	<b>157,567</b>	<b>156,505</b>
<b>Net book value:</b>		
<b>At 31 December</b>	<b>42,713</b>	<b>41,827</b>

Testing goodwill for impairment involves a significant amount of judgment. This includes the identification of independent CGUs and the allocation of goodwill to these units based on which units are expected to benefit from the acquisition. The allocation is reviewed following business reorganisations. Cash flow projections necessarily take into

account changes in the market in which a business operates including the level of growth, competitive activity, and the impacts of regulatory change. The Group performed its annual impairment test in December 2017 and 2016.

As at 31 December, the carrying amount of goodwill was allocated to the following CGUs:

	2017 LBP Million	2016 LBP Million
Private Banking – Switzerland	42,713	41,827

These CGUs do not carry on their statement of financial position any intangible assets with indefinite lives, other than goodwill.

### GOODWILL IMPAIRMENT TEST

During 2016, the Group recognised impairment losses amounting to LBP 148,439 million related to the following:

	2017 LBP Million	2016 LBP Million
Private Banking – Lebanon	-	54,716
Commercial Banking – Egypt	-	65,639
Banking IT Support – UAE	-	28,084
	-	<b>148,439</b>

The Commercial Banking CGU in Egypt is a separate legal entity offering Commercial Banking activities to its customers and is reported mainly under the Corporate and Commercial Banking business segment and the MENAT geographical segment.

the Retail and Personal Banking business segment and the Lebanon geographical segment.

The Private Banking CGU in Lebanon is a separate legal entity offering Private Banking activities to its customers and is reported mainly under

The Banking IT Support CGU in UAE is a separate legal entity offering outsourcing activities to its customers, and is reported under the Group Functions and Head Office business segment and the MENAT geographical segment.

### PRIVATE BANKING – SWITZERLAND:

#### RECOVERABLE AMOUNT

The Private Banking CGU in Switzerland is a separate legal entity offering Private Banking activities to its customers and is reported mainly under the Retail and Personal Banking business segment and the Europe geographical segment. The recoverable amount of this CGU was determined based on a value in use calculation using cash flow projections from financial budgets approved by Senior Management

covering a five-year period, with a terminal growth rate of 2.00 % (2016: 2.00%). The forecast cash flows were discounted at a pre-tax rate of 10.00 % (2016: 10.00%). Based on these assumptions, the recoverable amount exceeds the carrying amount including goodwill by LBP 728,427 million (2016: LBP 650,361 million).

## KEY ASSUMPTIONS USED IN VALUE IN USE CALCULATIONS AND SENSITIVITY TO CHANGES IN ASSUMPTIONS

The calculation of value in use for the Private Banking – Switzerland CGU is most sensitive to interest rate margins, cost of equity and the projected growth rates used to extrapolate cash flows beyond the budget period.

The cost of equity assigned to an individual CGU and used to discount its future cash flows can have a significant effect on its valuation. The cost of equity percentage is generally derived from an appropriate capital asset pricing model, which itself depends on inputs reflecting a number of financial and economic variables including the risk rate in the country concerned and a premium to reflect the inherent risk of the business

being evaluated. Projected terminal growth rates used are in line with, and do not exceed, the projected growth rates in GDP and inflation rate forecasts for the jurisdictional area where the operations reside.

Management performed a sensitivity analysis to assess the changes to key assumptions that could cause the carrying value of the units to exceed their recoverable amount. These are summarised in the table below, which shows the details of the sensitivity of the above measures on the Bank's CGU's value in use (VIU):

Private Banking – Switzerland		
Interest margins	Interest margins are based on current fixed interest yields.	A decrease of 0.10% causes a decrease in the value in use by 2.05% (LBP 14,620 million) (2016: 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 2.11% (LBP 15,691 million) (2016: 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 0.5% causes a decrease in the value in use by 2.85% (LBP 20,168 million) (2016: 3.20% (LBP 20,806 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:

	2017	2016
Interest margin	(2.55%)	(2.38%)
Cost of equity	19.18%	12.38%

No reasonable change in the long-term growth rate will result in a headroom of nil.

## 32.0. | DUE TO CENTRAL BANKS

	2017 LBP Million	2016 LBP Million
<b>Central Bank of Lebanon</b>		
Subsidised loans	905,373	804,888
Term borrowings	3,052,687	1,085,400
Accrued interest	13,438	18,758
<b>Other central banks</b>		
Term loan	-	98,066
Repurchase agreements	-	1,051
	<b>3,971,498</b>	<b>2,008,163</b>

### SUBSIDISED LOANS

As at 31 December 2017, subsidised loans consist of utilised amounts on facilities granted by the Central Bank of Lebanon for the purpose of lending to customers at subsidised rates in accordance with decision

No. 6116 dated 7 March 1996. Principals are repayable on monthly basis and based on the amounts withdrawn by the customers.

### TERM BORROWINGS

Term borrowings from the Central Bank of Lebanon bear an interest rate ranging between 2.00% and 8.00% and mature in 2018 (2016: interest rate of 6% and mature during March 2017). Time deposits placed with the Central Bank of Lebanon amounting to LBP 2,431,840 million maturing in 2018 were blocked against these term borrowings (Note 17) and Lebanese Treasury bills held at amortised cost amounting to

LBP 620,847 million (Note 24) maturing in 2027 were pledged in the favour of the Central Bank of Lebanon (2016: nil).

Interest expense on the above loans and deposits amounted to LBP 30,102 million and LBP 32,814 million for the years ended 31 December 2017 and 2016, respectively (Note 5).

## 33.0. | DUE TO BANKS AND FINANCIAL INSTITUTIONS AND REPURCHASE AGREEMENTS

	2017 LBP Million	2016 LBP Million
Current accounts	554,421	403,427
Term loans	1,562,400	1,845,213
Time deposits	509,014	320,964
Accrued interest	338	4,401
	<b>2,626,173</b>	<b>2,574,005</b>
Repurchase agreements	218,922	-
	<b>2,845,095</b>	<b>2,574,005</b>

Included in term loans above an amount of LBP 616,008 million (2016: LBP 627,551 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 0.83% to 5.68% (2016: same).

The commitments arising from bank facilities received are disclosed in Note 49 to these consolidated financial statements.

### REPURCHASE AGREEMENTS

During 2017, the Group sold Lebanese Eurobonds subject to a commitment to repurchase them (repurchase agreements). The consideration received (or cash collateral provided) is accounted for as a financial liability reflecting

the transaction's economic substance as a borrowing to the Group. As the Group retains substantially all the risks and rewards of ownership, the securities transferred are retained on balance sheet under:

	2017 LBP Million	2016 LBP Million
Financial assets at fair value through profit or loss	77,719	-
Financial assets at amortised cost	299,673	-
	<b>377,392</b>	<b>-</b>

### 34.0. | CUSTOMERS' DEPOSITS

	2017			
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	Public Sector LBP Million	Total LBP Million
Sight deposits	2,940,716	5,577,229	150,730	8,668,675
Time deposits	8,902,364	22,786,097	1,166,149	32,854,610
Saving accounts	10,528	6,750,653	-	6,761,181
Certificates of deposits	53,995	628,868	1,481	684,344
Margins on LC's and LG's	265,057	47,798	875	313,730
Other margins	72,648	106,936	-	179,584
Other deposits	32,495	182,960	278	215,733
	<b>12,277,803</b>	<b>36,080,541</b>	<b>1,319,513</b>	<b>49,677,857</b>
Deposits pledged as collateral				4,825,484

	2016			
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	Public Sector LBP Million	Total LBP Million
Sight deposits	2,908,655	4,863,434	219,401	7,991,490
Time deposits	10,257,609	25,475,711	1,080,794	36,814,114
Saving accounts	16,918	7,243,213	-	7,260,131
Certificates of deposits	50,867	533,860	1,459	586,186
Margins on LC's and LG's	184,871	58,786	23,760	267,417
Other margins	136,559	122,646	-	259,205
Other deposits	52,208	158,187	280	210,675
	<b>13,607,687</b>	<b>38,455,837</b>	<b>1,325,694</b>	<b>53,389,218</b>
Deposits pledged as collateral				5,106,940

Sight deposits include balances of bullion amounting to LBP 90,637 million (2016: LBP 62,095 million) which were carried at fair value through profit or loss.

Time deposits include balances amounting to LBP 2,687,493 million as at 31 December 2017 (2016: LBP 2,539,916 million), whereby the principal is

settled at maturity according to the full discretion of the Group either in cash or in Lebanese government Eurobonds denominated in US Dollars and having the same nominal amount. As these deposits are linked to the credit risk of the Lebanese Republic, the Group separated the embedded derivative and accounted for it at fair value through profit or loss (Note 20).

### 35.0. | DEPOSITS FROM RELATED PARTIES

	2017		
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	Total LBP Million
Sight deposits	3,188	111,009	114,197
Time deposits	948	627,494	628,442
Saving accounts	-	590	590
Other deposits and margin accounts	482	6,511	6,993
	<b>4,618</b>	<b>745,604</b>	<b>750,222</b>
Deposits pledged as collateral			111,856

	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
	<b>3,249</b>	<b>810,299</b>	<b>813,548</b>
Deposits pledged as collateral			156,754

### 36.0. | DEBT ISSUED AND OTHER BORROWED FUNDS

	2017 LBP Million	2016 LBP Million
USD 350,000,000 due 16 October 2023 – 6.75%	527,625	527,625
USD 112,500,000 due 11 April 2024 – 6.55% + Libor 6m	169,594	169,594
USD 37,500,000 due 11 April 2024 – 6.55% + Libor 6m	56,531	56,531
USD 138,017,000 due 30 September 2024 – 6.50%	-	208,061
USD 300,000,000 due 1 August 2027 – 7.625%	455,381	-
Accrued interests	26,137	11,724
	<b>1,235,268</b>	<b>973,535</b>

The principal of the loans is to be repaid at maturity. Any principal amount of the loans prepaid may not be re-borrowed. Prepayment on the loans is applicable as follows:

#### USD 350,000,000 due 16 October 2023 – 6.75%

The Group, at its sole discretion and after obtaining approval of the Central Bank of Lebanon, has the right to prepay all outstanding amounts (entirely and not partially) according to the following:

- First time, after five years from issuance and upon payment of interest thereafter.
- Without regard to the dates set above and according to the following:
  - At any time after one year from the date of issuance, in the event of amendments to local and international laws and regulations, the subordinated bonds cannot be computed within the private funds of the Group (Tier 2);
  - At any time after one year from the date of issuance for reasons related to the amendment of Lebanese taxation laws.

#### USD 112,500,000 due 11 April 2024 – 6.55% + Libor 6m and USD 37,500,000 due 11 April 2024 – 6.55% + Libor 6m

The Group shall, on any interest payment date or not less than 30 days' prior written notice, have the right to prepay the entire outstanding principal amount of the loan, in whole but not in part, together with accrued but unpaid interest thereon, and all other amounts payable, and subject to the approval of the Central Bank of Lebanon:

- In the event of a change in Lebanese law or regulation resulting in an increase in the withholding tax rate applicable to payments of interest on the loans to more than 5.00% above the rate in effect on the date of the disbursement. No penalty or premium shall be payable in connection with any prepayment following changes in taxation; or
- Subject to the payment of a premium of 2.00% of the outstanding principal amount of the loans to be prepaid, at the option of the Group, on any interest payment date at any time after the fifth anniversary of the date on which the Loan is disbursed.

#### USD 138,017,000 due 30 September 2024 – 6.50%

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 participations relating to the USD 150 million subordinated loans, 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.

During 2017, the certificates of participation were fully replaced by subscriptions in the subordinated unsecured notes issued on 1 August (see below).

#### USD 300,000,000 due 1 August 2027 – 7.625%

On 1 August 2017, Odea bank A.Ş. issued subordinated unsecured notes in the amount of USD 300 million to third parties. These notes mature on 1 August 2027 and pay semi-annual interest of 7.625%. The notes are listed on the Main Securities Market of the Irish Stock Exchange. Odea Bank A.Ş. shall repay the notes at maturity and may repay the notes in whole, but not in part (1) starting from the fifth anniversary of the subordinated debt issuance date, or (2) due to changes in BRSA regulation if the loan ceases to be treated as Tier 2 capital under the applicable BRSA regulation.

#### Cash and Non-cash Changes in Debt Issued and Other Borrowed Funds

All changes in debt issued and other borrowed funds arise from cash flows. There were no non-cash changes (such as foreign exchange gains and losses) during 2017 (2016: the same).

### 37.0. | OTHER LIABILITIES

	2017 LBP Million	2016 LBP Million
Deferred income (A)	-	78,300
Accrued expenses	142,354	159,411
Miscellaneous suppliers and other payables	41,545	38,125
Operational taxes	75,122	54,231
Employee accrued benefits	13,288	11,730
Unearned commissions and premiums	39,873	48,881
Electronic cards and regularisation accounts	62,694	18,360
Social security dues	6,598	6,473
Other credit balances	45,917	33,076
	<b>427,391</b>	<b>448,587</b>

(A) During 2016, the Central Bank of Lebanon issued intermediate circular No. 446 dated 30 December 2016 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, capped to the extent of the losses recorded to comply with recent regulatory provisioning requirements (refer to Note 22), 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% 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% of the gains, net of taxes, directly in other comprehensive income (refer to Note 41). The remaining 30%, equivalent to LBP 78,300 million, were booked as deferred income in 2016 then recognised other comprehensive income during 2017 (refer to Note 41). The related taxes amounting to LBP 46,061 million were recorded directly in current tax liability during the year ended 31 December 2016 (refer to Note 14).

### 38.0. | PROVISIONS FOR RISKS AND CHARGES

	2017 LBP Million	2016 LBP Million
Provisions for risks and charges	41,155	48,797
End of service benefits	100,576	107,795
	<b>141,731</b>	<b>156,592</b>

### PROVISIONS FOR RISKS AND CHARGES

	2017 LBP Million	2016 LBP Million
Provision for contingencies	16,982	16,671
Provision for legal claims	2,531	2,459
Provision for bonus	9,998	20,325
Other provisions	11,644	9,342
	<b>41,155</b>	<b>48,797</b>

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

	2017 LBP Million	2016 LBP Million
<b>Balance at 1 January</b>	<b>48,797</b>	<b>66,081</b>
<b>Add:</b>		
Charge for operating expenses (Note 13)	2,843	4,125
Charge for personnel expenses	11,733	25,014
Transfer from other liabilities	1,977	2,688
	<b>16,553</b>	<b>31,827</b>
<b>Less:</b>		
Paid during the year	21,513	23,511
Write-off	1,495	-
Net provisions recoveries (Note 10)	1,347	1,336
Entities deconsolidated during the year	-	10,675
Foreign exchange difference	(160)	13,589
	<b>24,195</b>	<b>49,111</b>
<b>Balance at 31 December</b>	<b>41,155</b>	<b>48,797</b>

### END OF SERVICE BENEFITS

Banking entities operating in Lebanon have two defined benefit plans covering all their employees. The first requires contributions to be made to the National Social Security Fund whereby the entitlement to and level of these benefits depend on the employees' length of service, the employees' salaries and contributions paid to the fund among other requirements. Under the second plan, no contributions are required to be made, however a fixed end of service lump sum amount should be paid for long service employees. The entitlement to and level of these

end of service benefits provided depend on the employees' length of service, the employees' salaries and other requirements outlined in the Workers' Collective Agreement. The first plan described above also applies to non-banking entities operating in Lebanon. Defined benefit plans for employees at foreign subsidiaries and branches are set in line with the laws and regulations of the respective countries in which these subsidiaries are located. The movement of provision for staff retirement benefit obligation is as follows:

	2017		Total LBP Million
	Lebanon LBP Million	Foreign Countries LBP Million	
Balance at 1 January 2017	86,253	21,542	107,795
Charge for the year (Note 12)	11,330	6,375	17,705
Paid during the year	(27,083)	(903)	(27,986)
Actuarial loss (gain) on obligation – experience	12,238	208	12,446
Actuarial (gain) loss on obligation – economic assumptions	-	(1,190)	(1,190)
Actuarial (gain) loss on obligation – demographic assumptions	-	(1,404)	(1,404)
Provision no more required (Note 10)	(111)	(4,301)	(4,412)
Advances paid	-	(2,336)	(2,336)
Transfers	(411)	-	(411)
Foreign exchange difference	-	369	369
<b>Balance at 31 December 2017</b>	<b>82,216</b>	<b>18,360</b>	<b>100,576</b>

	2016		Total LBP Million
	Lebanon LBP Million	Foreign Countries LBP Million	
Balance at 1 January 2016	81,565	24,414	105,979
Charge for the year (Note 12)	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 assumptions	(6,402)	563	(5,839)
Actuarial (gain) on obligation – demographic assumptions	-	(1,075)	(1,075)
Entities deconsolidated during the year	-	(171)	(171)
Advances paid	(6,509)	-	(6,509)
Transfers	569	-	569
Foreign exchange difference	-	(1,083)	(1,083)
<b>Balance at 31 December 2016</b>	<b>86,253</b>	<b>21,542</b>	<b>107,795</b>

The charge for the year is broken down as follows:

	2017 LBP Million	2016 LBP Million
Past service cost	-	12,665
Current service cost	14,798	11,100
Interest on obligation	2,907	7,677
	<b>17,705</b>	<b>31,442</b>

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:

	2017	2016
<b>Economic assumptions</b>		
Discount rate (p.a.)	8.00%	8.00%
Salary increase (p.a.)		
Employees	4.00%	4.00%
Senior Managers	6.00%	6.00%
Expected annual rate of return on NSSF contributions	5.00%	5.00%
<b>Treatment of bonus</b>	3-year average as a % of basic	3-year average as a % of basic
<b>Demographic assumptions</b>		
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 – 2017	(4,125)	4,883	4,711	(4,022)
Impact on net defined benefit obligation – 2016	(4,560)	5,068	4,618	(4,203)

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

significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation from one another.

## 39.0. | SHARE CAPITAL AND WARRANTS ISSUED ON SUBSIDIARY CAPITAL

### SHARE CAPITAL

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

	2017			2016		
	Number of Shares	Share Capital LBP Million	Issue Premium LBP Million	Number of Shares	Share Capital LBP Million	Issue Premium LBP Million
Common shares	399,749,204	664,783	883,582	399,749,204	661,985	883,582
Preferred shares series "F"	-	-	-	1,500,000	2,484	223,641
Preferred shares series "G"	1,500,000	2,495	223,631	1,500,000	2,484	223,641
Preferred shares series "H"	750,000	1,247	111,815	750,000	1,242	111,820
Preferred shares series "I"	2,500,000	4,157	372,718	2,500,000	4,140	372,735
Preferred shares series "J"	2,750,000	4,573	409,989	-	-	-
	7,500,000	12,472	1,118,153	6,250,000	10,350	931,837
	407,249,204	677,255	2,001,735	405,999,204	672,335	1,815,419

### LISTING OF SHARES

	Stock Exchange	2017	2016
		Number of Shares	Number of Shares
Ordinary shares	Beirut	279,824,443	283,511,087
Global depository receipts	London SEAQ and Beirut	119,924,761	116,238,117
Preferred shares	Beirut	7,500,000	6,250,000
		407,249,204	405,999,204

1. In its meeting dated 27 October 2017, the Extraordinary General Assembly of shareholders decided to cancel the series "F" preferred shares totalling 1,500,000 shares which have a nominal value of LBP 2,484 million and to simultaneously replenish the share capital accounts by transferring the same amount from general reserves. As a result and for the avoidance of decimals in the share nominal value, the Bank increased its capital up to LBP 672,682 million, by

transferring an amount of LBP 2,798 million from reserves appropriated for capital increase, so that the nominal value per share after the cancellation and capital increase amounted to LBP 1,663. The Bank had issued preferred shares series "F" pursuant to the resolution of the Extraordinary General Assembly held on 22 June 2012, 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 countervalue 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.

2. 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 1,663 upon increasing the nominal value).
- Issue premium: Calculated in USD as the difference between USD 100 and the countervalue 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 1,663 upon increasing the nominal value).
- Issue premium: Calculated in USD as the difference between USD 100 and the countervalue 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".

