2019 ANNUAL REPORT

Bank Audi

Bank Audi

ANNUAL REPORT 2019

STATEMENT OF THE CHAIRMAN AND GROUP CHIEF EXECUTIVE OFFICER

Dear stakeholders,

I hope you and your families are keeping safe and well in those extraordinary and unsettling times.

As I write, the regional economic situation and the local Lebanese political crisis, coupled with the spread of COVID-19 virus, have thrown our world into disarray. These three distinct crises brought multiple shocks in one: a public health disaster, a blow to the real economy, and a stress test for the financial system as we know it.

2019 was undeniably one of the most challenging years in the Group's history. The broad concerns over the adverse political and economic developments affecting several countries of presence of the Group in the region, more specifically Lebanon and Turkey, exerted increased pressures on the operating conditions of Bank Audi Group in those countries.

Global geopolitical tensions and accrued trade concerns led to softer economic activity globally and a further economic slowdown in the MENA region. Real GDP growth for the Arab world has decelerated to around 1.9% in 2019 from 2.4% in 2018, while Turkey's real GDP growth reported a decline from 2.8% in 2018 and 0.9% in 2019. Lebanon, where the Group has more than 60% of its operations, saw its real economy moving into a recessionary mode, with net contractions across a number of sectors of economic activity.

Lebanon has been hit by a severe economic crisis that combines fiscal, financial and political instability, which was also exacerbated in the aftermath of the "17 October" nationwide civic protests. As these protests sustained, the political and economic uncertainties deepened which, in turn, triggered international credit rating agencies to cut their credit ratings of Lebanon and Lebanese banks, while the state defaulted on sovereign Eurobonds in March 2020. On this backdrop, operating conditions of banks in Lebanon were quite difficult. The Central Bank of Lebanon and the Association of Banks issued a number of exceptional regulatory decisions and measures to allow Lebanese banks to support their financial standing and withstand the material challenges and uncertainties they are facing while preventing capital flight. Deposits in Lebanon contracted by a cumulative USD 15.4 billion in 2019, of which USD 11.4 billion in the last quarter of the year, with private sector loans contracting by a yearly USD 9.6 billion to USD 49.8 billion at end-December 2019. Banks' profitability came under pressure in 2019 due to tax increases and significant provisioning requirements.

The material adverse changes in the operating conditions in Lebanon has imposed on Bank Audi, in common with other Lebanese banking groups, a new strategic direction. It includes strengthening the capital base to absorb any potential losses from non-performing exposures; enhancing the application of risk monitoring and management; and reinforcing the performance of foreign subsidiaries amid a further rationalisation of operating expenses in the aim to create a leaner and more competitive group.

Meanwhile, Management had to take immediate measures that will allow the Group to navigate through the challenges of the upcoming transitory period in Lebanon amid the conception and the subsequent implementation of an economic reform plan. In view of the severity of the economic and financial crisis that has befallen Lebanon and its inevitable repercussions, the Bank made a decision to allocate USD 1.2 billion to Expected Credit Loss allowances in 2019. Notwithstanding, the significant uncertainties of outcome and challenges prevailing in Lebanon for months now, as well as the failure to date to reach a clear, definite and definitive plan by the authorities for a financial and economic recovery, made it very difficult for external auditors to assess the effects of the Lebanese crisis on the financial standing of all Lebanese banks. In this context, external auditors expressed a negative opinion on Bank Audi's financial statements for the year 2019, and the Board of Directors announced its understanding and approval of this opinion.

The measures taken by the Group encompass:

- Provide fully for the Group's exposure to the Lebanese Sovereign Eurobonds whose nominal value stood at USD 1.98 billion as at end-December 2019. Based on the cash flows that the Group expects to receive and largely exceeding what is required by BdL Circular 44, as amended by Intermediary Circular 543 of 3 February 2020, in particular after the Lebanese state announced that it had stopped payment, this amounted to USD 591 million of additional loss allowance on these financial assets, leaving a net exposure of USD 120 million as at end-December 2019, which dropped to USD 57 million as at 30 June 2020. As the Group sold these Eurobonds in the first six months of 2020, the associated ECL was released to maintain at all times a zero net exposure.
- Allocate an additional USD 109 million of loss allowances on the Group exposure to financial assets at the Central Bank of Lebanon in foreign currencies based on the guidelines of BdL's Intermediary Circular 543.
- Continue to actively deleverage the loan portfolio, particularly in Lebanon and Turkey, in view of the negative economic outlook and the related deteriorating credit quality while setting up a centralised and specialised remedial function to proactively review and manage the quality of these loans. The Group succeeded to decrease consolidated gross loan during 2019 by 17% of USD 2.4 billion, of which USD 1.6 billion (25%) in Bank Audi Lebanon and USD 735 million in Odea Bank (19%). In addition, Management decided to book USD 410 million of additional loss allowances on loans, of which USD 253 million in allowance for ECL Stage 3 and USD 157 million in allowance for ECL Stages 1 & 2.

- Successfully raised USD 210 million as part of the first phase of the capital increase that was requested from all banks by the Central Bank of Lebanon as per Intermediary Circular 532. Shareholders owning 65% of the Bank's capital participated in this increase, among which the European Bank for Reconstruction and Development (EBRD), with USD 7.8 million, underlying a renewed commitment from the shareholders to support the Bank within the prevailing exceptional situation, and a signal of trust in the Bank's status and outlook. Bank Audi, which was one of few Lebanese banking groups to successfully close the first phase, is currently assessing recapitalisation plans based on various scenarios, the finalisation of which pre-requires the alleviation of the prevailing uncertainties, with the adoption of a final reform program by the authorities for implementation.

Our consolidated assets contracted by 6.5% in 2019, reaching USD 39.5 billion as at end-December, compared to USD 42.3 billion as at end-December 2018. Owing to the aforementioned USD 1.2 billion of one-off crisis related loss allowances, the Group reported a net loss of USD 602 million in 2019. Adjusting to those one-off allowances, Bank Audi would have reported USD 489 million of net profits from operations after provisions and taxes compared to USD 501 million in 2018, implying a decrease of 2.4%. Return on average assets would then stand at 1.19% as at end-December 2019 compared to 1.18% as at end-December 2018. In turn, net common income would have represented 15.2% of average common equity compared to 14% as at end-December 2018.

It is without a doubt that our presence across multiple geographies in the region and Europe gives us a very important competitive edge in terms of diversification of our assets and profit sources. As at end-December 2019, 38% of consolidated assets were contributed by operations outside Lebanon, which accounted also for 30% of operating profits before the one-offs. Bank Audi Egypt, Banque Audi (Suisse), and Bank Audi sal – Jordan Branches continued to be the largest contributors among entities operating abroad, with net profits of USD 79 million, USD 31 million and USD 11 million respectively. Odea Bank reported on a stand-alone basis net profits of USD 12.6 million, despite allocating a large portion of its operating profits before provisions to loss allowances on legacy loans. Today, the Group remains committed to reinforce the performance of foreign subsidiaries while growing their operations with the strongest returns.

Given the unprecedented crisis that we witnessed in the fourth quarter of 2019, Bank Audi's team went on crisis management mode with an aim to absorb and mitigate all possible risks that we could face.

With economic activity slowing considerably, the Bank continued to reschedule and restructure debt packages, offering ways of putting debt repayments back on a realistic and sustainable basis. Customers' banking needs were promptly attended for in an uninterrupted manner through the Bank's fully integrated 24/7 Contact Center and our state-of-the-art Alternative Delivery Channels (ADC) (i.e. Smart ATMs, Interactive Teller Machines (ITMs), Mobile and Online Banking, as well as Chatbot). Contact Center agents not only answered all clients' inquiries efficiently, but also contacted back all unanswered calls that reached in total 7,000 per day at its peak. ATM were replenished around the clock, with USD and LBP bank notes to absorb high customer demand. More than 100,000 of BASAL clients were served with around 300,000 transactions performed through digital channels mainly ATMs and Audi Online.

We believe in the fundamentals of the countries where the Group is present. We will continue to stand behind our commitment to our role of financial intermediation by providing the financing needs to all our stakeholders. Our key priority is to continue to focus on the provision of a best-in class service to our customers, and in particular our core relationships, while supporting our risk profile and capital buffers to set the stage for renewed growth as soon as economic conditions start to improve.

The Group's commitment to operate responsibly remains intact throughout its strive to ensure sustainable development while taking into account the economic, social and environmental conditions of our operations in Lebanon and abroad.

In closing and on behalf of the Bank's Board of Directors, I would like to express our regrets for the restrictions the Bank had to implement during these exceptional times, in line with the Central Bank of Lebanon. I would also like to thank our customers for their continuous understanding, to acknowledge the extraordinary and exemplary efforts made by all our staff members, and to express my gratitude to our shareholders for their permanent support.

Samir N. Hanna
Chairman and Group Chief Executive Officer

FINANCIAL HIGHLIGHTS

USD 39.5 billion
Total assets

USD 29.6 billion
Total customers' deposits

USD 10.3 billion
Total loans to customers

USD 3.0 billion
Total shareholders' equity

USD 489 million
Net profits in 2019*

** Adjusted to the one-off flows from the outset of the financial crisis in Lebanon.*

OUR BANK AT A GLANCE

189
Years of banking experience

10
Different countries of presence

#1
in Lebanon in terms of assets

1.1 million
Customers served through **213** branches and **6,288** employees

USD 11.0 billion
of assets under management underscoring the importance of the Private Banking business line

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

Awarded
Global Finance Safest Bank in Lebanon 2019

87%
of our staff are university graduates

GRI Standards
Pioneering the reporting standards in the MENA region

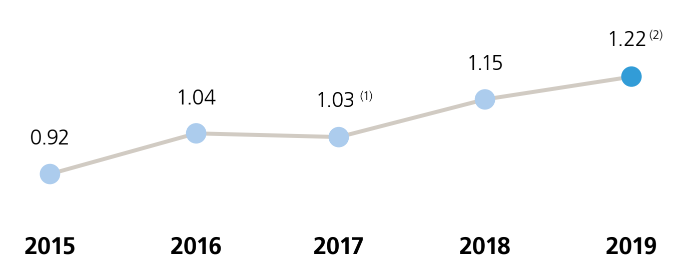
ESMS
Environmental and Social Management System integrated into core credit decision since 2013

BANK AUDI sal: SELECTED FINANCIAL HIGHLIGHTS (USD MILLION)

	2015	2016	2017	2018	2019	CAGR 15-19
Assets	42,270	44,267	43,752	47,201[2]	39,535	-1.66%
Loans to customers	17,929	17,215	16,294	13,267	10,350	-12.83%
Customers' deposits	35,609	35,955	33,451	31,956	29,594	-4.52%
Shareholders' equity	3,287	3,698	4,188	3,886	2,970	-2.51%
Net earnings	403	470	559	501	-602	-
Number of branches	217	201	203	201	213	-0.46%
Number of staff	6,891	7,017	6,541	6,306	6,288	-2.26%
Liquidity and loan quality						
Liquid assets/Deposits	64.00%	71.26%	77.31%	100.44%	89.44%	
Loans to deposits	50.35%	47.88%	48.71%	41.52%	34.97%	
Credit-impaired loans/Gross loans[1]	3.14%	2.69%	3.88%	5.52%	13.12%	
Loan loss provisions/Credit-impaired (including allowance for ECL Stages 1 & 2)	92.12%	149.29%	116.13%	102.82%	85.28%	
Loan loss provisions/Credit-impaired (including real guarantees and allowance for ECL Stages 1 & 2)	116.54%	186.18%	167.58%	146.72%	145.05%	
Net credit-impaired loans/Equity	6.33%	4.91%	7.15%	7.40%	19.98%	
Allowance for ECL Stages 1 & 2/Net loans	0.90%	2.43%	2.50%	2.33%	3.56%	
Capital adequacy						
Equity/Assets	7.78%	8.35%	9.57%	8.23%	7.51%	
Common equity Tier 1 ratio	8.71%	9.09%	10.51%	11.37%	6.61%	
Capital adequacy ratio	13.36%	14.78%	16.93%	18.91%	11.33%	
Profitability						
Cost to income	53.82%	46.95%	51.18%	46.27%	45.79%	
ROAA	0.96%	1.10%	1.06%	1.12%	-	
ROACE	13.69%	14.76%	13.41%	14.00%	-	

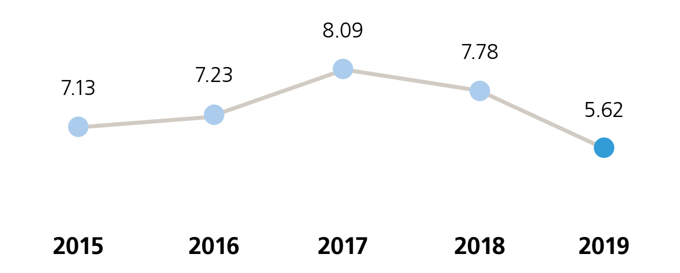
[1] After adoption of IFRS 9.
[2] Consolidated assets of Bank Audi would have reached USD 42.3 billion as at end-December 2018, after netting for comparison purposes.

COMMON EARNINGS PER SHARE (USD)

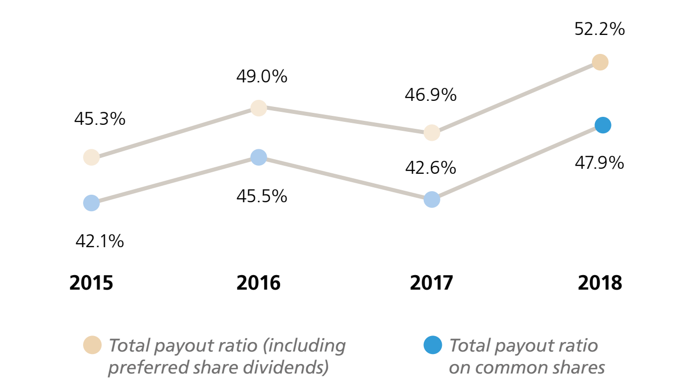


[1] Excluding net profits from discontinued operations.
[2] Adjusted to the one-off flows from the outset of the financial crisis in Lebanon.

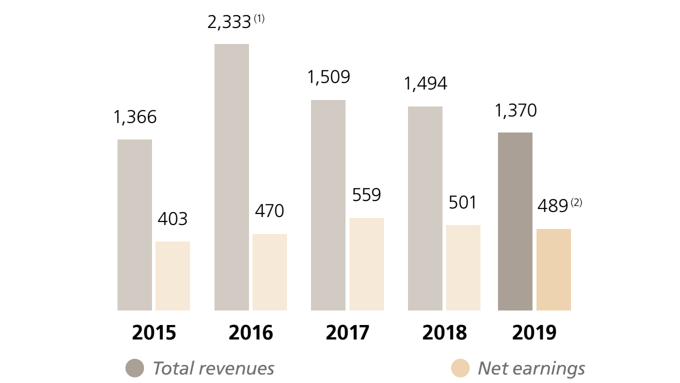
COMMON BOOK PER SHARE (USD)



PAYOUT RATIO



REVENUES AND NET EARNINGS (USD MILLION)



[1] USD 1,477 million excluding non-recurrent revenues related to exchange transactions with the Central Bank of Lebanon.
[2] Adjusted to the one-off flows from the outset of the financial crisis in Lebanon.

04 MANAGEMENT

05 ADDRESSES

01
Corporate Governance

Innovative Integration

Pioneering through collective strengths, allowing us to plunge forward with action while maintaining a strong, united core.

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 2019, and in addition to its role of policy setting and of providing strategic guidance, the Board has paid a particular attention to prudent and effective controls, notably in consideration of the heightened risks resulting from the fiscal and monetary crisis that has unfolded since the last quarter of the year. Despite the impact of the said crisis on the Bank, and on all other banks and market players, and despite the exacerbating effect of the COVID-19 pandemic that broke out in 2020, and the accompanying operational and sanitary measures, the Bank was able to minimise interruptions and to continue its operations in a safe and sound manner, with integrity, and in compliance with applicable laws and regulations.

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

GOVERNANCE FRAMEWORK

Bank Audi is governed by a Board of Directors consisting of up to 12 members (currently 9) elected by the General Assembly of shareholders for terms not exceeding 3 years. The responsibility of the Board is to ensure strategic direction, management supervision and adequate control of the company, with the ultimate goal of increasing the long-term value of the Bank.

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

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

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

• The mission of the Group Audit Committee is to assist the Board in fulfilling its oversight responsibilities as regards:
(i) The adequacy of accounting and financial reporting policies; (ii) the integrity of the financial statements and the reliability of disclosures; (iii) the appointment, remuneration, qualifications, independence and effectiveness of the external auditors; and (iv) the independence and effectiveness of the internal audit function[1].

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

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

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

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

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

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

2.0. | SHAREHOLDING STRUCTURE

The following table sets out the composition of the holders of common shares as at 30 June 2020:

Shareholders/Groups of Shareholders	Country (Ultimate Economic Ownership)	Percentage Ownership[1] (%)
FRH Investment Holding sal	Lebanon	12.25
Sheikh Dhiab Bin Zayed Al Nehayan	United Arab Emirates	7.96
Al Hobayb family[2]	Kingdom of Saudi Arabia	5.76
Audi family[2]	Lebanon	5.01
Family of late Sheikha Suad Hamad Al Saleh Al Homaizi	Kuwait	4.42
Akig Investment Holdings ltd	Iraq	4.26
Phoenicia Enterprises sa	Lebanon	4.19
Al Sabah family[2]	Kuwait	3.21
European Bank for Reconstruction and Development – EBRD	—	2.90
Ali Ghassan El Merhebi family	Lebanon	2.78
Kel Group	Lebanon	2.49
Mohammed Bin Dhoheyan Bin Abdul Aziz Al Dhoheyan	Kingdom of Saudi Arabia	2.37
Investment & Business Holding sal	Lebanon	2.33
International Finance Corporation – IFC	—	1.70
Executives and employees[3]	Lebanon	4.17
Others	—	13.47
Global Depositary Receipts ("GDRs")[4]	—	20.73
Total shareholding[5]	—	**100.00**

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

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

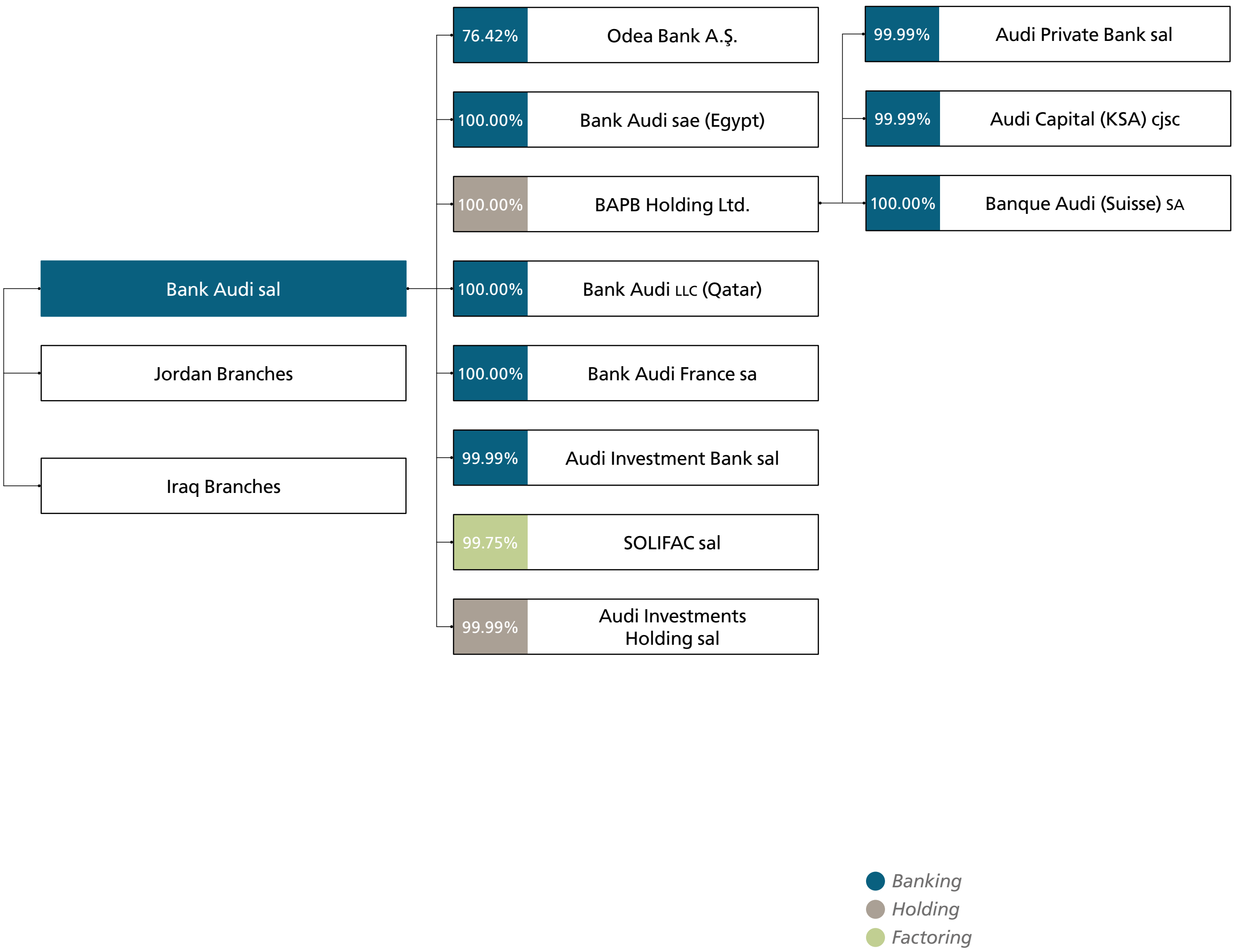
[3] Excluding members of the Audi family accounted for in a separate row above.

[4] GDRs represent common shares held by "The Bank of New York Mellon" as a holder of record in its capacity as depositary under the Bank's GDR Program.
In addition to the ownership of common shares mentioned above, 8.47% of the Bank's common shares are held through GDRs by each of ***FRH Investment Holding sal (including by its controlling shareholder), Sheikh Dhiab Bin Zayed Al Nehayan, the Al Hobayb family, the Audi family, the Family of late Sheikha Suad H. Al Homaizi, and Mohammed Bin Dhoheyan Bin Abdul Aziz Al Dhoheyan*** *(respectively 1.56%, 2.13%, 1.66%, 0.62%, 1.23% and 1.27%). Information on GDR ownership is based on self-declarations (pursuant to applicable Lebanese regulations) as GDR ownership is otherwise anonymous to Bank Audi.*

[5] As at the date hereof, the total number of common shares was 588,538,215. The Bank (and its affiliates) is the custodian of shares and/or GDRs representing 73.72% of the Bank's common shares.

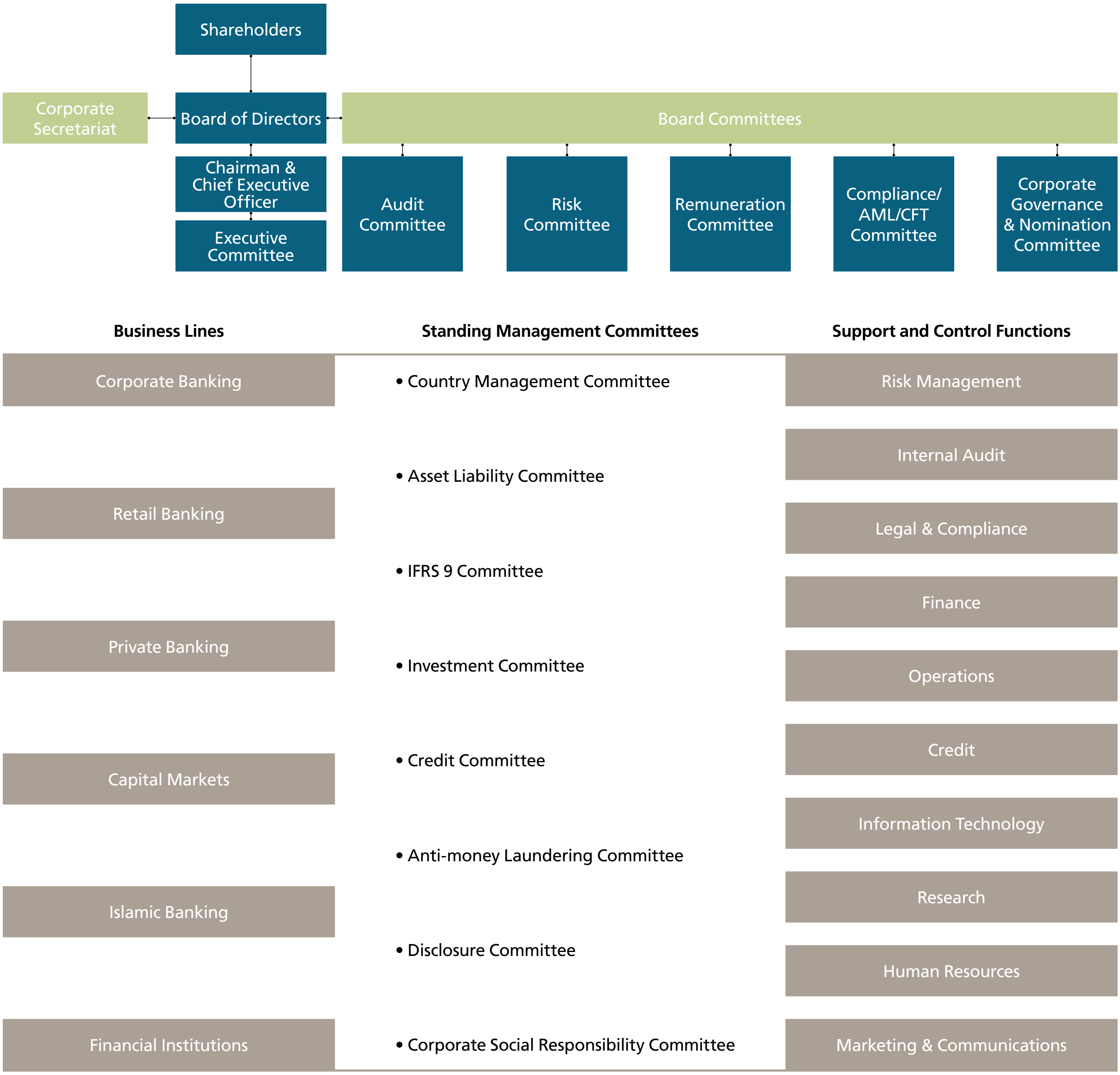
3.0. | CORPORATE STRUCTURE

The major subsidiaries and branches abroad of Bank Audi sal as at 31/12/2019 are:



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

4.0. | GROUP HIGH LEVEL CHART



5.0. | BOARD OF DIRECTORS

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

COMPOSITION OF THE BOARD OF DIRECTORS

The current members of the Board of Directors were elected by a resolution of the Ordinary General Assembly of shareholders held on 12 April 2019 for a three-year term expiring on the date of the annual Ordinary General Assembly meeting (expected to be held in April 2022) that will examine the accounts and activity of the year 2021.