3. Pursuant to the resolution of the Extraordinary General Assembly of shareholders held on 29 November 2016, the Bank issued preferred shares series "I" under the following terms:

#### Preferred Shares Series "I"

- Number of shares:	2,500,000.
- Share's issue price:	USD 100.
- Share's nominal value:	LBP 1,656 (later became LBP 1,663 upon increasing the nominal value).
- Issue premium:	Calculated in USD as the difference between USD 100 and the countervalue 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.

4. Pursuant to the resolution of the Extraordinary General Assembly of shareholders held on 21 July 2017, the Bank issued preferred shares series "J" under the following terms:

#### Preferred Shares Series "J"

- Number of shares:	2,750,000.
- Share's issue price:	USD 100.
- Share's nominal value:	LBP 1,663
- Issue premium:	Calculated in USD as the difference between USD 100 and the countervalue of the par value per share based on the exchange rate at the underwriting dates.
- Benefits:	Annual non-cumulative dividends of USD 4 per share for the year 2017, and USD 7 for each subsequent year.
- Repurchase right:	The Bank has the right to repurchase the shares in 5 years after issuance, as well as to call them off by that date.
- Conversion:	Mandatorily convertible into 15 common shares in case: 1) common equity Tier 1 to risk-weighted assets falls below 66.25% of minimum required by the Central Bank of Lebanon; or 2) the Bank is deemed non-viable by the Central Bank of Lebanon without such a conversion.

The Extraordinary General Assembly of shareholders held on 27 October 2017 validated and ratified the capital increase according to the aforementioned terms.

## WARRANTS ISSUED ON SUBSIDIARY SHARES

During 2014, and in conjunction with the capital increase held during that year, the Bank issued 172.5 million warrants entitling the holders, during the exercise period, to purchase Odea Bank's shares at an exercise price of USD 0.95 per share. The exercise period is expected to be the 30-day period commencing on 15 May 2019. The warrants are in registered form, detachable and freely tradable.

A warrant holder may exercise any or all of the warrants held during the exercise period. The shares to be made available for delivery by the Bank pursuant to the exercise of the warrants shall be fully paid and shall rank pari passu with shares of the same class in issue on the exercise date, including the right to participate in full in all dividends payable on or after the exercise date.

	2017		2016	
	Number of Warrants Outstanding	Cost LBP Million	Number of Warrants Outstanding	Cost LBP Million
Balance at 1 January	124,872,304	12,629	154,830,156	17,145
Purchased during the year	-	-	(29,957,852)	(4,516)
Balance at 31 December	124,872,304	12,629	124,872,304	12,629

## PAID DIVIDENDS

In accordance with the resolution of the General Assembly of shareholders held on 10 April 2017, dividends were distributed as follows:

	2017		
	Number of Shares	Distribution per Share LBP	Total LBP Million
Preferred shares series "F"	1,500,000	9,045	13,568
Preferred shares series "G"	1,500,000	9,045	13,568
Preferred shares series "H"	750,000	9,798	7,349
Preferred shares series "I"	2,500,000	4,522	11,305
Common shares	399,749,204	754	301,311
			347,101
Less: dividends on Treasury shares			(7,166)
			339,935

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	399,749,204	603	241,048
			275,533
Less: dividends on Treasury shares			(18)
			275,515

## 40.0. | CASH CONTRIBUTION TO CAPITAL

In previous years, agreements were entered between the Bank and its shareholders whereby the shareholders granted cash contributions to the Bank amounting to USD 48,150,000 (equivalent to LBP 72,586 million) subject to the following conditions:

- These contributions will remain placed as a fixed deposit as long as the Bank performs banking activities;
- If the Bank incurs losses and has to reconstitute its capital, these

- contributions may be used to cover the losses if needed;
- The shareholders have the right to use these contributions to settle their share in any increase of capital;
- No interest is due on the above contributions;
- The above cash contributions are considered as part of Tier 1 capital for the purpose of determining the Bank's capital adequacy ratio; and
- The right to these cash contributions is for the present and future shareholders of the Bank.

## 41.0. | NON-DISTRIBUTABLE RESERVES

	Legal Reserve LBP Million	Reserves Appropriated for Capital Increase LBP Million	Gain on Sale of Treasury Shares LBP Million	Reserve for General Banking Risks LBP Million	Unrealised Gain on Fair Value through Profit or Loss LBP Million	Reserve for Foreclosed Assets LBP Million	Other Reserves LBP Million	Total LBP Million
Balance at 1 January 2017	546,625	240,254	140	609,126	39,150	9,338	11,508	1,456,141
Appropriation of 2016 profits	51,105	9,240	-	56,271	3,873	1,683	6,906	129,078
Other comprehensive income (Note 37)	-	78,300	-	-	-	-	-	78,300
Capital increase	(35,417)	(16,111)	-	-	-	-	-	(51,528)
Transfers	(297)	108,363	(140)	-	-	-	-	107,926
Balance at 31 December 2017	562,016	420,046	-	665,397	43,023	11,021	18,414	1,719,917

	Legal Reserve 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 37)	-	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

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 51,105 million (2016: LBP 67,646 million) as required by the laws applicable in the countries in which they operate.

During 2017, an amount of LBP 35,417 million was distributed by a subsidiary to the parent and immediately reinvested by the latter in the capital of the subsidiary. Accordingly, at group level, this transaction was reflected as a transfer from this reserve to retained earnings.

### RESERVES APPROPRIATED FOR CAPITAL INCREASE

During 2017, the Bank recognised directly in reserves appropriated for capital increase an amount of LBP 78,300 million equivalent to 30% of net gains realised from trading sovereign financial instruments entered with the Central Bank of Lebanon in 2016.

During 2016, the Bank recognised directly in reserves appropriated for capital increase an amount of LBP 182,702 million equivalent to 70% of net gains realised from trading sovereign financial instruments with the Central Bank of Lebanon.

The Group transferred LBP 9,240 million from 2016 profits (2016: LBP 2,041 million from 2015 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.

During 2017, an amount of LBP 13,312 million was distributed by a subsidiary to the Parent and immediately reinvested by the latter in the capital of the subsidiary. Accordingly, at group level, this transaction was reflected as a transfer from this reserve to retained earnings. In addition, the Group transferred an amount of LBP 2,798 million to increase the nominal value per share to LBP 1,663 (Note 39).

### GAIN ON SALE OF TREASURY SHARES

These gains arise from the Global Depository Receipts (GDRs) owned by the Group. Based on the applicable regulations, the Group does not have the right to distribute these gains.

## 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 0.2 percent 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 percent 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 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.

## 42.0. | DISTRIBUTABLE RESERVES

	General Reserves LBP Million	Loss on Sale of Subsidiary Warrants LBP Million	Cost of Capital Issued LBP Million	Total LBP Million
Balance at 1 January 2017	637,992	(1,345)	(12,146)	624,501
Appropriation of 2016 profits	1,631	-	-	1,631
Capital increase	(13,328)	-	-	(13,328)
Cost of issuance of shares	-	-	(2,946)	(2,946)
Treasury shares transactions	216	-	-	216
Transfers	(181,795)	-	-	(181,795)
Other movements	2,313	-	-	2,313
Balance at 31 December 2017	447,029	(1,345)	(15,092)	430,592

	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)	-	-	(10,865)
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

During 2017, an amount of LBP 13,328 million from general reserves was distributed by a subsidiary to the Parent and immediately reinvested by the latter in the capital of the subsidiary. In addition, subsidiaries

distributed an amount of LBP 61,627 million from general reserves to the parent. Accordingly, at group level, these transactions were reflected as a transfer from this reserve to retained earnings.

### 43.0. | PROPOSED DIVIDENDS

In its meeting held on 20 March 2018, the Board of Directors of the Bank resolved to propose to the annual Ordinary General Assembly the distribution of dividends of LBP 829.125 per common share. Proposed

dividends related to preferred shares amounted to LBP 63,880 million. These dividends are subject to the General Assembly's approval.

### 44.0. | TREASURY SHARES

	2017		2016	
	Number of Shares	Cost LBP Million	Number of Shares	Cost LBP Million
Balance at 1 January	10,377,888	94,026	-	-
Purchase of Treasury shares	418,679	3,690	11,333,625	102,529
Sale of Treasury shares	(333,531)	(3,184)	(955,737)	(8,503)
Balance at 31 December	10,463,036	94,532	10,377,888	94,026

### 45.0. | OTHER COMPONENTS OF EQUITY

	2017						
	Real Estate Revaluation Reserve LBP Million	Cumulative Changes in Fair Value LBP Million	Foreign Currency Translation Reserve LBP Million	Actuarial Loss on Defined Benefit Obligation LBP Million	Group Share of Associates' Other Comprehensive Income LBP Million	Change in Time Value of Hedging Instruments LBP Million	Total LBP Million
Balance at 1 January 2017	358,713	32,154	(1,206,264)	(4,254)	4,546	(57,713)	(872,818)
Other comprehensive income	-	(1,416)	(95,137)	(8,553)	-	45,989	(59,117)
Non-controlling interests share of other comprehensive income	66	(87)	23,627	-	-	-	23,606
Sale of financial assets at fair value through other comprehensive income	-	(29,774)	-	-	-	-	(29,774)
Other movement	(1,642)	-	-	-	-	-	(1,642)
Balance at 31 December 2017	357,137	877	(1,277,774)	(12,807)	4,546	(11,724)	(939,745)

	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)	(581,601)	1,338	-	(27,861)	(614,473)
Amount reclassified to income statement	-	-	180,571	-	-	23,300	203,871
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)

### REAL ESTATE REVALUATION RESERVE

Effective 31 December 2014, the Group made a voluntary change in its accounting policy for subsequent measurement of two classes of property and equipment being i) Land and ii) Building and building improvements

from cost to revaluation model. The revaluation surplus amounted to LBP 383,096 and was booked net of deferred taxes of LBP 49,332 million.

### CUMULATIVE CHANGES IN FAIR VALUE

The cumulative changes as at 31 December represent the fair value differences from the revaluation of financial assets measured at fair value

through other comprehensive income. The movement during the year can be summarised as follows:

	Change in Fair Value LBP Million	Deferred Tax LBP Million	Net LBP Million
Balance at 1 January 2017	37,436	(5,282)	32,154
Other comprehensive income	(1,450)	34	(1,416)
Non-controlling interest share of reserves	(87)	-	(87)
Sale of financial assets at fair value through other comprehensive income	(35,112)	5,338	(29,774)
Adjustments	(469)	469	-
Balance at 31 December 2017	318	559	877
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

### Change in the Fair Value of Time Value of Hedging Instruments

IFRS 9 (2013) stipulates that the Group may separate the intrinsic value and the time value of a purchased option contract and designate only the change in the intrinsic value as the hedging instrument. The Group adopted this option with a view to enhance hedge effectiveness.

The changes in fair value of the time value of the option in relation to a time-period related hedged item are amortised to profit or loss on a rational basis over the term of the hedging relationship consistent with the Group's accounting policy (refer to Note 20).

### 46.0. | GROUP SUBSIDIARIES

#### 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
	2017	2016			
Bank Audi (France) sa	100.00%	100.00%	France	Banking (Commercial)	EUR
Audi Investment Bank sal	100.00%	100.00%	Lebanon	Banking (Investment)	LBP
Audi Private Bank sal	100.00%	100.00%	Lebanon	Banking (Private)	LBP
Banque Audi (Suisse) SA	100.00%	100.00%	Switzerland	Banking (Private)	CHF
Bank Audi sae	100.00%	100.00%	Egypt	Banking (Commercial)	EGP
Audi Capital (KSA)	99.99%	99.99%	Saudi Arabia	Financial services	SAR
Bank Audi LLC (Qatar)	100.00%	100.00%	Qatar	Banking services	QAR
Societe Libanaise de Factoring sal	100.00%	94.85%	Lebanon	Factoring	LBP
Odea Bank A.Ş.	76.42%	76.42%	Turkey	Banking (Commercial)	TRY
Audi Investments Holding sal	100.00%	100.00%	Lebanon	Investment	USD

## 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.

## NON-CONTROLLING INTERESTS

Odea Bank A.Ş is the only subsidiary of the Group that has a material non-controlling interest with 23.58% equity interests held by non-controlling interests as at 31 December 2017 (2016: 23.58%).

## MATERIAL PARTIALLY OWNED SUBSIDIARIES

	Odea Bank A.Ş.	
	2017 %	2016 %
Proportion of equity interests held by non-controlling interests	23.58%	23.58%

Financial information relating to Odea Bank A.Ş is provided below:

## SUMMARISED STATEMENT OF PROFIT OR LOSS

	Odea Bank A.Ş.	
	2017 LBP Million	2016 LBP Million
Net interest income	446,433	547,447
Net fee and commission income	85,909	83,990
Net (loss) gain on financial assets	74,344	86,399
Revenues from financial assets at fair value through other comprehensive income	-	3,110
Other operating income	8,532	1,314
<b>Total operating income</b>	<b>615,218</b>	<b>722,260</b>
Net credit losses	(143,123)	(266,976)
Total operating expenses	(306,852)	(325,923)
<b>Profit before tax</b>	<b>165,243</b>	<b>129,361</b>
Income tax	(32,077)	(25,872)
<b>Profit for the period</b>	<b>133,166</b>	<b>103,489</b>
Attributable to non-controlling interests <sup>(*)</sup>	31,401	14,376
Dividends paid to non-controlling interests	-	-

\* Profit for the period attributable to non-controlling interests for the year 2016 represents the non-controlling interests' share of profit realised by Odea Bank A.Ş. after the change in ownership (see below). Any profit realised by Odea Bank A.Ş. before the change in ownership was reflected within the Group's share.

## SUMMARISED STATEMENT OF FINANCIAL POSITION

	Odea Bank A.Ş.	
	2017 LBP Million	2016 LBP Million
<b>ASSETS</b>		
Cash and balances with central banks	1,492,429	2,017,794
Due from banks and financial institutions	175,014	140,168
Loans to banks and financial institutions and reverse repurchase agreements	1,096,928	1,886,858
Derivative financial instruments	168,413	179,629
Financial assets at fair value through profit or loss	310,016	2,525
Loans and advances to customers at amortised cost	8,895,011	11,159,897
Debtors by acceptances	56,889	48,977
Financial assets at amortised cost	685,186	584,879
Financial assets at fair value through other comprehensive income	3,160	824
Property and equipment	41,599	55,368
Intangible assets	35,963	42,256
Non-current assets held for sale	68,511	18,002
Other assets	124,455	145,744
<b>TOTAL ASSETS</b>	<b>13,153,574</b>	<b>16,282,921</b>
<b>LIABILITIES</b>		
Due to Central Bank	-	99,117
Due to banks and financial institutions	1,195,326	1,475,396
Derivative financial instruments	161,756	233,449
Due to head office, sister, related banks and financial institutions	18,285	112,388
Customers' deposits	9,581,844	12,419,546
Deposits from related parties	462	5,071
Debt issued and other borrowed funds	469,903	225,983
Engagements by acceptances	56,889	48,977
Other liabilities	89,180	100,242
Provisions for risks and charges	12,296	23,943
<b>TOTAL LIABILITIES</b>	<b>11,585,941</b>	<b>14,744,112</b>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>1,567,633</b>	<b>1,538,809</b>
<i>Of which: non-controlling interest</i>	<i>369,647</i>	<i>362,851</i>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>13,153,574</b>	<b>16,282,921</b>

## SUMMARISED CASH FLOW INFORMATION

	2017 LBP Million	2016 LBP Million
Operating activities	(658,282)	(123,629)
Investing activities	(5,786)	(212,983)
Financing activities	243,671	361,375
	<b>(420,397)</b>	<b>24,763</b>

During 2016, pursuant to the capital increase of Odea Bank A.Ş. by LBP 499,668 million of which LBP 387,517 million subscribed by third parties (mostly with supranational investors), the Group's ownership was diluted from 100% to 76.42%.

The transaction has been accounted for as an equity transaction with non-controlling interests, as follows:

	LBP Million
Proceed from non-controlling interest's subscription in the capital increase	387,517
Net assets attributable to non-controlling interests	(409,281)
Decrease in equity attributable to parent	(21,764)
Represented by:	
Increase in foreign currency translation reserve	3,040
Decrease in cumulative changes in fair value	(35)
Decrease in retained earnings	(24,991)
Increase in distributable reserves	222
	(21,764)

As disclosed in Note 15, during 2016, the Group deconsolidated Bank Audi Syria and National Bank of Sudan, in which non-controlling interests hold 53.00% and 23.44% respectively which resulted in a derecognition

of non-controlling interests of LBP 62,990 million. Non-controlling interests' share of profit and loss from these discontinued operations amounted to LBP 21,987 million.

## 47.0. | CASH AND CASH EQUIVALENTS

	2017 LBP Million	2016 LBP Million
Cash and balances with central banks	5,938,220	2,549,050
Due from banks and financial institutions	1,385,927	2,054,677
Loans to banks and financial institutions and reverse repurchase agreements	1,111,706	24,654
Due to central banks	(227,783)	-
Due to banks and financial institutions	(896,516)	(1,171,267)
	7,311,554	3,457,114

## 48.0. | FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values in this note are stated at a specific date and may be different from the amounts which will actually be paid on the maturity or settlement dates of the instrument. In many cases, it would not be possible to realise immediately the estimated fair values given the size of the portfolios measured. Accordingly, these fair values do not represent

the value of these instruments to the Group as a going concern. Financial assets and liabilities are classified according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below:

### QUOTED MARKET PRICES – LEVEL 1

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and

regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

### VALUATION TECHNIQUE USING OBSERVABLE INPUTS – LEVEL 2

Financial instruments classified as Level 2 have been valued using models whose most significant inputs are derived directly or indirectly from observable market data. Such inputs include quoted prices for similar

assets or liabilities in active markets, quoted prices for identical instruments in inactive markets, and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads.

### VALUATION TECHNIQUE USING SIGNIFICANT UNOBSERVABLE INPUTS – LEVEL 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs).

## 48.1. | FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

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

	2017			Total LBP Million
	Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million	
<b>FINANCIAL ASSETS</b>				
<b>Derivative financial instruments</b>				
<i>Derivatives held for trading</i>				
Forward foreign exchange contracts	1,614	8,191	-	9,805
Currency swaps	23,278	134,485	-	157,763
Precious metals swaps	12	-	-	12
Currency options	7,968	20,414	-	28,382
Interest rate swaps	450	14,672	-	15,122
Credit default swaps	216	19,597	-	19,813
Equity options	6,700	11,420	-	18,120
<i>Derivatives held to hedge net investments in foreign operations</i>				
Currency options	-	149,067	-	149,067
	40,238	357,846	-	398,084
<b>Financial assets at fair value through profit or loss</b>				
<i>Lebanese sovereign and Central Bank of Lebanon</i>				
Central Bank's certificates of deposits	-	797,414	-	797,414
Treasury bills	-	357,021	-	357,021
Eurobonds	163,030	-	-	163,030
<i>Other sovereign</i>				
Treasury bills and bonds	306	-	-	306
<i>Private sector and other securities</i>				
Banks and financial institutions	66,410	2,581	-	68,991
Loans and advances to customers	-	47,658	-	47,658
Mutual funds	1,212	16,611	43,207	61,030
	230,958	1,221,285	43,207	1,495,450
<b>Financial assets designated at fair value through other comprehensive income</b>				
<i>Private sector and other securities</i>				
Equity instruments	319	18,955	138,753	158,027
	271,515	1,598,086	181,960	2,051,561
<b>FINANCIAL LIABILITIES</b>				
<b>Derivative financial instruments</b>				
<i>Derivatives held for trading</i>				
Forward foreign exchange contracts	1,125	2,300	-	3,425
Forward precious metals contracts	143	-	-	143
Currency swaps	18,287	142,938	-	161,225
Precious metals swaps	2,152	-	-	2,152
Currency options	7,968	8,306	-	16,274
Interest rate swaps	290	8,294	-	8,584
Equity options	6,699	-	-	6,699
<i>Derivatives held to hedge net investments in foreign operations</i>				
Currency swaps	6,882	-	-	6,882
	43,546	161,838	-	205,384
Customers' deposits - sight	90,637	-	-	90,637
	134,183	161,838	-	296,021

	2016			
	Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million	Total LBP Million
<b>FINANCIAL ASSETS</b>				
<i>Derivative financial instruments</i>				
<i>Derivatives held for trading</i>				
Forward foreign exchange contracts	8,046	11,252	-	19,298
Forward precious metals contracts	5	-	-	5
Currency swaps	15,514	119,890	-	135,404
Precious metals swaps	1,309	-	-	1,309
Currency options	17,483	31,824	-	49,307
Interest rate swaps	-	16,703	473	17,176
Credit default swaps	216	11,372	-	11,588
Equity options	1,812	7,842	-	9,654
<i>Derivatives held to hedge net investments in foreign operations</i>				
Currency swaps	8,753	-	-	8,753
Currency options	-	137,644	-	137,644
	53,138	336,527	473	390,138
<i>Financial assets at fair value through profit or loss</i>				
<i>Lebanese sovereign and Central Bank of Lebanon</i>				
Central Bank's certificates of deposits	-	17,559	-	17,559
Treasury bills	-	555,086	-	555,086
Eurobonds	13,100	-	-	13,100
<i>Other sovereign</i>				
Treasury bills and bonds	2,526	-	-	2,526
<i>Private sector and other securities</i>				
Banks and financial institutions	8,973	454	-	9,427
Loans and advances to customers	-	21,898	-	21,898
Mutual funds	964	35,719	31,018	67,701
Equity instruments	5,911	-	6	5,917
	31,474	630,716	31,024	693,214
<i>Financial assets designated at fair value through other comprehensive income</i>				
<i>Private sector and other securities</i>				
Equity instruments	1,167	55,335	137,446	193,948
	85,779	1,022,578	168,943	1,277,300
<b>FINANCIAL LIABILITIES</b>				
<i>Derivative financial instruments</i>				
<i>Derivatives held for trading</i>				
Forward foreign exchange contracts	6,909	20,555	-	27,464
Forward precious metals contracts	13	-	-	13
Currency swaps	12,348	167,333	-	179,681
Precious metals swaps	491	-	-	491
Currency options	17,488	34,321	-	51,809
Interest rate swaps	-	10,171	194	10,365
Equity options	1,814	-	-	1,814
<i>Derivatives held to hedge net investments in foreign operations</i>				
Currency swaps	-	1,315	-	1,315
	39,063	233,695	194	272,952
Customers' deposits - sight	62,095	-	-	62,095
	101,158	233,695	194	335,047

## VALUATION TECHNIQUES USED FOR MATERIAL CLASSES OF FINANCIAL ASSETS AND LIABILITIES CATEGORISED WITHIN LEVEL 2 AND LEVEL 3:

### Interest Rate Derivatives

Interest rate derivatives include interest rate swaps and interest rate options. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations by estimating future cash flows and discounting them with the appropriate yield curves incorporating funding costs relevant for the position. These contracts are generally Level 2 unless adjustments to yield curves or credit spreads are based on significant non-observable inputs, in which case, they are Level 3. The Group does not have interest rate derivatives classified as Level 3.

### Foreign Exchange Contracts

These are spots or derivatives linked to the foreign exchange (FX) market. This category includes FX forward contracts, FX swaps and FX options. The vast majority are traded as over the counter (OTC) derivatives. Exotic and non-exotic derivatives are valued using industry standard and bespoke models. Input parameters include FX rates, interest rates, FX volatilities, interest rate volatilities, FX interest rate correlations and others as appropriate. Unobservable model inputs are set by referencing liquid market instruments and applying extrapolation techniques to match the appropriate risk profile. When certain correlations, long dated forwards and volatilities are unobservable beyond liquid maturities, these instruments are classified Level 3. The Group does not have foreign exchange derivatives classified as Level 3.

### Equity Derivatives

These are derivatives linked to equity indices and single names. This category includes exchange traded and OTC equity derivatives including vanilla and exotic options. The valuations of OTC equity derivatives are determined using industry standard models. Input parameters include stock prices, dividends, volatilities, interest rates, equity repo curves and, for multi-asset products, correlations. Unobservable model inputs are determined by reference to liquid market instruments and applying extrapolation techniques to match the appropriate risk profile. These instruments are generally classified as Level 2, unless when input parameters are deemed observable up to liquid maturities which are determined separately for each parameter and underlying, in which case the instruments are classified as Level 3. The Group does not have equity derivatives classified as Level 3.

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

	2017		2016	
	Financial Instruments at Fair Value through Profit or Loss LBP Million	Financial Instruments at Fair Value through Other Comprehensive Income LBP Million	Financial Instruments at Fair Value through Profit or Loss LBP Million	Financial Instruments at Fair Value through Other Comprehensive Income LBP Million
<b>FINANCIAL ASSETS</b>				
Balance at 1 January	31,024	137,446	15,698	103,314
Re-measurement recognised in other comprehensive income	-	(1,630)	-	(2,113)
Re-measurement recognised in the income statement	1,046	-	(886)	-
Entities deconsolidated during the year	-	-	-	(552)
Purchases	11,143	6,961	16,212	52,869
Sales	(6)	(4,371)	-	(15,279)
Foreign exchange difference	-	347	-	(793)
<b>Balance at 31 December</b>	<b>43,207</b>	<b>138,753</b>	<b>31,024</b>	<b>137,446</b>

## 48.2. | FAIR VALUE OF FINANCIAL INSTRUMENTS NOT HELD AT FAIR VALUE

### COMPARISON OF CARRYING AND FAIR VALUES FOR FINANCIAL ASSETS AND LIABILITIES NOT HELD AT FAIR VALUE

The fair values included in the table below were calculated for disclosure purposes only. The fair valuation techniques and assumptions described below relate only to the fair value of the Group's financial instruments not measured at fair value. Other institutions may use different methods and assumptions for their fair value estimations, and therefore such fair value disclosures cannot necessarily be compared from one institution to another.

Fair value measurement hierarchy of the Group's financial assets and liabilities for which fair value is disclosed:

	Notional Amount		Fair Value			Total LBP Million
	LBP Million	Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million	LBP Million	
<b>31 December 2017</b>						
<b>FINANCIAL ASSETS</b>						
Cash and balances with central banks	19,846,859	456,333	19,387,170	-	-	19,843,503
Due from banks and financial institutions	1,454,753	-	1,454,824	-	-	1,454,824
Loans to banks and financial institutions and reverse repurchase agreements	1,208,536	-	1,208,539	-	-	1,208,539
Net loans and advances to customers	24,400,781	-	-	24,485,400	-	24,485,400
<i>Corporate and SME</i>	17,208,357	-	-	17,300,791	-	17,300,791
<i>Retail and Personal Banking</i>	6,783,282	-	-	6,765,662	-	6,765,662
<i>Public sector</i>	409,142	-	-	418,947	-	418,947
Net loans and advances to related parties	161,814	-	-	161,801	-	161,801
<i>Corporate and SME</i>	17,928	-	-	17,928	-	17,928
<i>Retail and Personal Banking</i>	143,886	-	-	143,873	-	143,873
Financial assets classified at amortised cost	14,822,345	1,666,505	13,151,710	3,057	-	14,821,272
<i>Lebanese sovereign and Central Bank</i>	12,003,137	728,810	11,298,715	-	-	12,027,525
<i>Other sovereign</i>	2,419,469	539,099	1,852,995	-	-	2,392,094
<i>Private sector and other securities</i>	399,739	398,596	-	3,057	-	401,653
	<b>61,895,088</b>	<b>2,122,838</b>	<b>35,202,243</b>	<b>24,650,258</b>	<b>-</b>	<b>61,975,339</b>
<b>FINANCIAL LIABILITIES</b>						
Due to central banks	3,971,498	-	3,969,985	-	-	3,969,985
Due to banks and financial institutions	2,626,173	-	2,624,785	-	-	2,624,785
Due to banks under repurchase agreements	218,922	-	218,919	-	-	218,919
Customers' deposits	49,587,220	-	49,596,310	-	-	49,596,310
Deposits from related parties	750,222	-	749,999	-	-	749,999
Debt issued and other borrowed funds	1,235,268	437,420	765,349	-	-	1,202,769
	<b>58,389,303</b>	<b>437,420</b>	<b>57,925,347</b>	<b>-</b>	<b>-</b>	<b>58,362,767</b>

	Notional Amount		Fair Value			Total LBP Million
	LBP Million	Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million	LBP Million	
<b>31 December 2016</b>						
<b>FINANCIAL ASSETS</b>						
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
<i>Corporate and SME</i>	19,023,845	-	-	19,522,168	-	19,522,168
<i>Retail and Personal Banking</i>	6,248,123	-	-	6,294,562	-	6,294,562
<i>Public sector</i>	460,279	-	-	460,274	-	460,274
Net loans and advances to related parties	219,193	-	-	219,143	-	219,143
<i>Corporate and SME</i>	24,099	-	-	24,081	-	24,081
<i>Retail and Personal Banking</i>	195,094	-	-	195,062	-	195,062
Financial assets classified at amortised cost	13,990,070	1,461,900	12,460,599	3,057	-	13,925,556
<i>Lebanese sovereign and Central Bank</i>	11,367,616	580,260	10,706,213	-	-	11,286,473
<i>Other sovereign</i>	2,020,863	434,624	1,599,816	-	-	2,034,440
<i>Private sector and other securities</i>	601,591	447,016	154,570	3,057	-	604,643
	<b>63,688,149</b>	<b>1,839,338</b>	<b>35,824,587</b>	<b>26,499,204</b>	<b>-</b>	<b>64,163,129</b>
<b>FINANCIAL LIABILITIES</b>						
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
	<b>59,696,374</b>	<b>-</b>	<b>59,703,966</b>	<b>-</b>	<b>-</b>	<b>59,703,966</b>

### VALUATION TECHNIQUES USED FOR MATERIAL CLASSES OF FINANCIAL ASSETS AND LIABILITIES CATEGORISED WITHIN LEVEL 2 AND LEVEL 3:

#### Short-term Financial Assets and Liabilities

For financial assets and financial liabilities that have a short-term maturity (less than three months), the carrying amounts, which are net of impairment, are a reasonable approximation of their fair value. Such instruments include: cash and balances with central banks; due to and from banks; demand deposits; and savings accounts without a specific maturity.

#### Deposits with Banks and Loans and Advances to Banks

For the purpose of this disclosure, there is minimal difference between fair value and carrying amount of these financial assets as they are short-term in nature or have interest rates that re-price frequently. The fair value of deposits with longer maturities are estimated using discounted cash flows applying market rates for counterparties with similar credit quality. Where market data or credit information on the underlying borrower is unavailable, a number of proxy/extrapolation techniques are employed to determine the appropriate discount rate.

#### Reverse Repurchase and Repurchase Agreements

The fair value of reverse repurchase agreements approximates carrying amount as these balances are generally short-dated and fully collateralised.

#### Government Bonds, Certificates of Deposits and Other Debt Securities

The Group values these unquoted debt securities using discounted cash flow valuation models using observable market inputs, comprising of interest rates and yield curves, implied volatilities, and credit spreads.

#### Loans and Advances to Customers

For the purpose of this disclosure, in many cases, the fair value disclosed approximates carrying value because these advances are short-term in nature or have interest rates that re-price frequently. The fair value of loans and advances to customers that do not fall in this category is estimated using discounted cash flows by applying current rates to new loans with similar remaining maturities and to counterparties with similar credit quality.

#### Deposits from Banks and Customers

In many cases, the fair value disclosed approximates carrying value because these financial liabilities are short-term in nature or have interest rates that re-price frequently. The fair value for deposits with long-term maturities, such as time deposits, is estimated using discounted cash flows, applying either market rates or current rates for deposits of similar remaining maturities. Where market data is unavailable, a number of proxy/extrapolation techniques are employed to determine the appropriate discount rate.

#### Debt Issued and Other Borrowed Funds

Fair values are determined using discounted cash flows valuation models where the inputs used are estimated by comparison with quoted prices in an active market for similar instruments.

## 49.0. | CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

### CREDIT-RELATED COMMITMENTS AND CONTINGENT LIABILITIES

The Group enters into various commitments, guarantees and other contingent liabilities which are mainly credit-related instruments including both financial and non-financial guarantees and commitments to extend credit. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group. The table below discloses

the nominal principal amounts of credit-related commitments and contingent liabilities. Nominal principal amounts represent the amount at risk should the contracts be fully drawn upon and clients default. As a significant portion of guarantees and commitments is expected to expire without being withdrawn, the total of the nominal principal amount is not indicative of future liquidity requirements.

	2017		
	Banks LBP Million	Customers LBP Million	Total LBP Million
<b>Guarantees and contingent liabilities</b>			
Financial guarantees	124,471	773,147	897,618
Other guarantees	98,276	1,478,244	1,576,520
	<b>222,747</b>	<b>2,251,391</b>	<b>2,474,138</b>
<b>Commitments</b>			
Documentary credits	-	752,363	752,363
Loan commitments	-	4,982,539	4,982,539
Of which revocable	-	4,087,347	4,087,347
Of which irrevocable	-	895,192	895,192
	-	<b>5,734,902</b>	<b>5,734,902</b>

	2016		
	Banks LBP Million	Customers LBP Million	Total LBP Million
<b>Guarantees and contingent liabilities</b>			
Financial guarantees	256,914	856,196	1,113,110
Other guarantees	17,009	1,655,817	1,672,826
	<b>273,923</b>	<b>2,512,013</b>	<b>2,785,936</b>
<b>Commitments</b>			
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
	-	<b>5,449,476</b>	<b>5,449,476</b>

### FINANCIAL GUARANTEES (INCLUDING STANDBY LETTERS OF CREDIT)

Guarantees are given as security to support the performance of a customer to third parties. The main types of guarantees provided are:

- Financial guarantees given to banks and financial institutions on behalf of customers to secure loans, overdrafts, and other banking facilities; and
- Other guarantees are contracts that have similar features to the financial guarantee contracts but fail to meet the strict definition of a financial guarantee contract under IFRS. These mainly include performance and tender guarantees.

### DOCUMENTARY CREDITS

Documentary credits commit the Group to make payments to third parties, on production of documents which are usually reimbursed immediately by customers.

### LOAN COMMITMENTS

Loan commitments are defined amounts (unutilised credit lines or undrawn portions of credit lines) against which clients can borrow money under defined terms and conditions.

Revocable loan commitments are those commitments that can be unconditionally cancelled at any time subject to notice requirements according to their general terms and conditions. Irrevocable loan commitments result from arrangements where the Group has no right to withdraw the loan commitment once communicated to the beneficiary.

### OTHER GUARANTEES

Other guarantees are contracts that have similar features to the financial guarantee contracts but fail to meet the strict definition of a financial guarantee contract under IFRS. These include mainly performance and tender guarantees. As at 31 December 2017, other guarantees provided to banks and customers amounted to LBP 1,576,520 million (2016: LBP 1,672,826 million).

### 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 26,358 million as of 31 December 2017 (2016: LBP 38,333 million).

### LEGAL CLAIMS

Litigation is a common occurrence in the banking industry due to the nature of the business. The Group has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year-end, the Group had several unresolved legal claims. Based on advice from legal counsel, Management believes that legal claims will not result in any material financial loss to the Group.

### OPERATING LEASE AND CAPITAL EXPENDITURE COMMITMENTS

	2017 LBP Million	2016 LBP Million
Capital expenditure commitments	28,127	56,495
Operating lease commitments – Group as lessee	58,757	65,017
Within one year	16,341	20,282
One to five years	22,079	22,638
More than five years	20,337	22,097
	<b>86,884</b>	<b>121,512</b>

### 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 it is applied by the Central Bank of Lebanon.

### OTHER COMMITMENTS AND CONTINGENCIES

Certain areas of the Lebanese tax legislation and the tax legislations where the subsidiaries operate are subject to different interpretations in respect of the taxability of certain types of financial transactions and activities. The Bank's books in Lebanon remain subject to the review of the tax authorities for the period from 1 January 2015 to 31 December 2017 and the review of the National Social Security Fund (NSSF) for the period from 30 September 2011 to 31 December 2017. In addition, the subsidiaries' books and records are subject to review by the tax and social security authorities in the countries in which they operate. Management believes that adequate provisions were recorded against possible review results to the extent that they can be reliably estimated.

## 50.0. | ASSETS UNDER MANAGEMENT

Assets under management include client assets managed or deposited with the Group. For the most part, the clients decide how these assets are to be invested.

	2017 LBP Million	2016 LBP Million
Assets under management	13,622,724	12,919,963
Fiduciary assets	2,944,813	3,407,836
	<b>16,567,537</b>	<b>16,327,799</b>

## 51.0. | RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, or one other party controls

both. The definition includes subsidiaries, associates, Key Management Personnel and their close family members, as well as entities controlled or jointly controlled by them.

### SUBSIDIARIES

Transactions between the Bank and its subsidiaries meet the definition of related party transactions. However, where these are eliminated on

consolidation, they are not disclosed in the Group's financial statements.

### ASSOCIATES AND OTHER ENTITIES

The Group provides banking services to its associates and to entities under common directorships. As such, loans, overdrafts, interest and non-interest bearing deposits and current accounts are provided to these entities as well

as other services. These transactions are conducted on the same terms as third-party transactions. Summarised financial information for the Group's associates is set out in Note 26 to these financial statements.

Amounts included in the Group's financial statements are as follows:

	2017 LBP Million	2016 LBP Million
Loans and advances	161,814	219,193
<i>Of which: granted to Key Management Personnel</i>	24,000	59,676
Indirect facilities	4,315	3,749
Deposits	750,222	813,548
Cash collateral received against loans	111,856	154,754
Interest income on loans	6,584	8,197
Interest expense on deposits	29,914	30,961

For the year ended 31 December 2017, the Group has not made any allowance for impairment relating to amounts owed by related parties (2016: the same).

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 15).

### KEY MANAGEMENT PERSONNEL

Key Management Personnel are those individuals who have the authority and responsibility for planning and exercising power to directly or indirectly control the activities of the Group and its employees. The Group

considers the members of the Board of Directors (and its sub-committees) and Executive Committee, and persons and entities connected to them to be Key Management Personnel.

	2017 LBP Million	2016 LBP Million
Short-term benefits	46,359	59,914
Post-employment benefits	1,826	16,413

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 10,705 million as of 31 December 2017 (2016: LBP 29,944 million).

## 52.0. | RISK MANAGEMENT

The Group is exposed to various types of risks, some of which are:

- Credit Risk: the risk of default or deterioration in the ability of a borrower to repay a loan.
- Market risk: the risk of loss in balance sheet and off-balance sheet positions arising from movements in market prices. Movements in market prices include changes in interest rates (including credit spreads), exchange rates and equity prices.
- Liquidity risk: the risk that the Group cannot meet its financial obligations when they come due in a timely manner and at reasonable cost.
- Operational risk: the risk of loss resulting from inadequate or failed

internal processes, people and systems, or from external events.

- Other risks faced by the Group include concentration risk, reputation risk, legal risk and business/strategic risk.

Risks are managed through a process of ongoing identification, measurement, monitoring, mitigation and control and reporting to relevant stakeholders. The Group ensures that risk and rewards are properly balanced and in line with the risk appetite that is approved by the Board of Directors.

### BOARD OF DIRECTORS

The Board of Directors (the Board) is ultimately responsible for setting the level of acceptable risks to which the Group is exposed, and as such, defines the risk appetite for the Group. In addition, the Board approves risk policies and procedures. Periodic reporting is made to the Board on

existing and emerging risks in the Group. A number of Management committees and departments are also responsible for various levels of risk management, as set out below.

### BOARD GROUP RISK COMMITTEE

The role of the Board's Group Risk Committee (BGRC) is to oversee the risk management framework and assess its effectiveness, review and recommend to the Board the group risk policies and risk appetite,

monitor the group risk profile, review stress tests scenarios and results, and provide access for the Group Chief Risk Officer (CRO) to the Board. The BGRC meets at least every quarter in the presence of the Group CRO.