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

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

SECRETARY OF THE BOARD

Dr. Farid F. LAHOUD *(Group Corporate Secretary)*	

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

(2) Definition of "Director independence" as per the Bank's Governance Guidelines (summary):
"In order to be considered independent Director by the Board, a Director should have no relationship with the Bank that would interfere with the exercise of independent judgment in carrying out responsibilities as a Director. Such a relationship should be assumed to exist when a Director (him/herself or in conjunction with affiliates):
- *is occupying, or has recently occupied an executive function in the Bank or the Group;*
- *is providing, or has recently provided advisory services to the Executive Management;*
- *is a major shareholder (i.e. owns, directly or indirectly, more than 5% of outstanding 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 2019, the Board of Directors held 8 meetings, the Group Audit Committee held 6 meetings, the Group Risk Committee held 4 meetings, the Remuneration Committee held 1 meeting, the Corporate Governance and Nomination Committee held 1 meeting and the Compliance/AML/CFT Board Committee held 3 meetings.

CHANGES TO THE BOARD OF DIRECTORS DURING THE YEAR 2019

April 2019
The Ordinary General Assembly of Shareholders of Bank Audi sal convened on 12 April 2019 and resolved to re-elect the current Directors for a new three-year mandate (which will end upon holding the Annual General Assembly that will examine the accounts of the year 2021).

The newly elected Board convened following the General Assembly of shareholders and resolved, amongst other things, to re-elect (i) Mr. Samir N. Hanna as Chairman of the Board – General Manager, and (ii) Dr. Marwan M. Ghandour and Dr. Freddie C. Baz as Vice-Chairmen.

July 2019
In July 2019, Dr. Freddie C. Baz decided to step down from his position as member and Vice-Chairman of the Board of Directors, and from all his responsibilities within the Bank Audi Group. The Board acknowledged the said resignation on 26 July 2019 and appointed Mr. Marc J. Audi as a new Vice-Chairman for the remainder of the current Board's term.

November 2019
In November 2019, Mr. Aristidis Vourakis decided to step down from his position as member of the Board of Directors and from all his responsibilities within the Bank Audi Group. The Board acknowledged the said resignation on 25 November 2019.

GROUP SHARIA' SUPERVISORY BOARD

Dr. Mohamed A. ELGARI (Chair)

Sheikh Nizam M. YAQOOBI

Dr. Khaled R. AL FAKIH

LEGAL ADVISORS

Cortbaoui & Kanaan

AUDITORS

BDO, Semaan, Gholam & Co.

Ernst & Young p.c.c.

6.0. | BIOGRAPHY OF THE HONORARY CHAIRMAN

RAYMOND W. AUDI

RAYMOND W. AUDI
HONORARY CHAIRMAN OF THE BOARD
Age: 87 – Lebanon

Raymond Audi acts as Honorary Chairman of the Board after having decided to stand down from his position as Chairman – General Manager and retire from his corporate responsibilities in order to devote more time to his personal life.
He started his banking career in 1962, when, together with his brothers and with prominent Kuwaiti businessmen, he founded Bank Audi, building on a successful long standing family business. He served as Chairman of the Board of Directors and General Manager from 1998 to 2017 (stepping down temporarily when he served as Minister of the Displaced in the Lebanese government, in line with the sound Governance principles he always upheld). Raymond Audi has played an instrumental role in leading Bank Audi through an extraordinary journey over more than 50 years, relinquishing his chairmanship after having expressed his great satisfaction at the status of the Bank, as well as his confidence in its future.
The Board of Directors celebrated Raymond Audi's career, expressed its gratitude for his unwavering dedication and leadership, and appointed him Honorary Chairman in April 2017. In addition to his role at Bank Audi, Raymond Audi served as President of the Association of Banks in Lebanon in 1994, and as Minister of the Displaced in the Lebanese government in 2008.

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

7.0. | BIOGRAPHIES OF BOARD MEMBERS

SAMIR N. HANNA

CHAIRMAN – GENERAL MANAGER
GROUP CHIEF EXECUTIVE OFFICER
Age: 75 – Lebanon
Director since August 1990
Term expires at the 2022 annual General Assembly of shareholders
- Executive Director
- 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 Arab banking groups), with a presence in 10 countries.

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: 76 – Lebanon
Director since March 2000
Term expires at the 2022 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).

MARC J. AUDI

VICE-CHAIRMAN OF THE BOARD
GENERAL MANAGER
Age: 62 – Lebanon
Director since March 1996
Term expires at the 2022 annual General Assembly of shareholders
- Executive Director
- Member of the Board Group Risk Committee
- Member of the Corporate Governance and Nomination Committee

Marc Audi is the Vice-Chairman of the Board since July 2019. He serves as member of the Board of Directors since 1996, has been a General Manager since 2004 and served as Lebanon Country Manager of the Bank Audi Group until June 2020.

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

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

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

MARIAM N. AL SABAH

BOARD MEMBER
Age: 71 – Kuwait
Director since March 2001
Term expires at the 2022 annual General Assembly of shareholders
- Independent Non-executive Director

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

Sheikha Mariam Al Sabah is a member of the Board of Directors of several Kuwaiti companies. She is a member of the Board of Directors of Bank Audi since March 2001.

IMAD I. ITANI

BOARD MEMBER
Age: 58 – Lebanon
Director since June 2002
Term expires at the 2022 annual General Assembly of shareholders
- Non-executive Director
- Member of the Compliance/AML/CFT Board Committee

Imad Itani serves as member of the Board of Directors since 2002. He 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. In 2004, he was appointed General Manager – Group Head of Retail Banking of the Bank Audi Group, and Head of Group Islamic Banking. In July 2020, Imad Itani resigned from his executive role and remains a non-executive member of the Board of Directors.

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

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

ABDULLAH I. AL HOBAYB

BOARD MEMBER
Age: 77 – Saudi Arabia
Director since April 2010
Term expires at the 2022 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: 77 – Lebanon
Director since April 2010
Term expires at the 2022 annual General Assembly of shareholders
- Independent Non-executive Director
- Chairman of the Board Group Risk Committee
- Member of the Remuneration Committee
- Member of the Group Audit Committee

Khalil Bitar is an independent member of the Board of Directors since2010. He is a current Professor of Physics and a former Dean of the Faculty of Arts and Sciences of the American University of Beirut (AUB). He held this last position from 1997 until 2009, playing an instrumental role in advocating AUB's strengths and regional position as the premier centre for higher education, and in re-stablishing its PhD programs.
Throughout his career, he held several academic and administrative positions, including Associate Director of the Supercomputer Computations Research Institute – Florida State University (between 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: 59 – Lebanon
Director since April 2017
Term expires at the 2022 annual General Assembly of shareholders
- Executive Director
- Member of the Compliance/AML/CFT Board Committee

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

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

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

CARLOS A. OBEID

BOARD MEMBER
Age: 55 – Lebanon
Director since April 2017
Term expires at the 2022 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 and Corporate Finance, Treasury, Financial Planning and 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 14.5 billion in corporate bonds, over USD 2.5 billion in project bonds, and over USD 12 billion in project finance). He played a leading role in capital deployments totaling over USD 45 billion.

He has also been responsible for strategic steering and guidance, for senior leadership recruitment and assessment, and, where applicable, for the establishment, supervision, restructuring or realignment of listed companies (including ALDAR, Waha Capital and ADCB), 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).

8.0. | REMUNERATION POLICY AND PRACTICES

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.

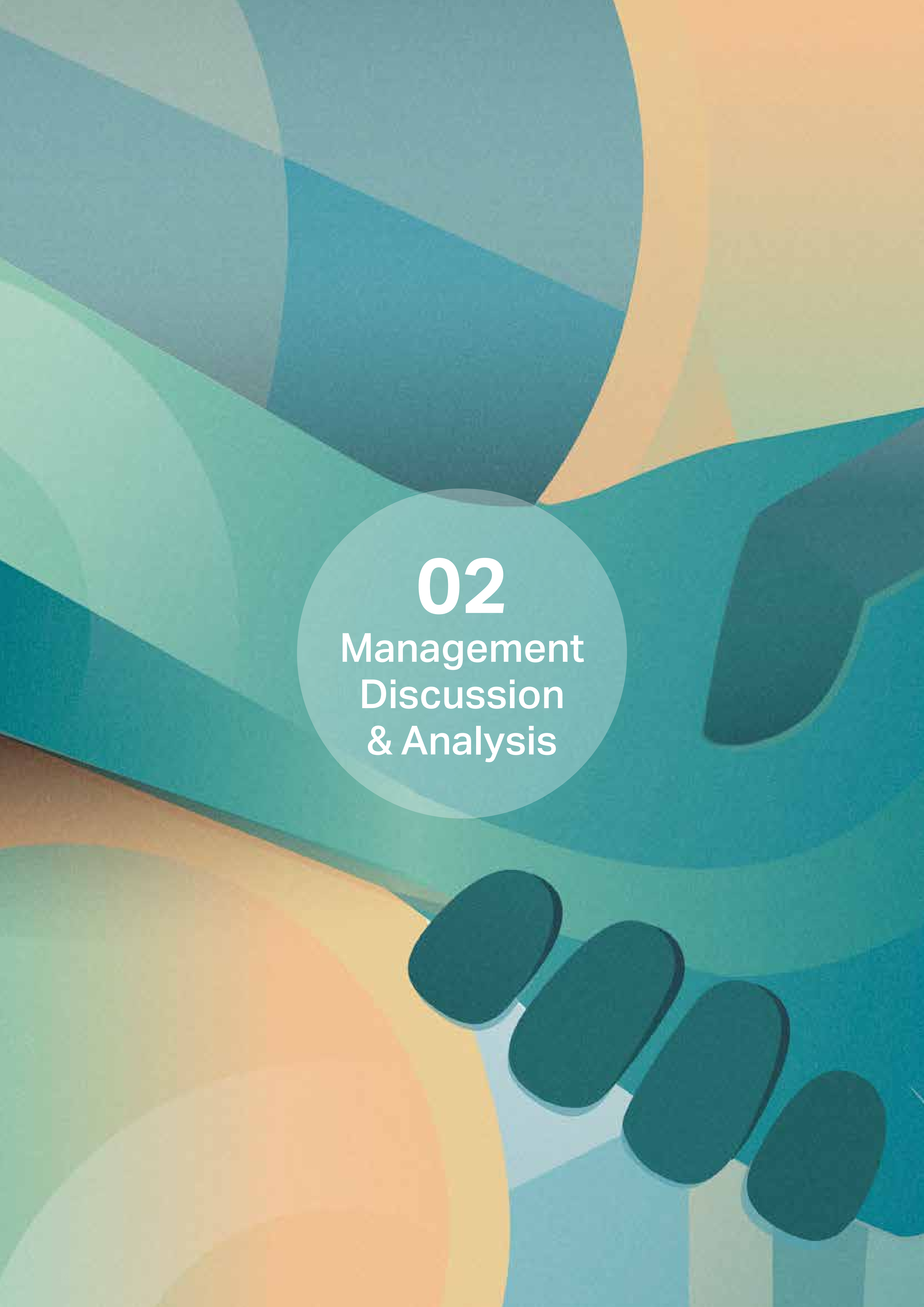
2. It is Bank Audi's policy to provide all employees of the Group with a comprehensive and competitive compensation package that is commensurate with each employee's position, grade and performance. Such performance is assessed on the following 3 performance criteria: key job responsibilities, SMART 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 50 accompanying the financial statements) during the year 2019, amounted to LBP 40,183 million, in addition to post-employment benefits aggregating LBP 862 million. Provision for end of service benefits of key Management personnel amounted to LBP 2,819 million as of 31 December 2019 (2018: LBP 4,190 million).



02 Management Discussion & Analysis

Partners in Progress

Providing a solid and meaningful connection from within in order to efficiently assess future goals and carry them through with success.

1.0. | OVERVIEW OF BANK AUDI sal

Bank Audi sal ("Bank Audi") is a full-fledged bank with operations in Lebanon, Europe, and the Middle East and North Africa region. Founded in 1830 in Sidon, Southern Lebanon, the Bank was incorporated in its present form in 1962 as a private joint stock company with limited liability (société anonyme libanaise). Bank Audi is registered in the Beirut Commercial Registry under number 11347 and in the Lebanese list of banks under number 56. Bank Audi is licensed by the Central Bank of Lebanon. The Central Bank of Lebanon is the lead supervisor of Bank Audi and its subsidiaries. Bank Audi's head office and registered address is Bank Audi Plaza, Omar Daouk Street, Bab Idriss, P.O. Box: 11-2560, Beirut, Lebanon.

Bank Audi offers universal banking products and services covering Corporate, Commercial, Individual and Private Bbanking services to a diversified client base, mainly in the MENA region. It ranks first among Lebanese banks as per major banking aggregates and stands among the top Arab banking groups. In addition to its historic presence in Lebanon, Switzerland and France, and as a result of a diversification strategy undertaken since 2004, the Bank is today operating in Jordan, Egypt, Saudi Arabia, Qatar, Abu Dhabi (through a representative office),Turkey and Iraq. The Group serves 1.1 million customers through a talent pool of 6,288 staff, a network of 213 branches and 507 advanced self-service machines (ITMs, ATMs and "NOVO e-branches" (which are fully electronic branches allowing the Bank to offer, in addition to the transactional activities, advisory to clients enabling them to apply to loans and services, outside the Bank's normal working hours), as well as digital channels (Online and Mobile Banking).

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

The dicussion and analysis that follows covers the consolidated performance of Bank Audi in 2019, based on the audited consolidated financial statements of the Bank as at and for the fiscal years ended 31 December 2018 and 31 December 2019. The Bank's consolidated financial statements have been prepared in accordance with standards issued or adopted by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee, the general accounting plan for banks in Lebanon, as well as the regulations of the Central Bank and the Banking Control Commission of Lebanon (the "Banking Control Commission" or "BCC"), and include the results of the Bank and its consolidated subsidiaries as listed in Note 45 to the 2019 Financial Statements. Ernst & Young p.c.c. and BDO, Semaan, Gholam & Co. have jointly audited the annual financial statements.

Terms such as "Bank Audi", "the Bank" or "the Group" refer to Bank Audi sal and its consolidated subsidiaries. Terms such as : i) **Lebanese entities** consist of Bank Audi sal, Audi Investment Bank sal, and other minor Lebanese entities excluding consolidation adjustments; ii) **Turkey** represents Odea Bank A.Ş.; iii) **Egypt** represents Bank Audi sae (Egypt); iv) **Private Banking entities** consist of Audi Private Bank sal, Banque Audi (Suisse), Audi Capital (KSA), and Bank Audi Private Bank Holding (Cyprus); and v) **Other entities** consist 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. In December 2019, Audi Capital Gestion (Monaco), a financial company affiliated to Banque Audi (Suisse) was liquidated, with its remaining operations transferred to Banque Audi (Suisse). References to "**IFRS**" are to International Financial Reporting Standards.

As per regulatory requirements, the Bank maintains its accounts in Lebanese Pounds (LBP). Nonetheless, all figures presented in the following MD&A are expressed in US Dollars ("USD"), unless specifically otherwise stated. US Dollar amounts are translated from Lebanese Pounds at the closing of the official rate of exchange published by the Central Bank of Lebanon (1,507.5 as of each of 31 December 2018 and 2019). Consequently, financial statements do not account for the wide range of FX rates prevailing on the parallel market and the forthcoming revamping of the official peg. 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.

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

All references to the Lebanese banking sector are to the 50 commercial banks operating in Lebanon as published by the Association of Banks in Lebanon ("ABL"). All references to the Bank's peer group in Lebanon are to the Alpha Bank Group consisting of 16 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 are 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 are 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 for the periods ended 31 December 2019 and 31 December 2018. An overview of share information and dividend policy comes next, followed by risk management, resources deployed, compliance, Environmental & Social Management System, and Corporate Social Responsibility.

2.0. | STRATEGY

The Bank operates principally in Lebanon and, accordingly, its financial condition, results of operations and business prospects are closely related to the overall political, social and economic situation in Lebanon, which, in turn, is tied to the political situation in the MENA region and Turkey. Since 17 October 2019, Lebanon, the Group's principal market, has witnessed widespread protests causing significant disruptions, underscoring a fiscal, economic, monetary and political crisis, unprecedented in scope and scale, which has affected the entire Lebanese banking sector. This has led to the issuance by the Central Bank of Lebanon and the Association of Banks in Lebanon of a number of exceptional directions and regulatory decisions to allow Lebanese banks to sustain their financial standing and withstand the material challenges and uncertainties they are facing.

The Group recognises well that, given the new set of unprecedented challenges stemming from the new operating environment in the country, a new vision and direction has to be adopted. The new vision will focus on a new set of priorities that will have two main principles at its center: (i) solidifying the group market and financial position: and (ii) re-gearing its business model to support the economic recovery of the country by helping key businesses and sectors that would add more value in terms of potential economic growth and employment creation.

It is well understood that after two decades of pursuing a successful regional expansion strategy, the main strategic priorities of the Group today revolve around going back to the basics and strengthening the position of the parent entity in terms of balance sheet quality, solvency, liquidity and operational performance.

In executing these strategic targets, the Group will focus primarily on a number of advantages that set it out in the market:

- A strong franchise in Corporate, Retail and Individual Banking, Private Banking and Wealth Management, as well as Treasury and Capital Markets. The Group also enjoys strong relationships with leading corporations across a number of industries and sectors. Additionally, the profile of the Group is highly viewed and recognised by many multinational and international counterparts.
- The Group is considered as one of the most diversified financial institutions in the MENA region, with a number of well run and profitable subsidiaries across Europe, the Middle East and Turkey, enjoying a visible position in their markets of presence.
- At its core, the Group has an experienced risk management team which supports the determination and monitoring of its risk philosophy and appetite.
- Best practice Corporate Governance, compliance and transparency structures, which have been recognised as among the first and leading in the region.
- A well diversified shareholder base which includes historical shareholders, multinational institutional investors and individuals from the region, that have yet and again shown their commitment to support the Bank in times of need.

In the short term, this new direction will revolve around the following set of priorities:

Strengthen the capital base:
- To create an important and healthy capital buffer to allow the Group to absorb any extraordinary risks that could emanate as a result of having the current crisis persist beyond the immediate future.

Reinforce the performance of foreign subsidiaries:
- The Group operates in some of the strongest and most resilient markets in the region such as Egypt where, despite all the regional challenges, it still displays a very healthy and respected growth trajectory. As such, the Group will continue to boost its generation of net profits from outside Lebanon to further reinforce the Bank's financial standing.

Continue with the deleveraging policy initiated two years ago and emphasise on the application of an enhanced risk monitoring and management:
- The Group will continue to enhance its balance sheet structure by focusing on asset quality and cross-selling of its products and services across the whole value chain.

Further rationalisation of operating expenses:
- To create a leaner and more competitive Group that is better positioned to deliver higher returns.

Re-gear its business model in Lebanon so that the focus will be on supporting businesses that fundamentally have competitive advantages in the country, as well as on being key drivers in creating jobs and employment:
- It is well understood within the Group that the key to economic recovery and growth in the country is by working hand in hand with all stakeholders to support sectors that are most needed and ahead of others when it comes to generating jobs and employment.

Leverage on the Private Banking business line and Bank Audi France:
- To maintain and ensure a qualitative growth of the customer franchise outside Lebanon.

Continue to invest in technology, innovation and digital capabilities:
- To improve our customer service and make everyday banking easier.

Operate responsibly together with all stakeholders:
- To ensure sustainable development taking into account the economic, social and environmental parameters of our operations in Lebanon and abroad.

The outset of COVID-19 early 2020 is likely to have a noticeable impact on the Lebanese economy in general, and subsequently the banking sector. The International Monetary Fund (IMF) has estimated output growth to be significantly contractionary this year as a result of the decline in confidence in the Lebanese financial environment, in addition to the impact of the Coronavirus crisis on a large number of domestic economic sectors. As a result, real GDP is likely to contract substantially in 2020, which, coupled with a double-digit inflation as a result of the deviation between official and parallel market exchange rates, is leading to a severe stagflation in the Lebanese economy at large.

The new directions and priorities set by the Group will allow it to withstand as smoothly as possible the challenges that will arise from the financial and macro-economic crisis Lebanon is struggling with, as well as the implications of COVID-19 until we reach a stabilisation period that will include the implementation of the long awaited reform plan. As the prevailing uncertainties and challenges decrease, the Group is expected to resume its growth and expansion strategy.

3.0. | OPERATING ENVIRONMENT

The global economy saw a softer activity during the year 2019, with manufacturing and trade displaying signs of weakness. While momentum in the industrial sector across the globe has weakened to a decade low, accrued trade concerns and geopolitical tensions have taken a toll on investor confidence and global trade activity. As a matter of fact, ongoing trade tensions resulting in rising tariffs between the United States and China, the world's largest economies, have caused heightened policy uncertainty and have had adverse spillovers on business confidence and investor sentiment globally while leading to a deceleration in investment activity. This has exacerbated the cyclical slowdown of the global economy. Within this context, in its latest set of projections, the IMF revised down its real GDP growth estimate for the global economy to 2.9% in 2019, against 3.6% in 2018, thus marking a decade low unseen since the global financial crisis.

WORLD ECONOMIC INDICATORS

	2014	2015	2016	2017	2018	**2019**
Real GDP growth	3.6%	3.5%	3.4%	3.8%	3.6%	**2.9%**
Average inflation	3.2%	2.8%	2.8%	3.2%	3.6%	**3.6%**
Current account balance/GDP	0.5%	0.3%	0.3%	0.5%	0.4%	**0.3%**
Fiscal balance/GDP	-2.8%	-3.3%	-3.4%	-3.0%	-3.1%	**-3.6%**
Government debt/GDP	78.7%	79.9%	83.1%	81.7%	81.6%	**83.0%**

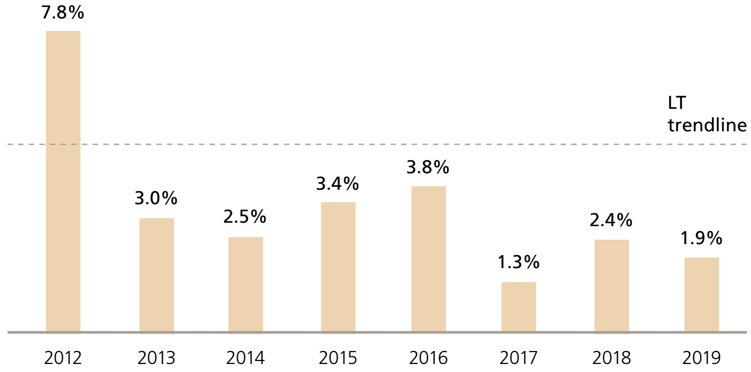
Sources: IMF, Bank Audi's Group Research Department.