### EXECUTIVE COMMITTEE

The mandate of the Group Executive Committee is to support the Board in the implementation of its strategy, to support the Group CEO in the day-to-day management of the Group, and to develop and implement

business policies for the Group and issue guidance for the Group within the strategy approved by the Board. The Executive Committee is involved in reviewing and submitting to the Board the risk policies and risk appetite.

### ASSET LIABILITY COMMITTEE

The Asset Liability Committee (ALCO) is a Management committee responsible in part for managing market risk exposures, liquidity, funding needs and contingencies. It is the responsibility of this committee to set up

strategies for managing market risk and liquidity exposures and ensuring that Treasury implements those strategies so that exposures are managed in a manner consistent with the risk policy and limits approved by the Board.

### INTERNAL AUDIT

All risk management processes are independently audited by the Internal Audit Department at least annually. This includes the examination of both the adequacy and effectiveness of risk control procedures. Internal audit

discusses the results of its assessments with Management and reports its findings and recommendations to the Audit Committee of the Board.

### RISK MANAGEMENT

Risk Management is a function independent from business lines and headed by the Chief Risk Officer. The function has the responsibility to ensure that risks are properly identified, measured, monitored, controlled, and reported to heads of business lines, Senior Management, ALCO, the Board Risk Committee and the Board. In addition, the function

works closely with Senior Management to ensure that proper controls and mitigants are in place. The Risk function at the Group level has the responsibility of drafting risk policies and principles for adoption at the entity level. In addition, it is in charge of cascading risk appetite to entities and business lines monitoring and aggregating risks across the Group.

## RISK APPETITE

The Risk appetite reflects the business strategy and market environment of the Group, as well as the level of risks that the Group is willing to accept.

Risk appetite is formalised in a document which is reviewed by the Executive Committee and the Board Group Risk Committee, and approved by the Board. This document comprises qualitative and quantitative statements of risk appetite that includes indicators for asset quality and concentration.

Information independently compiled from all business lines and risk-taking units is examined and processed in order to identify and measure the risk profile. The results are reported and presented on a regular basis to Management and to the Board.

## 53.0. | CREDIT RISK

Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. 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.

#### 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.

#### SOVEREIGN EXPOSURE AND OTHER FINANCIAL INSTRUMENTS

Limits are placed on sovereign exposures and other financial instruments according to their ratings.

## CREDIT GRANTING AND MONITORING PROCESSES

The Group has set clearly established processes related to loan origination, documentation and maintenance of extensions of credit.

### INITIATION

Initiation of the credit facilities is done by the business originating function which is shared between branches and the Corporate and Commercial Departments.

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 credit risk profile including follow-up accounts, large exposures, risk ratings and concentration by industry, geography and group of obligors.

### 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.

### 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 & 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 recommendations 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.

- 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.
- For certain jurisdictions like Lebanon, a specified period during which the exposure has been classified bad, has been exceeded.

Requests for write-offs are submitted to the appropriate authority for approval. Approved write-offs are notified to the Executive Committee and then to the Board.

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:

## 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.

## 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.

	2017								
	Maximum Exposure LBP Million	Cash Collateral and Margins LBP Million	Securities LBP Million	Guarantees Received from Banks and Financial Institutions LBP Million	Real Estate LBP Million	Vehicles LBP Million	Other Guarantees LBP Million	Netting Agreements LBP Million	Net Credit Exposure LBP Million
<b>Balances with central banks</b>	<b>19,390,528</b>	-	-	-	-	-	-	<b>2,431,840</b>	<b>16,958,688</b>
Due from banks and financial institutions	1,454,753	-	-	-	-	-	-	-	1,454,753
Loans to banks and financial institutions and reverse repurchase agreements	1,208,536	-	-	1,095,781	-	-	-	-	112,755
Derivative financial instruments	378,271	-	-	-	-	-	-	-	378,271
Financial assets at fair value through profit or loss	1,434,420	-	-	-	-	-	-	-	1,434,420
<b>Loans and advances to customers at amortised cost</b>	<b>24,400,781</b>	<b>2,288,133</b>	<b>1,701,444</b>	<b>85,406</b>	<b>7,730,169</b>	<b>426,287</b>	<b>631,182</b>	<b>10,108</b>	<b>11,528,052</b>
<i>Corporate and SME</i>	17,208,357	1,216,830	956,525	83,393	5,662,559	113,444	570,411	7,326	8,597,869
<i>Retail and Personal Banking</i>	6,783,282	1,068,432	744,919	2,013	2,067,610	312,843	60,771	2,782	2,523,912
<i>Public sector</i>	409,142	2,871	-	-	-	-	-	-	406,271
<b>Loans and advances to related parties at amortised cost</b>	<b>161,814</b>	<b>111,856</b>	-	-	<b>26,342</b>	<b>576</b>	<b>1,657</b>	-	<b>21,383</b>
Debtors by acceptances	226,896	8,994	111	-	1,979	39	7,517	-	208,256
Financial assets at amortised cost	14,822,345	-	-	-	-	-	-	2,687,493	12,134,852
<b>Contingent liabilities</b>	<b>1,649,981</b>	<b>158,667</b>	<b>24,763</b>	<b>21,035</b>	<b>57,839</b>	<b>1,150</b>	<b>88,380</b>	-	<b>1,298,147</b>
<i>Letters of credit</i>	752,363	71,814	522	-	2,106	111	39,795	-	638,015
<i>Financial guarantee given to banks and financial institutions</i>	124,471	-	-	-	-	-	-	-	124,471
<i>Financial guarantee given to customers</i>	773,147	86,853	24,241	21,035	55,733	1,039	48,585	-	535,661
<b>Total</b>	<b>65,128,325</b>	<b>2,567,650</b>	<b>1,726,318</b>	<b>1,202,222</b>	<b>7,816,329</b>	<b>428,052</b>	<b>728,736</b>	<b>5,129,441</b>	<b>45,529,577</b>
<b>Guarantees received from banks, financial institutions and customers</b>									
Utilised collateral		2,567,650	1,726,318	1,202,222	7,816,329	428,052	728,736		14,469,307
Surplus of collateral before undrawn credit lines		2,369,690	3,136,909	32,399	15,845,237	391,508	1,691,682		23,467,425
		<b>4,937,340</b>	<b>4,863,227</b>	<b>1,234,621</b>	<b>23,661,566</b>	<b>819,560</b>	<b>2,420,418</b>		<b>37,936,732</b>

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LBP 4,982,539 million as at 31 December 2017.

	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
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
<i>Corporate and SME</i>	19,023,845	1,873,891	545,750	89,940	5,945,002	215,145	525,232	36,043	9,792,842
<i>Retail and Personal Banking</i>	6,248,123	1,025,871	729,548	595	1,745,283	309,948	27,866	8,256	2,400,756
<i>Public sector</i>	460,279	5,443	-	-	-	-	-	-	454,836
Loans and advances to related parties at amortised cost	219,193	156,754	59	-	25,788	328	876	688	34,700
Debtors by acceptances	199,156	17,259	395	-	3,136	-	6,198	134	172,034
Financial assets at amortised cost	13,990,070	-	-	-	-	-	-	2,539,916	11,450,154
Contingent liabilities	1,763,026	186,013	18,110	27,952	77,318	996	51,884	-	1,400,753
<i>Letters of credit</i>	649,916	104,361	213	144	1,135	60	7,612	-	536,391
<i>Financial guarantee given to banks and financial institutions</i>	256,914	-	-	-	-	-	-	-	256,914
<i>Financial guarantee given to customers</i>	856,196	81,652	17,897	27,808	76,183	936	44,272	-	607,448
<b>Total</b>	<b>66,271,039</b>	<b>3,265,231</b>	<b>1,293,862</b>	<b>2,004,468</b>	<b>7,796,527</b>	<b>526,417</b>	<b>612,056</b>	<b>2,585,037</b>	<b>48,187,441</b>
<b>Guarantees received from banks, financial institutions and customers</b>									
Utilised collateral		3,265,231	1,293,862	2,004,468	7,796,527	526,417	612,056		15,498,561
Surplus of collateral before undrawn credit lines		1,998,463	2,559,579	38,893	15,432,977	289,591	1,830,993		22,150,496
		5,263,694	3,853,441	2,043,361	23,229,504	816,008	2,443,049		37,649,057

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.

## 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.

	2017 LBP Million	2016 LBP Million
Corporate and SME	1,041,045	676,721
Retail and Personal Banking	113,392	79,462
	<b>1,154,437</b>	<b>756,183</b>

## 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, Project Finance and an Individual model.
- (iii) Internally developed scorecards to assess the creditworthiness of retail borrowers in an objective manner and streamline the decision making process.
- (iv) Supervisory ratings, comprising six main categories: (a) *Regular* includes borrowers demonstrating good to excellent financial condition, risk factors, and capacity to repay. These loans demonstrate regular and timely payment of dues, adequacy of cash flows, timely presentation

of financial statements, and sufficient collateral/guarantee when required. (b) *Follow-up* represents a lack of documentation related to a borrower's activity, an inconsistency between facilities' type and related conditions. (c) *Follow-up and regularisation* includes credit worthy borrowers requiring close monitoring without being impaired. These loans might be showing weaknesses; insufficient or inadequate cash flows; highly leveraged; deterioration in economic sector or country where the facility is used; loan rescheduling more than once since initiation; or excess utilisation above limit. (d) *Substandard* loans include borrowers with incapacity to repay from identified cash flows. Also included under this category are those with recurrent late payments and financial difficulties. (e) *Doubtful* loans where full repayment is questioned even after liquidation of collateral. It also includes loans stagnating for over 6 months and debtors who are unable to repay restructured loans. Finally, (f) *Bad* loans with no or little expected inflows from business or assets. This category also includes borrowers with significant delays and deemed insolvent.

## 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

	2017				Total LBP Million
	Neither Past Due nor Impaired LBP Million	Past Due but not Impaired LBP Million	Substandard LBP Million	Doubtful and Bad LBP Million	
Cash and balances with central banks	19,390,528	-	-	-	19,390,528
Due from banks and financial institutions	1,454,284	-	-	1,290	1,455,574
Loans to banks and financial institutions and reverse repurchase agreements	1,208,536	-	-	-	1,208,536
Derivative financial instruments	378,271	-	-	-	378,271
Financial assets at fair value through profit or loss	1,434,420	-	-	-	1,434,420
Loans and advances to customers at amortised cost	23,014,043	1,596,168	96,366	904,344	25,610,921
Loans and advances to related parties at amortised cost	161,814	-	-	-	161,814
Financial assets at amortised cost	14,822,345	-	-	-	14,822,345
	<b>61,864,241</b>	<b>1,596,168</b>	<b>96,366</b>	<b>905,634</b>	<b>64,462,409</b>
<b>Loans and advances:</b>					
Corporate and SME	16,120,703	1,246,434	81,592	643,864	18,092,593
Retail and Personal Banking	6,663,995	325,287	14,774	257,166	7,261,222
Public sector	391,159	24,447	-	3,314	418,920
	<b>23,175,857</b>	<b>1,596,168</b>	<b>96,366</b>	<b>904,344</b>	<b>25,772,735</b>

	2016				Total LBP Million
	Neither Past Due nor Impaired LBP Million	Past Due but not Impaired LBP Million	Substandard LBP Million	Doubtful and Bad 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
	<b>64,026,463</b>	<b>639,738</b>	<b>64,240</b>	<b>662,986</b>	<b>65,393,427</b>
<b>Loans and advances:</b>					
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
	<b>25,669,500</b>	<b>639,738</b>	<b>64,240</b>	<b>661,716</b>	<b>27,035,194</b>

The aging analysis of past due but not impaired loans and advances to customers at amortised cost as at 31 December is as follows:

	2017				Total LBP Million
	Less than 30 Days LBP Million	31 to 60 Days LBP Million	61 to 90 Days LBP Million	More than 90 Days LBP Million	
Corporate and SME	568,911	194,696	180,577	302,250	1,246,434
Retail and Personal Banking	196,006	77,065	39,676	12,540	325,287
Public sector	18,949	-	5,498	-	24,447
	<b>783,866</b>	<b>271,761</b>	<b>225,751</b>	<b>314,790</b>	<b>1,596,168</b>

	2016				Total LBP Million
	Less than 30 Days LBP Million	31 to 60 Days LBP Million	61 to 90 Days LBP Million	More than 90 Days 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
	<b>146,540</b>	<b>73,916</b>	<b>113,832</b>	<b>305,450</b>	<b>639,738</b>

The classification of loans and advances to customers and related parties at amortised cost as per supervisory ratings is as follows:

	2017			Net Balance LBP Million
	Gross Balance LBP Million	Unrealised Interest LBP Million	Impairment Allowances LBP Million	
Regular	21,703,940	-	-	21,703,940
Follow-up	1,412,970	-	-	1,412,970
Follow-up and regularisation	1,655,116	-	-	1,655,116
Substandard	96,366	(3,929)	-	92,437
Doubtful	426,879	(28,011)	(131,559)	267,309
Bad	477,464	(48,478)	(335,183)	93,803
	<b>25,772,735</b>	<b>(80,418)</b>	<b>(466,742)</b>	<b>25,225,575</b>
Collective impairment	-	-	(662,980)	(662,980)
	<b>25,772,735</b>	<b>(80,418)</b>	<b>(1,129,722)</b>	<b>24,562,595</b>

	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

## 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:

	2017										
	Sovereign and Central Banks					Non-sovereign					Grand Total LBP Million
	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	
Balance with central banks	1,157,522	-	18,233,006	-	19,390,528	-	-	-	-	-	19,390,528
Due from banks and financial institutions	-	-	-	-	-	267,674	806,385	237,300	143,394	1,454,753	1,454,753
Loans to banks and financial institutions and reverse repurchase agreements	-	-	-	-	-	-	80,068	1,066,860	61,608	1,208,536	1,208,536
Financial assets at fair value through profit or loss	-	-	1,317,771	-	1,317,771	-	114,068	-	2,581	116,649	1,434,420
Financial assets at amortised cost	77,248	8,349	14,337,008	-	14,422,605	175,407	221,276	-	3,057	399,740	14,822,345
	1,234,770	8,349	33,887,785	-	35,130,904	443,081	1,221,797	1,304,160	210,640	3,179,678	38,310,582

	2016										
	Sovereign and Central Banks					Non-sovereign					Grand Total LBP Million
	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	
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

## 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:

2017										
	Lebanon LBP Million	Turkey LBP Million	MENA LBP Million	Europe LBP Million	North America LBP Million	Asia LBP Million	Rest of Africa LBP Million	Central and South America LBP Million	Rest of the World LBP Million	Total LBP Million
Cash and balances with central banks	16,393,296	1,492,429	801,344	1,159,790	-	-	-	-	-	19,846,859
Due from banks and financial institutions	192,924	3,981	262,104	718,557	270,792	4,568	234	-	1,593	1,454,753
Loans to banks and financial institutions and reverse repurchase agreements	24,709	1,146,928	36,899	-	-	-	-	-	-	1,208,536
Derivative financial instruments	34,300	31,222	1,390	173,354	154,312	262	-	68	3,176	398,084
Financial assets at fair value through profit or loss	1,363,254	304	2,151	118,977	10,764	-	-	-	-	1,495,450
Loans and advances to customers at amortised cost	9,242,906	8,775,210	4,669,122	596,622	486,741	116,025	347,453	79,516	87,186	24,400,781
Loans and advances to related parties at amortised cost	152,913	-	7,895	999	7	-	-	-	-	161,814
Debtors by acceptances	135,197	57,263	15,267	6,115	1,660	2,693	8,701	-	-	226,896
Financial assets at amortised cost	12,006,192	476,890	2,035,670	97,232	50,161	116,615	-	-	39,585	14,822,345
	<b>39,545,691</b>	<b>11,984,227</b>	<b>7,831,842</b>	<b>2,871,646</b>	<b>974,437</b>	<b>240,163</b>	<b>356,388</b>	<b>79,584</b>	<b>131,540</b>	<b>64,015,518</b>

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
	<b>36,297,898</b>	<b>15,597,543</b>	<b>8,236,052</b>	<b>2,443,081</b>	<b>1,228,566</b>	<b>363,603</b>	<b>507,977</b>	<b>123,256</b>	<b>172,681</b>	<b>64,970,657</b>

## INDUSTRIAL ANALYSIS

The distribution of financial assets by industry as of 31 December is as follows:

	2017									
	Financial Services and Brokerage LBP Million	Government LBP Million	Consumers LBP Million	Retail and Wholesale LBP Million	Construction and Materials LBP Million	Manufacturing LBP Million	Energy and Petroleum LBP Million	Services and Utilities LBP Million	Agriculture LBP Million	Total LBP Million
Cash and balances with central banks	456,331	19,390,528	-	-	-	-	-	-	-	19,846,859
Due from banks and financial institutions	1,454,753	-	-	-	-	-	-	-	-	1,454,753
Loans to banks and financial institutions and reverse repurchase agreements	1,208,536	-	-	-	-	-	-	-	-	1,208,536
Derivative financial instruments	348,780	-	-	28,070	2,637	12,077	-	6,307	213	398,084
Financial assets at fair value through profit or loss	177,679	1,317,771	-	-	-	-	-	-	-	1,495,450
Loans and advances to customers at amortised cost	1,933,735	12,408	6,909,473	2,387,419	3,519,582	3,111,168	1,617,792	4,783,483	125,721	24,400,781
Loans and advances to related parties at amortised cost	95,041	-	50,005	214	-	-	-	16,554	-	161,814
Debtors by acceptances	2,691	-	498	139,887	1,539	70,926	-	7,735	3,620	226,896
Financial assets at amortised cost	252,658	14,422,606	-	-	-	98,631	-	45,393	3,057	14,822,345
	<b>5,930,204</b>	<b>35,143,313</b>	<b>6,959,976</b>	<b>2,555,590</b>	<b>3,523,758</b>	<b>3,292,802</b>	<b>1,617,792</b>	<b>4,859,472</b>	<b>132,611</b>	<b>64,015,518</b>

	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
	<b>7,904,404</b>	<b>32,265,629</b>	<b>6,708,983</b>	<b>2,796,567</b>	<b>4,588,989</b>	<b>3,566,230</b>	<b>2,123,683</b>	<b>4,752,639</b>	<b>263,533</b>	<b>64,970,657</b>

## 54.0. | 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

### 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

The following tables present the breakdown of assets and liabilities by currency:

	2017						
	LBP Million	USD Million	EUR Million	TRY Million	EGP Million	Other Million	Total LBP Million
<b>ASSETS</b>							
Cash and balances with central banks	6,059,534	10,341,227	1,215,863	595,930	381,421	1,252,884	19,846,859
Due from banks and financial institutions	39,428	755,194	475,991	3,917	1,693	178,530	1,454,753
Loans to banks and financial institutions and reverse repurchase agreements	24,709	50,000	-	1,096,928	36,899	-	1,208,536
Derivative financial instruments	359	222,058	14,370	149,750	137	11,410	398,084
Financial assets at fair value through profit or loss	840,726	557,650	4,920	304	2,152	89,698	1,495,450
Loans and advances to customers at amortised cost	2,591,204	10,654,569	3,534,557	4,760,289	1,787,221	1,072,941	24,400,781
Loans and advances to related parties at amortised cost	31,756	121,018	1,207	-	-	7,833	161,814
Debtors by acceptances	-	164,044	53,523	2,238	395	6,696	226,896
Financial assets at amortised cost	3,507,879	9,160,300	126,853	172,662	1,201,271	653,380	14,822,345
Financial assets at fair value through other comprehensive income	66,099	84,120	5,003	1,958	149	698	158,027
Investments in associates	93,878	37,856	-	-	-	2,723	134,457
Property and equipment	626,458	2,945	61,157	41,599	112,559	39,682	884,400
Intangible fixed assets	11,124	4,063	2,664	35,963	18,470	3,959	76,243
Non-current assets held for sale	2,707	72,036	560	68,511	244	-	144,058
Other assets	21,699	172,256	22,063	73,480	52,611	54,119	396,228
Deferred tax assets	16,893	28,331	15	36,130	-	22,884	104,253
Goodwill	-	-	(421)	-	-	43,134	42,713
<b>Total assets</b>	<b>13,934,453</b>	<b>32,427,667</b>	<b>5,518,325</b>	<b>7,039,659</b>	<b>3,595,222</b>	<b>3,440,571</b>	<b>65,955,897</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>							
Due to central banks	3,363,238	608,260	-	-	-	-	3,971,498
Due to banks and financial institutions	19,466	1,824,824	513,063	5,503	45,404	217,913	2,626,173
Due to banks under repurchase agreements	-	218,922	-	-	-	-	218,922
Derivative financial instruments	254	27,827	24,984	132,259	395	19,665	205,384
Customers' deposits	6,477,591	29,706,002	4,093,696	4,135,973	3,100,738	2,163,857	49,677,857
Deposits from related parties	170,538	513,590	28,822	395	-	36,877	750,222
Debt issued and other borrowed funds	-	1,235,268	-	-	-	-	1,235,268
Engagements by acceptances	-	164,044	53,523	2,238	395	6,696	226,896
Other liabilities	135,546	96,417	17,077	72,231	43,884	62,236	427,391
Deferred tax liabilities	3,048	34,087	-	-	26,725	2,732	66,592
Current tax liability	78,438	(22,656)	35	-	20,106	18,779	94,702
Provisions for risks and charges	95,820	3,578	6,240	12,296	7,594	16,203	141,731
Shareholders' equity	4,405,042	1,354,225	26,094	(69,127)	5,200	591,827	6,313,261
<b>Total liabilities and shareholders' equity</b>	<b>14,748,981</b>	<b>35,764,388</b>	<b>4,763,534</b>	<b>4,291,768</b>	<b>3,250,441</b>	<b>3,136,785</b>	<b>65,955,897</b>

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.

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.

	2016						
	LBP Million	USD Million	EUR Million	TRY Million	EGP Million	Other Million	Total LBP Million
<b>ASSETS</b>							
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	11,801	180,486	17,764	85,866	48,265	50,304	485,295
Deferred tax assets	16,792	22,537	15	51,473	-	22,884	104,253
Goodwill	-	-	(372)	-	-	42,199	41,827
<b>Total assets</b>	<b>11,270,638</b>	<b>35,740,770</b>	<b>5,903,858</b>	<b>7,765,805</b>	<b>3,124,744</b>	<b>2,926,394</b>	<b>66,732,209</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>							
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	180,533	118,279	10,288	75,938	27,003	36,546	448,587
Deferred tax liabilities	2,952	60,923	36,365	-	(6,570)	2,563	96,233
Current tax liability	203,484	(14,892)	7,997	15,013	-	13,160	224,762
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
<b>Total liabilities and shareholders' equity</b>	<b>11,747,406</b>	<b>37,386,141</b>	<b>6,823,112</b>	<b>4,745,751</b>	<b>2,893,445</b>	<b>3,136,354</b>	<b>66,732,209</b>

### THE GROUP'S EXPOSURE TO CURRENCY RISK

The Group is subject to currency risk on financial assets and liabilities that are denominated in currencies other than the Lebanese Pound. Most of these financial assets and liabilities are in US Dollars, Euros and Turkish Liras.

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.

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

Currency	Increase in Currency Rate %	2017		2016	
		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%	(5,447)	(16,341)	(8,144)	5,317
EUR	1%	224	5,946	762	(10,543)
TRY	1%	(452)	19,046	-	20,434

## HEDGING NET INVESTMENTS

A foreign currency exposure arises from net investments in subsidiaries that have a different functional currency from that of the Bank. The risk arises from the fluctuation in spot exchange rates between the functional currency of the subsidiaries and branches, and the Bank's functional and presentation currency which causes the amount of the net investment to vary. Such a risk may have a significant impact on the Group's financial statements. In order to mitigate this risk, the Group has entered into foreign currency derivative. The hedged risk in the net investment hedge is the risk of a weakening foreign currency (Turkish Lira, Euro, Saudi Riyal and Qatari Riyal) against the Lebanese Pound that will result in a reduction in the carrying amount of the Group's investment in foreign subsidiaries.

### Hedge of Net Investment in Odea Bank A.Ş.

#### The Hedged Item

The Bank hedges USD 400 million component of its net investment in Odea Bank A.Ş. through currency option contracts.

#### 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 the TRY, triggered when the 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

## 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.

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 foregoes 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 2017, the Group renewed its currency swap contracts designated to hedge the net investment in its subsidiaries in Cyprus, France, Saudi Arabia and Qatar. The hedged risk is the risk of weakening the 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 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%.

## 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 SENSITIVITY

The table below shows the sensitivity of interest income to reasonably possible parallel changes in interest rates, all other variables being held constant.

The impact of interest rate changes on net interest income is due to assumed changes in interest paid and received on floating rate financial assets and liabilities and to the reinvestment or refunding of fixed rate financial assets and liabilities at the assumed rates. The result includes the effect of hedging instruments and assets and liabilities held at 31 December 2017 and 2016. 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

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.

rates and are not passed through in full, reflecting sticky interest rate behaviour. The pass-through rate and lag in response time are estimated based on historical statistical analysis and are reflected in the outcome.

Besides, the effect on equity resulting from the discount rate applied to defined benefit plan obligations is disclosed in Note 38 to these financial statements.

The effect of any future associated hedges made by the Group is not accounted for. The sensitivity of equity was calculated for an increase in basis points whereby a similar decrease has an equal and offsetting effect.

	Change in Basis Points	Sensitivity of Net Interest Income			
		2017		2016	
		LBP Million Increase	LBP Million Decrease	LBP Million Increase	LBP Million Decrease
LBP	± 100	8,095	(8,095)	7,179	(7,179)
USD	± 50	(2,744)	2,744	2,268	(2,268)
EUR	± 25	2,399	(2,399)	(5,505)	5,505
TRY	± 200	(11,943)	11,943	(9,642)	9,642

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.

	2017								Total LBP Million
	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	
<b>ASSETS</b>									
Cash and balances with central banks	5,424,470	1,675,623	2,331,379	9,431,472	4,301,631	5,083,427	9,385,058	1,030,329	19,846,859
Due from banks and financial institutions	933,466	167,892	174	1,101,532	-	-	-	353,221	1,454,753
Loans to banks and financial institutions and reverse repurchase agreements	1,119,620	48,649	25,613	1,193,882	1,800	-	1,800	12,854	1,208,536
Derivative financial instruments	39,699	54,555	235,775	330,029	36,023	2,550	38,573	29,482	398,084
Financial assets at fair value through profit or loss	68,855	156,126	144,722	369,703	50,901	993,689	1,044,590	81,157	1,495,450
Loans and advances to customers at amortised cost	6,224,818	6,381,138	5,682,434	18,288,390	5,007,140	763,062	5,770,202	342,189	24,400,781
Loans and advances to related parties at amortised cost	133,979	2,164	12,326	148,469	12,212	731	12,943	402	161,814
Financial assets at amortised cost	137,422	506,687	867,959	1,512,068	5,190,231	7,883,190	13,073,421	236,856	14,822,345
<b>Total assets</b>	<b>14,082,329</b>	<b>8,992,834</b>	<b>9,300,382</b>	<b>32,375,545</b>	<b>14,599,938</b>	<b>14,726,649</b>	<b>29,616,587</b>	<b>2,086,490</b>	<b>63,788,622</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>									
Due to central banks	13,792	243,340	1,949,758	2,206,890	633,944	1,117,227	1,751,171	13,437	3,971,498
Due to banks and financial institutions	954,718	389,167	674,421	2,018,306	407,689	145,720	553,409	54,458	2,626,173
Due to banks under repurchase agreements	-	218,588	-	218,588	-	-	-	334	218,922
Derivative financial instruments	53,579	35,588	51,369	140,536	62,862	1,393	64,255	593	205,384
Customers' deposits	30,513,886	8,052,325	6,806,188	45,372,399	3,019,468	893	3,020,361	1,285,097	49,677,857
Deposits from related parties	416,432	223,680	55,377	695,489	49,481	-	49,481	5,252	750,222
Debt issued & other borrowed funds	-	-	226,125	226,125	-	983,006	983,006	26,137	1,235,268
<b>Total liabilities and shareholders' equity</b>	<b>31,952,407</b>	<b>9,162,688</b>	<b>9,763,238</b>	<b>50,878,333</b>	<b>4,173,444</b>	<b>2,248,239</b>	<b>6,421,683</b>	<b>1,385,308</b>	<b>58,685,324</b>
<b>Interest rate sensitivity gap</b>	<b>(17,870,078)</b>	<b>(169,854)</b>	<b>(462,856)</b>		<b>10,426,494</b>	<b>12,478,410</b>			
<b>Cumulative gap</b>	<b>(17,870,078)</b>	<b>(18,039,932)</b>	<b>(18,502,788)</b>		<b>(8,076,294)</b>	<b>4,402,116</b>			

	2016								Total LBP Million
	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	
<b>ASSETS</b>									
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
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
<b>Total assets</b>	<b>19,158,241</b>	<b>7,842,833</b>	<b>7,673,249</b>	<b>34,674,323</b>	<b>13,584,621</b>	<b>14,182,778</b>	<b>27,767,399</b>	<b>2,329,779</b>	<b>64,771,501</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>									
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
<b>Total liabilities and shareholders' equity</b>	<b>31,661,187</b>	<b>10,600,875</b>	<b>8,022,954</b>	<b>50,285,016</b>	<b>4,928,369</b>	<b>1,346,921</b>	<b>6,275,290</b>	<b>3,471,115</b>	<b>60,031,421</b>
<b>Interest rate sensitivity gap</b>	<b>(12,502,946)</b>	<b>(2,758,042)</b>	<b>(349,705)</b>		<b>8,656,252</b>	<b>12,835,857</b>			
<b>Cumulative gap</b>	<b>(12,502,946)</b>	<b>(15,260,988)</b>	<b>(15,610,693)</b>		<b>(6,954,441)</b>	<b>5,881,416</b>			

## 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.

## EQUITY PRICE RISK

Equity price risk is the risk that the value of a portfolio will fall as a result of a change in stock prices. Risk factors underlying this type of market risk are a whole range of various equity (and index) prices corresponding to different markets (and currencies/maturities) in which the Group holds equity-related positions.

The Group sets tight limits on equity exposures and the types of equity instruments that traders are allowed to take positions in. Nevertheless, depending on the complexity of financial instruments, equity risk is measured in first cash terms, such as the market value of a stock/index position, and also in price sensitivities, such as sensitivity of the value of a portfolio to changes in the underlying asset price. These measures are applied to an individual position and/or to a portfolio of equities.

## 55.0. | 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 client's deposits.

	Loans to Deposits	
	2017 %	2016 %
Year-end	49	48
Maximum	49	53
Minimum	47	48
Average	48	51

## ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

The following table 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 were determined based on the period remaining to reach maturity as per the statement of

financial position actual commitments. Repayments which are subject to notice are treated as if notice were to be given immediately. Concerning deposits, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay.

The table does not reflect the expected cash flows indicated by the Group's deposit retention history.

	2017					
	Less than 1 Month LBP Million	1 to 3 Months LBP Million	3 to 12 Months LBP Million	1 to 5 Years LBP Million	Over 5 Years LBP Million	Total LBP Million
<b>FINANCIAL ASSETS</b>						
Cash and balances with central banks	6,448,355	175,623	2,651,057	8,614,338	7,606,783	25,496,156
Due from banks and financial institutions	1,349,655	113,443	174	-	-	1,463,272
Loans to banks and financial institutions and reverse repurchase agreements	1,097,261	11,641	67,073	34,162	-	1,210,137
Derivative financial instruments	28,908	22,568	159,918	125,490	61,200	398,084
Financial assets at fair value through profit or loss	69,417	161,530	196,476	264,457	1,259,082	1,950,962
Loans and advances to customers at amortised cost	4,737,933	3,163,709	3,750,672	9,135,624	4,272,881	25,060,819
Loans and advances to related parties at amortised cost	134,131	671	2,983	18,834	8,317	164,936
Debtors by acceptances	77,327	38,626	110,824	-	119	226,896
Financial assets at amortised cost	283,597	584,865	1,374,321	8,123,386	9,682,574	20,048,743
<b>Total financial assets</b>	<b>14,226,584</b>	<b>4,272,676</b>	<b>8,313,498</b>	<b>26,316,291</b>	<b>22,890,956</b>	<b>76,020,005</b>
<b>FINANCIAL LIABILITIES</b>						
Due to central banks	22,379	248,747	1,998,532	742,195	1,207,441	4,219,294
Due to banks and financial institutions	1,072,920	384,450	364,957	582,034	379,244	2,783,605
Due to banks under repurchase agreements	-	2,149	220,983	-	-	223,132
Derivative financial instruments	13,841	45,402	32,639	49,903	63,601	205,386
Customers' deposits	30,760,180	9,197,129	6,930,464	3,198,251	946	50,086,970
Deposits from related parties	418,902	226,701	57,177	56,290	-	759,070
Debt issued and other borrowed funds	9,372	-	46,392	223,059	1,288,555	1,567,378
Engagements by acceptances	77,327	38,626	110,824	-	119	226,896
<b>Total financial liabilities</b>	<b>32,374,921</b>	<b>10,143,204</b>	<b>9,761,968</b>	<b>4,851,732</b>	<b>2,939,906</b>	<b>60,071,731</b>

	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
<b>FINANCIAL ASSETS</b>						
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	-	199,156
Financial assets at amortised cost	279,416	509,739	1,636,923	5,029,812	11,412,246	18,868,136
<b>Total financial assets</b>	<b>17,154,473</b>	<b>3,163,788</b>	<b>8,137,475</b>	<b>24,341,671</b>	<b>21,120,618</b>	<b>73,918,025</b>
<b>FINANCIAL LIABILITIES</b>						
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
<b>Total financial liabilities</b>	<b>35,976,137</b>	<b>10,455,449</b>	<b>7,254,201</b>	<b>5,651,498</b>	<b>1,924,688</b>	<b>61,261,973</b>

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.

	2017					Total LBP Million
	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	
Financial guarantees	715,524	57,190	67,565	40,631	16,705	897,618
Other guarantees	1,241,831	22,294	290,097	22,298		1,576,520
Documentary credits	420,853	77,711	253,008	791	-	752,363
Loan commitments	4,667,727	39,824	244,741	27,590	2,657	4,982,539
	<b>7,045,938</b>	<b>197,019</b>	<b>855,411</b>	<b>91,310</b>	<b>19,362</b>	<b>8,209,040</b>

	2016					Total LBP Million
	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	
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
	<b>5,793,792</b>	<b>191,837</b>	<b>1,423,544</b>	<b>718,332</b>	<b>107,907</b>	<b>8,235,412</b>

## MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the Group's assets and liabilities according to when they are expected to be recovered or settled. Trading assets and liabilities including derivatives, but excluding

derivatives held for hedging, have been classified to mature within 12 months, regardless of the actual contractual maturities of the products.

The maturity profile of the assets and liabilities at 31 December 2017 is as follows:

	2017		Total LBP Million
	Less than 1 Year LBP Million	More than 1 Year LBP Million	
<b>ASSETS</b>			
Cash and balances with central banks	7,885,059	11,961,800	19,846,859
Due from banks and financial institutions	1,454,753	-	1,454,753
Loans to banks and financial institutions and reverse repurchase agreements	1,175,138	33,398	1,208,536
Derivative financial instruments	211,393	186,691	398,084
Financial assets at fair value through profit or loss	379,967	1,115,483	1,495,450
Loans and advances to customers at amortised cost	11,477,140	12,923,641	24,400,781
Loans and advances to related parties at amortised cost	137,236	24,578	161,814
Debtors by acceptances	226,777	119	226,896
Financial assets at amortised cost	1,693,846	13,128,499	14,822,345
Financial assets at fair value through other comprehensive income	-	158,027	158,027
Investments in associates	-	134,457	134,457
Property and equipment	-	884,400	884,400
Intangible fixed assets	-	76,243	76,243
Non-current assets held for sale	-	144,058	144,058
Other assets	164,655	231,573	396,228
Deferred tax assets	-	104,253	104,253
Goodwill	-	42,713	42,713
<b>Total assets</b>	<b>24,805,964</b>	<b>41,149,933</b>	<b>65,955,897</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Due to central banks	2,217,312	1,754,186	3,971,498
Due to banks and financial institutions	1,665,002	961,171	2,626,173
Due to banks under repurchase agreements	218,922	-	218,922
Derivative financial instruments	91,880	113,504	205,384
Customers' deposits	46,682,766	2,995,091	49,677,857
Deposits from related parties	700,117	50,105	750,222
Debt issued and other borrowed funds	11,615	1,223,653	1,235,268
Engagements by acceptances	226,777	119	226,896
Other liabilities	190,315	237,076	427,391
Current tax liability	94,702	-	94,702
Deferred tax liabilities	66,592	-	66,592
Provision for risks and charges	-	141,731	141,731
Shareholders' equity	-	6,313,261	6,313,261
<b>Total liabilities and shareholders' equity</b>	<b>52,166,000</b>	<b>13,789,897</b>	<b>65,955,897</b>

The maturity profile of the assets and liabilities at 31 December 2016 is as follows:

	2016		Total LBP Million
	Less than 1 Year LBP Million	More than 1 Year LBP Million	
<b>ASSETS</b>			
Cash and balances with central banks	8,153,001	10,497,595	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	2,032,065	36,750	2,068,815
Derivative financial instruments	172,555	217,583	390,138
Financial assets at fair value through profit or loss	241,034	452,180	693,214
Loans and advances to customers at amortised cost	11,211,002	14,521,245	25,732,247
Loans and advances to related parties at amortised cost	188,484	30,709	219,193
Debtors by acceptances	198,971	185	199,156
Financial assets at amortised cost	1,884,149	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	68,812	309,059	377,871
Deferred tax assets	68,093	39,331	107,424
Goodwill	-	41,827	41,827
<b>Total assets</b>	<b>27,245,394</b>	<b>39,486,815</b>	<b>66,732,209</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Due to central banks	1,289,339	718,824	2,008,163
Due to banks and financial institutions	1,857,352	716,653	2,574,005
Derivative financial instruments	220,562	52,390	272,952
Customers' deposits	49,093,032	4,296,186	53,389,218
Deposits from related parties	750,232	63,316	813,548
Debt issued and other borrowed funds	11,843	961,692	973,535
Engagements by acceptances	198,971	185	199,156
Other liabilities	158,779	289,808	448,587
Current tax liabilities	224,762	-	224,762
Deferred tax liabilities	78,002	18,231	96,233
Provision for risks and charges	-	156,592	156,592
Shareholders' equity	-	5,575,458	5,575,458
<b>Total liabilities and shareholders' equity</b>	<b>53,882,874</b>	<b>12,849,335</b>	<b>66,732,209</b>

## 56.0. | OPERATIONAL RISK

Operational risk is defined as the risk of loss or damage resulting from inadequate or failed internal processes, people, systems or external events. The Basel definition of operational risk includes legal risk, and excludes reputational and strategic risks. Still, the failure of operational risk controls may result in reputational damage, business disruptions, business loss, or non-compliance with laws and regulations that can lead to significant financial losses. Therefore, reputational and strategic risks are indirectly mitigated once the operational risks acting as their key drivers are well managed.

The operational risk management framework is implemented by an independent operational risk management team that operates in coordination with other support functions such as: Corporate Information Security and Business Continuity, Compliance, and Internal Control. The Internal Audit provides an independent assurance on the adequacy and effectiveness of this framework through annual reviews.

Operational risks are managed across the Group based on a set of principles and standards detailed in the Board-approved operational risk management framework. These principles and standards include at a minimum: redundancy of mission-critical systems, segregation of

duties, four-eyes principle, independency of employees performing controls, reconciliations, mandatory vacations, awareness, training and job rotation of employees. Controls are also embedded within systems and formalised in policies and procedures.