The deteriorating global growth performance during 2019, coupled with subdued price pressures, have encouraged monetary authorities across the globe to shift back to an accommodative monetary stance to support the global economy and limit spillovers of ongoing trade tensions and global growth concerns, thus easing global financial conditions after rate hikes/reduced easing in the previous couple of years. The US Federal Reserve cut its policy rate three times in 2019 by a total of 75 basis points, the first rate cuts since the global financial crisis. The ECB reduced the interest rate on its deposit facility by 10 bps in September and restarted net purchases of assets in November. Many other regulators have adopted a more accommodative stance, and the IMF said there has been a policy easing in economies representing about 70% of world GDP. All this has acted as some sort of counterbalancing force that has helped mitigate concerns about the increased downside risks to the global economy.

3.1. | THE REGIONAL ECONOMY

Amid this global environment, the MENA region has witnessed further slowdown in 2019. Geopolitical tensions in the broad region have risen, compounding downside risks to economic growth. Within this environment, real GDP growth for the Arab world has decelerated to around 1.9% in 2019 from 2.4% in 2018, reflecting growth contractions in the region's largest oil-exporting and oil-importing economies.

MENA REAL GDP GROWTH



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

For the region's oil exporters, growth remains subdued, amid volatile oil prices, precarious global growth, elevated fiscal vulnerabilities, and heightened geopolitical tensions at large. In parallel, growth in oil-importing countries of the MENA region remains muted. High public debt levels and associated financing costs are not only holding back growth in the region, but also pose a source of acute fiscal stress. In addition, a mix of sustained social tensions, unemployment, and global headwinds leave policymakers facing a difficult trade-off between rebuilding fiscal buffers and addressing growth challenges.

The MENA banking sectors remained at the image of macroeconomic developments at large. Measured by the consolidated assets of MENA banks, banking activity reported an annual growth of 7.4% in December 2019 relative to the same month of the previous year. Likewise, deposits registered a growth of 5.9% and loans reported a growth of 5.4% over the same year. Not less importantly, MENA banks' net banking profitability remained under pressure within the context of relatively modest activity growth and tough operating conditions in their respective economies.

3.2. | LEBANON

Lebanon's economy has moved into a recessionary mode, with net contractions across a number of sectors of economic activity, especially in the aftermath of the October 17 nationwide revolutionary developments. The so-called defensive sectors of Lebanon's economy now start to lose steam, while the vulnerable sectors went further in the red. While private consumption's performance was way weaker than previous years, what has been weighing most on growth is the weakness in private investment, with delay or cancellation of most private investment decisions. Within this context, Lebanon's real GDP growth reported a significantly negative figure of -6.5% in 2019 and is set to be worse in 2020 amid state default and Coronavirus pandemic challenges over the first few months of the year.

At the monetary level, the difficulty in accessing foreign currencies led to the emergence of a parallel market to the official peg whereby the price to access foreign currencies has been increasing constantly, deviating significantly from the official peg of 1,507.5 USD/LBP. This has resulted in an uncontrolled rise in prices and the incessant de facto depreciation of the Lebanese Pound, impacting intensely the purchasing power of Lebanese citizens and driving high inflation which reached double-digit levels in early 2020.

The Lebanese banking sector has witnessed difficult operating conditions marked by accentuated market concerns and bank restrictions to prevent capital flight. Meanwhile, deposits continued to decline since the start of protests mid-October, registering a cumulative USD 15.4 billion contraction in 2019, of which USD 11.4 billion in the last quarter of the year. In parallel, banks pursued their deleveraging policies, seeking to bring their total lending portfolio down, noting that in the aftermath of the recent events, some customers having dues to banks chose to utilise some of their creditor accounts to settle the former. As such, private sector loans reached USD 49.8 billion at end-December, i.e. a USD 9.6 billion contraction over the year. In parallel, banks' profitability came under pressure in 2019 due to tax increases and provisioning requirements. Within this context, BdL requested Lebanese banks to raise their capital base and encouraged them to liquidate some of their foreign subsidiaries for that purpose.

The past year was a chaotic year for Lebanon's capital markets amid nationwide civic protests, political uncertainties and credit rating cuts by all international rating agencies. Lebanese bond prices reached unprecedented low levels and equities continued to register double-digit price contractions for the second consecutive year. While stock prices dropped by 17% in 2019, the weighted average bond yield reached 30.0% at end-2019 and continued to trace an upward trajectory in the first few months of 2020 on growing debt settlement concerns until the state defaulted on its Eurobond portfolio in March.

Lebanon's policy makers actually have to deal with five main macro priority issues looking forward, namely (1) external adjustment, with the rise in external imbalances amplified by a significant drop in inflows, especially within the context of the informal capital controls; (2) the adjustment of public finances which represent the most significant vulnerability of the Lebanese economy of nowadays; (3) monetary adjustment with the foreseen drop in Central Bank reserves amid the significant annual financing needs in FX; (4) banking adjustment with the needed harmonisation of banking measures and further cut in interest rates; (5) growth and job creation, with the economy now moving from low growth to a recessionary mode impacting all sectors of economic activity.

LEBANON MACRO/BANKING INDICATORS

(In LBP Billion)	Dec-18	Dec-19	% Growth
Nominal GDP	82,854	**73,868**	-10.8%
Real GDP growth	-1.9%	**-6.5%**	-4.6%
Domestic banks' assets	376,097	**326,797**	-13.1%
Domestic banks' deposits	262,729	**239,486**	-8.8%
Domestic banks' loans	89,524	**75,027**	-16.2%
(In USD Billion)			
Nominal GDP	55.0	**49.0**	-10.8%
Real GDP growth	-1.9%	**-6.5%**	-4.6%
Domestic banks' assets	249.5	**216.8**	-13.1%
Domestic banks' deposits	174.3	**158.9**	-8.8%
Domestic banks' loans	59.4	**49.8**	-16.2%

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

3.3. | EGYPT

In 2019, Egypt's economy sustained its robust growth performance and the improvement in its public finances, while external accounts are stabilising at broadly favourable levels. Egypt remains committed to its successful reform program, following completion of its three-year Extended Fund Facility with the IMF in November 2019. As a matter of fact, real GDP growth reached 5.6% in FY 2019, the highest in the MENA region, up from 5.3% in FY 2018. Parallel to the outstanding growth performance, Egypt's unemployment rate reported a 10-year low of 8.6% in FY 2019, against 10.9% in FY 2018. Still, social conditions remain relatively difficult, as the economy recovers from the preceding period of higher cost of living.

At the monetary level, inflation receded relatively in 2019, paving the way for monetary easing. The Headline Inflation Rate reported 7.1% in December 2019, against 12.0% in December 2018. The Central Bank of Egypt has slashed the benchmark deposit rate four times in 2019, moving from 16.75% at end-2018 to 12.25% at end-2019. In parallel, international reserves have risen further to USD 45.4 billion in December, while the Egyptian Pound appreciated by 10.4% relative to the USD in 2019, mirroring the improved external and fiscal conditions. At the fiscal level, there has been a further improvement in public finances over the past year. Fiscal deficit to GDP decreased from 9.4% in FY 2018 to 7.6% in FY 2019, contracting the debt to GDP ratio from 92.7% to 84.9% respectively.

At the banking sector level, activity has continued to expand at sound levels, with assets, deposits, loans and profits growing by double-digits annually in USD terms, amid a supportive macroeconomic environment. Deposits grew by 23.9% in USD terms over the year-to-December 2019. Loans grew by 16.3% over the same period, while total assets grew by 20.4%. The aggregate net profits of listed banks rose by 27.6% in full-year 2019 relative to the same period in 2018 within the context of an improving economy supporting operating conditions, loan growth and profitability.

EGYPT MACRO/BANKING INDICATORS

(In EGP Billion)	Dec-18	Dec-19	% Growth
Nominal GDP(*)	4,437.4	5,324.4	20.0%
Real GDP growth(*)	5.3%	5.5%	0.2%
Domestic banks' assets	5,432.7	5,856.1	7.8%
Domestic banks' deposits	3,818.5	4,236.0	10.9%
Domestic banks' loans	1,814.6	1,890.6	4.2%
(In USD Billion)			
Nominal GDP(*)	249.6	302.3	21.1%
Real GDP growth(*)	5.3%	5.5%	0.2%
Domestic banks' assets	303.2	364.9	20.4%
Domestic banks' deposits	213.1	263.9	23.9%
Domestic banks' loans	101.3	117.8	16.3%

(*) IMF full-year estimates.

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

3.4. | TURKEY

The year 2019 was a difficult year for Turkey's real economy although the last quarter of the year witnessed a slight rebound. On the overall, Turkey's real GDP growth reported a decline from 2.8% in 2018 and 0.9% in 2019, and is expected to be contractionary in 2020 amid the Coronavirus spillovers and challenges.

The Turkish economy has experienced major external adjustments over the past twelve months. In fact, the significant reduction in Turkey's external imbalances, combined with a sharp decline in import demand and a pick-up in exports, contributed to a shift in the current account balance from a deficit of USD 28.3 billion in 2018 to a surplus of USD 1.7 billion in 2019. This considerable shift in the current account balance over the period to its first surplus since 2002 was mainly attributable to a lower trade deficit and stronger services income, supported by a boost from tourism income in the peak summer months.

Turkey's monetary conditions were marked in 2019 by cooling inflationary pressures, aggressive monetary policy easing aimed to bolster economic activity growth, a recovery of the Turkish Lira when compared to last year's record low levels, and a rebound in international reserves. Consumer Price Inflation descended into a single-digit territory this year, falling from 20.3% year-on-year in December 2018 to 11.8% year-on-year in December 2019.

The Turkish banking sector has had a somewhat better year in 2019 in relative terms, amid a gradual return of confidence in the market translating into a deposit base increase. Measured by the total assets of banks operating in the country, banking sector activity grew by 16.1% in local currency terms in 2019, or 3.2% in USD terms, to reach the equivalent of USD 758.0 billion at end-December 2019. Deposits, accounting for 57% of total banks' balance sheets in Turkey, rose by 12.0% in USD terms over the year 2019 to reach the equivalent of USD 433.6 billion at end-December. Turkish banks have weathered the difficult environment rather well, continuing to collect deposits and displaying adequate liquidity and capitalisation ratios. Banks continued to constitute provisions against asset quality risks which caused their profitability to decline in the prevailing difficult conditions domestically.

TURKEY MACRO/BANKING INDICATORS

(In TRY Billion)	Dec-18	**Dec-19**	% Growth
Nominal GDP	3,724.4	**4,272.5**	14.7%
Real GDP growth	2.8%	**0.2%**	-2.6%
Domestic banks' assets	3,867.4	**4,491.1**	16.1%
Domestic banks' deposits	2,036.0	**2,566.9**	26.1%
Domestic banks' loans	2,394.4	**2,656.1**	10.9%
(In USD Billion)			
Nominal GDP	771.3	**743.7**	-3.6%
Real GDP growth	2.8%	**0.2%**	-2.6%
Domestic banks' assets	734.8	**758.0**	3.2%
Domestic banks' deposits	387.1	**433.6**	12.0%
Domestic banks' loans	455.1	**448.5**	-1.5%

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

4.0. | CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS

4.1. | BUSINESS OVERVIEW IN 2019

2019 was a year full of challenges for the Bank. In the first nine months of the year, the broad concerns over the adverse political and economic developments impacting several countries of presence of the Group in the region, more specifically Lebanon and Turkey, exerted pressures on the operating conditions of Bank Audi and its franchises in those countries. Amid this backdrop, Management continued to adopt strict precautionary policies aiming at sustaining the Bank's risk profile, enforcing a deleveraging and derisking policy while favouring operational efficiency improvements on both the revenue and the cost side. Priorities across the various entities of the Group targeted the consolidation of the core customers' deposits franchise, a continued deleveraging of loans, the reinforcement of spreads and non-interest income generation within a cost rationalisation policy, strengthening of asset quality levels, and a conservative approach to capital consumption.

As a result, consolidated assets and deposits remained stable over the same period with a sustained earning power enabling the Bank to report, in the first nine months of 2019, profitability ratios in line with those achieved in 2018 while building up provision reserves.

RECENT DEVELOPMENTS IN LEBANON

Since 17 October 2019, Lebanon has witnessed significant and widespread protests against corruption which requested the resignation of the government, which took place, and its replacement with a technocratic cabinet, which was formed in January 2020. Such protests were caused by the fiscal, economic, monetary and political crisis Lebanon is undergoing, which is unprecedented in scope and scale, and which have resulted in major disruptions affecting the entire Lebanese banking sector and its financial condition. After closing for a couple of weeks for security considerations, banks experienced a liquidity issue resulting from an outflow of deposits, mostly in the form of massive demand for cash withdrawals, with some customers transferring their balances to overseas accounts, of which some with Bank Audi's entities in Europe. This compelled the Association of Banks in Lebanon to impose exceptional restrictions on overseas transfers (informal capital control) and withdrawals of foreign currencies, including US Dollars. As soon as those measures set in, customers queued to obtain their periodic allocation of dollar banknotes, imposing material pressures on the day-to-day banking operations. The latter turned increased pressures on liquidity supply (both in LBP and foreign currencies) and on FX positions, while eroding customers' confidence in the system and the banking sector's reputation.

Very early in the crisis, the Central Bank of Lebanon (BdL) allowed banks to borrow liquidity against their deposits with it, albeit at an interest rate of 20% on the US Dollar, and on the condition that this liquidity not be transferred outside Lebanon. This, along with a subsequent reduction in correspondent banks' lines, made it difficult for banks to support all clients' cross-border trading activities, thus adding an international dimension on the liquidity issues of the Lebanese entity.

On this backdrop, the Central Bank of Lebanon issued a number of Intermediary Circulars aiming at reinforcing the financial standing of banks operating in Lebanon in the face of those adverse developments:

- On 4 November 2019, BdL published Circular 532 whereby it forbade banks operating in Lebanon, irrespective of their individual capital adequacy levels, from paying dividends for 2019, and required them to increase their capital by 10% before the end of 2019 and by another 10% before 30 June 2020, based on capital levels at year-end 2018.
- On 19 November 2019, BdL issued Intermediary Circular 534 extending the deadline for reaching the 25% ratio of "net loans granted in LBP/net deposits in LBP" from 31 December 2019 to 31 December 2020. Banks that expect to be unable to reach the said ratio within the set time limit may refer to BdL's Central Council before 31 December 2020.
- On 4 December 2019, BdL issued Intermediary Circular 536 requiring banks to pay half of the interest due on USD-denominated term deposits contracted prior to that date in Lebanese Pounds, while imposing a cap on creditor interest rate at 8.50% and 5.00% for LBP and FCY deposits respectively. This was followed by Intermediary Circular 544 dated 13 February 2020, further lowering ceiling on creditor interest rates paid on deposits to as low as 6.5% and 2% for 1-month deposits placement in LBP and USD respectively.
- On 2 February 2020, BdL issued Intermediary Circular 542 providing banks with "regulatory" ECLs for the years 2019 and 2020 on LBP and foreign currency-denominated investment portfolio at the Central Bank of Lebanon, including certificates of deposit and investments in Lebanese Treasury bills denominated in LBP and foreign currency, not to exceed the regulatory expected credit losses ratios calculated as per BdL Basic Circular 44 related to the "Capital Adequacy Ratio". This to reflect the deteriorating macro environment which led to a significant and repeated downgrade of the credit ratings of the Republic of Lebanon to reach non-investment long-term foreign currency credit ratings, as follows: (i) CCC (negative outlook) by S&P; (ii) Caa2 by Moody's (under review); and (iii) CC (negative outlook) by Fitch.
- On 3 February 2020, BdL issued Intermediary Circular 543 increasing the regulatory expected credit losses on foreign currency exposures to Lebanese Sovereign and Central Bank of Lebanon, and exposures to resident corporates, retail and SMEs. This Intermediary Circular both tripled risk weights on US dollar exposures with the BdL of more than one year from 50% to 150%, and lowered the minimum capital ratios to 7.0% for CET1 and 10.5% for total capital ratios, in alignment with the Basel minima. The issuance of this circular follows the issuance of Intermediary Circular 527 dated 18 September 2019, which regulates shortfall in capital conservation buffer and dividend distribution. This circular comprises an increase in the risk weight of Lebanese Sovereign Eurobonds from a previous 100% to 150% while retaining the risk weight on Banque du Liban placements in foreign currencies unchanged at 50%.
- On 3 April 2020, BdL issued Basic Circular 148 requesting banks to allow clients with small accounts to withdraw cash paid in LBP by first calculating the equivalent of the account balance in USD at the official exchange rate, then paying an amount of cash in LBP equal to the counter value of the calculated amount as per the parallel market exchange rate. USD amounts resulting from these operations should be sold to the Central Bank of Lebanon as per the market exchange rate.
- At the same date, BdL published Basic Circular 149 announcing the creation of a special unit at the Central Bank of Lebanon to conduct FOREX operations as per the market rate. Money dealers (of "type A") may adhere to this unit, upon Central Bank of Lebanon's discretion. An electronic platform will be created, encompassing the Central Bank of Lebanon, banks and money dealers for FOREX operations.
- On 21 April 2020, BdL issued Basic Circular 151 to encompass clients who are not tackled in Basic Circular 148 and who wish to withdraw amounts of cash from their foreign currency accounts. The circular stipulates that banks should settle, with the client's consent, the equivalent of those amounts in LBP as per the market exchange rate. The resulting foreign currencies should be sold to the Central Bank of Lebanon. The exchange rate specified by the Central Bank of Lebanon in its transactions with banks will remain applicable to all other operations in USD. Banks should disclose their adopted market exchange rate daily.
- On 22 April 2020, BdL issued Intermediary Circular 552 requesting banks to grant loans against the settlement of facilities and instalments due during the months of March, April, May and June for clients who are unable to pay their dues, due to the current economic situation, as assessed by the Bank. The new loans are to be granted up to 5 years starting 30 June 2020 and on condition, among others, that they are granted to repay the settlement of the above mentioned months or, if the client is an establishment or corporation, to pay the staff or the production and operational fees, with no commissions or fees and zero interest rate. The Central Bank of Lebanon will grant the banks loans with zero interest rate against the said loans.

In view of the severe economic and financial crisis that has befallen Lebanon since October 2019 and its inevitable repercussions, the Bank made a decision to allocate USD 1.2 billion to Expected Credit Loss allowances in 2019, including USD 702 million on Eurobonds to cover losses resulting from the announcement of the Lebanese state that it stopped paying in March 2020. Consequently, Bank Audi's results for the year 2019 turned into a net loss of USD 602 million, within the context of a contribution of entities operating outside Lebanon to those results by net profits of USD 149 million.

And since it was very difficult for External Management to assess the effects of the Lebanese crisis on the Bank's financial statements as at end-December 2019 in light of the significant uncertainties of outcome and challenges prevailing in Lebanon for months now, as well as the failure to date to reach a clear, definite and definitive plan by the authorities for a financial and economic recovery, external auditors expressed a negative opinion on Bank Audi's financial statements as at 31 December 2019, and the Board of Directors announced its understanding and approval of this opinion.

Nothwithstanding, and as a means to weather the significant financial and macro-economic impact of the recent developments in Lebanon, Bank Audi has adopted a three-pronged initiative aiming at further reinforcing the Bank's financial standing:

1- Increase in Core Equity

The Extraordinary General Assembly of shareholders of Bank Audi sal convened on 20 February 2020 and approved USD-denominated cash contributions from the Bank's shareholders, in an amount of USD 210 million. The General Assembly also resolved to convert the said cash contributions into ordinary shares of the Bank through the issuance of 189 million common shares at the price of USD 1.11 per common share. The Central Bank of Lebanon approved the said actions on 4 March 2020, setting the stage for the meeting of the Extraordinary General Assembly on 6 March 2020 for the confirmation of the said capital increase which falls within the first phase of the increase of equity that was requested from all banks by the Central Bank of Lebanon as per Intermediary Circular 532. Circa 1,000 holders of common shares, owning 65% of the Bank's capital, participated in the cash contributions as per the terms and conditions set by the Board of Directors, among which the European Bank for Reconstruction and Development, EBRD, shareholder since 2018, which decided to participate through a USD 7.8 million contribution. The Board of Directors deemed the participation volume as a renewed commitment from the shareholders to support the Bank within the prevailing exceptional situation, and a signal of trust in the Bank's status and outlook. Bank Audi continues to assess capitalisation plans based on various scenarios, the finalisation of which pre-requires the alleviation of the prevailing uncertainties with the adoption and implementation of a final Reform program by the authorities.

Negotiations to sell Bank Audi sae (Egypt)

In parallel, the Group held exclusive exploratory discussions with First Abu Dhabi Bank for the potential sale of Bank Audi Egypt, which was subject to the receipt of regulatory approvals. The selection of First Abu Dhabi Bank as exclusive bidder on this transaction was made taking into account the business continuity of Bank Audi Egypt and the interests of its stakeholders, in addition to the beneficial impact which the transaction is expected to have had on the Bank's future business development.

While Bank Audi had frequently received, in the past, expression of interests to buy some of its subsidiaries, it had always disregarded such expressions which were not part of its strategy. The sale of Bank Audi Egypt has the potential to be particularly beneficial for Bank Audi if it can achieve a favourable valuation. Quoting Moody's in its credit opinion published on 19 January 2020: "Even though the Bank would be selling a prized asset and sacrificing diversification, future growth and earnings, the Egyptian subsidiary could fetch a significant price multiple over book value of equity given Egypt's currently positive macroeconomic environment and the subsidiary's positive performance." The proceeds of the sale were meant to contribute to the enhancement of the Group's liquidity and financial resilience, and were likely to send positive signals to depositors and other stakeholders. The interest of investors in acquiring Bank Audi Egypt is a testimony to its success story and to the quality of its management and employees.

Discussions with First Abu Dhabi Bank were stopped on 18 May 2020 through a mutual agreement with the Bank, due to the unprecedented circumstances and uncertain outlook relating to the COVID-19 pandemic. The termination came after the two banks had held productive discussions, with significant progress made on many points. Despite the absence of a concluding transaction, the outcome of the negotiations has confirmed the outstanding qualities of Bank Audi Egypt, and the Group is proud that it remains a principal development pillar within its perimeter.

2- Exposure to Lebanese Government Eurobonds and BdL and Related ECLs

At end-December 2019, the Group held an exposure to Lebanese government Eurobonds having a nominal value of USD 1.98 billion. In view of the prevailing financial crisis and negative economic conditions, Management adopted an active de-risking strategy on Lebanese Sovereign bonds, which translated in the sales of the vast majority of the Lebanese Eurobonds exposure, with most of the sale extending to instruments with medium to long-term maturities. Subsequently, the Bank recorded a gross loss of circa USD 1.1 billion, partially offset by the booking of present value of cash flows from related LBP structure and the release of ECL amounting to USD 701 million booked in 2019 in light of the forthcoming significant deterioration of foreign currency Lebanese Sovereign debt instruments. As at 30 June 2020, the consolidated exposure of Bank Audi to Lebanese Eurobonds was limited to USD 57 million, held at market prices.

In 2019, the Bank took loss allowances on assets in foreign currencies held at the Central Bank of Lebanon and the portfolio of Lebanese government securities held at amortised cost (excluding Lebanese government Eurobonds) recorded based on the guidelines of BdL's Intermediary Circular 543, respectively 1.89% and 9.45% of those exposures (please refer to "Recent Developments" above).

Subsequently, the Bank resolved to book all losses (USD 701 million) related to the exposure of the Lebanese Eurobonds in 2019, of which USD 591 million affecting the profit and loss statement, to be added to USD 95 million of allowances transferred from general provision and USD 15 million of allowances booked in previous years. With the sale of the Eurobonds in the first three months of the year, the Bank released the associated ECL in a way to maintain at all times a zero net exposure in 2020. As at end-June 2020, ECLs on the remaining portfolio amounted to USD 49 million, valued based on an average price for the instrument of USD 17.4.

Loss allowances recorded on assets in foreign currencies held at the Central Bank of Lebanon reached, in absolute terms, USD 187 million as at end-December 2019 (1.89% of the exposure), of which USD 109 million impacting the profit and loss statement in 2019 (of which USD 52 million on CDs in foreign currencies), to be added to USD 47 million of allowances transferred from general provisions and USD 28 million of provisions booked in previous years.

Accordingly, the total impact on the profit and loss statement of allowance allocated to assets in foreign currencies held at the Central Bank of Lebanon and the portfolio of Lebanese government securities held at amortised cost amounted to USD 701 million (please refer to Note 52 to the 2019 financial statements for further details).

3- Continued Active Deleveraging of the Loan Portfolio in Lebanon

In view of the negative economic outlook and the deepening of the recession, the credit quality of the private loans portfolio concentrated in Lebanon has deteriorated since the last quarter of 2019, driving Management to toughen its loan deleveraging policy initiated in 2017 and to set up a centralised and specialised remedial function to proactively review and manage the quality of these loans. This was met by an unexpected positive development gathering pace in the Lebanese market. Asset-rich borrowers that had been classified as Stage 2 or Stage 3 started selling assets or inventory at unexpectedly high prices to customers worried of losing part of their deposits placed with Lebanese banks as part of a potential financial restructuring plan, and preferring the relative tangibility of property assets. On this backdrop, gross loans of entities operating in Lebanon dropped from USD 6.4 billion as at end-December 2018 to USD 4.8 billion as at end-December 2019, representing a decrease by USD 1.6 billion or 25%. The contractionary trend continued in 2020, with gross loans of Lebanese entities reaching USD 3.9 billion as at end-June 2020, representing 39% of their value as at end-December 2018.