Incidents are captured and analysed to identify their root causes. Corrective and preventive measures are recommended to prevent future reoccurrences. Risk and Control Assessments (RCAs) are conducted on an ongoing basis to identify risks and control vulnerabilities associated to existing or new products, processes, activities and systems. Key Risk Indicators are also developed continuously to detect breaches and alarming trends. Recommendations to improve the control environment are communicated to concerned parties and escalated to Management as deemed necessary.

Major incidents, RCA findings and operational losses are reported to the Board of Directors and Risk Committees periodically as per the governance framework set in the Group Operational Risk policy.

Insurance coverage is used as an additional layer of mitigation and is commensurate with the Group business activities, in terms of volume and nature.

## 57.0. | CAPITAL MANAGEMENT

The Group maintains an actively managed capital base to cover risks inherent in the business, retain sufficient financial strength and flexibility to support new business growth, and meet national and international regulatory capital requirements at all times. The adequacy of the Group's

capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) as adopted by the Central Bank of Lebanon, which is the lead supervisor of the Group.

The following table shows the applicable regulatory capital ratios:

	Common Tier 1 Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio
Year ended 31 December 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 4.5% of risk-weighted assets by end of 2018, must be met through Common Equity Tier 1 capital.

	2017 LBP Million	2016 LBP Million
<b>Risk-weighted assets:</b>		
Credit risk	34,073,921	35,885,526
Market risk	1,238,220	543,016
Operational risk	3,848,863	3,559,749
<b>Total risk-weighted assets</b>	<b>39,161,004</b>	<b>39,988,291</b>

The regulatory capital including net income for the year less proposed dividends as of 31 December is as follows:

	2017 LBP Million	2016 LBP Million
Tier 1 capital	5,327,346	4,650,121
<i>Of which: common Tier 1</i>	<i>4,115,243</i>	<i>3,635,151</i>
Tier 2 capital	1,302,582	1,260,672
Total capital*	<b>6,629,928</b>	5,910,793

The capital adequacy ratio including net income for the year less proposed dividends as of 31 December is as follows:

	2017	2016
Capital adequacy – common Tier 1	<b>10.51%</b>	9.09%
Capital adequacy – Tier 1	<b>13.60%</b>	11.63%
Capital adequacy – Total capital*	<b>16.93%</b>	14.78%

\* Total capital at 31 December 2016 includes LBP 78,300 million of deferred income treated as Tier 2 capital following the Central Bank of Lebanon's intermediary circular No. 446 dated 30 December 2016. In 2017, this amount was transferred to equity and considered as common Tier 1 (refer to Note 37).

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions, its business model and risk profile. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends payment to shareholders or issue capital securities.

# EVOLVING THROUGH TIME

*With empowered communities we strive forward, harnessing motivational drive through unwavering trust.*



04

## MANAGEMENT



## 1.0. | GROUP MANAGEMENT

### BANK AUDI sa

#### EXECUTIVE BOARD MEMBERS

<b>Mr. Samir N. HANNA</b>	Chairman & Group Chief Executive Officer
<b>Dr. Freddie C. BAZ</b>	Group Strategy Director
<b>Dr. Imad I. ITANI</b>	Group Head of Retail Banking
<b>Mr. Aristidis I. VOURAKIS</b>	Deputy Group Chief Executive Officer

#### SENIOR EXECUTIVES

<b>Mr. Tamer M. GHAZALEH</b>	Group Chief Financial Officer
<b>Mr. Chahdan E. JEBEYLI</b>	Group Chief Legal & Compliance Officer
<b>Mr. Gaby G. KASSIS</b>	Head of Regulatory Relations
<b>Mr. Elia S. SAMAHA</b>	Group Chief Credit Officer
<b>Mr. Adel N. SATEL</b>	Group Chief Risk Officer
<b>Mr. Michel E. ARAMOUNI</b>	Group Capital Markets
<b>Mr. Khalil I. DEBS</b>	Group Head of Corporate Banking
<b>Dr. Marwan S. BARAKAT</b>	Group Chief Economist & Head of Research
<b>Mr. Khalil G. GEAGEA</b>	Group Head of Financial Institutions & Correspondent Banking
<b>Mr. Joseph I. KESROUANI</b>	Head of Business Development – South America & Africa
<b>Mr. Farid F. LAHOUD</b>	Group Corporate Secretary
<b>Mrs. Bassima G. HARB</b>	Head of Regional Corporate Banking & Structured Finance
<b>Mr. Mahmoud M. MAJZOUB</b>	Group Head of Internal Audit
<b>Mr. Elie A. NAHAS</b>	Group Head of Real Estate
<b>Mr. Antoine N. NAJM</b>	Group Head of Corporate Credit Management

#### ADVISOR TO THE GROUP CEO

<b>Mr. Redouane G. BENHAMADI</b>
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#### GROUP FINANCIAL INSTITUTIONS & CORRESPONDENT BANKING

<b>Mr. Joseph A. NADER</b>	Deputy Group Head of Financial Institutions & Correspondent Banking
	Tel: (961-1) 977644. Fax: (961-1) 989494.
	E-mail: joseph.nader@bankaudi.com.lb

#### ISLAMIC BANKING

<b>Dr. Khaled R. AL-FAKIH</b>	Head of Group Sharia Compliance
	Tel: (961-1) 977364. Fax: (961-1) 973585.
	E-mail: khaled.al-fakih@bankaudi.com.lb

#### INVESTOR RELATIONS

<b>Ms. Sana M. SABRA</b>	Investor Relations
	Tel: (961-1) 977496. Fax: (961-1) 999399.
	E-mail: sana.sabra@bankaudi.com.lb

## 2.0. ENTITIES' MANAGEMENT

### BANK AUDI sal LEBANON

<b>Mr. Marc J. AUDI</b>	Executive Board Member – Country Manager
<b>Mr. Hassan A. SALEH</b>	Chief Operating Officer

#### BRANCHES NETWORK MANAGEMENT

<b>Mrs. Ghina M. DANDAN</b>	Network Manager
<b>Mr. Salam G. NADDA</b>	Network Manager
<b>Mrs. Wafaa' S. YOUNES</b>	Network Manager
<b>Mr. Rabih E. BERBERY</b>	Network Manager
<b>Mr. Kamal S. TABBARA</b>	Network Manager
<b>Mr. Abdo M. ABI-NADER</b>	Senior Regional Manager
<b>Mrs. Lina T. CHERIF</b>	Senior Regional Manager
<b>Mrs. Carol S. ABOU JAOUDE</b>	Regional Manager
<b>Mr. Nagib A. CHEAIB</b>	Regional Manager
<b>Mr. Georges K. KARAM</b>	Regional Manager
<b>Mrs. Roula I. MIKHAEL</b>	Regional Manager
<b>Mr. Robert J. MOUBARAK</b>	Regional Manager
<b>Mrs. Joumana A. NAJJAR</b>	Regional Manager
<b>Mr. Fadi V. SAADE</b>	Regional Manager

#### CENTRAL DEPARTMENTS

<b>Mr. Antoine G. BOUFARAH</b>	Chief Compliance Officer
<b>Mr. Ibrahim M. SALIBI</b>	Head of Corporate & Commercial Banking
<b>Mr. Toufic S. ARIDA</b>	Head of Transformation
<b>Mrs. Marcelle R. ATTAR</b>	Head of Information Technology
<b>Mr. Georges J. BOUSTANY</b>	Head of Remedial Management
<b>Mrs. Grace E. EID</b>	Head of Retail Banking
<b>Mr. Karl A. HADDAD</b>	Head of Corporate Credit Risk
<b>Mr. Mahmoud A. KURDY</b>	Chief Financial Officer
<b>Mrs. Nayiri H. MANOUKIAN</b>	Head of Human Resources
<b>Mr. Assaad G. MEOUCHY</b>	Head of Branch Network Management
<b>Mrs. Rana S. NASSIF</b>	Head of Internal Audit
<b>Mr. Fadi A. OBEID</b>	Assistant Chief Operating Officer
<b>Mr. Hassan H. SABBAH</b>	Head of SME Banking
<b>Mr. Jean N. TRABOULSI</b>	Head of Marketing & Communications

## 2.0. ENTITIES' MANAGEMENT

### ODEA BANK A.Ş. TURKEY

#### BOARD OF DIRECTORS

		Member of the Credit Committee	Member of the Audit Committee	Member of the Risk Committee	Member of the Remuneration Committee	Member of the Corporate Governance Committee
<b>Mr. Samir N. HANNA</b>	Chairman				Chair •	
<b>Mrs. Ayşe Ö. KORKMAZ</b>	Vice-Chairman		•	•		
<b>Mr. Bülent T. ADANIR</b>	Member			Chair •	•	
<b>Dr. Freddie C. BAZ</b>	Member	Alternate •			•	•
<b>Mr. Khalil I. DEBS</b>	Member	•				
<b>Dr. Marwan M. GHANDOUR</b>	Member					
<b>Mr. Guy C. HARRINGTON</b> <i>(until February 2018)</i>	Member					•
<b>Dr. Imad I. ITANI</b>	Member	Alternate •	Chair •			
<b>Mr. Philippe F. EL KHOURY</b>	Member		Advisor			Chair •
<b>Mrs. Dragica N. PILIPOVIC – CHAFFEY</b> <i>(since February 2018)</i>	Member					
<b>Mr. Elia S. SAMAHA</b>	Member	Chair •				
<b>Mr. Aristidis I. VOURAKIS</b>	Member			•		

#### MANAGEMENT

<b>Mr. Naim H. HAKIM</b>	Assistant General Manager – Deputy Chief Executive Officer & Chief Financial Officer
<b>Mr. Gökhan A. SUN</b>	Assistant General Manager – SME Banking
<b>Mr. Yalçın F. AVCI</b>	Assistant General Manager – Corporate & Commercial Banking
<b>Mr. Gökhan D. ERKIRALP</b>	Assistant General Manager – Treasury & Capital Markets
<b>Mr. Fevzi T. KÜÇÜK</b>	Assistant General Manager – Business Solutions & Transactional & Direct Banking and IT
<b>Mr. Cem A. MURATOĞLU</b>	Assistant General Manager – Retail Banking
<b>Mr. Alpaslan M. YURDAGÜL</b>	Assistant General Manager – Credits & Project Finance & Financial Institutions

## 2.0. ENTITIES' MANAGEMENT

### BANK AUDI sae EGYPT

#### BOARD OF DIRECTORS

		Member of the Audit Committee	Member of the Risk Committee	Member of the Corporate Governance & Nomination Committee	Member of the Remuneration Committee
<b>Mr. Hatem A. SADEK</b>	Chairman		•	•	
<b>Mr. Mohamed A. FAYED</b>	CEO & Managing Director				
<b>Mr. Mohamed M. BEDEIR</b>	Deputy CEO & Chief Banking Services Officer				
<b>Mr. Afdal E. NAGUIB</b> <i>(since January 2018)</i>	Member & Chief Risk Officer				
<b>Mr. Mounir F. ABDELNOUR</b> <i>(since January 2018)</i>	Member	•			•
<b>Dr. Freddie C. BAZ</b>	Member		Chair •		
<b>Mr. Khalil I. DEBS</b> <i>(since February 2018)</i>	Member	•			
<b>Dr. Marwan M. GHANDOUR</b>	Member			Chair •	
<b>Mr. Samir N. HANNA</b>	Member				Chair •
<b>Dr. Imad I. ITANI</b>	Member	Chair •			•
<b>Mr. Maurice H. SAYDE</b> <i>(until January 2018)</i>	Member			<i>(Until January 2018)</i> •	
<b>Mr. Aristidis I. VOURAKIS</b> <i>(since February 2018)</i>	Member		•	•	
<b>Mr. Ahmed F. IBRAHIM</b>	Secretary of the Board				

#### EXECUTIVE MANAGEMENT

<b>Mr. Mohamed A. FAYED</b>	Chief Executive Officer & Managing Director
<b>Mr. Mohamed M. BEDEIR</b>	Deputy CEO & Chief Banking Services Officer
<b>Mr. Afdal E. NAGUIB</b>	Chief Risk Officer

#### BUSINESS LINES

<b>Mr. Sherif M. SABRY</b>	Chief Corporate Banking Officer
<b>Mr. Tamer A. MOSTAFA</b>	General Manager – Head of Commercial <i>(resigned as of February 2018)</i>
<b>Mr. Mohamed H. KILANY</b>	Assistant General Manager – Head of Global Transaction Services
<b>Mr. Amr M. KAMAL</b>	Deputy General Manager – Head of SME
<b>Mr. Hazem M. ABDELAZIZ</b>	General Manager – Head of Large Corporates
<b>Mr. Mohammed S. ADLY</b>	General Manager – Head of Large Corporates, Syndication & Structured Finance
<b>Mr. Tamer M. EL-ORABY</b>	General Manager – Head of Large Corporates
<b>Mr. Tamer A. MOUNIR</b>	Deputy General Manager – Head of Corporate Banking – Alexandria and Delta Region
<b>Mr. Mohamed M. AFIFI</b>	Assistant General Manager – Head of Corporate Business Development
<b>Mr. Mohamed R. LATIF</b>	Chief Institutional & Islamic Banking Officer
<b>Mr. Ayman M. KHATTAB</b>	General Manager – Head of Financial Institutions
<b>Mr. Mohamad A. HASSAN</b>	Deputy General Manager – Head of Islamic Banking
<b>Mr. Mahmoud M. ARANSHO</b>	Executive Manager – Head of Capital Markets & Investment
<b>Mrs. Mariam M. ELSAMNY</b>	Chief Consumer & Delivery Channels Banking Officer
<b>Mrs. Nevine M. ELMAHDY</b>	General Manager – Head of Branch Network
<b>Mr. Amr A. NOSSAIR</b>	General Manager – Head of Retail Banking
<b>Mr. Mostafa A. GAMAL</b>	Senior General Manager – Head of Treasury & Capital Markets
<b>Mr. Mohamed A. LABIB</b>	Senior General Manager – Head of Governmental Entities & Public Sector Division

#### SUPPORT FUNCTIONS

<b>Mr. Helal O. OMAR</b>	Chief Non-banking Services Officer
<b>Mr. Muhammed H. SELIM</b>	Senior General Manager – Head of Human Resources & Administration
<b>Mr. Amin S. AMIN</b>	Deputy General Manager – NBS Improvements <i>(resigned as of January 2018)</i>
<b>Mr. Rafic M. ABU-SARA</b>	Assistant General Manager – Head of Engineering
<b>Mrs. Afaf M. ALI</b>	Senior Manager – Head of General Services
<b>Mr. Mohamed K. SARHAN</b>	Executive Manager – Head of Security & Governmental Relations
<b>Mr. Mohamed M. KAMEL</b>	Executive Manager – Head of Procurement
<b>Mr. Khaled A. HAMZA</b>	Assistant General Manager – Head of Marketing & Communication "MarCom"
<b>Mrs. Heba M. GABALLA</b>	Deputy General Manager – Head of Corporate Social Responsibility (CSR)
<b>Ms. Manal S. EL-SEMIN</b>	Executive Manager – Head of Public Relations
<b>Mr. Mohamed A. SHAWKY</b>	Senior General Manager – Chief Financial Officer
<b>Mr. Maher M. HAMED</b>	Senior General Manager – Chief Information Officer
<b>Mr. Ahmed F. IBRAHIM</b>	General Manager – BOD Secretary & Head of Strategic Support & PMO
<b>Mr. Khaled A. BESHIR</b>	General Manager – Head of Operations
<b>Mr. Hany Y. RAMZY</b>	Deputy General Manager – Head of MIS
<b>Ms. Asmaa M. AMARA</b>	Assistant General Manager – Head of Service Excellence/CEO & MD Technical Office
<b>Mr. Hazem N. EL-SHARAWY</b>	Executive Manager – Head of Market Research

#### RISK MANAGEMENT

<b>Mr. Afdal E. NAGUIB</b>	Chief Risk Officer
<b>Mr. Karim F. HOSNI</b>	Senior General Manager – Deputy Chief Risk Officer – Head of Credit Risk
<b>Mr. Moataz M. MOUNIR</b>	Deputy General Manager – Head of Market Risk
<b>Mr. Mohamed T. ABDEL-AAL</b>	General Manager – Head of Operations Risk
<b>Mr. Medhat A. ALY</b>	Executive Manager – Head of CISBC
<b>Mr. Bassel E. KELADA</b>	Senior General Manager – Head of Retail Risk

#### CONTROL FUNCTIONS

<b>Mr. Hesham F. RAGAB</b>	Senior General Counsel – Head of Legal
<b>Mr. Mohamed A. EL GUEZIRY</b>	Senior General Manager – Head of Internal Audit
<b>Mr. Ali M. AMER</b>	General Manager – Head of Compliance

## 2.0. ENTITIES' MANAGEMENT

### BANQUE AUDI (SUISSE) SA SWITZERLAND

#### BOARD OF DIRECTORS

<b>H.E. Mr. Raymond W. AUDI</b>	Honorary Chairman		
		<b>Member of the Audit Committee</b>	<b>Member of the Remuneration Committee</b>
<b>Mr. Philippe R. SEDNAOUI</b>	Chairman		
<b>Mr. Michel A. CARTILLIER</b>	Vice-chairman	Chair •	
<b>Mr. Marc J. AUDI</b>	Member		•
<b>Mr. Pierre C. DE BLONAY</b>	Member	•	
<b>Mr. Samir N. HANNA</b>	Member		•
<b>Mr. Jean-Pierre R. JACQUEMOUD</b>	Member	•	•
<b>Mr. Pierre J. RESPINGER</b>	Member		Chair •

#### MANAGEMENT

<b>Mr. Ragi J. BOUSTANY</b>	General Manager
<b>Mr. Elie J. BAZ</b>	Head of Forex & Treasury
<b>Mr. Jean-Marc S. CODORELLO</b>	Head of Business Management
<b>Mrs. Mireille L. GAVARD</b>	Corporate Secretary
<b>Mr. Joseph M. HALLIT</b>	Head of Private Banking
<b>Mr. Michel G. NASSIF</b>	Chief Investment Officer
<b>Mr. Gregory K. SATNARINE</b>	Chief Operating Officer

### AUDI CAPITAL GESTION SAM MONACO

#### BOARD OF DIRECTORS

<b>Mr. Philippe R. SEDNAOUI</b>	Chairman
<b>Mrs. Burcu R. BERKI</b>	Managing Director
<b>Mr. Fouad S. HAKIM</b>	Member
<b>Banque Audi (Suisse) SA</b> <i>(represented by Mr. Philippe R. SEDNAOUI)</i>	Member

#### MANAGEMENT

<b>Mrs. Burcu R. BERKI</b>	Managing Director
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**AUDI PRIVATE BANK sal**  
 LEBANON

## BOARD OF DIRECTORS

		Member of the Audit Committee	Member of the Risk Committee	Member of the Remuneration Committee	Member of the AML/CFT Committee
<b>Mr. Philippe R. SEDNAOUI</b>	Chairman				
<b>Mr. Fady G. AMATOURY</b>	Member	•		•	•
<b>Mr. Toufic R. AOUAD</b>	Member		•		
<b>Dr. Khalil M. BITAR</b>	Member		Chair •	•	
<b>Dr. Joe A. DEBBANE</b>	Member				
<b>Mr. Georges S. DOUMITH</b>	Member				Chair •
<b>Mr. Salam G. NADDA</b>	Member	Chair •	•	Chair •	
<b>Mrs. Wafaa' S. YOUNES</b>	Member	•			•
<b>Bank Audi sal</b>	Member				

## MANAGEMENT

<b>Mr. Philippe R. SEDNAOUI</b>	Chairman & General Manager
<b>Mr. Toufic R. AOUAD</b>	General Manager

**AUDI CAPITAL (KSA) cjsc**  
 KINGDOM OF SAUDI ARABIA

## BOARD OF DIRECTORS

		Member of the Audit Committee	Member of the Nomination & Remuneration Committee
<b>Mr. Abdullah I. AL HOBAYB</b>	Chairman		Chair •
<b>Mr. Philippe R. SEDNAOUI</b>	Vice Chairman-Member		•
<b>Mr. Chahdan E. JEBEYLI</b>	Member	Chair •	
<b>Mr. Youssef A. NIZAM</b>	Member		•
<b>Dr. Asem T. ARAB</b>	Independent member	•	
<b>Dr. Khalil A. KORDI</b>	Independent member	•	

## MANAGEMENT

<b>Mr. Daniel R. ASMAR</b>	CEO – GM
<b>Mr. Tony G. ABOU FAYSSAL</b>	Head of Infrastructure – COO
<b>Mr. Raafat F. EL-ZOUHEIRY</b>	Head of Corporate Governance
<b>Mr. John S. GEBEILY</b>	Head of Investment Office
<b>Mr. Bassam L. NASSAR</b>	Head of Investment Banking
<b>Mr. Hikmat B. NASSAR</b>	Finance Manager
<b>Mr. Waleed K. AL-NUKHAISH</b>	Head of Asset Management

**BANK AUDI LLC**  
 QATAR

## BOARD OF DIRECTORS

		Member of the Executive Credit Committee
<b>Mr. Fady G. AMATOURY</b>	Chairman	
<b>Mrs. Ghina M. DANDAN</b>	Member	•
<b>Mr. Khalil I. DEBS</b>	Member	
<b>Mr. Rashed Nasser S. AL-KAABI</b>	Member	•
<b>Mr. Elia S. SAMAHA</b>	Member	
<b>Mr. Philippe R. SEDNAOUI</b>	Member	

## MANAGEMENT

<b>Mr. Hani R. ZAOUK</b>	General Manager	•
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**BANK AUDI FRANCE sa**  
 FRANCE

## BOARD OF DIRECTORS

		Member of the Audit & Risk Committee
<b>Dr. Freddie C. BAZ</b>	Chairman	•
<b>Ms. Sherine R. AUDI</b>	Member & General Manager	
<b>H.E. Mr. Raymond W. AUDI</b>	Member <i>(until April 2017)</i>	
<b>Mr. Antoine G. BOUFARAH</b>	Member	
<b>Mr. Maurice H. SAYDE</b>	Member	•
<b>Mr. Pierre A. SOULEIL</b>	Member	•
<b>Mr. Denis G. GILLET</b>	Member <i>(from September 2017)</i>	•

<b>Bank Audi sal</b> <i>(represented by Mr. Samir N. HANNA)</i>	Member	
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## MANAGEMENT

<b>Ms. Sherine R. AUDI</b>	General Manager – Chief Executive Officer
<b>Mr. Noel J. HAKIM</b>	Deputy General Manager – Chief Business Officer
<b>Mr. Emile G. GHAZI</b>	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
<b>Dr. Imad I. ITANI</b>	Chairman & General Manager			
<b>Mr. Michel E. ARAMOUNI</b>	Member		•	
<b>Mr. Khalil I. DEBS</b>	Member		•	
<b>Mr. Georges S. DOUMITH</b>	Member	•	Chair •	•
<b>Mr. Farid F. LAHOUD</b>	Member	•		•
<b>Mr. Maurice H. SAYDE</b>	Member	Chair •		Chair •
<b>Bank Audi sal</b>	Member			
<b>Mrs. Marie-Josette A. AFTIMOS</b>	Secretary of the Board			

## MANAGEMENT

<b>Dr. Imad I. ITANI</b>	Chairman & General Manager
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**SOLIFAC sal**  
 LEBANON

## BOARD OF DIRECTORS

		Member of the Risk & Audit Committee	Member of the ALCO Committee	Member of the Credit Committee
<b>Mr. Khalil I. DEBS</b>	Chairman	Chair •	•	Chair •
<b>Mr. Elie J. KAMAR</b>	Chief Executive Officer	•	•	•
<b>Mr. Tamer M. GHAZALEH</b>	Member	•	Chair •	
<b>Mr. Hassan A. SALEH</b>	Member	•	•	
<b>Mr. Ibrahim M. SALIBI</b>	Member	•	•	•

## MANAGEMENT

<b>Mr. Elie J. KAMAR</b>	Chief Executive Officer
<b>Mrs. Lina F. SALEM</b>	Assistant Chief Executive Officer

**BANK AUDI saI – JORDAN BRANCHES**  
JORDAN

## MANAGEMENT

<b>Mr. Yousef A. ENSOUR</b>	Regional Manager
<b>Mr. Samer I. AL ALOUL</b>	Deputy Regional Manager

**BANK AUDI saI – IRAQ BRANCHES**  
IRAQ

## MANAGEMENT

<b>Mr. Jamil R. CHOUCAIR</b>	Country Manager
<b>Mr. Akil A. EZZEDDINE</b>	COO & Deputy Country Manager

# CREATING CONNECTIONS

*Leave the door open for opportunities,  
lead with enthusiasm and receive  
with gratitude.*

05

**ADDRESSES**



## LEBANON

### BANK AUDI sal

Member of the Association of Banks in Lebanon  
Capital: LBP 677,255,426,252 *(as at December 2017)*  
Consolidated shareholders' equity:  
LBP 6,313,260,388,762 *(as at December 2017)*  
C.R. 11347 Beirut  
List of Banks No. 56

### HEADQUARTERS

Bank Audi Plaza, Bab Idriss.  
P.O. Box 11-2560 Beirut - Lebanon  
Tel: (961-1) 994000. Fax: (961-1) 990555.  
Customer helpline: (961-1) 212120.  
Swift: AUBLBLBX.  
contactus@bankaudi.com.lb  
bankaudigroup.com

### COUNTRY MANAGEMENT LEBANON

Bank Audi Palladium, Bab Idriss.  
P.O. Box: 11-2560 Beirut – Lebanon.  
Tel: (961-1) 994000. Fax: (961-1) 990555.  
Customer helpline: (961-1) 212120.  
Swift: AUBLBLBX.  
contactus@bankaudi.com.lb  
bankaudi.com.lb

M1 Building, Bab Idriss.  
P.O. Box: 11-2560 Beirut – Lebanon.  
Tel: (961-1) 994000. Fax: (961-1) 990555.  
Customer helpline: (961-1) 212120.  
Swift: AUBLBLBX.  
contactus@bankaudi.com.lb  
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 IDRIS

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. Younes

#### 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

Ouzai Street, Noueiri Quarter.  
Tel: (961-1) 661323. Fax: (961-1) 651798.  
Branch Manager: Mrs. Hiba M. Kayal

##### BESHARA EL-KHOURY

Banna & Sayrawan Bldg., Beshara El-Khoury Street.  
Tel: (961-1) 664093. Fax: (961-1) 664096.  
Branch Manager: Mrs. Roula F. Ramadan

##### BLISS

Kanater Bldg., Bliss Street.  
Tel: (961-1) 361793. Fax: (961-1) 361796.  
Branch Manager: Ms. Afaf M. Khoury

##### EL-HORGE

Khattab Bldg., Hamad Street.  
Tel: (961-1) 660636. Fax: (961-1) 660686.  
Branch Manager: Mrs. Reine G. Doughan

##### HAMRA

Mroueh Bldg., Hamra Street.  
Tel: (961-1) 341491. Fax: (961-1) 344680.  
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.  
Acting Branch Manager: Mr. Mohamad I. Karakira

#### MOUNT LEBANON

##### AIN EL-REMMANEH

Etoile Center, El-Areed Street.  
Tel: (961-1) 292870. Fax: (961-1) 292869.  
Branch Manager: Mrs. Roula E. Fayad

##### AJALTOUN

Bou Shaaya & Khoury Center, El-Midane.  
Tel: (961-9) 234620. Fax: (961-9) 234439.  
Branch Manager: Mr. Emile J. Moukarzel

##### ALEY

Beshara El-Khoury Road (near Aley Club), Aley.  
Tel: (961-5) 556902. Fax: (961-5) 558903.  
Branch Manager: Mrs. Olfat A. Hamza

##### BAABDA

Boulos Brothers Bldg., Damascus International Road.  
Tel: (961-5) 451452. Fax: (961-5) 953236.  
Branch Manager: Mr. Elias J. Daniel

##### BAABDA SQUARE

Helou Bldg., Charles Helou Avenue.  
Tel: (961-5) 921827, 921631, 921664, 921808.  
Fax: (961-5) 921767.  
Acting Branch Manager: Mrs. Hala N. Younes

##### BATROUN

Batroun Square Center, Main Road No. 7.  
Tel: (961-9) 642371-2, 642349, 642289. Fax: (961-9) 642347.  
Branch Manager: Mr. Tannous N. Abi-Saab

##### BAUSHRIEH – JDEIDEH

Joseph Kassouf Bldg., Mar Youhanna Street.  
Tel: (961-1) 892674, 892698, 892701. Fax: (961-1) 892428.  
Branch Manager: Mr. Raymond Y. Sleiman

#### BANK AUDI

##### 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.

##### 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.  
SOS Branch Manager: Mr. Edgard A. Aoun

##### DORA – VARTANIAN

Vartanian Center, Dora Highway.  
Tel: (961-1) 250404. Fax: (961-1) 241647.  
Branch Manager: Ms. Bassima P. Moradides

##### ELYSSAR

Elyssar Main Road, Mazraat Yashouh.  
Tel: (961-4) 913928. Fax: (961-4) 913932.  
Acting Branch Manager: Mrs. Nisrine N. Chidiac

##### FANAR

La Rose Center, Main Road.  
Tel: (961-1) 879637. Fax: (961-1) 879641.  
Branch Manager: Mrs. Claude A. Habib

##### FURN EL-SHEBBAK

Joseph Jreissati Bldg., Damascus International Road.  
Tel: (961-1) 290713. Fax: (961-1) 282104.

##### GHAZIR

Main Road, Ghazir, Kfarhebab.  
Tel: (961-9) 851720. Fax: (961-9) 856376.  
Branch Manager: Ms. Roula F. Kmeid

##### GHOBEYRI

Hoteit Bldg., Shiyah Blvd., Mousharrafieh Square.  
Tel: (961-1) 541125. Fax: (961-1) 272342.  
SOS Branch Manager: Mrs. Leila K. Barakat

##### HADATH

El-Ain Square, Main Road.  
Tel: (961-5) 464050. Fax: (961-5) 471854.  
Branch Manager: Mrs. Rachel J. Sarkis

##### HARET HREIK

Ahmad Abbas Bldg., Baajour Street, Main Road.  
Tel: (961-1) 277270. Fax: (961-1) 547265.  
Branch Manager: Mr. Yasser A. Zein

##### JAL EL-DIB

Milad Sarkis Bldg., Main Road.  
Tel: (961-4) 710393. Fax: (961-4) 710395.  
Branch Manager: Mr. Charles A. Berbery

##### JBEIL

Byblos Sun Bldg., Jbeil Roundabout.  
Tel: (961-9) 543890. Fax: (961-9) 543895.  
Branch Manager: Mr. Chady F. Kassis

##### JEITA – ANTOURA

Antoura Square.  
Tel: (961-9) 235257. Fax: (961-9) 235260.  
Branch Manager: Mrs. Christiane Y. Akiki

##### JOUNIEH

La Joconde Center, Fouad Shehab Blvd.  
Tel: (961-6) 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.  
Branch Manager: Mrs. Nancy S. Boustany

##### KHALDEH

Lebanese Commercial Mall, Saida Highway.  
Tel: (961-5) 801988. Fax: (961-5) 806405.  
Acting Branch Manager: Mrs. Rana N. Mecharrafieh

##### MANSOURIEH

Kikano Bldg., Main Road.  
Tel: (961-4) 533610. Fax: (961-4) 533614.  
Branch Manager: Mr. Antoine Y. Asmar

##### MREIJEH

Mreijeh Plaza Center, Abdallah Yaffi Avenue.  
Tel: (961-1) 477980. Fax: (961-1) 477200.  
Branch Manager: Mr. Hassan Z. Jaafar

##### NACCASH – DBAYEH

Naccash – Dbayeh Highway, East Side.  
Tel: (961-4) 521671. Fax: (961-4) 521677.  
Branch Manager: Mrs. Georgina Y. Nakad

##### RABIEH

Rabieh First Entrance, Street No. 5.  
Tel: (961-4) 405950. Fax: (961-4) 416105.  
Branch Manager: Mrs. Marthe A. Nawar

##### ROUEISS

Hoteit Bldg., Hady Nasrallah Blvd.  
Tel: (961-1) 541146. Fax: (961-1) 541149.  
Acting Branch Manager: Mr. Mohamad-Nour A. El-Radi

##### SHIYAH

Youssef Khalil Bldg., Assaad El-Assaad Street.  
Tel: (961-1) 541120. Fax: (961-1) 541123.  
Branch Manager: Mrs. Lina A. Hayek

##### SIN EL-FIL

Hayek Street.  
Tel: (961-1) 490301. Fax: (961-1) 510384.  
Branch Manager: Mr. Pierre A. Mezher

##### ZALKA

Romeo & Juliette Bldg., Zalka Highway.  
Tel: (961-1) 875124. Fax: (961-1) 900274.  
Branch Manager: Mrs. Karla M. Ghaoui

##### ZOUK – 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.  
Acting Branch Manager: Mr. Ali A. Hammad

##### SHEKKA

Main Road.  
Tel: (961-6) 545379. Fax: (961-6) 541526.  
Branch Manager: Mrs. Houda A. Azar

##### TRIPOLI – AZMI

Fayad Bldg., Azmi Street.  
Tel: (961-6) 445590. Fax: (961-6) 435348.  
Branch Manager: Mr. Georges A. Khodr

##### TRIPOLI – EL-BOHSAS

Fattal Tower 1, El-Bohsas Blvd.  
Tel: (961-6) 410200. Fax: (961-6) 410799.  
SOS Branch Manager: Mr. Abdo E. Andraos

##### 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.  
Regional Manager: Mr. Georges K. Karam

##### AL-ZAIDANIEH

Al-Zaidanie

## AUDI PRIVATE BANK sal

Bank Audi Plaza, Block D, Bab Idriss, Beirut.  
P.O. Box: 11-1121 Beirut - Lebanon.  
Tel: (961-1) 954800, 954900. Fax: (961-1) 954880.  
contactus.lebanon@bankaudiqb.com  
bankaudiqb.com

## AUDI INVESTMENT BANK sal

Bank Audi Plaza, Block B, Bab Idriss.  
P.O. Box: 16-5110 Beirut - Lebanon.  
Tel: (961-1) 994000. Fax: (961-1) 999406.  
contactus@bankaudiib.com – bankaudigroup.com

## SOLIFAC sal

Zen Building, Charles Malek Avenue, Ashrafieh.  
P.O. Box: 11-1121 Beirut - Lebanon.  
Tel: (961-1) 209200. Fax: (961-1) 209205.

# 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.  
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 H. Sahin (SME); Mr. Kudret M. Uslu (Corporate); Ms. Ciler A. Durmaz (Retail)

#### GUNESLI

Baglar District, Osmanpasa Street, No. 65, 34209, Bagcilar, Istanbul.  
Tel: (90-212) 4646000. Fax: (90-212) 3481840.  
Branch Managers: Mr. Irfan M. Sahinkaya (Corporate); Ms. Arzu H. Aydin (Retail); Mr. Alpaslan O. Kayserilioglu (SME); Ms. Naciye Pinar F. Koc (SME)

#### KOZYATAGI

Saniye Ermutlu Street, G. Kemal Persentilli Business Center, 34742, Kadikoy, Istanbul.  
Tel: (90-216) 6657000. Fax: (90-212) 3481839.  
Branch Managers: Mr. Zafer Y. Seyar (Corporate); Ms. Cagla T. Cavusoglu Yilmaz (Retail); Mr. Vahap A. Meseoglu (SME)

#### CADDEBOSTAN

Bagdat Street, No. 270, Ak Bldg. No. 17-18, Goztepe, Istanbul.  
Tel: (90-216) 4686800. Fax: (90-212) 3481850.  
Branch Manager: Ms. Seda N. Tokgoz (Retail)

#### NISANTASI

Tesvikiye District, Valikonagi Street, No. 91-93/A & 91-93/1, Sisli, Istanbul.  
Tel: (90-212) 3738100. Fax: (90-212) 3481853.  
Branch Manager: Ms. Aysen Z. Kirtas (Retail)

#### BEBEK

Bebek District, Cevdetpasa Street, No. 36, 34342, Besiktas, Istanbul.  
Tel: (90-212) 3624700. Fax: (90-212) 3481851.  
Branch Manager: Ms. Bahar M. Erce (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 T. Toker (SME & Retail)

#### BESIKTAS

Sinanpasa District, Ortabahce Street, No.13, Besiktas, Istanbul.  
Tel: (90-212) 3961500. Fax: (90-212) 3481879.  
Branch Manager: Ms. Aysun C. Ozkan (Retail)

#### ETILER

Nispetiye Street, No. 60/A-B, Etiler, Besiktas, Istanbul.  
Tel: (90-212) 3591600. Fax: (90-212) 3481872.  
Branch Managers: Ms. Mehrzad H. Senefe (Retail); Mr. Ozan M. Kok (SME)

#### SISLI

Halaskargazi Street, No. 169, Sisli, Istanbul.  
Tel: (90-212) 3734300. Fax: (90-212) 3481874.  
Branch Managers: Ms. Hulya H. Kuçuk (Retail); Mr. Serdar M. Uzelli (SME)

#### YESILYURT

Sipahioğlu Street, No. 2/B, Yesilyurt, Istanbul.  
Tel: (90-212) 4631100. Fax: (90-212) 3481875.  
Branch Manager: Mr. Umut S. Kilic (Retail)

#### ALTUNIZADE

Altunizade District, Kisikli Street, No. 35/1, Uskudar, Istanbul.  
Tel: (90-216) 4001600. Fax: (90-212) 3481886.  
Branch Managers: Mrs. Seren M. Sag (Retail); Mr. Ozlem H. Morova (SME)

#### HADIMKOY

Akcaburgaz District, Hadimkoy Road, No. 154-156, Esenyurt, Istanbul.  
Tel: (90-212) 8667800. Fax: (90-212) 3481885.  
Branch Manager: Mr. Hikmet S. Guncan (SME & Retail)

#### BATI ATASEHIR

Barbaros District, Halk Street, No. 59, D:1 Atasehir, Istanbul.  
Tel: (90-216) 5471200. Fax: (90-212) 3481890.  
Branch Managers: Ms. Pinar S. Turan (Retail); Mr. Ercan N. 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 A. Vural (Retail)

#### KADIKOY

Sogutlu Cesme Street, No. 46-48, Kadikoy, Istanbul.  
Tel: (90-216) 5421300. Fax: (90-212) 3481898.  
Branch Manager: Ms. Ebru F. Topdemir (Retail)

#### KARTAL

Ankara Street, No. 88, Kartal, Istanbul.  
Tel: (90-216) 5865300. Fax: (90-212) 3481895.  
Branch Manager: Mr. Sinan Mahmut A. Erdal (SME & Retail)

#### TAKSİM

Sehitmuhtar District, Tarlabasi Street, No. 10/1, Taksim, Beyoglu, Istanbul.  
Tel: (90-212) 3134100. Fax: (90-212) 3481899.  
Branch Manager: Ms. Hayal M. Yuksel (Retail)

#### LEVENT CARSİ

Levent District, Yasemin Street, No. 2/1, Besiktas, Istanbul.  
Tel: (90-212) 3395100. Fax: (90-212) 3481903.  
Branch Manager: Ms. Didem M. Yavasoglu (Retail)

#### UMRANIYE

Ataturk District, Alemdag Street, No. 50/52 A, Umraniye, Istanbul.  
Tel: (90-216) 6491200. Fax: (90-212) 3481901.  
Branch Managers: Ms. Alev Y. Dogan (Retail); Mrs. Serap F. Turhan (SME)

#### İMES

İmes Industrial Region, OSB District, İmes-501, E Blok, No. 34/ 7, Umraniye, Istanbul.  
Tel: (90-216) 6001900. Fax: (90-212) 3481904.  
Branch Manager: Mr. Tolga A. Dagli (SME & Retail)