4.2. | CONSOLIDATED FINANCIAL OVERVIEW IN 2019

The evolution of the Group's balance sheet in 2019 primarily reflects Management's overall risk appetite amid the prevailing challenging environment, particularly in Lebanon. Consolidated assets of Bank Audi reached USD 39.5 billion as at end-December 2019, after netting USD 7.9 billion of due to the Central Bank of Lebanon in LBP from the corresponding exposure to the BdL in the same currency, in compliance with IFRS and after the execution of a related agreement with BdL. Applying the same treatment for comparison purposes on the audited financial statements as at end-December 2018 would bring down total consolidated assets by USD 4.9 billion, from a published level of USD 47.2 billion to USD 42.3 billion. This would imply a decrease in consolidated assets by USD 2.8 billion in real terms, corresponding to a contraction by 6.5%.

The table below sets out the evolution of the Group's financial position as at end-December 2019, as compared to end-December 2018. For ease of reference, an adjusted column is included to highlight the impact of the netting agreement on the financial position as at end-December 2018:

SUMMARISED STATEMENT OF FINANCIAL POSITION (USD MILLION)

(In USD Million)	Dec-18	Dec-18 After Netting	Dec-19	Volume Dec-19/Dec-18 After Netting	%
Cash & placements with banks and central banks	19,173	14,273	17,279	3,006	21.1%
Portfolio securities	12,780	12,780	9,191	-3,589	-28.1%
Loans to customers	13,267	13,267	10,350	-2,917	-22.0%
Other assets	1,225	1,225	1,785	560	45.7%
Fixed assets	756	756	930	174	23.0%
ASSETS= LIABILITIES + EQUITY	**47,201**	**42,301**	**39,535**	**-2,766**	**-6.5%**
Bank deposits	9,357	4,457	4,810	353	7.9%
Customers' deposits	31,956	31,956	29,594	-2,362	-7.4%
Subordinated debt	819	819	797	-22	-2.7%
Other liabilities	1,184	1,184	1,364	180	15.2%
Shareholders' equity (profit included)	3,886	3,886	2,970	-916	-23.6%
AUMs + fid. dep. + cust. acc.	12,199	12,199	11,010	-1,189	-9.7%
ASSETS + AUMS	**59,400**	**54,500**	**50,545**	**-3,955**	**-7.3%**

BREAKDOWN BY GEOGRAPHY

	Assets			Deposits			Loans		
	Dec-18	Dec-19	Change	Dec-18	Dec-19	Change	Dec-18	Dec-19	Change
By region									
Lebanon	66.1%	**62.6%**	-3.5%	67.7%	**63.5%**	-4.2%	46.6%	**39.6%**	-7.0%
Abroad	33.9%	**37.4%**	3.5%	32.3%	**36.5%**	4.2%	53.4%	**60.4%**	7.0%

A detailed flow analysis by geography clearly highlights that the contraction in consolidated assets is principally attributed to entities operating in Lebanon (including Audi Private Bank and consolidation adjustments), affected by the adverse developments, translating in a net decline in the contribution of Lebanon to total consolidated assets to 62.6% as at end-December 2019 from 66.1% as at end-December 2018. The shares of entities abroad stood at 37.4% as at end-December 2019, underscoring the widest diversification level among Lebanese banking groups while shielding the Bank's activity and performances in the long run from adverse effects of conditions in Lebanon.

ACTIVITY EVOLUTION IN ENTITIES OPERATING IN LEBANON

Total assets of entities operating in Lebanon (including Audi Private Bank and consolidation adjustments) decreased by USD 3.2 billion in 2019, driven by a decrease in customers' deposits by USD 2.9 billion within a net contraction of loans booked in those entities by USD 2.1 billion, with the remaining decrease attributed to the exposure to the Central Bank of Lebanon.

By entity, the USD 2.9 billion decrease in deposits is broken down over USD 2.3 billion in Bank Audi sal and USD 0.5 billion in Audi Private Bank, the majority of the latter decline denominated in USD. In Bank Audi sal, a split of the decrease by currency, excluding the impact of FX conversion from LBP to USD deposits reaching c. USD 1.8 billion over the year, reveals a decrease in USD deposits by USD 2.9 billion within a net increase in LBP deposits by USD 0.6 billion.

By type, the decrease in deposits by USD 2.4 billion over the year is justified by net cross-border outflows (checks and transfers) of USD 1.4 billion, net domestic flows of USD 0.3 billion, net cash withdrawals of USD 0.8 billion (of which almost two-third in LBP) and net loans repayments from borrowers' account with Bank Audi of USD 1.4 billion offset by other regular positive flows (interest posting, tax payments etc.) of USD 1.5 billion.

Since the outbreak of the protests on 17 October 2019, deposits of Bank Audi sal dropped by USD 1.6 billion, of which net cross-border outflows (checks and transfers) of only USD 146 million reflecting the implementation of the informal capital control shortly after that date, to be added to net domestic flows of USD 0.5 billion, net cash withdrawals of USD 0.5 billion and net loans repayments from borrowers' account with Bank Audi of USD 0.3 billion, clearly showcasing the impact of the crisis on the Bank's activity. In January 2020, the magnitude of that impact, which was also exacerbated by the significant false news campaign undertaken against Bank Audi, started to wind down; domestic transfers and cash withdrawals amounts dropped from a month's average of USD 265 million each to USD 115 million and USD 63 million in the first month of 2020 respectively. The same trend is observed at the level of net cross-border outflows' unrestricted flows as per the Association of Banks in Lebanon, including the payment of tuition fees, medical expenses, etc.

The decrease in net loans by USD 2.0 billion is justified by the ongoing de-risking policy adopted by Management more than a year ago, which was further accentuated since the outbreak of the protest as Management focused primarily on the active application of an enhanced risk monitoring and management, transferring loan origination teams to collections. Corporate customers accounted for 61% of the decrease in net loans of Bank Audi in Lebanon in 2019 (USD 1.2 billion), while commercial and SME loans contracted by USD 215 million (11%) and retail loans by USD 573 million (28%). Loans contraction at Bank Audi in Lebanon has far exceeded the pace observed in the Lebanese banking sector, underscoring the significant collection efforts undertaken. Loans at Bank Audi decreased by 33% over the course of the year, a pace reaching 31% in the fourth quarter alone. This is compared with a sector-wide decrease of 11.6% across the year and only with 24.6% in the fourth quarter. The direction followed by Bank Audi in this regard reflect predominantly the prudent risk management policy that Bank Audi traditionally follows, particularly in a climate marked by significant and open-ended economic uncertainty, with an aim to contain early on potential acute deterioration in the loan quality after a prolonged crisis period and while prioritising liquidity enhancement.

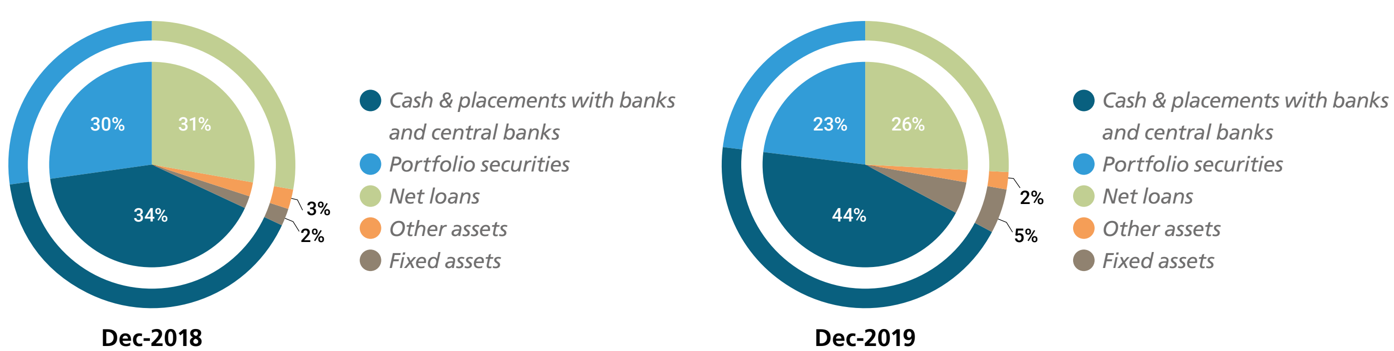
Outstanding consolidated LCs and LGs stood at USD 1.7 billion as at end-December 2019, the same level as at end-December 2018, which includes USD 298 million of outstanding letters of credit and USD 343 million outstanding letter of guarantees booked in Lebanon.

In parallel, consolidated assets under management, including fiduciary deposits and custody accounts, have in turn decreased from USD 12.2 billion as at end-December 2018 to USD 11 billion as at end-December 2019. The USD 1.2 billion decrease is mostly attributed to entities operating in Lebanon. A USD 1.8 billion of real decrease in Bank Audi sal (stemming from a sharp decrease of Lebanese financial instruments representing circa 65% of the drop) was partially offset by an increase of USD 0.4 billion in foreign entities (both price and volume effect) within the context of a muted growth in Private Banking entities. This decrease was offset by Private Banking entities abroad registering an increase in AuMs by USD 426 million, highlighting the importance of Private Banking as a fourth development pillar of the Group.

4.2.1. | ASSET ALLOCATION BY TYPE

The following charts set out the allocation by asset class as at end-December 2019 as compared to end-December 2018. The discussion that follows analyses the evolution of the various asset classes and their respective key indicators over the same period.

ASSETS BREAKDOWN



In the normal course of business, the asset liability management at Bank Audi favours placements in activities with the highest positive impact on the Group's profitability, while taking in consideration optimal capital allocation. Balance sheet allocation is as such determined by specific limits set internally based on Management risk appetite and underlying volumes. Covering lending, placements with financial institutions and investment in portfolio securities, these limits are applied by all entities, over and above the abidance to local regulations requirements. As per the Group's Corporate Governance guidelines (Article 2.8), limits are subject to annual review by the Board of Directors. Meanwhile, 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.

The year 2019 is no different except for an emphasis by Management, particularly following the outbreak of the recent events in Lebanon, on a proactive management of the various placements while stressing on achieving an optimised capital allocation following the successive downgrades of the Republic of Lebanon and the subsequent material increase in risk weights as per regulatory requirements (please refer to "Recent Developments" section).

In what follows, we analyse the evolution of the various asset classes and their respective key indicators at end-December 2019 relative to end-December 2018. For a comparison on equal basis, indicators as at end-December 2018 are adjusted to the netting agreement executed with the Central Bank of Lebanon in relation to exposure to the Central Bank of Lebanon in LBP, in compliance with IFRS.

As at end-December 2019, consolidated placements with central banks (comprising of cash and placements with central banks and banks, excluding certificates of deposit issued by the Central Bank) represented 58.4% of consolidated customers' deposits as at end-December 2019, almost the same level as at end-December 2018 excluding netting. The Bank's loans to deposits ratio decreased to 35.0%, from 41.5% as at end-December 2018. Portfolio securities, as a percentage of total deposits, also decreased to 31.1%, from 40.0% as at end-December 2018.

4.2.1.1. Changes in Placements with Central Banks and Banks

The Bank's placements with central banks and banks (comprised principally of cash, as well as amounts held at the BdL and other central banks, including free accounts and compulsory reserves, and excluding certificates of deposit issued by BdL), placements with banks, and loans to banks and reverse repurchase facilities with central banks and financial institutions increased by 21.1% in 2019 to USD 17.3 billion as at end-December 2019 compared to USD 14.3 billion after netting as at end-December 2018. Relative to customers' deposits, this represents 58.4% as at end-December 2019 and 60% without netting as at end-December 2018.

The table below sets out the breakdown of those placements by type and by currency as at end-December 2019:

PLACEMENTS WITH CENTRAL BANK AND BANKS (EXCLUDING CDs)

(In USD Million)	LBP	USD	EUR	EGP	TRY	JOD	OTHERS	TOTAL
Central banks	4,310	7,767	1,170	1,484	32	34	573	15,370
o.w. Reserves requirements	297	2,640	8	394	1	27	6	3,373
o.w. Cash deposits	4,013	5,127	1,162	1,090	31	7	567	11,997
Placements with banks	13	867	267	30	533	37	162	1,909
o.w. Deposits with banks	6	867	258	21	94	37	162	1,445
o.w. Loans to banks and financial institutions and reverse repurchase agreements	7		9	9	439			464
Total placements	4,323	8,634	1,437	1,514	565	71	735	17,279

Placements in Lebanese Pounds are essentially composed of cash and deposits with the BdL. As at end-December 2019, total placements with BdL and banks in LBP stood at USD 4.3 billion, as compared to USD 4.8 billion as at end-December 2018 in net terms following the adjustments relating to the netting arrangement with the BdL against exposures on the BdL. On the backdrop of the registered 26% decrease in LBP deposits – justified mostly by FX conversion, the ratio of Lebanese Pound-denominated placements to Lebanese Pound-denominated customers' deposits increased from 95% as at end-December 2018 to 116% as at end-December 2019.

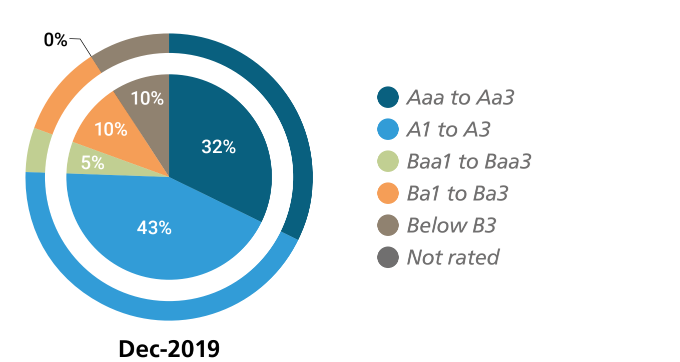
Despite the implementation of the netting arrangement, dues to the BdL in LBP continued to stand at USD 1.8 billion as at end-December 2019, a level slightly lower than that as at end-December 2018. Those amounts include USD 1.3 billion of loans from the BdL against Treasury bills placements contracted in the scope of the financial engineering transactions of 2017 onward with the remaining amount attributed to subsidised soft loans from the BdL to finance companies operating in value-added economic sectors.

The Bank's placements denominated in foreign currency consist of cash and short-term deposits placed at the Central Bank of Lebanon and other central banks (excluding BdL certificates of deposit) and placements in prime banks in OECD countries. Those placements in foreign currencies amounted to USD 13 billion as at end-December 2019, as compared to USD 11.2 billion as at end-December 2018, representing 50.1% and 41.6% respectively of consolidated customers' deposits in foreign currencies across those dates.The increase in placements in foreign currencies principally reflects USD 1.9 billion of placements with the BdL contracted during the year to cover the FX position against LBP.

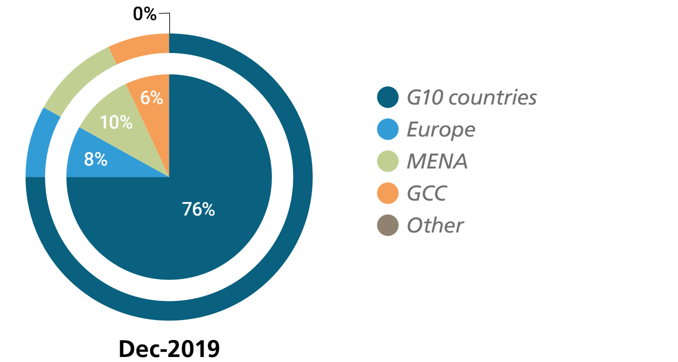
In parallel, placements with correspondent banks in foreign currencies decreased from USD 2.5 billion as at end-December 2018 to USD 1.4 billion as at end-December 2019, accounting for 5.6% of foreign currency-denominated deposits at the same date. Management is putting all its resources to improve this level. The proceeds of the capital increase, as well as of other contemplated initiatives underway, should in principal lead to an improvement at this level. Those placements are mainly based in low risk OECD and GCC countries that show high levels of solvency and financial and monetary stability. 76% 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 market placements held with banks (excluding reverse repo agreements) as at end-December 2018 by rating and geographic location:

BREAKDOWN OF PLACEMENTS WITH BANKS BY RATING IN 2019



BREAKDOWN OF PLACEMENTS WITH BANKS BY REGION IN 2019



4.2.1.2. Changes in Securities' Portfolio

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

In 2019, consolidated securities' portfolio decreased by USD 3.6 billion, moving from USD 12.8 billion at as end-December 2018 to USD 9.2 billion as at end-December 2019. As a percentage of customers' deposits, the Bank's securities portfolio represented 31.1% as at end-December 2019 as compared to 40.0% as at end-December 2018.

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

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

PORTFOLIO SECURITIES BY ASSET CLASS (USD MILLION)

(In USD Million)	Dec-18	Dec-19	Vol.	%
Financial assets held at FVTPL	**146**	**253**	**107**	**73.3%**
LBP-denominated				
Foreign currency-denominated	146	253	107	73.3%
Financial assets designated at fair value through OCI	**834**	**766**	**-68**	**-8.2%**
LBP-denominated	11	16	5	45.5%
Foreign currency-denominated	823	750	-73	-8.9%
Financial assets classified at amortised cost	**11,800**	**8,172**	**-3,628**	**-30.7%**
LBP-denominated	4,895	1,638	-3,257	-66.5%
Foreign currency-denominated	6,905	6,534	-371	-5.4%
Total portfolio securities	**12,780**	**9,191**	**-3,589**	**-28.1%**
LBP-denominated	4,906	1,655	-3,251	-66.3%
Foreign currency-denominated	7,874	7,536	-338	-4.23%

As at end-December 2019, financial assets classified at amortised cost continued to represent the vast majority of the portfolio with a share of 89% (compared to 92.3% as at end-December 2018), shielding the Bank's results from market price fluctuations.

The following table sets out the distribution of the financial assets classified at amortised cost by type of security, as at end-December 2019 as compared to end-December 2018:

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

(In USD Million)	Dec-18	Dec-19	Vol.	%
Central Bank of Lebanon certificates of deposit	6,373	4,149	-2,224	-34.9%
Net Lebanese Treasury bills and Eurobonds	3,204	2,329	-875	-27.3%
Risk-ceded government Eurobonds	987	493	-494	-50.0%
Other non-Lebanese Sovereign securities	1,028	1,076	48	4.7%
Other fixed income securities	208	124	-84	-40.4%
Financial assets classified at amortised cost	11,800	8,172	-3,628	-30.7%

The share of financial assets designated at fair value through OCI was 8.3% at the same date (compared to 6.5% as at end-December 2018), while financial assets held at fair value through profit or loss accounted for the remaining 2.8% (1.2% as at end-December 2018).

The following table sets out the distribution of the Bank's securities portfolio, by type of security and currency, as at end-December 2019 as compared to end-December 2018:

PORTFOLIO SECURITIES BREAKDOWN (USD MILLION)

(In USD Million)	Dec-18	Dec-19	Vol.	%
Central Bank of Lebanon certificates of deposit	**6,373**	**4,149**	**-2,224**	**-34.9%**
LBP-denominated	2,685	481	-2,204	-82.09%
Foreign currency-denominated	3,688	3,668	-20	-0.6%
Net Lebanese Treasury bills and Eurobonds	**3,207**	**2,329**	**-878**	**-27.37%**
LBP-denominated	2,210	2,209	-1	-0.02%
Foreign currency-denominated	997	120	-877	-88.00%
Risk-ceded government Eurobonds	**987**	**493**	**-494**	**-50.03%**
LBP-denominated				
Foreign currency-denominated	987	493	-494	-50.03%
Other non-Lebanese sovereign securities	**1,814**	**1,789**	**-25**	**-1.38%**
TRY	145	154	9	6.30%
EGP	1,061	1,072	11	1.01%
JOD	266	254	-12	-4.55%
USD	260	173	-87	-33.49%
Other	82	136	54	65.85%
Other fixed income securities	**279**	**341**	**62**	**22.22%**
LBP-denominated				
Foreign currency-denominated	279	341	62	22.22%
Equity securities	**120**	**90**	**-30**	**-25.00%**
LBP-denominated	10	16	6	59.45%
Foreign currency-denominated	110	74	-36	-32.60%
Total portfolio securities	**12,780**	**9,191**	**-3,589**	**-28.08%**

Exposure to the Central Bank of Lebanon Certificates of Deposit Portfolio and Lebanese Sovereign Bonds

Lebanese Pound-denominated Treasury bills and certificates of deposit issued by the Central Bank of Lebanon decreased by USD 2.2 billion, predominantly led by Lebanese Pound-denominated certificates of deposit issued by the Central Bank of Lebanon decreasing by USD 2.2 billion following the application of a netting agreement with BdL whereby LBP-denominated CDs and term borrowings from BdL are now reported on a net basis, in addition to the sale of CDs worth of USD 0.6 billion.

Certificates of deposit issued by the Central Bank in foreign currencies remained stable in 2019, standing at USD 3.7 billion as at end-December 2019, representing 14.2% of foreign currency-denominated customers' deposits.

In parallel, the exposure to Lebanese Sovereign Eurobonds (net of risk-ceded Eurobonds and expected loss allowances) decreased by USD 878 million over the same period, moving from USD 997 million as at end-December 2018 to USD 120 million as at end-December 2019.

In gross terms, the Group held an exposure to Lebanese government Eurobonds having a nominal value of USD 1.98 billion as at end-December 2019, including USD 493 million of Eurobonds whose risk has been ceded to customers. Since that date, Management adopted an active de-risking strategy on those instruments, which has translated in significant Eurobonds sales, with most of the sale extending to instruments with medium to long-term maturities. Subsequently, the Bank recorded a gross loss of circa USD 1.1 billion, partially offset by the booking of present value of cash-flows from related LBP structure and the release of ECL amounting to USD 701 million booked in 2019, in light of the forthcoming significant deterioration of foreign currency Lebanese Sovereign debt instruments. As at 30 June 2020, the consolidated exposure of Bank Audi to Lebanese Eurobonds was limited to USD 57 million, held at market prices. With the sale of the Eurobonds executed in the first three months of 2020, the Bank released the associated ECL in a way to maintain at all times a zero net exposure.

As at end-December 2019, the Group had an exposure on BdL CDs in foreign currencies of USD 3.7 billion, a level almost equivalent to that as at end-December 2018. Based on the guidelines of BdL's Intermediary Circular 543, the Group allocated USD 69 million of loss allowances representing 1.89% of the exposure, of which USD 52 million affecting the profit and loss statement. As such, total loss allowances on sovereign Eurobonds and BdL CDs in foreign currencies reached USD 643 million.

The Bank's overall exposure to the foreign currency-denominated Lebanese Sovereign exposure (Lebanese Sovereign bonds and certificates of deposit issued by the BdL (net of risk-ceded) as a percentage of regulatory Tier 1 capital stood, at end-June 2020, at 1.2 times as compared to 1.48 times as at end-December 2019 and 1.45 times as at end-December 2018.

Non-Lebanese Sovereign Securities

The Bank's non-Lebanese sovereign bonds portfolio is primarily composed of Egyptian, Jordanian and Turkish sovereign bonds. In 2019, the non-Lebanese Sovereign bonds portfolio continued to stand at USD 1.8 billion, a stable trend witnessed across all instruments.

Non-Lebanese sovereign bonds accounted for 19.5% of the total securities portfolio (compared to 14.2% as at end-December 2018) and 6.9% of foreign currency denominated customers' deposits as at end-December 2019, as compared to 6.7% as at end-December 2018.

Other International Fixed Income Securities

In 2019, the Bank's exposure to other international fixed income securities increased by USD 63 million to USD 341 million as at end-December 2019 from USD 279 million as at end-December 2018. 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.

4.2.1.3. Loan Portfolio

As the largest bank in Lebanon and ranking among the top 20 Arab banking groups in the MENA region, Bank Audi offers a full range of credit products to corporates, governments and institutional clients, as well as to small and medium-sized enterprises (SMEs), Retail and Private Banking customers.

In addition, the Bank has shown a strong expertise and know-how in the provisions of Private Banking services, among which Lombard lending, underscoring a form of lending against a diversified portfolio of liquid securities.

In 2019, and especially in the aftermath of the 17 October nationwide protests, the economy in Lebanon dipped into a severe recession, while beset by quickly waning confidence. Lebanese banks continued their deleveraging policies with an aim to decrease as much as possible their exposure to private sectors. Henceforth, banking sector loans to the private sector dropped by USD 9.6 billion in 2019 to reach USD 49.8 billion as at end-December 2019.

As a result, Bank Audi implemented a series of remedial measures aiming at alleviating the impact of the economic pressure on its loan and asset quality metrics. These measures include:

i) Reducing the size of the net loan portfolio by USD 2.9 billion in 2019 (mainly USD 2 billion in Lebanon and USD 0.75 billion in Turkey).
ii) Tightening lending criteria.
iii) Managing and following up on its loan portfolio on a name by name basis, in close cooperation with the Managements of individual entities.
iv) Increasing allowance for ECL Stages 1, 2 and 3 coverages.
v) Allocating additional provisions to sovereign exposures.
vi) Setting up a centralised and specialised remedial function to proactively review and manage the quality of impaired loans.

Below is a discussion of the main drivers and developments in the loan portfolio during 2019:

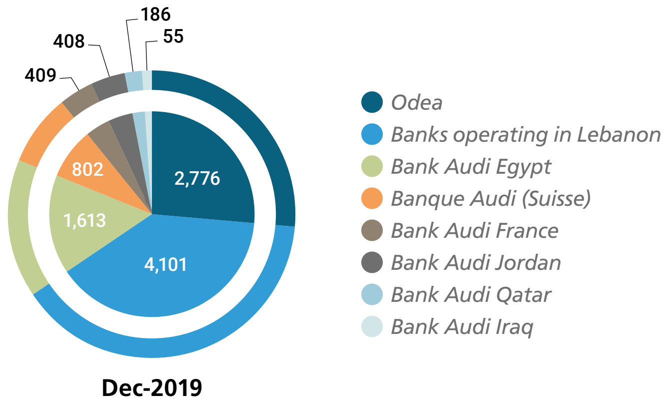
The Bank's loan portfolio contracted by 22% in 2019, corresponding to a decrease by USD 2.9 billion, from USD 13.3 billion as at end-December 2018 to USD 10.3 billion as at end-December 2019). This was primarily due to:

1. A USD 2 billion contraction in Lebanese entities (of which USD 975 million in the fourth quarter of 2020), driven mainly by large obligors settling their debt as scheduled and/or accelerated settlement through their existing creditor accounts at our end (mainly in the fourth quarter of 2019). Of the USD 975 million contraction in the fourth quarter of 2019, USD 293 million were due to loan settlements of large corporate clients.

2. A net decrease of USD 746 million in Turkey's operations following the de-risking strategy implemented in 2017 on customers deemed risky and/or not sufficiently profitable. This was implemented while maintaining franchise development.

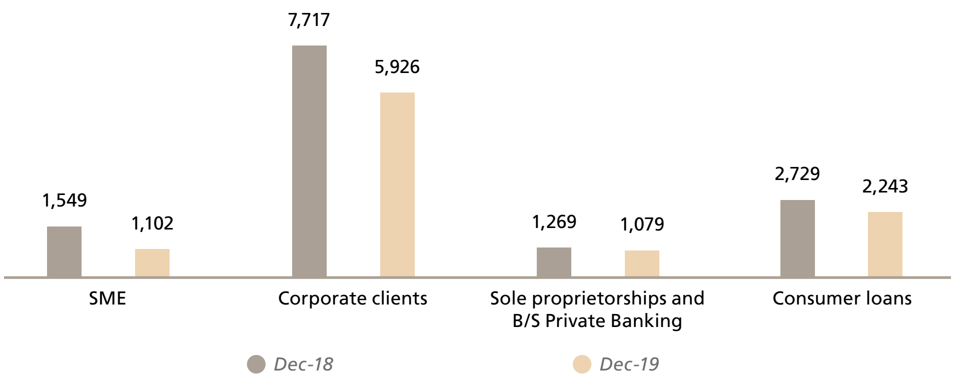
A distribution of net loans by entity as at end-December 2019 reveals that 40% of consolidated net loans were booked in entities operating in Lebanon, 27% in Odea Bank (Turkey), 16% in Bank Audi sae (Egypt), 8% in Banque Audi (Suisse) (Switzerland) and 9% in other entities.

BREAKDOWN OF NET LOANS & ADVANCES BY ENTITY AS AT END-DECEMBER 2019 (USD MILLION)



Analysis of Loans by Class of Borrower

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 show a concentration in the corporate segment, which constituted 57% of the loan book as at end-December 2019, with consumer loans as the next largest segment with 22% of the portfolio. In Lebanon and Turkey, the various challenges that kept pressuring corporate profits severely limited new lending opportunities throughout 2019.

Analysis of Loans by Economic Sector

The Bank continued to focus on controlling its industry concentration risk through diversifying its exposure across economic sectors, as per its risk appetite framework. The relatively high level of foreign currency loans in the context of a volatile local currency mainly in Turkey and Lebanon (the latter on the non-official exchange market) resulted in a significant contraction in risky sectors such as real estate, tourism and related industries.

On another note, in the wake of the Lebanese cabinet and Parliament approval of the Electricity Reform Plan in April 2019, as well as major initiatives of multilateral and development funds such as the financing by the World Bank and the European Investment Bank of the Ministry of Energy and Water (subject on meeting certain conditions and implementing various reforms), Bank Audi selected the Electricity sector as a key target segment and committed considerable resources to finance renewable energy projects and combined cycle power plants. However, these initiatives did not materialise in an optimal manner given the turmoil in Lebanon.

ECONOMIC SECTOR

	Dec-2018		Dec-2019	
	Founded O/S	%	Founded O/S	%
Manufacturing industries	1,612	12%	1,193	12%
Developers	1,257	9%	1,028	10%
Real estate services	980	7%	615	6%
Wholesale trade	898	7%	750	7%
Non-bank holdings & financial entities	1,378	10%	819	8%
Electricity, gas & water	688	5%	534	5%
Contractors	384	3%	302	3%
Commercial retail trade	427	3%	347	3%
Hotels & restaurants	579	4%	488	5%
Consumer loans	2,729	21%	2,243	22%
Other sectors	2,332	19%	2,031	19%
Total portfolio	**13,267**	**100%**	**10,350**	**100%**

At 16% of the Bank's consolidated loan portfolio, real estate services and developers, i.e. real estate, represent together the largest industry concentration. In absolute terms however, exposures to these sectors have dropped by a significant USD 594 million during 2019 (-27%).

Analysis of Loans by Maturity

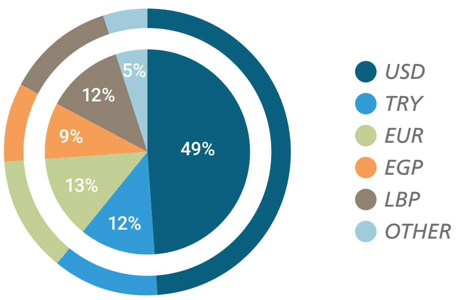
BREAKDOWN OF NET LOANS & ADVANCES BY MATURITY SINCE INCEPTION (USD MILLION)

	Dec-2018		Dec-2019	
	Founded O/S	%	Founded O/S	%
Short-term facilities (up to 1 year)	4,526	34%	3,565	34%
Medium-term facilities	1,584	12%	1,239	12%
Long-term facilities (> 3 years)	7,155	54%	5,546	54%
Total portfolio	**13,267**	**100%**	**10,350**	**100%**

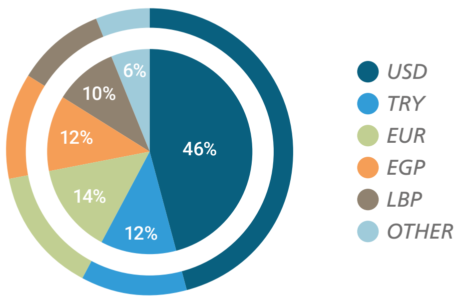
The continued skewness towards long tenor loans is attributed to i) the participation in a variety of long-term products offered by the Central Bank of Lebanon, including subsidised and environmental loans, ii) participations in project finance or corporate finance loans which are typically large loans with tenors exceeding 5 years, and iii) the housing loan portfolio.

Analysis of Loans by Currency
The following charts show the distribution of the Bank's loan portfolio by currency as at end-December 2019 as compared to end-December 2018:

BREAKDOWN OF NET LOANS & ADVANCES BY CURRENCY



Dec-2018



Dec-2019

The proportion of loans in USD stood at 46% at end-2019, down from 49% at end-2018 due to the contraction of the Lebanese loan book in USD, especially during the last quarter of 2019. This is broadly in line with the dollarization rate of the Bank's Lebanese and Turkish entities.

At Odea Bank, efforts to reduce the USD loan book as part of improving its balance sheet structure continued in the first half of 2019 by converting some maturing USD loans into Turkish Lira.

At Bank Audi Egypt, 76% of the loan book is denominated in Egyptian Pounds, with the remainder in foreign currency.

Analysis of Loans by Type of Collateral

At end-December 2019, 63% of the consolidated loan portfolio was secured predominantly by real estate mortgages (37%) and by cash collateral and bank guarantees (17%).

The following table shows the distribution of the Bank's loan portfolio by type of collateral as at end-December 2019 as compared to end-December 2018:

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

	Dec-2018		Dec-2019	
	Founded O/S	%	Founded O/S	%
Secured	**7,772**	**59%**	**6,500**	**63%**
Cash co. & bank guarantee	2,034	15%	1,783	17%
Real estate mortgage	4,433	33%	3,840	37%
Securities (bonds & shares)	858	6%	706	7%
Other real guarantees (incl. vehicles)	447	3%	171	2%
Corporate or personal guarantees	**3,243**	**24%**	**2,246**	**22%**
Unsecured	**2,252**	**17%**	**1,604**	**15%**
Total portfolio	**13,267**	**100%**	**10,350**	**100%**

Loan Quality

The Bank has been continuing its de-risking efforts in anticipation of political, economic and regulatory challenges, thus bringing down its loan book from USD 13.3 billion in 2018 to USD 10.3 billion in 2019.

In order to estimate the collective and specific provisions requirements and report asset quality metrics, the Group relies on a comprehensive set of information related to each borrower. This includes borrowers' overall financial conditions, expected cash flow, available resources, payment history, likelihood of support from financially reliable guarantors and, when applicable, the realisable value of collateral.

The Group ensures that allocated provisions on its loan portfolio are fully in line with the estimated Expected Credit Loss (ECL) calculations as per the IFRS 9 standard, both for performing and non-performing portfolios.

For non-consumer loans, the Group estimates ECL using a Probability of Default (PD) and Loss Given Default (LGD) approach.

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

The following table shows the Bank's main asset quality indicators as at end-December 2019 as compared to end-December 2018:

LOAN QUALITY (USD MILLION)(*)

	Dec-18	Dec-19	Change
Credit-impaired loans	**776**	**1,529**	**753**
o.w. Corporate	628	1,273	645
o.w. Retail	148	256	108
Net loans	**13,267**	**10,350**	**-2,917**
o.w. Corporate	10,515	8,121	-2,394
o.w. Retail	2,752	2,229	-523
Allowance for ECL Stage 3	**488**	**936**	**448**
o.w. Corporate	365	723	358
o.w. Retail	123	213	90
Allowance for ECL Stages 1 & 2	**309**	**368**	**59**
o.w. Corporate	287	257	-30
o.w. Retail	22	111	89
Credit-impaired loans/Gross loans	**5.52%**	**13.12%**	**7.60%**
o.w. Corporate	5.62%	13.99%	8.37%
o.w. Retail	5.11%	10.01%	4.90%
Net credit-impaired loans/Gross loans	**2.04%**	**5.09%**	**3.05%**
o.w. Corporate	2.35%	6.04%	3.69%
o.w. Retail	0.86%	1.67%	0.81%
Credit-impaired loans coverage	**62.95%**	**61.20%**	**-1.75%**
o.w. Corporate	58.16%	56.77%	-1.39%
o.w. Retail	83.26%	83.32%	0.06%
Allowance for ECL Stages 1 & 2/Net loans	**2.33%**	**3.56%**	**1.23%**
o.w. Corporate	2.72%	3.17%	0.45%
o.w. Retail	0.83%	4.98%	4.15%

(*) *As per IFRS 9.*

Credit-impaired loans or Stage 3 loans increased by USD 753 million in 2019, reaching a total of USD 1,529 million. This was mainly driven by the recognition of USD 832 million impaired exposures in Bank Audi sal as a result of the developing systemic crisis. At Odea Bank, the challenging economic environment led to an increase in Stage 3 loans by USD 137 million, to USD 471 million.

Allowance for ECL Stage 3 substantially increased by USD 448 million in 2019, thus resulting in a group credit-impaired coverage ratio of 61.2%, reaching 121% when including real guarantees.

At end-December 2019, credit-impaired loans represented 13.12% of gross loans, compared to 5.52% as at December 2018. This increase by 7.6% is mainly attributed to the substantial increase of Stage 3 loans 5.35%, with the remaining 2.25% attributed to the contraction of gross loans in 2019.

The credit loss allowance for Stages 1 and 2 loans amounts to USD 368 million as at December 2019, representing 3.6% of consolidated net loans.

4.2.2. | FUNDING SOURCES

Bank Audi's primary funding source is private customers' deposits, which represented at end-December 2019, 74.9% of total liabilities and shareholders' equity, as compared to 67.7% at end-December 2018. In parallel, the share of banks' deposits moved from 19.8% as at end-December 2018 to 12.2% as at end-December 2019, while shareholders' equity represented 7.5% of total liabilities and shareholders' equity, other liabilities 3.5%, and subordinated debt a share of 2.0%, compared to 8.2%, 2.5% and 1.7% respectively as at end-December 2018.

The following table sets out the distribution of the Bank's sources of funding as at end-December 2019 as compared to end-December 2018:

LIABILITIES BREAKDOWN

	Dec-18		Dec-19	
	Vol.	%	Vol.	%
Bank deposits	9,357	19.8%	**4,810**	**12.2%**
Customers' deposits	31,956	67.7%	**29,594**	**74.9%**
Subordinated debt	819	1.7%	**797**	**2.0%**
Other liabilities	1,183	2.5%	**1,364**	**3.5%**
Shareholders' equity	3,886	8.2%	**2,970**	**7.5%**
Total	47,201	100.0%	39,535	100.0%

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

4.2.2.1. Changes in Customers' Deposits

Consolidated customers' deposits (including related party deposits) amounted to USD 29.6 billion at end-December 2019 as compared to USD 32.0 billion as at end-December 2018, decreasing by USD 2.4 billion during the year. Still, customers' deposits of Lebanese entities decreased by USD 2.8 billion, accounting for 18.0% of the Lebanese banking sector's deposits contraction in 2019, and highlighting the impact of the October 17 nationwide developments. On the other hand, deposits of Bank Audi in Egypt reported a year-on-year increase by USD 734 million, i.e. a growth of 22.5%, while deposits of Odea Bank in Turkey registered a contraction by USD 254 million, from USD 4.0 billion as at end-December 2018 to USD 3.7 billion as at end-December 2019.

As at end-December 2019, 61.1% of consolidated customers' deposits were sourced from Lebanese entities (including consolidation adjustments), 12.6% from Odea Bank, 13.5% from Bank Audi Egypt, 6.7% from Private Banking entities, and 6.1% from other entities, as compared to 63.9%, 12.4%, 10.2%, 7.7% and 5.8% respectively, as at end-December 2018.

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 2019 as compared to end-December 2018:

BREAKDOWN OF CUSTOMERS' DEPOSITS BY SEGMENT (USD MILLION)

	Dec-18		Dec-19		Change	
(In USD Million)	Volume	Share in Total	Volume	Share in Total	Volume	Share in Total
Deposits from customers	31,956	100.0%	29,594	100.0%	-2,362	
Corporate & SME Banking	7,794	24.4%	6,716	22.7%	-1,078	-1.7%
Retail & Personal Banking	23,283	72.9%	21,729	73.4%	-1,553	0.5%
Public	879	2.7%	1,149	3.9%	270	1.2%

In 2019, the decrease of customers' deposits is skewed towards Retail and Personal Banking deposits. The latter decreased by USD 1.6 billion during the year, from USD 23.3 billion as at end-December 2018 to USD 21.7 billion as at end-December 2019. Notwithstanding, their share in the total customers' deposits was sustained at 73.4%.

Corporate and SME deposits also decreased by USD 1.1 billion, from USD 7.8 billion as at end-December 2018 to 6.7 billion as at end-December 2019, still accounting for 22.7% of total deposits.

Analysis of Customers' Deposits by Type

The following table sets out the Bank's consolidated customers' deposits by type as at end-December 2019 and as at end-December 2018:

BREAKDOWN OF CUSTOMERS' DEPOSITS BY TYPE (USD MILLION)

	Dec-18		Dec-19		Change	
(In USD Million)	Volume	Share in Total	Volume	Share in Total	Volume	Share in Total
Deposits from customers	31,956	100.0%	29,594	100.0%	-2,362	
Sight deposits	5,620	17.6%	6,591	22.3%	971	-4.7%
Time deposits	22,164	69.4%	18,600	62.9%	-3,564	-6.5%
Saving accounts	3,153	9.9%	2,796	9.4%	-357	-0.5%
Certificates of deposits	589	1.8%	907	3.1%	318	1.3%
Margin deposits	286	0.9%	541	1.8%	255	0.9%
Other deposits	144	0.4%	159	0.5%	15	0.1%

As at end-December 2019, the distribution of consolidated customers' deposits over time and sight deposits remained skewed as at end-December 2018 toward time deposits. The latter, which also include saving deposits and certificates of deposit, continued to account for the vast majority of total deposits with a share of 75.4% (compared to 81.1% as at end-December 2018). Time deposits decreased by USD 3.6 billion during the year, from USD 25.9 billion as at end-December 2018 to USD 22.3 billion as at end-December 2019.

On the other hand, sight and short-term deposits increased from USD 6.0 billion as at end-December 2018 to USD 7.3 billion as at end-December 2019, representing a share of 24.6% of total deposits.

Analysis of Customers' Deposits by Maturity

The following table sets out the maturity profile of the Bank's consolidated customers' deposits as at end-December 2019 and as at end-December 2018:

BREAKDOWN OF DEPOSITS BY MATURITY

	Dec-18		Dec-19		Change	
(In USD Million)	Volume	Share in Total	Volume	Share in Total	Volume	Share in Total
Less than 1 month	17,608	55.1%	15,963	53.9%	-1,645	-1.2%
1-3 months	5,379	16.8%	4,846	16.4%	-533	-0.5%
3-12 months	5,767	18.1%	5,458	18.5%	-309	0.3%
Less than 1 year	**28,754**	**90.0%**	**26,267**	**88.8%**	**-2,487**	**-1.2%**
1-5 years	3,167	9.9%	3,243	11.0%	76	1.1%
Over 5 years	35	0.1%	84	0.2%	49	0.1%
More than 1 year	**3,202**	**10.0%**	**3,327**	**11.2%**	**125**	**1.2%**
Total	**31,956**	**100.0%**	**29,594**	**100.0%**	**-2,362**	**0.0%**

The Bank's deposits continue to be predominantly composed of deposits with maturities of less than one month, accounting for 53.9% of total deposits as at end-December 2019 as compared to 55.1% as at end-December 2018, 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 2019, the maturity profile of deposits continued to shift to the advantage of deposits, with maturities between 1-5 years, which accounted for 11% of total deposits as at end-December 2019 as compared to 9.9% as at end-December 2018.

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 2019 as compared to end-December 2018:

BREAKDOWN OF DEPOSITS BY CURRENCY

	Dec-18		Dec-19		Change	
(In USD Million)	Volume	Share in Total	Volume	Share in Total	Volume	Share in Total
Lebanese Pound	5,055	15.8%	3,732	**12.6%**	-1,323	-3.2%
US Dollars	18,772	58.7%	17,410	**58.8%**	-1,362	0.1%
Turkish Lira	1,623	5.1%	1,344	**4.5%**	-279	-0.5%
Euro	2,517	7.9%	2,633	**8.9%**	116	1.0%
Egyptian Pound	2,541	8.0%	3,401	**11.5%**	860	3.5%
Other currencies	1,448	4.5%	1,074	**3.6%**	-374	-0.9%
Total	**31,956**	**100.0%**	**29,594**	**100.0%**	**-2,362**	**0.0%**

Customers' deposits denominated in USD continued to comprise the bulk of consolidated deposits as at end-December 2019 and 2018. Deposits denominated in Euros accounted for 8.9% of total deposits as at end-December 2019 as compared to 7.9% as at end-December 2018, while the share of deposits denominated in Turkish Lira decreased by 0.5% to 4.5% of total deposits as at end-December 2019, from 5.1% as at end-December 2018, reflecting a real decrease in deposits by USD 2.6 billion within a FX translation impact of USD 0.2 billion. The share of deposits denominated in EGP increased by 3.5%, reflecting a real increase by USD 568 million within an FX impact by USD 292 million.

4.2.2.2. Subordinated Debt

As at end-December 2019, the Bank continued to have four unsecured subordinated loans of an aggregate amount of USD 797 million (including USD 19 million accruals), or 2.7% of consolidated customers' deposits and 2.0% of total liabilities and shareholders' equity. Below is a detailed description of those loans:

On 31 October 2014, the Bank extended a subordinated loan to Odea Bank, its wholly-owned subsidiary in Turkey, amounting to USD 150 million, bearing an interest rate of 6.5% and maturing on 30 September 2024. In accordance with applicable BRSA regulations, this loan was treated as Tier 2 capital of Odea Bank; it was eliminated on a consolidated level, along with other intra-group adjustments. In the first half of 2015, the Bank securitised this loan (through the issuance of certificates of participation) with third party investors subscribing for USD 138 million (accounted for as consolidated Tier 2 equity in accordance with applicable regulations). Bank Audi Egypt subscribed for USD 8 million and Audi Capital (KSA) subscribed for USD 4 million. On 1 August 2017, Odea Bank issued its USD 300 million 7.625% notes due in 2027, which are Basel III compliant, replacing the USD 150 million subordinated loan extended by the Bank to Odea Bank. As of 31 December 2019, USD 17 million of this sub debt was bought back, while Odea Bank has not redeemed or cancelled the shares in circulation, thus selling back any portion of such amount at any time is completely at Management's discretion.

On 27 March 2014, the Bank entered into subordinated loans with the IFC and the IFC Capitalisation Fund in an aggregate amount of USD 150 million. The repayment date for the loans is 11 April 2024, subject to early redemption or acceleration (which is, in turn, subject to Central Bank approval). The loans bear interest at a rate of 6.55% over six-month LIBOR and certain fees are payable, in each case, on a bi-annual basis, subject to the availability of free profits in accordance with the Central Bank's Basic Circular 6830, as applicable at the time of entry into the loans.

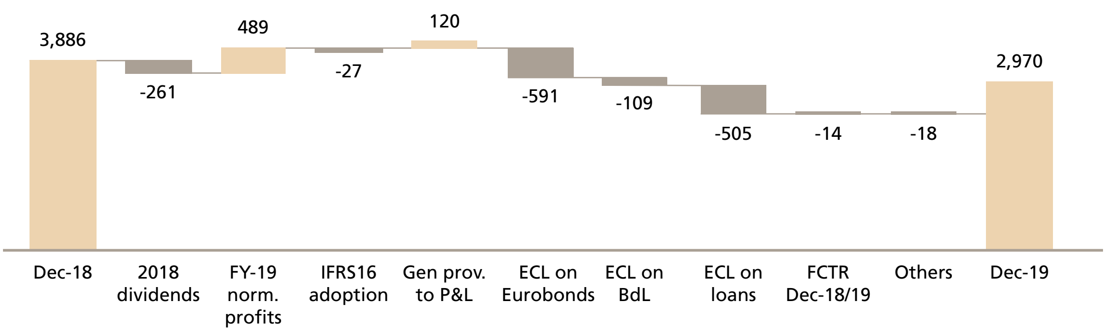
In September 2013, the Bank issued USD 350 million of subordinated unsecured bonds. The repayment date for the bonds is 16 October 2023, subject to early redemption or acceleration. The bonds carry an annual interest rate of 6.75% payable on a quarterly basis, and are subject to the same conditions as mentioned above. During 2019, the Bank acquired notes with a notional amount of USD 3.3 million for a total consideration of USD 2.6 million. This transaction resulted in a gain of LBP 985 million, leaving an outstanding sub debt amount of USD 347 million.

The above two issuances are accounted for as regulatory Tier 2 capital (see Note 35 to the 2019 financial statements for further details on the repayment of those notes).

4.2.2.3. Changes in Shareholders' Equity

As at end-December 2019, consolidated shareholders' equity amounted to USD 2,970 million as compared to USD 3,886 million as at end-December 2018. The chart below sets out the movement in shareholders' equity between the two periods:

EVOLUTION OF SHAREHOLDERS' EQUITY IN 2019



The Bank's share capital amounts to USD 450 million, of which USD 443 of common capital and USD 6.6 million of preferred capital.

At end-December 2019, the common share capital represented 399,749,204 common shares (BSE: AUDI), each with a nominal value of LBP 1,670, of which 119,924,761 were represented by Global Depositary Receipts (London Stock Exchange: BQAD; BSE: AUSR).

Following the successive downgrade actions taken on the credit rating of the Republic of Lebanon, issued Intermediary Circulars 527 and 532 increased the risk weights on Lebanese assets' exposures, in parallel with an alignment of capital ratios to the BASEL standards of 7% regulatory minimum for CET1, and 10.5% for total capital adequacy ratios. Regulatory authorities also requested banks operating in Lebanon to raise their Tier 1 capital through cash contribution by 20% based on year end-2018 levels, irrespective of their individual capital adequacy levels, to be broken down over 10% before the end of 2019 and another 10% before June 30, 2020. Currently, the deadline is expected to be postponed to end-December 2020. This is equivalent to USD 622 million of Tier 1 capital required to be raised by Bank Audi (please refer to the "Recent Developments" section on Page 33).

Within the first phase requirement, the Extraordinary General Assembly of shareholders of Bank Audi sal convened on 20 February 2020 and 6 March 2020, and approved USD-denominated cash contributions from the Bank's shareholders, in an amount of USD 210 million. The General Assembly also resolved to convert the said cash contributions into ordinary shares of the Bank through the issuance of 189 million common shares at the price of USD 1.11 per common share. Circa 1,000 holders of common shares, owning 65% of the Bank's capital, requested to participate in the cash contributions at a price multiple of 14% of the book value, in common with similar capital increase transactions implemented by peers. Upon conversion into shares, the cash contribution was cancelled. Strengthening the CET1 capital of the Bank, the proceeds of this capital raise were kept in general reserves in USD following the conversion into shares, while the corresponding amount of such reserves denominated in LBP is transferred on behalf of the holders into the share capital.

The preferred capital of the Bank represents 6,000,000 shares of series "H", "I" and "J" preferred shares, each with a par value of LBP 1,670, issued at a price of USD 100.00 per series. The first call anniversary of series "H" preferred shares, totalling an amount of USD 75 million, falls in the first half of 2020.

Notwithstanding, the terms of the series "I" and "J" (5,250,000 shares) preferred shares include a loss absorption clause, whereby a trigger event could result in the mandatory conversion of those shares to common shares at a ratio of 15 common shares for every preferred shares. Technically, a mandatory conversion would increase common shares by 78,750,000 share. Trigger events of this conversion are defined as follows:
- A capital adequacy event.
- A non-viability event following notification by the Central Bank.

Capital Adequacy

The events in Lebanon and the following successive regulatory directives significantly impacted capital ratios in 2019. In September 2019, BdL Intermediary Circular 527 assigned 150% risk weights on Lebanese securities' exposures (excluding BdL) and resident corporate loans among others, while regulating shortfall in capital conservation buffer and bearing dividend distribution. This was followed, on 3 February 2020, by Intermediary Circular 543 both tripling risk weights on USD exposures with the BdL of more than one year from 50% to 150%, and lowering the minimum capital ratios to 7.0% for CET1 (including 2.5% conservation buffer) and 10.5% for total capital ratios, in alignment with the Basel minima.

Based on the above, capital adequacy ratios were subject to a negative scissors effect in 2019. Total regulatory capital dropped by USD 1,058 million across the year as a result of the allocation of net profits after tax to loss allowances, while risk-weighted assets increased by 27%.

In fact, risk-weighted assets moved from USD 23.1 billion as at end-December 2018 to USD 29.4 billion as at end-December 2019, contributing to 40% of the 7.6% decrease in total capital ratios over the period.

Relative to direct Lebanese peers, Bank Audi still accounts for a lower risk-weighted assets density (RWAs/assets) standing at 74.3% as at end-December 2019, despite increasing from 49% as at end-December 2018.

Total capital ratio decreased from 18.9% as at end-December 2019 to 11.3% as at end-December 2019, still exceeding the new regulatory minimum of 10.5% as per Basel standards. In parallel, the Bank's Tier 1 ratio moved from 14% as at end-December 2018 to 8.7% as at end-December 2019. CET1 ratio reached 6.6%, below the 7% regulatory requirements but still within capital conservation buffer boundaries (above 4.5%), with the only obligation of abstaining from paying dividends (also requested as per BdL Basic Circular 44, even if minimum requirements are reached).
Management is currently assessing capitalisation plans based on various scenarios, the finalisation of which pre-requires the alleviation of the prevailing uncertainties with the adoption and implementation of a final Reform program by authorities.

The following table sets out the Bank's capital adequacy ratios as at end-December 2019 and end-December 2018:

CAPITAL ADEQUACY RATIO

(In USD Million)	Dec-18	Dec-19	Change
Risk-weighted assets	**23,132**	**29,378**	**6,246**
o.w. Credit risk	20,046	26,307	6,261
o.w. Market risk	333	526	193
o.w. Operational risk	2,753	2,545	-208
Tier 1 capital (including net profit less proposed dividends)	**3,242**	**2,558**	**-684**
o.w. common Tier 1	*2,630*	*1,941*	*-689*
Tier 2 capital	1,133	759	-374
Total regulatory capital	**4,375**	**3,317**	**-1,058**
Common Tier 1 ratio	**11.4%**	**6.6%**	**-4.8%**
+ Additional Tier 1 ratio	2.6%	2.1%	-0.5%
= Tier 1 ratio	14.0%	8.7%	-5.3%
Tier 2 ratio	4.9%	2.6%	-2.3%
Total ratio	**18.9%**	**11.3%**	**-7.6%**

In parallel, the capital adequacy ratio of Odea Bank reached 21.7%, of which 14.2% of CET1 ratio, one of the highest levels in the Turkish banking sector. Bank Audi Egypt also continued to display comfortable ratios with a CET1 ratio of 17.4% as at end-December 2019, and a total capital adequacy ratio of 24.52%.

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.

The ICAAP also acts as an important exercise that drives the Bank to develop and use better risk measurement techniques, building 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. Bank Audi also continues to improve the stress tests and scenario analysis prepared in the ICAAP, covering a variety of plausible scenarios of different levels of severity across risk types (credit, operational, liquidity risks and others).

4.3. | RESULTS OF OPERATIONS

Bank Audi reported a loss of USD 602 million in 2019 compared to net profits of USD 501 million in 2018. Adjusted to the one-offs flows resulting from the outset of the financial crisis in Lebanon, Bank Audi would have reported net profits of USD 489 million in 2019, representing a decrease by USD 11.7 million relative to the results registered in 2018, or a contraction by 2.4%.

The following table sets out the Bank's consolidated financial results in 2019 and 2018:

SUMMARISED CONSOLIDATED INCOME STATEMENT

(In USD Million)	2018	2019	YOY 2019/2018	
Interest income	1,159.2	1,130.2	-29.0	-2.5%
Net of new taxes on financial investments	*96.9*	*156.0*	*59.1*	*61.0%*
Non-interest income	334.3	240.3	-94.0	-28.1%
Total income	**1,493.5**	**1,370.4**	**-123.1**	**-8.2%**
Operating expenses	690.6	609.7	-80.9	-11.7%
Credit expense	175.9	147.9	-28.0	-16.0%
Income tax	126.4	124.0	-2.4	-1.9%
Total expenses	**992.9**	**881.6**	**-111.3**	**-11.2%**
Net profits after tax (normalised from operations)	**500.6**	**488.8**	**-11.7**	**-2.4%**
+ Crisis related one-offs		-1,091.0	1,091.0	
= Net profit after tax and one-offs	**500.6**	**-602.2**	**1,102.7**	**-220.30%**

The one-offs principally relate to loss allowances taken following the outbreak of the economic and financial crisis in Lebanon. Those mainly relate to USD 701 million of loss allowances taken on the Group's exposure to Lebanese Sovereign Eurobonds, as well as financial assets placed at the Central Bank of Lebanon, and to USD 410 million of loss allowances on loans, of which USD 253 million in allowance for ECL Stage 3 and USD 157 million in allowance for ECL Stages 1 and 2 (please refer to the "Recent Developments" section).

By geography, excluding one-off flows, the USD 489 million of consolidated net profits from operations is broken down over a contribution to net profits of entities operating in Lebanon by USD 265 million, while the contribution of entities operating outside Lebanon increased by 16%, from USD 128 million in 2018 to USD 149 million in 2019, underscoring a healthy level of diversification of income sources amid testing times in Lebanon. Bank Audi Egypt, Banque Audi (Suisse), and Bank Audi sal – Jordan Branches continued to be the largest contributors among entities operating abroad, with net profits of USD 79 million, USD 31 million and USD 11 million respectively. Subsequently, the contribution of entities operating abroad in total consolidated net profits increased from 25.5% in 2018 to 30.4% in 2019.

The analysis that follows focuses on the flows leading to the normalised net profits from operations, excluding the crisis related one-offs discussed above.

The decrease in the Group's normalised net profits resulted predominantly from a decrease in total income by USD 123 million (a contraction by 8.2%) amid a decrease in total costs (encompassing general operating expenses, credit costs and income tax) by USD 111 million (a decrease by 11.2%).

The decline in total income is broken down over a decrease in interest income net of withholding tax of USD 29 million, with a contraction in non-interest income generation by USD 94 million during the year.

Interest Income

In 2019, consolidated interest income achieved USD1,130 million as compared to USD 1,159 million in 2018, decreasing by USD29 million or a contraction of 2.5%. The decrease in net consolidated interest income stems predominantly from the additional USD 59 million of taxes on financial investments incurred this year in Lebanon following the increase by the Ministry of Finance of those taxes from 7% to 10% starting August 2019. Excised directly at the source, these new taxes include and are not limited to Lebanese taxes on investments in Treasury bills and certificates of deposit issued by the Central Bank of Lebanon, as well as on placements with the Central Bank of Lebanon and money market placements. Notwithstanding the above, interest income growth in 2019 was impeded by the surging cost of deposits, in particular in Lebanon. Cost of deposits in entities operating in Lebanon reached 6.2% as compared to 4.3% in 2018. Consolidated cost of deposits shifted from an average of 6.3% in 2018 to 7.8% in 2019.

Subsequently, the decline in net interest income is justified by a price effect as consolidated spread decreases by 3 basis points, from 2.73% in 2018 to 2.76% in 2019, with a lesser contribution from a quantity factor as average assets contracts by 3.6% over the year. The contraction in consolidated spread reflects a contraction in the spread of Lebanese entities by 7 basis points to 2.31%, as well as a spread of Odea Bank in Turkey by 7 basis point to 3.04%, and Bank Audi Egypt by 18 basis points to 3.93%.

Non-interest Income

Consolidated non-interest income decreased from USD 334 million in 2018 to USD 240 million in 2019, corresponding to a contraction by 28%. This contraction by USD 94 million is mainly attributed to USD 48 million of less income from financial operations (mainly derivatives), USD 20 million of less other operating income, and USD 33 million of less commissions.

In parallel, the decrease in consolidated net fees and commissions in 2019 relative to 2018 is justified principally by a lower credit volume and syndication activities in Lebanon, with retail credit-related fees dropping by USD 14.6 million over the period and commissions from Corporate Finance segment dropping by USD 13.3 million. The remaining shortfall arises mostly from negative FX translation effect following the depreciation of the TRY against the USD, amounting to USD 6.4 million. Net commissions represented 0.46% of average assets in 2019 as compared to 0.52% in 2018. In parallel, non-interest income accounted for 0.59% of average assets in 2019 as compared to 0.79% of average assets in 2018.

Cost of Credit

In 2019, Management allocated consolidated credit cost by USD 1.2 billion, of which USD 1.1 billion as a result of the unraveling and persisting severe economic and financial crisis in Lebanon to face the impact of the adverse developments that would trigger a surge in credit-impaired exposures. This staggering loss allowance level aimed, by order of importance, at:

- Providing fully for the Group’s exposure to Lebanese Sovereign Eurobonds based on the cash flows that the Group expects to receive following their sale at current market prices.
- Providing for all credit files in Lebanese entities, which have migrated to Stage 3, mainly in Bank Audi Lebanon as credit-impaired loans of Audi Private Bank are already fully provided for.
- Complying with the directive of BdL’s Intermediary Circular 543 dated 3 February, increasing effectively ECL on exposures to the BdL and Lebanese Sovereign bonds denominated in foreign currencies from 0.1% and 1.89% to 1.89% and 9.45% respectively.
- Allocating the remaining amount to allowance for ECL Stages 1 and 2.

By geography, the USD 1,242 million of credit loss allowances are broken down over USD 935 million allocation in Lebanese entities and USD 256 million allocation in entities abroad, of which USD 177 million by Odea Bank, USD 25 million in Bank Audi Egypt, and USD 29 million in entities operating in Europe.

Total Operating Expenses

Consolidated general operating expenses decreased year-on-year by USD 81 million, from USD 691 million in 2018 to USD 610 million in 2019. Excluding a contribution of foreign currency translation effect by USD 22.2 million, real saving achieved in 2019 amounted to USD 64 million and were partially offset by USD 13 million of one-off impairment expenses. These savings are split over:

- USD 44 million of one-off cost savings implemented in Bank Audi Lebanon as a result of the prevailing conditions, of which a release on bonus provisions which was earmarked for Bank Audi sal’s personnel.
- USD 13.4 million of actual cost reduction across several entities in the Group.
- Taking USD 10 million of provisions on repossessed assets.
- USD 6.8 million of cost saving tied to the implementation of IFRS16. In fact, the IFRS 16 rent reclassification decreases operating expenses by USD 23.4 million while increasing depreciation by USD 16.6 million

Cost to income ratio improved in 2019, achieving 44.5% as compared to 46.3% as at end-December 2018.

Income Tax

Consolidated income taxes from normalised operations achieved USD 124 million in 2019 as compared to USD 126 million in 2018, decreasing by USD 2 million. Subsequently, effective income tax stabilised in 2019 at 20.2% of profits before tax.

Components of ROAA and ROAE

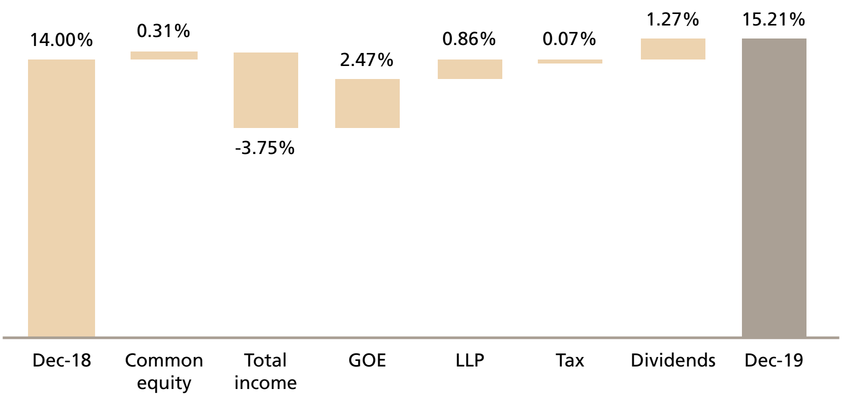
The provision allocation decision slashed the Bank's profitability ratios in 2019. Nonetheless, an analysis of the profitability ratio at consolidated level excluding the one-off flows tied to the recent crisis in Lebanon reveals that the return on average assets would stand at 1.19% as at end-December 2019 compared to 1.18% as at end-December 2018. In turn, net common income would have represented 15.2% of average common equity compared to 14% as at end-December 2018. The table below sets a breakdown of key performance indicators in 2019 and 2018:

KEY PERFORMANCE METRICS

	2018	2019	Change
Spread	2.73%	2.76%	0.03%
+ Non-interest income/AA	0.79%	0.59%	-0.20%
= Asset utilisation	3.52%	3.35%	-0.17%
X Net operating margin	33.52%	35.67%	2.15%
o.w. Cost to income	*46.24%*	*44.49%*	*-1.75%*
o.w. Provisons	*11.78%*	*10.79%*	*-0.99%*
o.w. Tax cost	*8.46%*	*9.05%*	*0.59%*
= ROAA	1.18%	1.19%	0.01%
X Leverage	10.58	10.73	0.15
= ROAE	12.49%	12.81%	0.32%
ROACE	14.00%	15.21%	1.21%

The chart below details the contribution of the various components to the movement in the return on average common equity ratio in 2019:

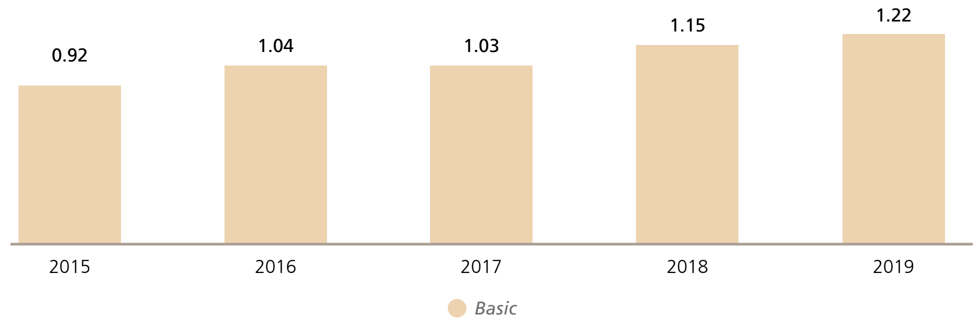
EVOLUTION OF ROACE IN 2019



Earnings per Common Share and Common Book per Share

Owing to the net loss realised in 2019, basic earnings per common share is in the negative territory reaching USD -1.52, decreasing from USD 1.15 in 2018. Adjusting to the exceptional flows registered in 2019, basic earnings per share would have reached USD 1.22, growing by 5.6% relative to 2018, an evolution justified by the no dividends payments on preferred shares as per BdL Intermediary Circular 532. Basic earnings per common share are calculated based on the weighted number of common shares in issue over the period and net profits after tax. For a comparison on equal basis, we exclude from the calculation net profits from discontinued operations in 2017, as well as the exceptional flows in 2019.

EARNINGS PER COMMON SHARE GROWTH (IN USD)



The table below sets out the common book per share as at end-December 2019as compared to end-December 2018:

EQUITY METRICS

(In USD Million)	Dec-18	Dec-19	Change	Percent
Shareholders' equity	**3,886**	**2,970**	**-916**	**-23.6%**
- Minority shares	144	131	-13	-9.0%
= Shareholders' equity group share	**3,742**	**2,839**	**-903**	**-24.1%**
- Preferred stock (including dividends)	642	600	-42	-6.5%
= Common shareholders' equity	**3,101**	**2,239**	**-862**	**-27.8%**
Outstanding number of shares (net of Treasury stock)	398,597	398,568	-29	0.0%
Common book per share (USD)	7.78	5.62	**-2.16**	**-27.8%**
Share price at end-December (USD)	4.90	3.50	**-1.40**	**-28.6%**
P/Common book	0.63	0.62	**-0.01**	**-1.6%**

The common book per share decreased from USD 7.78 as at end-December 2018 to USD 5.62 as at end-December 2019, mainly as a result of exceptional loss allowances booked on financial assets and loans, translating in net losses of USD 602 million during the year.

4.4. | RESULTS ACROSS MAIN DEVELOPMENT PILLARS

Bank Audi Group is a diversified banking institution with major entities operating in Lebanon, Egypt, and Turkey, in addition to a number of entities grouped under the Private Banking business line (including Audi Private Bank operating in Lebanon). Consolidated activity and results in 2019 were principally driven by those constituents.

The table below sets out the contribution of each those entities as at end-December 2019 as compared to end-December 2018:

	Dec-18		Dec-18 after Netting		Dec-19		Change Dec-19/18 after Net.	
(In USD Million)	Volume	Share in Total	Volume	Share in Total	Volume	Share in Total	Volume	%
Assets								
Lebanese entities	35,435	75.1%	30,507	72.1%	27,520	69.6%	-2,987	-9.8%
Turkey	6,073	12.9%	6,073	14.4%	5,551	14.0%	-522	-8.6%
Egypt	3,875	8.2%	3,875	9.2%	4,767	12.1%	892	23.0%
Private banking entities	3,170	6.7%	3,170	7.5%	2,614	6.6%	-556	-17.5%
Other entities	2,651	5.6%	2,651	6.2%	2,705	6.7%	54	2.0%
Consolidation adjustments	-4,004	-8.5%	-3,975	-9.4%	-3,622	-9.2%	353	-8.9%
Total	**47,201**	**100.0%**	**42,301**	**100.0%**	**39,535**	**100.0%**	**-2,766**	**-6.5%**

(In USD Million)	Dec-18 Volume	Dec-18 Share in Total	Dec-19 Volume	Dec-19 Share in Total	Change Dec-19/18 Volume	Change Dec-19/18 %
Deposits						
Lebanese entities	20,472	64.1%	18,190	61.5%	-2,282	-11.1%
Turkey	3,972	12.4%	3,718	12.6%	-254	-6.4%
Egypt	3,261	10.2%	3,995	13.5%	734	22.5%
Private Banking entities	2,457	7.7%	1,984	6.7%	-473	-19.2%
Other entities	1,851	5.8%	1,823	6.1%	-28	-1.5%
Consolidation adjustments	-58	-0.2%	-116	-0.4%	-58	100.0%
Total	**31,956**	**100.0%**	**29,594**	**100.0%**	**-2,362**	**-7.4%**
Loans						
Lebanese entities	6,111	46.1%	4,088	39.5%	-2,023	-33.1%
Turkey	3,522	26.5%	2,776	26.8%	-746	-21.2%
Egypt	1,738	13.1%	1,613	15.6%	-125	-7.3%
Private Banking entities	949	7.2%	880	8.5%	-69	-7.3%
Other entities	996	7.5%	1,057	10.2%	61	6.1%
Consolidation adjustments	-49	-0.4%	-65	-0.6%	-16	32.7%
Total	**13,267**	**100.0%**	**10,350**	**100.0%**	**-2,918**	**-22.0%**

Net Earnings	**FY-2018**		**FY-2019**		**Change**	
(In USD Million)	Volume	Share in Total	Volume	Share in Total	Volume	%
Lebanese entities	344	68.7%	-577	95.8%	-921	-267.7%
Turkey	10	2.0%	-99	16.6%	-109	-1,090%
Egypt	63	12.7%	79	-13.1%	16	25.4%
Private Banking entities	63	12.6%	-8	1.4%	-71	-112.7%
Other entities	21	4.0%	3	-0.7%	-16	-80.0%
Total	**501**	**100.0%**	**-602**	**100.0%**	**-1,103**	**-220.2%**

What follows is a brief discussion of the overall growth trends across other main constituents of the Group:

4.4.1. | LEBANESE ENTITIES

The year 2019 witnessed heightened political and economic pressures in Lebanon which has blown, since 17 October 2019, in a fiscal, economic, monetary and political crisis unprecedented in scope and scale, affecting the entire Lebanese banking sector, including Bank Audi, whose operations were significantly disrupted. Those challenges, as well as the repeated and successive downgrading actions on the credit rating of the Lebanese Republic, compelled regulatory authorities to issue a number of directives aiming at reinforcing the financial standing of Lebanese banks in the face of those developments. Among those measures, we highlight chiefly:

- Ceilings on cash withdrawals and informal capital control.
- Ceiling on cost of deposits in LBP and foreign currencies.
- No dividends distribution in 2019.
- 20% capital increase through cash contribution.
- Significant increase in ECL on foreign currency exposures on BdL certificates of deposit and sovereign Eurobonds.
- Increasing risk weights on a number of Lebanese asset classes while adopting the Basel standards for capital ratio minimum.

Those events called for a strategy change, with a new direction focused on solidifying the financial resilience of the parent company, while all resources geared toward boosting immediate liquidity and solvency in order to preserve the rights of all stakeholders.

At the performance level, total assets of Lebanese entities (excluding Audi Private Bank and including consolidation adjustments) decreased by USD 2.6 billion in 2019, driven by a decrease in customers' deposits by USD 2.3 billion within a net contraction of loans booked in those entities by USD 2.0 billion, with the remaining decrease attributed to the exposure to the Central Bank of Lebanon (please refer to the "Recent developments" section for a detailed analysis of those flows).

The decrease in deposits is justified by net cross-border outflows (checks and transfers) of USD 1.4 billion, net domestic flows of USD 0.3 billion, net cash withdrawals of USD 0.8 billion (of which almost two-third in LBP) and net loans repayments from borrowers' account with Bank Audi of USD 1.4 billion offset by other regular positive flows (interest posting, tax payments etc.) of USD 1.5 billion. In January 2020, the magnitude of that impact, which was also exacerbated by the significant false news campaign undertaken against Bank Audi, started to wind down; domestic transfers and cash withdrawals amounts dropped from a month's average of USD 265 million each to USD 115 million and USD 63 million in the first month of 2020 respectively. The same trend is observed at the level of net cros- border outflows, unrestricted flows as per the Association of Banks in Lebanon including payment of tuition fees, medical expenses, etc.

Over and above the de-risking policy, Management focused primarily in 2019 on active risk monitoring and management, transferring loan origination teams to collections and driving the decrease in loans by USD 2.0 billion across the different business segments. Loans contraction at Bank Audi in Lebanon has far exceeded the pace observed in the Lebanese banking sector, underscoring the significant collection efforts undertaken. Loans at Bank Audi decreased by 33% over the course of the year, reaching 31% in the fourth quarter alone.

In parallel, loan quality ratio deteriorated in 2019, with the ratio of credit-impaired loans to gross loans more than doubling, from 5% at end-December 2018 to 17.5% as at end-December 2019. Nonetheless, the 12.5% increase in the ratio is only partially justified by the increase in Stage 3 loans by USD 523 million over the period, to the extent of 8.2% whereby the remaining 4.3% are driven by the 25% contraction of gross loans. In parallel, credit-impaired loans coverage also increased from 69.5% as at end-December 2018 to 64.8% as at end-December 2019. The coverage of performing loans by allowance for ECL Stages 1 and 2 was also bolstered from 1.2% of total performing loans as at end-December 2018 to 4.8% as at end-December 2019.

Management also allocated a significant amount of provisions for the Lebanese Sovereign exposures: BdL's Intermediary Circular 542 dated 2 February 2020 effectively raised ECL on exposures to the BdL and Lebanese Sovereign bonds denominated in foreign currencies. In application of the said circular, Management decided to allocate provision over its entire exposure to sovereign Eurobonds, and the Bank booked USD 747 million of credit loss allowances. The Bank also transferred from general provisions USD 120 million to ECL earmarked for sovereign exposures (USD 95 million Stage 3 Eurobonds and USD 25 million Stage 2 BdL exposure).

Subsequently, Lebanese entities (excluding Audi Private Bank) recorded net losses of USD 577 million compared to net profits of USD 344 million in 2018. Outside of the one-off flows, the lower performance of Lebanese entities in 2019 stems predominantly from a surge of cost of deposits, the impact of additional taxes on financial investment, as well as lower non-interest income generation due to limited lending and market activity. In parallel, cost savings measures were achieved in Lebanese entities (excluding Audi Private Bank) mainly through the annual bonus release (USD 30 million) within other expenses release (USD 7.7 million).

4.4.2. | ODEA BANK

After the restructuring program launched a couple of years ago, the performance of Odea Bank in 2019 continues to underscore the ongoing deleveraging policy favouring, in priority, further enhancing the Bank's liquidity and solvency within a tight control on credit quality. Assets of Odea Bank increased from TRY 32 billion as at end-December 2018 to TRY 33 billion as at end-December 2019. In parallel, deposits of Odea Bank increased from TRY 20.9 billion as at end-December 2018 to TRY 22.1 billion, representing a rise by TRY 1.2 billion, mostly attributed to the FX translation effect of deposits denominated in foreign currencies, while growth remained sluggish in real terms. Loans to customers at Odea Bank contracted in real terms by TRY 3.4 billion in 2019, partially offset by a USD 1.4 billion FX translation effect, leaving a nominal decrease by TRY 2 billion, from TRY 18.6 billion as at end-December 2018 to TRY 16.5 billion as at end-December 2019.

(In TRY Million)	Dec-18	Dec-19	Change
Balance sheet data			
Assets	31,998	33,025	1,027
Deposits	20,929	22,122	1,193
Loans	18,556	16,516	-2,040
Equity	3,220	3,300	80
Outstanding LCs + LGs	2,366	2,376	10
Earnings data	2018	2019	Change
Total income	1,247.0	1,086.4	-160.6
Net profits	17.1	71.1	54.0
Spread	3.1%	3.0%	-0.1%
ROAA	0.1%	0.2%	0.2%
ROACE	0.4%	2.2%	1.8%

At the loan quality level, the credit-impaired loans to gross loans ratio increased from 8.6% as at end-December 2018 to 15% as at end-December 2019. This 6.4% increase is accounted, to the extent of 3.5%, by the contraction in gross loans by 19% over the year, leaving a real deterioration by 2.9%. The operating profits of Odea Bank were again fully allocated to loans loss provisions, hampering its contribution to the consolidated position. On a stand alone basis, Odea Bank posted net profits of TRY 71 million, corresponding to USD 12.6 million. However, on consolidated basis, Odea Bank contributed to the loss allowance taken on its exposure to Lebanese Eurobonds by USD 111 million, turning a negative contribution to consolidated results by USD 99 million. Odea Bank's exposure to those financial assets was liquidated in the first half of 2020 with a subsequent release of associated ECL, thus reaching a net profit of USD 9.9 million.

4.4.3. | BANK AUDI sae (EGYPT)

Bank Audi's activity in Egypt in 2019 was quite noticeable, benefiting from the relative improvement in the political climate of the country. Assets of the Egyptian entity posted at end-December 2019 a 10% growth relative to end-December 2018, driven by customers' deposits which grew by 11%. Notwithstanding, loans of Bank Audi Egypt decreased by 17% over the same period, driven by maturing loans which are yet to be replaced, with the excess funding boosting the entities liquidity position.

In 2019, the ratio of credit-impaired loans to gross loans moved from 2.40% as at end-December 2018 to 6.6% as at end-December 2019, with part of the increase justified by a quantity increase within the context of doubling credit-impaired loans at end-December 2019 relative to end-December 2018, following the reclassification of 2 large files to Stage 3.

(In EGP Million)	Dec-18	Dec-19	Change
Balance sheet data			
Assets	68,401	75,269	6,868
Deposits	58,757	65,107	6,350
Loans	31,182	25,938	-5,244
Equity	6,730	7,149	419
Outstanding LCs + LGs	5,222	4,463	-759
Branches	46	53	7
Staff	1,456	1,567	111
Earnings data	2018	2019	Change
Total income	3,022.3	3,281.6	259.3
Net profits	1,267.4	1,402.9	135.5
Spread	4.0%	3.9%	-0.1%
ROAA	2.1%	2.0%	-0.1%
ROACE	20.7%	21.1%	0.4%

As per local standard.

Performance wise, Bank Audi sae (Egypt) reported EGP 1.4 billion in net profits after provisions and taxed in 2019, compared to EGP 1.3 billion, corresponding to a growth by 11%, driven predominantly by an expansion of interest margin by 17% over the year. Subsequently, profitability ratios of Bank Audi Egypt continue to be the largest in the Group, with an ROAA of 2% and ROACE of 21.1%.

4.4.4. | PRIVATE BANKING ENTITIES

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

(In USD Million)	Dec-18	Dec-19	Change
Balance sheet data			
On-balance sheet assets	**3,193**	**2,677**	**-516**
Total client assets	**10,973**	**10,493**	**-480**
o.w. AuMs (off-balance sheet)	5,443	5,198	-245
o.w. Deposits (on-balance sheet)	2,457	1,981	-476
o.w. Fiduciary deposits (off-balance sheet)	3,073	3,314	241
Client loans	**949**	**880**	**-69**
Equity	**452**	**445**	**-7**
Earnings data	2018	2019	Change
Total income	**150.1**	**151.5**	**1.4**
Net profits	**63.1**	**-8.3**	**-71.4**
Spread (on AA + AAuMs)	**0.6%**	**0.6%**	**0.1%**
ROAA + AAuMs	**0.5%**	**-0.1%**	**-0.6%**
ROACE	**15.2%**	**-1.8%**	**-17.0%**

Client assets (comprising of client deposits, as well as off-balance sheet AuMs including AuMs, fiduciary deposits and custody accounts) at Audi Private Bank slightly decreased by 4.4% to USD 10.5 billion at end-December 2019, due to difficult market conditions. In 2019, Private Banking entities generated a loss of USD 8.3 million, as compared to a gain of USD 63.1 million in 2018, due to provision charges on Lebanese Sovereign Eurobonds of USD 60.5 million, coupled with Stage 3 provision of USD 16 million. Net profits excluding exceptional charges in 2019 amounted to USD 68.5 million.

4.5. | PRINCIPAL BUSINESS ACTIVITIES

4.5.1. | COMMERCIAL AND CORPORATE BANKING

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

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

During 2019, and on the backdrop of the Bank's overall strategy to contain its credit portfolio and the deterioration in the operating and economic environments in Lebanon, specifically in the fourth quarter of the year, total lending by Corporate and Commercial Banking decreased by 23%, from USD 10.5 billion as at end-December 2018 to USD 8.1 billion as at end-December 2019.

Despite the significant decrease (23%) in the credit portfolio, total revenues generated by Corporate and Commercial Banking reached USD 366 million in 2019 as compared to USD 419 million in 2018, translating to a reduction by 12.7%.

In Lebanon – With a portfolio of USD 2.7 billion, Bank Audi remains the largest contributor to the corporate and commercial lending segment in the Lebanese banking sector. The Bank's lending activity was directed towards (i) supporting sustainable investments promoting Lebanon's transition to a green economy, (ii) playing a key role in structuring and funding Lebanon's pipeline of infrastructure projects, with an increased emphasis on the power sector, and (iii) maintaining key strategic relationships with top tier corporates.

Having said this, the political and economic developments in the last quarter of 2019 have forced banks to limit their commercial and corporate activities as follows:

- Assisting clients in procuring foreign currency needed for the import of petroleum products, wheat and pharmaceutical products through Central Bank of Lebanon Decree 530 which requires clients to procure between 15% to 50% of the imported amount in foreign currency while the rest is procured from the Central Bank of Lebanon at the official exchange rate.

- Allowing clients to transfer to suppliers abroad any amounts they deposit in cash at our counters or they receive through transfers from abroad to maintain the flow of vital goods to Lebanon, noting the difficulty in obtaining confirmations by correspondent banks on letters of credit issued by Lebanese banks.

It is worth noting that the corporate and commercial portfolio witnessed a decrease of USD 1.6 billion during 2019 as a result of clients (i) carrying out set-offs of debt against deposits and (ii) increased real estate activity whereby clients have been resorting to real estate; real estate developers have applied the sale proceeds to deleverage.

In Turkey – As at December 2019, the corporate and commercial loan portfolio at Odea Bank reached USD 2.6 billion, down by 19% when compared to USD 3.2 billion as at December 2018, out of which 8% is attributed to the devaluation of the Turkish Lira. This decrease is in line with the Bank's continued strategy to concentrate on the anchor relationships with cross-selling opportunities.

In Egypt – The corporate and commercial loan portfolio at Bank Audi Egypt reached USD 1.1 billion as at December-2019, representing 14% of the overall corporate and commercial lending portfolio of the Bank.

4.5.2. | RETAIL BANKING

In 2019, the retail business line continued to operate within the Group's conservative retail credit policy favoring asset quality enhancement and profitability over size, especially with the prevailing vulnerability in the economic and political environment across Lebanon and the region. Translated in USD, the consolidated retail loans decreased from USD 2.8 billion at end-December 2018 to USD 2.4 billion at end-December 2019. The contraction is mainly driven by the continued deleveraging of the retail portfolio of Odea Bank in Turkey, while the Bank focuses on efficiency and asset quality.

The breakdown by products, as at end-December 2019 shows that housing loans backed by mortgages constituted 45.5% of the consolidated retail loan portfolio, followed by personal loans with 30.5%, credit cards with 13.7%, and car loans with 8.7%, in addition to 1.4% of small/multipurpose loans.

The ratio of credit-impaired retail loans to gross retail loans increased in 2019 to 10% as at end-December 2019, from 5.1% the previous year. The ratio takes into account fully provided for bad debt or loans identified as subject to write-off, but not written off due to regulatory requirements and or market practices. Excluding these loans, the ratio of credit-impaired retail loans would reach 5.2% of gross retail loans as at end-December 2019. 83.3% of credit-impaired retail loans are covered by allowance for ECL Stage 3 (excluding collaterals), while the credit loss allowance for Stages 1 and 2 retail loans amounted to USD 111 million as at December 2019.

The following analysis highlights the Group's Retail Banking activity and its evolution in 2019 across main geographical development pillars:

Bank Audi Lebanon (BASAL) aimed in 2019 at enhancing user and customer experience, leveraging its digital platform and strengthening its deposit portfolio. The main objective was to improve profitability and achieve operational excellence. This was driven by three main pillars: (1) upgrading IT infrastructure; (2) revamping retail offering basket; and (3) continuing to migrate customers to alternative delivery channels (ADC).

At the beginning of 2019, Bank Audi Lebanon achieved a smooth implementation of the remaining series of its "Transformation Projects" without disrupting branches' operational aspects. This included one of the largest projects, the new Core Banking System – FLEXCUBE, migrating 450,000 customers from legacy system, in addition to Customer Relationship Management (CRM) modules. Post FLEXCUBE core banking implementation, the Bank went through a six-month stabilisation period which was shortly followed by a series of enhancements and fixes. This included the creation of new deposit accounts with an upward interest rates re-pricing, in line with its fresh fund acquisition strategy. Enhancements also included product revamps that addressed payroll proposition by facilitating salary processing via payment orders, in addition to an upgrade of the Youth proposition backed by social media efforts.

On the digital front, the Bank continued to promote migration to ADC by communicating free operations that are usually commissioned in branches, along with other initiatives such as launching its first home-based web series, "Café El Hay", as a way of educating clients and providing them with needed information on the use of ADC. As for the Bank's contact center, an exclusive line was dedicated to better serve privileged customers. The new number, "1560", has become operational to assist clients through a personalised fast-track service. This allowed the Bank to achieve a 70% average migration rate throughout the year, which translates to a total of some 16.8 million transactions (including ATMs) out of which 14 million ATM transactions, 327,000 ITM transactions, and 2.5 million AOL transactions (26 million Mobile/Internet Banking logins), and 1.2 million answered contact center calls catering to 27,000 transactions.

As part of its ongoing digital innovation, the Bank set up "myNOVO", its first Digital Banking platform that provides a full fledged digital experience through its remote acquisition tool and its sales/relationship management functionalities. This innovation allows clients to open an account via video call, carry out payments, and apply for different products/services, in addition to modifying their features. This solution fills the gap for more than 80% active retail customers (circa 208,000 who are digitally served yet do not enjoy a full fledged digital solution). Digital innovation efforts did not only target the customer front, but also extended to the automation of its back end processes through Robotic Processing Automation (RPA).

While the Bank's retail business line was progressing since the beginning of the year, the flow was interrupted in Q4 2019 by a large chain of protests hitting Lebanon as the country's economic situation started declining. Early on, Bank Audi's Management had started taking the needed precautionary measures to absorb the related impact. The Bank shifted from the previously exerted efforts in innovation and technology to focusing on regaining customer trust, with an aim to navigate its business through the crisis for a more resilient performance under such adverse conditions, specifically touching upon lending, card and ADC promotion/restrictions, Central Bank (CB) exceptional regulations, Foreign Currency (FC) cash withdrawals, along with external transfer controls.

With economic activity slowing, the Bank continued to reschedule and restructure debt packages, offering ways of putting debt repayments back on a realistic and sustainable basis. Lebanon's October 2019 events resulted in banks' closure for a period of two weeks, as a response to the decisions of the Association of Banks in Lebanon (ABL) to ensure the safety of employees and avoid an expected run on banks. Customers' banking needs were promptly catered to during bank closure through Bank Audi's fully integrated 24/7 Contact Center and ADC (i.e. ATMs, Interactive Teller Machines [ITMs], Mobile and Online Banking). Contact Center agents not only answered all clients' inquiries efficiently, but also contacted all unanswered calls that reached in total 7,000 per day at its peak. Customers lined up at Bank Audi's ATMs and ITMs in order to withdraw salaries and have cash on hand. During the longest closing period in Lebanon's history, the Bank constantly replenished its ATM network, around the clock, with USD and LBP bank notes to absorb high customer demand. Also, internal efforts were exerted during bank closure by our NOVO agents to perform several transactions such as debit card issuance and delivery, sub-account opening for companies to transfer employees' salaries, cash transactions, emergency money transfers, salary payments for retired individuals, as well as credit card replacement and renewal. More than 100,000 of Bank Audi Lebanon's clients were served, with around 300,000 transactions performed through digital channels mainly ATMs and Audi Online. Bank Audi mobile app and Audi Online were restricted to own-account and internal transfers, as well as credit card payments. ATM services were also provided to non-Bank Audi clients. The silver lining of this crisis is that the events ensured a smooth migration to ADCs and directed customers to self- service platforms.

On 1 November 2019, banks were up and ready to receive clients for extended working hours until 5:00 pm for two consecutive days. While authorities refrained from imposing capital outflow controls, most banks in Lebanon appear to have imposed their own restrictions until 18 November, when ABL agreed to a set of temporary directives for banks, including the following: (1) a USD 1,000 cap on weekly withdrawals from USD accounts; (2) restrictions on transfers abroad; (3) caps on the use of ATM cards outside Lebanon; and (4) exemption of new deposits from controls through the creation of new "External" accounts for personal or business use which can be funded strictly through fresh money or incoming transfers from outside Lebanon. Also, limits set on withdrawals or transfers do not apply on the said new accounts, with an aim to uplift the country's monetary crisis. The capital control remains informal as of the date of this report. Meanwhile, the retail business line exerts continuous effort to work on business development and better serve clients despite situation in the country.

Bank Audi Egypt (BAEGY) mainly focused in 2019 on (1) enriching its card portfolio; (2) expanding its network and presence; (3) investing more in its e-payment solutions.

BAEGY launched "World Business", the most prestigious credit card, to better serve its corporate clients. The Bank expanded its card portfolio by introducing the "Meeza" card, a new national e-payment card which allows customers to shop online locally, execute transfers, settle government payments, and perform cash withdrawals from ATMs/POS. The Bank also implemented "Nafeza", its new e-finance payment solution, at its airport branch, allowing cross-border traders to submit regulatory documents on the one hand, and the country's unbanked population to perform diverse payments on the other. In light of its strategic plan to further expand in Egypt, Bank Audi opened its new head office branch in one of the most prestigious locations in New Cairo, serving distinguished customers alongside others branches, and reaching a total network of 49 branches including 3 islamic branches. Through this step, BAEGY aims at reaching new segments while offering top products and services to clients.

Bank Audi Jordan (BAJO) – 2019 was an exciting year for 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 Jordanian market, Bank Audi Jordan continued to enhance its value proposition and address the needs of affluent clientele to increase its market penetration via-a-vis fierce competition.

In Turkey, **Odea Bank's** target for 2019 was to be the first recalled deposit and investment bank. In 2019, the Bank successfully reached its objective, with the increase of the share of demand deposits in total of 12.7% in comparison to last year. In line with the business strategy, Odea Bank became more cost-centric by de-risking its credit card portfolio, out of which the number of credit cards reached 147,896 in 2019, with a corresponding volume of USD 38.8 million. In 2019, four new branches were opened and the team grew by 1%.

Odea Bank's digitalisation and customer-oriented strategy has brought forth "Bank'O Sube", the first ever "branchless" branch in the sector which serves customers through digital channels by offering them a wide range of banking transactions in a faster and more convenient way.

4.5.3. | PRIVATE BANKING

Bank 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).

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

Bank Audi Private Bank's entities have consolidated assets under management (comprising of assets under management, fiduciary deposits and custody accounts) reached USD 8.5 billion at end-December 2019. In Switzerland, Banque Audi (Suisse) represents the main Private Banking arm of the Group, with over USD 5.8 billion in AuMs, while in Lebanon, Audi Private Bank is the largest wholly-owned Private Banking entity, with circa USD 1.8 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 0.9 billion.

The restructuring of the Private Banking business line continues to advance, with the Private Banking entities and related business grouped under one legal operating holding. The Private Banking entities now have the same management structure which will progressively ensure better synergy and accountability, effective management, Corporate Governance, and alignment of business objectives.

4.5.4. | TREASURY AND CAPITAL MARKETS

In 2019, confidence in the Lebanese economy declined significantly: it had taken 8 painful months to form a government (at the end of January) and the twin deficits were deteriorating due to (i) expansionary fiscal policies adopted at the end of 2017 and (ii) the decline in foreign currency inflow in spite of an attractive interest rate environment.

In this climate, the banking sector witnessed significant conversions of deposits from LBP into USD.

The Bank managed the flow of conversions by maintaining adequate liquidity in LBP and by gradually taking certain restrictive measures. BdL intervened in September and announced it would subsidise 3 vital sectors at the official exchange rate (BdL Circular 530).

In addition, Eurobond prices declined and CDs rose to unprecedented levels while a Eurobond issue scheduled for April 2019 was postponed.

Two weeks after the beginning of mass protests (on 17 October), the new government resigned. The uncertainty and lack of confidence shifted the economic system into a cash economy. As a result, the Bank decided to take measures to preserve foreign currency liquidity abroad, to monetise some of its foreign assets, to encourage deleveraging, and to attract new foreign currency deposits.

5.0. | DIVIDEND POLICY

At the ordinary general meeting of the Bank's shareholders held on 12 April 2019, the Bank's shareholders approved the distribution of dividends out of the Bank's net income in 2018, of USD 6.50 per series "H" preferred share, USD 7.00 per series "I" preferred share, USD 7.00 per series "J" preferred share, and LBP 829.125 per common share, after deduction of withholding tax, where applicable. Total dividends paid in respect of 2018 represented 52.2% of the Bank's net earnings for 2018.

Payment of Dividends

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

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

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

The Bank is legally required to establish and maintain a legal reserve to which an amount equal to 10.0% of the annual net profits after taxation must be transferred each year until such reserve reaches one-third of the Bank's share capital. The legal reserve is distributable only upon the liquidation of the Bank.

In addition, Central Bank Decision 7740, dated 21 December 2000, as amended, provides that banks are required to establish a special reserve for properties acquired in satisfaction of debts and not liquidated within the required delays. The Banking Control Commission Circular 4/2008 provides that banks must establish such special reserve at the end of the fiscal year during which the acquired property should have been liquidated. This special reserve shall be withheld from the annual profits and shall not be accounted for as an expense in the profit and loss account, in accordance with IFRS. Pursuant to Central Bank Decision 12116 dated 26 October 2015, as amended, the special reserve should be constituted over a period of 20 years.

In accordance with the Banking Control Commission Circular 270 dated 19 September 2011, the Bank was required to allocate the value of gross unrealised profits on financial assets at fair value through profit or loss as a special reserve. This reserve is not available for dividend distributions until such profits are realised and released to the Bank's general reserves.

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

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

In 2019 and 2020, the Central Bank issued two circulars impacting the Bank's dividend distribution policy: in November 2019, BdL Intermediary Circular 532 restricted banks operating in Lebanon from distributing dividends from 2019 profits, while Intermediary Circular 543 issued in February 2020 prohibited banks from paying dividends on future periods if capital adequacy ratios fall below the newly introduced levels of 7%, 10% and 12% respectively for CET1, Tier 1 and Total Capital. Pursuant to those circulars, the Board of Directors recommended to the Ordinary General Assembly, in its April 2020 meeting, not to distribute common and preferred dividends on the 2019 exercise.

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

	2014	2015	2016	2017	2018
Common earnings	**320.0**	**380.3**	**439.7**	**516.6**	**458.9**
Dividends on common shares	159.7	159.9	199.9	219.9	219.9
Dividends per common shares (USD)	0.40	0.40	0.50	0.55	0.55
Payout ratio on common shares	49.9%	42.1%	45.5%	42.6%	47.9%
Dividends on preferred shares	**30.4**	**22.9**	**30.4**	**42.4**	**41.6**
Total dividends	**190.1**	**182.8**	**230.2**	**262.2**	**261.5**
Net earnings	**350.3**	**403.1**	**470.1**	**559.0**	**500.6**
Total payout ratio	**54.3%**	**45.3%**	**49.0%**	**46.9%**	**52.2%**

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 increased from 5% to a current 10%.

6.0. | RISK MANAGEMENT

While in Lebanon the Bank has been operating in essentially crisis management mode since the last quarter of 2019, it nevertheless maintained close risk oversight on its various entities.

6.1. | EVOLUTION OF THE GROUP'S RISK MANAGEMENT FRAMEWORK

IFRS 9
The Group applies the IFRS9 standard on a consolidated basis. This necessitates the estimation of the Probability of Default (PD) and Loss Given Default (LGD) for each portfolio by country of operation and segment. The Group, to the most extent possible, has relied on its own historical information to estimate PDs and LGDs, and when such information was not available internally and for selective portfolios, the Group has used external information such as the PDs and LGDs reported by various external rating agencies. In Lebanon, in light of the crisis that developed in Q4-2019, the Central Bank of Lebanon has published regulatory ECL ceilings for Lebanese Sovereign and Central Bank exposures. Given that ECL estimation includes a forward-looking component, the Group relies on its Research Department to provide forward-looking economic views on three scenarios: Base, Upside and Downside, including an assigned probability of occurrence for each scenario. From a governance perspective, a Group IFRS9 Impairment Committee at the executive level was set up to oversee credit asset quality and trends, review ECL results, and approve both staging classification and forward-looking economic scenarios, among others.

Recovery Plans
In line with the Central Bank of Lebanon's directive (Basic Circular 141 issued in 2017) requiring banks operating in Lebanon to submit recovery plans for material entities of a banking group, Bank Audi prepares and submits such plans to the Lebanese supervisory authority, usually on a yearly basis. Other entities of the Group also submit such plans to their supervisory bodies.

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

During the developing crisis in Lebanon, the Bank has activated several of the recovery and remedial actions listed in its recovery plan for Lebanon, mainly to provide support for its liquidity and solvency positions.

ICAAP
During 2019, the Bank continued to conduct its yearly Internal Capital Adequacy Assessment Process (ICAAP) at the Group level and for entities in Turkey, Egypt, Saudi Arabia, and Jordan.

The ICAAP 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 both normal and severe stress scenarios. It also enables the use and reporting of economic capital, which reflects the Bank's own views of capital requirements.

Stress Testing
Stress testing is used to measure the Bank's vulnerability to severe and plausible events, and its impact on solvency, profitability, liquidity and franchise.

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

6.2. | PRIORITIES FOR 2020

In 2020, the priorities, from a risk perspective, include taking the necessary measures to ensure that the Bank is able to navigate through the Lebanese crisis and the unfolding of the COVID-19 pandemic with the least possible impact, mostly from liquidity and asset quality perspectives, and also strengthening the Group's cyber security resilience.

In order to maintain good asset quality, the Bank will continue to increase its efforts on the collection of delinquent loans, as well as on following up with borrowers that are exhibiting increased credit risk due to, among other reasons, delinquent or restructured status. Naturally, these efforts vary by jurisdiction, taking into account local circumstances, in particular the crisis in Lebanon.

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

6.3. | CREDIT RISK

6.3.1. | CORPORATE CREDIT

The consolidated non-retail net loan portfolio contracted by 22.8% in 2019, from USD 10.5 billion as at 31 December 2018 to USD 8.1 billion as at 31 December 2019, with most of this contraction being attributed to the reduction of Bank Audi Lebanon's non-retail portfolio as a result of the adopted de-risking strategy.

6.3.2. | RETAIL CREDIT RISK

The development and deployment of application scorecards continued and was finalised throughout 2019, covering various consumer products in all entities. With this development, Bank Audi has largely completed the transition of credit decision platforms to reliably consistent ones which enhance the predictability of risk.

6.3.3. | LENDING IN THE PRIVATE BANK

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

6.4. | OPERATIONAL RISK

Operational risk is the loss or damage that may result from inadequate or failed internal processes, people, systems and external events. Legal risk is also covered in the definition of operational risk, which excludes strategic and reputational risks.

The first pillar upon which the mitigation of operational risk rests is a robust Board-approved framework that sets a sound governance, along with high-level standards and guidelines for managing operational risks, while ensuring compliance with laws, regulations and best practices. The second pillar is the effective implementation of this framework, which should be subject to periodic reviews to maintain its relevance given the Bank's operating environment and the overall strategy of the Group.

At Bank Audi, the management of operational risk is decentralised and based on a three-line-of-defense approach. Business line managers act as a first line of defense by managing operational risks arising from their daily activities. The second line of defense is assumed by several support functions that mainly include: Operational Risk, Corporate Information Security and Business Continuity, Compliance, Regulatory Compliance and Internal Control. Internal Audit, which constitutes the third line of defense, provides an independent assurance on the effectiveness and relevance of the operational risk framework, through audits carried out according to local regulatory requirements and standard industry practices.

Operational risks are identified, assessed, monitored and controlled through risk and control assessments, key risk indicators, incident reporting, and risk sign-offs on new or major changes in products, services, processes, systems and outsourced activities. All these activities constitute the key elements of the Board-approved Group Operational Risk framework. To support a sound, efficient, consistent and standardised group-wide adoption of operational risk management practices, the Bank uses a centralised operational risk solution across entities. As an additional layer of mitigation against operational risk events, the Bank purchases insurance coverage against risks such as cybercrime, computer crime, infidelity, professional indemnity, property, political violence, external fraud on credit cards, etc.

The deteriorating operating environment in Lebanon, which started in October 2019, brought major stress upon the operations of branches and several departments. This stress sometimes materialised in terms of physical attacks and damage to assets, increased clients' queues, requests and complaints, as well as sit-ins in branches and disrupting normal operations, legal notices from clients, etc.

Given these new challenging operating conditions, Management implemented a range of containment measures to address non-financial risks (i.e. operational, reputation, cyber, business continuity, litigation and compliance risks), in addition to financial risks. These measures are being reviewed continuously in light of the evolution of the situation.

6.5. | BUSINESS CONTINUITY AND INFORMATION SECURITY RISK

Bank Audi is committed to protect the interest of its stakeholders and 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 and cyber security posture, improve crisis management and the handling of security incidents, as well as ensure the continuity of business operations.

6.5.1. | INFORMATION SECURITY

The Bank adopts a proactive risk-based management approach to protect its information assets, prevent data loss, reduce its vulnerability to cyber attacks, and improve the security of its systems, networks and underlying IT infrastructure. Risk and vulnerability assessments are conducted on a regular basis to identify threats and vulnerabilities to information assets, and appropriate measures are implemented to reduce identified risks to an acceptable level. 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 to improve the monitoring of critical activities, as well as the effectiveness of information security controls, especially those pertaining to cyber security, data leak prevention, data privacy, change management, and logical and physical access.

6.5.2. | CYBER RESILIENCE

Given the worsening effects of cyber crime globally, especially in the banking sector, the Bank remains abreast of the latest cyber security trends, threats, countermeasures, technologies and tools, through ongoing research and continuous education. As a result, it has implemented several technical and non-technical measures to minimise the risks from a cyber attack and to strengthen its cyber resilience posture. In addition, external expert support is sought when needed.

6.5.3. | 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 disrupting its operations, such as a system failure, staff absences due to a pandemic or inaccessible primary head office locations. To that effect, 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 by ensuring their timely resumption. This plan identifies business continuity teams and the role of each, calling trees, emergency procedures, vital records, assembly points among other items. The BCP is updated on an annual basis and upon major changes. Several tests are conducted on a yearly basis to evaluate the effectiveness of the Bank's Business Continuity readiness. The BCP was activated several times since 17 October 2019 events, including during the COVID-19 pandemic lockdown in 2020, to support the continuity of business operations by hosting key personnel who were not able to access their usual office in alternate places. In addition, the Bank regularly updates evacuation procedures and conducts fire drills at its headquarters.

6.6. | ALM AND LIQUIDITY RISK MANAGEMENT

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

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

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.

6.6.1. | LIQUIDITY ADEQUACY

Management considers the Bank's liquidity position to be generally above adequate in all non-Lebanese entities and, given the ongoing crisis in Lebanon and de-facto imposition of capital controls, to be manageable in Lebanese entities.

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

6.6.2. | 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.

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

The Bank calculates the Interest Rate Risk in the Banking Book (IRRBB) capital charge as per the Basel III approach.

6.6.3. | 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 idiosyncrasies. 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 entities, both in idiosyncratic and systemic market stress conditions.

6.7. | MARKET RISK MANAGEMENT

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

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

The Bank's main exposure to FX risk as at 31 December 2019 stems mainly from its structural FX positions resulting from market turbulence in Lebanon and its equity investments in banking subsidiaries.

7.0. | DEPLOYED RESOURCES

7.1. | INFORMATION TECHNOLOGY

2019 has been a challenging year, with its second half witnessing the beginning of an economic and monetary crisis that took its toll on the country as a whole, and consequently on the banking sector.

Nevertheless, and despite the turmoil and the uncertainty, **Bank Audi Lebanon** continued to deploy its best efforts to preserve its level of excellence in every service it provides, and to warrant its customers with a holistic secure and up-to-date banking experience.

As usual, the Information Technology (IT) Department continued to hold its position as a key stakeholder, and a full-fledged partner in any of the Bank's strategies or visions.

In that perspective, the IT department sustained its efforts in reducing operational cost, and making a more efficient and effective use of its resources. In addition, the IT department worked towards further investing in its human capital development for improved productivity.

Primarily, 2019 was a year where the bank started reaping the fruits of its transformation program initiated few years earlier, building on what has been achieved, and always going the extra mile.

On the technical side, last year saw the development of additional features on e-channels aiming at enhancing the banking experience of all the Bank's valued customers.

Moreover, as part of the Bank's continuous efforts to enhance and firm up its security measures and policies, the project of implementing an Identity Management solution greatly progressed and reached its final stages. This solution, when fully deployed, would alleviate user access operations and reduce operational cost, in addition to having a more controlled environment in terms of role-based access provisioning and automation, better segregation of duties, and less accidental violations of audit requirements and security directives.

Furthermore, 2019 witnessed the implementation of a robotic process automation solution to emulate human execution of business processes and workflows, hence using automation for improved efficiency.

Bank Audi Jordan completed in 2018 the project of upgrading its IST switch, and deployed new ATM machines to provide its customers with additional enhanced banking solutions. In addition, Bank Audi Jordan kick-started in 2019 the project of elevating its core banking system.

Bank Audi Egypt worked in 2019 on enhancing its Trade Finance system and implementing an OMNI channel solution.

7.2. | HUMAN RESOURCES DEVELOPMENT

2019 was a year of major challenges and turmoil for the Bank and HR alike. While the first three quarters of the year were relatively "regular", with focus on the business, transformation, human capital and wellbeing, the last quarter witnessed a turning point in Lebanon at the economic, political and social levels. Hence, the Bank and all its functions began operating under a Crisis Management Modus Operandi.

With the go live of the new Core Banking System on 1 January 2019, the primary focus of the HR team was to provide extensive on-site support to all branch employees, in addition to ensuring that all their inquiries and technical issues were resolved on a timely basis. HR collaborated as well with concerned stakeholders for the implementation of several technical solutions to ensure that systems remain up-to-date with market trends and compliant with new rules and regulations.

Parallel to its role of change agent in the Transformation program of the Bank, HR played a major part in the opening of additional branches throughout 2019 to enhance customer service, and managed the redeployment of employees throughout the different geographical areas of Lebanon for optimal performance and results.

Along the same lines, the HR team implemented the Talent Identification Exercise assessing employees based on performance and potential, and categorising them following the 9-box grid methodology. As a result, the HR team updated the detailed view it has of the capabilities and development needs of the Bank's workforce. Consequently, HR managed to promote 324 employees, out of which 14 assumed branch managerial positions.

As for the development needs of the Bank's top talent and core employees, they were covered with over 42,169 training hours targeting technical and behavioural skills, in addition to consistently ensuring compliance with the Central Bank's certification requirements.

In fact, 788 employees participated in the Bank's Training Academy spread out over 60 sessions of specialised technical and behavioural courses; and 19 others attended overseas trainings spanning over 15 various topics covering international best practices and trends in employees' areas of expertise.

Moreover, 19 employees took part in the third cohort of the Branch Management Program which exposes participants to an intensive learning environment, covering both technical and managerial aspects, and prepares them to take on more senior positions.

Keeping up to date with the latest HR trends and best practices, the HR team, through internal certified coaches, initiated customised coaching sessions to employees to help them advance and guide them towards optimal decisions that can better shape their careers.

Customarily, educational advancement remained a focal point for the Bank. As such, the Bank granted 25 sponsorships to employees from various departments and branches to pursue higher education in local and international top-tiered universities such as Instituto de Empresa in Spain and London Business School in the UK. Among the 25 employees, the Bank sponsored six employees, allowing them to obtain professional certifications and banking studies related to their line of work.

Additionally, the HR team's Human Capital focus went beyond borders, primarily through a close collaboration with the Egyptian and Jordanian entities regarding Employee Engagement. As such, engagement survey results were shared and analysed with both entities' Senior Management, and action plans were set and followed up on throughout the year. The HR team also provided overseas entities with support and guidance at the HR operational level and had a major input on the set-up of sister companies.

While Human Capital, learning and growth have always been paramount at Bank Audi, employee wellbeing emerged as another important driver to Employee Engagement. As such, HR organised several casual gatherings where employees had the opportunity to express their thoughts, reflect their concerns and communicate their views directly with Senior Management.

Furthermore, employee wellbeing meant providing employees and their families with valuable benefits, notably through the Bank's partnership with Saint Joseph University – Dental Care Center where they were given the opportunity to benefit from dental care mostly covered by the Bank.

The Bank also collaborated with a renowned dietary clinic to perform free Body Composition Tests for all interested employees at the Bank premises, in addition to consultations and follow-up sessions at discounted prices at the Bank's infirmary over a period of 4 months.

Learning and wellbeing at Bank Audi covered not only its Human Capital, but also future generations and society at large. In fact, Bank Audi believes that learning is key in building an intellectually aware, knowledgeable and accomplished society.

As such, HR efforts targeted future generations through the Student Internship Program. In addition to the on-site internship in branches/departments, 450 students were given the opportunity to select from and attend, for the first time, a series of workshops covering 12 themes of interest for their future career goals. HR also allowed high school students to go through a "One-Week Corporate Work Experience" at the Bank, exposing them to its major business lines and banking operations.

In the same spirit, and for the 12th consecutive year, the Bank held its annual "Pro-Family" celebration that encourages teenagers to seek education and academic excellence. For that, 25 children of fellow colleagues were rewarded for their exceptional results in the Baccalaureate – Part II and offered scholarships based on their results.

Moreover, and under the umbrella of wellbeing extended to future generations, the Bank organised, for the second year, a series of activities targeting employees' children and addressing different topics, awareness sessions and fun activities to help them cope with life's realities. Similarly, and in order to introduce employees' children to major landmarks, Bank Audi arranged a "Hop-On Hop-Off" Beirut bus tour, followed by lunch at the Bank premises.

Additionally, wellbeing includes giving back to society. As such, the Bank teamed up with the Ministry of Environment in their nationwide beach and underwater cleanup campaign. Employees and their families enjoyed a fun cleanup operation day guided by experts, with the objective of cleaning the shores and sensitizing the young generations on the importance of respecting nature and enjoying a clean society.

With the October 17 revolution, HR, like other functions at the Bank, had to re-think its priorities and started adapting to the daily and fluctuating needs of the business.

The primary focus was serving customers at its best despite the most challenging conditions, while providing a safe, stable, healthy and comforting work environment to employees. Again, on-site support to branch employees was extensively needed, yet for different reasons. After 14 days of closure during the months of October and early November, 125 employees from the head office were temporarily deployed in branches to answer customers' needs, issues and requests. The teams' efforts, energy and support helped spread a positive spirit throughout this difficult period. This initiative was repeated during other critical days, making sure assistance was provided, notably to branches mostly in need.

Increasing Contact Center staff and security personnel throughout the different locations were both of paramount importance. The former initiative served increasing customers' inquiries and the latter targeted staff security. Other focus areas during this period were about communicating new and revised decisions to concerned employees on real-time basis.

Finally, yet importantly, 2019 demonstrated the HR team's resilience with regards to keeping its momentum and spirit as a major force supporting the Banks' main asset: our employees.

ODEA BANK

In 2019, Odea Bank's HR practices continued to be shaped around the strong belief that Human Capital is the Bank's most valuable asset for success. Within that scope, HR operated in line with the strategic targets of the Bank at large and those of the business lines, providing the needed guidance and counseling to both Management and employees in order to support the overall performance of the Bank, enhance internal communication, increase cooperation and create synergy between business units.

Again, in 2019, HR covered its main functional areas of attracting and onboarding the needed talent, in addition to training and developing, supporting performance, managing careers and fairly rewarding employees.

HR managed to onboard 22 fresh graduate talents as "Management Trainees" and "Assistant Auditors". For that, 9,000 resumes were screened and selected applicants had to sit for English language and competency tests, group and one-on-one interviews before onboarding. The "Management Trainee (MT)" and "Assistant Auditor" training programs were specifically designed for the development of the said graduates. Extending over a period of 3.5 months incorporating in-class, on-line and field trainings, the programs covered 16 modules on banking, finance and personal development.

Along the same line, Odea Bank's HR planned and conducted a comprehensive range of training activities in order to contribute to staff advancement and development in both soft and technical competencies covering 940 employees with an average of 4 days of training per employee.

In order to facilitate the learning process, employees were offered full access to several applications and platforms, notably, "e-Odea HR Training Platform" and "Vide'O", in addition to attending general trainings, exclusive leadership programs, legal trainings, external trainings, meetings and conferences, as well as training programs specially designed for the Bank.

On another note, it is Management's belief that one of the most important factors behind its success lies in an effective organisational structure strongly supported by a fair, objective and efficient reward system. As such, salary review and bonus studies were carried-out in 2019, taking into consideration sector benchmark, job complexity and job content across all positions, as well as performance indicators, all well adjusted within the annual budget.

Finally, yet importantly, HR led the first "Employee Engagement and Satisfaction Survey" which is planned to be carried out on an annual basis going forward. The results, at the average of the banking sector, demonstrated that "Freedom of Expressing Thoughts", "Life and Work Balance", "Managers' Clear and Transparent Communication", as well as "Knowledge Sharing", are areas underlining the strengths of Odea Bank. "Brand", "Career and Development" and "Performance Management" were identified as areas where actions would be needed to boost and enhance Employee Engagement.

8.0. | COMPLIANCE

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

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

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

2019 has closed on a deep political, economic and financial crisis hitting Lebanon and its banking sector with serious challenges to Group operations. This is while the Group continues to operate in high-risk geographies and within global and local environments with evolving critical requirements, from AML/CFT and Sanctions points of view.

Amidst the current environment, and taking into consideration the exceptional operating circumstances, the Compliance function has taken necessary measures to address the rising challenges and adapted its priorities. It continues to focus on:

1. Verifying, across the Group, the implementation of the Enterprise-wide Compliance Program that serves to maintain positive relationships with regulators and correspondent banks alike (local and international). The aim is to preserve the Group reputation and maintain a healthy business environment with sustainable revenues.
2. Verifying that risks deriving from heightened regulatory scrutiny over the various areas of financial crime compliance, at both local and international levels, are appropriately monitored, tested and managed with suitable mitigating measures effectively implemented.
3. Updating Anti-money Laundering and Combating the Financing of Terrorism, Sanctions Compliance, Capital Markets Compliance, Tax Compliance, Anti-Bribery & Corruption, and broad Regulatory Compliance practices, tailored to the rising compliance risks (especially in the current circumstances) and the Group's compliance risk appetite.
4. Constantly monitoring the ever-increasing Sanctions risk exposure and accordingly, adapting the Group response. In the past period, enforcement actions, namely by the U.S., have been on the rise amidst a prevailing context of heated U.S. foreign policy towards the MENA region. This increases the likelihood of more effective enforcement actions and designations, which, in turn, add to the complexity of doing business and resulting burden of compliance.
5. Effectively engaging with the Group's Board of Directors (through the Board Compliance & AML/CFT Committee, and other committees of the Board) through improved reporting of compliance risks and follow-up on corrective/improvement actions across the Group.
6. Coordinating with the Group Executive Committee, Senior Management at group and entity levels, and business heads in various areas for the purpose of strengthening/adapting existing compliance controls and implementing new risk-based controls.
7. Effectively supporting all business lines on the various initiatives to mitigate the effects of the crisis, and providing advice on matters with franchise implications.
8. Advising and training group employees across businesses, functions and entities in conforming to laws, regulations and other relevant compliance standards. The compliance training and awareness program is continuously tailored to address challenges and risks emerging from operating circumstances. This includes knowledge sharing of evolving standards and compliance expertise among compliance professionals across the Group.
9. Increasing coordination with the Internal Audit function to complement testing activities over compliance controls and jointly work on assurance over the soundness of compliance practices across the Group.

The desired objective is for the Bank Audi Group to remain successful in maintaining balance between achieving durable earnings and meeting compliance requirements, while operating in high-risk geographies. The role of Compliance in this equation is to promote a compliance culture across the Group and consolidate its position as a trusted and skilled business partner.

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's very positive relationships with regulators and global correspondent are considered as valuable assets and testimonies of the soundness of established compliance practices. These are evident through:

- 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 activity.
- A clear lack of complacency at all levels of the organisation.

The Bank Audi Group is keen on maintaining its leadership position in the Middle East region in terms of efficiency and effectiveness of its Enterprise-Wide Compliance Program.

9.0. | ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM

Reinforcing Our Commitment to ESMS

At Bank Audi, we consider it our obligation to reduce any negative impacts on the environment and the communities which may be affected by the activities we finance. Throughout 2019, we continued the implementation of our Environmental & Social Management System (ESMS) in alignment with international standards. Our ESMS, which is fully integrated into core credit operations and supported by Senior Management, allows us to assess, mitigate and monitor E&S risks in the Bank's lending portfolio.

In an initiative to continuously reinforce our understanding of E&S issues and build internal capacity, we have offered, in the course of 2019, an E&S risk management training to different departments and functions at the Bank. The training was facilitated by EBRD and delivered by internationally renowned E&S consultants. The focus of the training was on E&S issues in sectors in which the Bank intends to grow.

Bank Audi has reported on its environmental performance during 2019 as part of its commitments to provide annual environmental performance reports to its partners and shareholders. Those reports include portfolio information broken down by industry sector and transaction type, as well as implementation of Bank Audi's ESMS, Bank Audi values keeping an open dialogue on its ESMS with international FIs in order to benefit from their global expertise and contributions to international standards and best practice.

Sustainable Finance

Bank Audi understands its obligations to contribute to a sustainable economy through financing clean energy solutions and promoting environmental sustainability. Bank Audi also recognises its responsibility to respect human rights in our own activities and indirectly through our clients' activities.

Despite the difficult economic and operating conditions, we continued to explore opportunities to provide environmental and social loans during 2019, and 11 new loans were approved in different sectors. Bank Audi continues to have the lion's share of environmental loans in the Lebanese market. The Bank remains engaged in strategic partnerships in order to support Lebanon's transition into a low carbon economy, most notably with a USD 100 million commitment under EBRD and the Green Economic Financing Facility (GEFF) to finance green solutions, USD 15 million under Green Growth Fund (GGF), Euro 80 million with LEEREF through Banque du Liban (BdL) to finance Renewable Energy, Energy Efficiency & Green Buildings, and USD 15 million under IBRD through BdL to finance the reduction of pollution.

10.0. | CORPORATE SOCIAL RESPONSIBILITY

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

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

IN LEBANON

In 2019, Bank Audi sustained its compliance to ISO 26000 Social Responsibility standards and reporting according to The Global Reporting Initiative (GRI) Standards where we are part of the Gold Community, setting regional benchmarks in knowledge and reporting. The Bank maintains its position as the first and only Lebanese institution to join the GRI Organizational Stakeholders Network. Additionally, it upholds the pledge of its commitment to the ten principles of the United Nations Global Compact (UNGC), and is an active member in the UNGC Lebanon Network's Board of Directors, with the objective of encouraging other institutions to adhere and implement accordingly.

At the local network level, Bank Audi is, since 2017, goalkeeper for SDG 8 – "Decent Work and Economic Growth" – where we are SDG Council Members. We also maintain our pledge to all 5 Sustainable Development Goals (SDGs) including Quality Education (SDG 4), Gender Equality (SDG 5), Industry, Innovation and Infrastructure (SDG 9), and Climate Action (SDG13). These goals are perfectly matched and aligned to our five CSR pillars which embrace transparency and the application of environmental and social management systems across our compliance. Our Economic Development impact had an extensive outreach towards SMEs which play a major role in the Lebanese economy and whose empowerment has been a top priority, coupled with various initiatives over the past years.

In 2019, we focused on empowering women in rural Lebanese areas by bringing, in partnership with The Blessing Foundation, our support to "SHE Min Lebnen" to whom we offered practical training sessions on product marketing, covering essentials like branding, digital presence, photography and pricing, in addition to sessions on the importance of banking in women's personal and professional lives. Various economic collaborations with the likes of the Arab Economic Forum, among others, aimed at enhancing investments in Lebanon and boosting its economy. Under infrastructure investments, particularly with regards to innovation, promoting our adoption of digital solutions through hackathons, as well as empowering the youth, is also essential for us.

Furthermore, Community and Human Development projects helped maintain the Bank's position as a non-discriminatory and equal opportunity employer of choice in the Lebanese private sector, with special empowerment to youth and entrepreneurs. Our gender parity of 47% female and 53% male employment, coupled with an 18% female representation at Board level, are valid proofs of our inclination in this sphere. Under Environmental Protection, pursuing our Climate Action commitment was furthered by mentoring new members to the Lebanon Climate Act, in addition to the measurement and reporting of our own carbon footprint for the eighth consecutive year, and the successful internal recycling initiative. On the business side, this pillar was further reinforced by offering special green financing products, an outcome of our partnership with the EBRD.

Economic empowerment, philanthropic initiatives and numerous pledged causes are revealed in the Annual CSR Report under the Economic Development, Community Development and Human Development pillars. Examples of such initiatives include participating in the Global Money Week for the fifth consecutive year by hosting 1,118 eleventh graders from 70 public and private schools who were introduced to the world of banking, CSR, Sustainable Development Goals (SDG), career identification, social media code, microfinance, digital banking, entrepreneurship, taxation in Lebanon, and innovative thinking. Spanned over a period of 2 weeks and under the theme "Learn. Earn. Save.", this program was implemented in Beirut and rural areas across the country, in partnership with the Ministry of Higher Education. In parallel, and in collaboration with INJAZ Lebanon (a Junior Achievement program), Bank Audi employees and the