#### EMINONU

Hobyar District, Buyuk Postane Street, No. 32, Fatih, Istanbul.  
Tel: (90-212) 4027000. Fax: (90-212) 3481905.  
Branch Managers: Mr. Kazim I. Ersen (Deputy Manager SME); Ms. Umur H. Altayli Yilmaz (Retail)

#### SUADIYE

Bagdat Street, No. 406, Suadiye, Istanbul.  
Tel: (90-216) 4685400. Fax: (90-312) 3481908.  
Branch Manager: Ms. Asli O. Yasar (Retail)

#### ANKARA

##### ANKARA

Eskisehir State District (Dumlupinar Avenue), 9 Km, Tepe Prime Business Center, Block B, Cankaya, Ankara.  
Tel: (90-312) 2489800. Fax: (90-312) 2489801.  
Branch Managers: Ms. Gulhan H. Pervan (Corporate); Mr. Hakkı Murat S. Onlem (SME); Mr. Keykubat K. Sancaktaroglu (SME); Mrs. Nurdan C. Senocak (Retail)

#### GOP

Kazim Ozalp District, Ugur Mumcu Street, No. 16, Çankaya, Ankara.  
Tel: (90-312) 4553800. Fax: (90-212) 3481858.  
Branch Manager: Mr. Gokhan Y. Kaynak (SME)

#### OSTİM

Serhat District, 1171/1 Street, No. 5, Ostim Yenimahalle, Ankara.  
Tel: (90-312) 5927500. Fax: (90-212) 3481877.  
Branch Manager: Mr. Aytaç I. Hacıoglu (SME & Retail)

#### UMITKOY

Cayyolu Street, Osmanaga Place, 2494/3 D:12, Çankaya, Ankara.  
Tel: (90-312) 2917300. Fax: (90-212) 3481912.  
Branch Manager: Ms. İrem E. Celtemen (Retail)

#### İZMİR

##### İZMİR

Anadolu Street, No. 41/20A, Bayrakli, Izmir.  
Tel: (90-232) 4951500. Fax: (90-212) 3481837.  
Branch Managers: Mr. Huseyin Cem H. Taner (Corporate); Mr. Murat S. Celik (SME); Mr. Melih I. Sugunes (SME); Ms. Nursel A. Esen (Retail)

#### ALSANCAK

Cumhuriyet Avenue, No. 176-A, Alsancak, Konak, Izmir.  
Tel: (90-232) 4981800. Fax: (90-212) 3481868.  
Branch Manager: Ms. Ebru O. Cindoglu (Retail)

#### HATAY

Arab Hasan District, Inonu Street, No. 285-293-A, Karabaglar, Izmir.  
Tel: (90-232) 2921200. Fax: (90-212) 3481887.  
Branch Manager: Ms. Nalan H. Pala (Retail)

#### BOSTANLI

Bostanli District, Cemal Gursel Street, No. 532/A-B, Karsiyaka, Izmir.  
Tel: (90-232) 4911000. Fax: (90-212) 3481892.  
Branch Manager: Ms. Gulum O. Gurle (Retail)

#### KOCAELI

##### GEBZE

Hacihalil District, İsmetpasa Street, No. 34, Gebze, Kocaeli.  
Tel: (90-262) 6742400. Fax: (90-212) 3481873.  
Branch Manager: Mr. Kadir A. Kutlu (SME & Retail)

#### İZMİT CARSİ

Cumhuriyet Street, No. 104, İzmit, Kocaeli.  
Tel: (90-262) 2812500. Fax: (90-212) 3481889.  
Branch Manager: Ms. Nur Esin A. Keles (Retail)

#### BURSA

##### BURSA

Izmir Road, No. 116, No. 13-14, Nilufer, Bursa.  
Tel: (90-224) 2753400. Fax: (90-224) 2753401.  
Branch Managers: Mr. Hasan T. Gorgun (SME); Ms. Aysegul H. Ozata (Retail)

#### GAZİANTEP

##### GAZİANTEP

Prof. Muammer Aksoy Avenue, Cazibe Business Center, No. 15/D, Sehit Kamil, Gaziantep.  
Tel: (90-342) 2117400. Fax: (90-212) 3481859.  
Branch Managers: Mr. Eray Şevki M. Karabay (Deputy Manager SME); Ms. Gamze M. Acar (Retail); Mr. Erdal H. Karakusoglu (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 H. Karaoglu (SME); Ms. Banu U. Yaycioglu (Retail)

#### KAYSERİ

##### KAYSERİ CARSİ

Cumhuriyet District, Serdar Street, No. 21, Melikgazi, Kayseri.  
Tel: (90-352) 2071400. Fax: (90-212) 3481870.  
Branch Manager: Mr. İsmail I. Murat (Retail)

#### DENİZLİ

##### DENİZLİ

Saltak Avenue, M. Korkut Street, No. 2, Merkez Denizli.  
Tel: (90-258) 2952000. Fax: (90-212) 3481883.  
Branch Managers: Ms. Pelin F. Bozbay Yazici (SME); Mrs. Aliye Ozlem M. 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: Mr. Kursat M. Dayioglu (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 A. Kacar (SME)

#### ANTALYA LARA

Yesilbahce District, Metin Kasapoglu Street, No. 49/A, Muratpasa Antalya.  
Tel: (90-242) 3204300. Fax: (90-212) 3481902.  
Branch Manager: Ms. Ebru E. Savas (Retail)

#### MUGLA

##### BODRUM

Hasan Resat Oncu Street, Yokuşbaşı District No. 12, Bodrum, Mugla.  
Tel: (90-252) 3115000. Fax: (90-212) 3481881.  
Branch Manager: Ms. Asli O. Yilmaz (SME & Retail)

#### ESKİSEHIR

##### ESKİSEHIR

Eskibaglar District, Hatboyu-1 Street, 1/A, Tepebasi, Eskisehir.  
Tel: (90-222) 2131000. Fax: (90-212) 3481891.  
Branch Manager: Mr. Atik Yavuz O. Yildirim (SME & Retail)

#### MERSİN

##### MERSİN

Camiserif District, Kuvai Milliye Street, No. 20/A, Mersin.  
Tel: (90-324) 2418300. Fax: (90-212) 3481882.  
Branch Managers: Mr. Onur H. Altinli (SME); Ms. Pinar E. Asal (SME)

#### HATAY

##### İSKENDERUN

Cay District, Ataturk Avenue, No. 33, Iskenderun, Hatay.  
Tel: (90-326) 6291300. Fax: (90-212) 3481900.  
Branch Managers: Ms. Canan N. Yerli (Retail); Mr. Ali Cihan A. Tek (Deputy Manager SME)

#### SAMSUN

##### SAMSUN

Kale District, Kazimpasa Avenue, No. 21, İlkadim, Samsun.  
Tel: (90-362) 3118800. Fax: (90-212) 3481907.  
Branch Managers: Mr. Ilkay K. Karaali (SME); Mr. İsmail M. Aytek (Retail)

#### MANİSA

##### MANİSA

Anafartalar District, Mustafa Kemalpasa Street No.34/A Sehzadeler, Manisa.  
Tel: (90-236) 2291600. Fax: (90-212) 3481911.  
Branch Managers: Mr. Celal E. Oner (Retail); Mr. Hakan S. Tuzkapi (Deputy Manager SME)

# EGYPT

## BANK AUDİ 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.  
contactus@bankaudi.com.eg  
bankaudi.com.eg

## BRANCHES

#### GIZA

##### DOKKI (MAIN BRANCH)

104 El Nile Street, Dokki.  
Tel: (20-2) 3337100, 3362516-7-8.  
Fax: (20-2) 37483818.  
Branch Manager: Mrs. Sally F. Sallam

##### MOSADDAK (ISLAMIC BRANCH)

56 Mosaddak Street, Dokki.  
Tel: (20-2) 37480241, 37603520.  
Fax: (20-2) 37480242.  
Branch Manager: Mr. Mohammed A. Hussein

#### LEBANON

60 Lebanon Street (Lebanon Tower), Lebanon Square, Mohandessin.  
Tel: (20-2) 33006400, 33026423, 33026436.  
Fax: (20-2) 33026454.  
Area Manager: Mr. Mohab M. Yassein

##### EL BATAL AHMED ABDEL AZIZ

44 El Batal Ahmed Abdel Aziz Street, Mohandessin.  
Tel: (20-2) 33332000, 7480266.  
Fax: (20-2) 37480599.  
Branch Manager: Mr. Mohammed H. Kamel

##### SHOOTING CLUB

13 Shooting Club Street, Mohandessin.  
Tel: (20-2) 33322800.  
Fax: (20-2) 37486546.  
Branch Manager: Mrs. Marwa M. El-Mougy

##### EL HARAM (ISLAMIC BRANCH)

42 El Haram Street, El Haram Plaza Tower, El Haram.  
Tel: (20-2) 33864002, 33865056.  
Fax: (20-2) 33864155.  
Branch Manager: Mr. Sherif S. El Sonbaty

#### TAHRİR

94 Tahrir Street, Dokki.  
Tel: (20-2) 33319500, 37486357, 37486412, 37486342, 37486659.  
Fax: (20-2) 37486118.  
Area Manager: Mr. Mohamed S. Abdel-Fattah

##### SIXTH OF OCTOBER

Plot 2/23, Central District, Sixth of October City.  
Tel: (20-2) 38270900, 38353790, 38353781-3.  
Fax: (20-2) 38353780.  
Branch Manager: Mr. Hisham M. Amin

##### PYRAMIDS HEIGHTS

Pyramids Heights Office Park, Cairo-Alexandria Desert Road, Km 22, Sixth of October City.  
Tel: (20-2) 35362053. Fax: (20-2) 35362052.  
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) 38653550-1. Fax: (20-2) 38653554.  
Branch Manager: Ms. Rehab R. Saied

#### CAIRO

##### MAKRAM EBEİD

1 Makram Ebeid Street, Nasr City.  
Tel: (20-2) 22731771-2-3, 26731300.  
Fax: (20-2) 23521463.  
Area Manager: Mr. Omar M. Wally

##### ABBASS EL-AKKAD

70 Abbass El-Akkad Street, Nasr City.  
Tel: (20-2) 22708740. Fax: (20-2) 22708757.  
Branch Manager: Mr. Ayman M. Farrag

#### BEIRUT

54 Demeshk Street, Heliopolis.  
Tel: (20-2) 24508610, 24508633-6, 24508644, 24508655, 24567600. Fax: (20-2) 24508653.  
Area Manager: Mr. Mohamed A. Abdel Wahed

#### SHOUBRA

128 Shoubra Street, Shoubra.  
Tel: (20-2) 22075767, 22075774, 22075682.  
Fax: (20-2) 22092767.  
Branch Manager: Mr. Hesham A. Awaad

#### ZAM

**EL MANIAL**

90 El Manial Street, El Manial.  
Tel: (20-2) 23630163, 23630080, 23629935,  
23629955. Fax: (20-2) 23630080.  
Branch Manager: Mr. Sami S. Osman

**TRIUMPH**

8 Plot 740, intersection of Othman Ibn Affan Street  
and Mohamed Adly Kaffafi Street, Heliopolis.  
Tel: (20-2) 26342243, 26347549, 26352929.  
Fax: (20-2) 27740055.  
Area Manager: Mrs. Sandra G. Cossery

**ABD EL KHALEK THARWAT**

42 Abd El Khalek Tharwat Street, Downtown.  
Tel: (20-2) 3904162, 3904853, 3904866.  
Fax: (20-2) 23904853.  
Area Manager: Mr. Samir M. Osman

**GARDEN CITY**

1 Aisha El Taymoria Street, Garden City.  
Tel: (20-2) 27928975-6-7. Fax: (20-2) 27928977.  
Branch Manager: Ms. Rasha S. Abu-Zaghla

**SALAH SALEM**

Bldg. 15, Salah Salem Street, Heliopolis.  
Tel: (20-2) 22607438, 22607125, 24006400.  
Fax: (20-2) 2260346.  
Area Manager: Mrs. Rasha M. Ramadan

**MAADI – DEGLA**

1-B, 256 Street, Degla, Maadi.  
Tel: (20-2) 25162038, 25162044, 25193243,  
25195238. Fax: (20-2) 25162017.  
Area Manager: Mr. Mohamed A. Kandil

**MAADI**

Plot 1&2 D/5, intersection of Laselky Street  
and Nasr Street, New Maadi.  
Tel: (20-2) 25197901. Fax: (20-2) 25197911.  
Branch Manager: Ms. Maie M. Saeed

**TAYARAN**

40 Tayaran Street, Nasr City.  
Tel: (20-2) 24003500.  
Branch Manager: Mr. Bassel H. Zohdy

**MERGHANY**

100 A Merghany Street, Heliopolis.  
Tel: (20-2) 24635700, 24635765.  
Branch Manager: Mr. Sherif A. El-Aidy

**TAGAMOU EL KHAMES**

Waterway Compound – Phase One, Ground & First  
Floors, Commercial Units CG54-CF54, Investors’  
Zone – North, New Cairo.  
Tel: (20-1) 007288474, 100441943.  
Branch Manager: Mr. Moataz M. Hussein

**MADINATY**

Plot 6, Banks Zone, Madinaty, New Cairo.  
Tel: (20-1) 001491681, 272226252.  
Branch Manager: Ms. Radwa F. Ezz El Din

**ALEXANDRIA**

**SMOUHA**  
35 Victor Emmanuel Square, Smouha.  
Tel: (20-3) 4193700, 4245089, 4245204, 4245261.  
Fax: (20-3) 4244510.  
Acting Branch Manager: Mr. Ahmed H. Hassanen

**SULTAN HUSSEIN**

45 Sultan Hussein Street, Azarita.  
Tel: (20-3) 4841096, 4855791-2, 4880500.  
Fax: (20-3) 4782131.  
Regional Manager: Mrs. Hanan M. Ouf

**MIAMI (ISLAMIC BRANCH)**

4 El Asafra Al Bahariya, Street 489, Montazah, Alexandria.  
Tel: (20-3) 5505212-3. Fax: (20-3) 5505136.  
Branch Manager: Ms. Salma A. Hassanien

**SAN STEFANO**

413 El-Gaish Road, San Stefano, Loran.  
Tel: (20-3) 5505212-3, 5505127, 5817000.  
Fax: (20-3) 5859790.  
Area Manager: Mr. Ahmed H. Aboabda

**GLEEM**

1 Mostafa Fahmy Street, Gleem.  
Tel: (20-3) 5816000, 5825547, 5825742.  
Fax: (20-3) 5825586.  
Acting Branch Manager: Mr. Sameh M. Mousa

**ALEX DOWNTOWN**

Merosa Compound, Unit E, Suez Canal Street, Alexandria.  
Tel: (20-3) 3671300. Fax: (20-3) 3681377.  
Branch Manager: Mr. Mahmoud Y. El Sharnouby

**DAQAHLIA**

**MANSOURA**  
26 Saad Zaghloul Street, Toreil, Mansoura.  
Tel: (20-50) 2281600, 2309783-4-5.  
Fax: (20-50) 2309782.  
Branch Manager: Mr. Karim M. El Gohary

**GHARBIA****TANTA**

Intersection of El Gueish Street and  
El Nahda Street, Tanta.  
Tel: (20-40) 3403306-7-8-9. Fax: (20-40) 3403100.  
Area Manager: Mr. Amr A. Dorgham

**SHARQIYA****ZAGAZIK**

95 Saad Zaghloul Street.  
Tel: (20-55) 2369782, 2369824-5.  
Branch Manager: Mr. Mohamed A. Ibrahim

**RED SEA****EL GOUNA**

Service Area Fba-12e, El Balad District,  
El Gouna, Hurghada.  
Tel: (20-65) 3580096. Fax: (20-65) 3580095.  
Branch Manager: Mr. Hossam S. Zaki

**SHERATON ROAD**

23 Taksim El Hadaba El Shamaleya,  
167 Sheraton Road, Hurghada.  
Tel: (20-65) 3452015-6-8-9, 3452020.  
Fax: (20-65) 3452020.  
Branch Manager: Mr. Shady E. El Awady

**SOUTH SINAI****NAEMA BAY**

207 Rabwet Naema Bay, Sharm El Sheikh.  
Tel: (20-69) 93604513-4-5-6-9. Fax: (20-69) 3604520.  
Branch Manager: Mr. Mohamed K. Abbas

**ASSUIT****ASSUIT**

Chamber of Commerce Bldg., Mahmoud Fahmy  
Al Noqrashi Street.  
Tel: (20-88) 2286120-4-6. Fax: (20-88) 2286136.  
Branch Manager: Mr. Mohammed G. Sayed

**DAMIETTA****DAMIETTA**

49 Nile Corniche Street, Ezbat Al Lahm.  
Tel: (20-57) 2367010, 2367030, 2367040.  
Branch Manager: Mr. Khaled M. Shoeib

**PORT SAID****PORT SAID**

27 A, July 23<sup>rd</sup> Street, El-Sharq Division.  
Tel: (20-66) 3239929, 3239931-2. Fax: (20-66) 3239935.  
Regional Manager: Mr. Amr Y. Rizk

## 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.  
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.  
contactus.mc@bankaudipb.com  
bankaudipb.com

## SAUDI ARABIA

### AUDI CAPITAL (KSA) cjsc

Centria Bldg., 3<sup>rd</sup> 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.  
contactus.audicapital.com – audicapital.com

## QATAR

### BANK AUDI LLC

*Authorised by the QFC Regulatory Authority  
License No. 00027*

Qatar Financial Centre Tower, 18<sup>th</sup> Floor,  
Diplomatic Area, West Bay.  
P.O. Box: 23270 Doha, Qatar.  
Tel: (974) 44967365. Fax: (974) 44967373.  
contactus.qatar@bankaudipb.com  
bankaudipb.com

## FRANCE

### BANK AUDI FRANCE sa

73, Avenue des Champs-Élysées. 75008 Paris, France.  
Tel: (33-1) 53 83 50 00. Fax: (33-1) 42 56 09 74.  
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.  
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.

**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, 6<sup>th</sup> 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, 3<sup>rd</sup> 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 – 2<sup>nd</sup> 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.  
Branch Manager: Mrs. Samar B. Homsî

**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

### BANK AUDI sal –

### IRAQ BRANCHES

### HEADQUARTERS

Bank Audi Bldg., District 923, Al-Jadriya  
Main Street, Baghdad.  
P.O. Box 2080 Al-Jadriya, Iraq.  
Tel: (964-772) 9768900.  
contactus.iraq@bankaudi.com.lb  
bankaudiiraq.com

### BRANCHES

**BAGHDAD (MAIN BRANCH)**

District 923, Al-Jadriya Street, Baghdad.  
Tel: (964-772) 9768920.  
Branch Manager: Mr. Wafic A. Jammoul

**SULAYMANIYAH**

Salem Street, Sulaymaniyah.  
Tel: (964-772) 9768940.  
Branch Manager: Mr. Fadi B. El-Kaed

**BASRA**

Bldg. No. 85, Minawi Pasha Street, District 89, Basra.  
Tel: (964-772) 9768960.  
Acting Branch Manager: Mr. Hassan H. Mouazzen

**NAJAF**

Al Amir Street, Najaf City.  
Tel: (964-772) 9768950.  
Branch Manager: Mr. Hisham A. Zein

**ERBIL**

Plaza BC Bldg., Bakhtiary District, Ainkawa Road, Erbil.  
Tel: (964-772) 9768930.  
Acting Branch Manager: Mr. Mahmoud S. Itani  
Regional Manager for Kurdistan region: Mr. Jean E. Nseir

## UNITED ARAB EMIRATES

### BANK AUDI sal

### REPRESENTATIVE OFFICE

Ethiad Towers, Tower 3, 15<sup>th</sup> Floor, Office 1503,  
Corniche Street.  
P.O. Box 94409 Abu Dhabi, United Arab Emirates.  
Tel: (971-2) 6331180. Fax: (971-2) 6336044.  
contactus.abu-dhabi@bankaudipb.com  
bankaudipb.com



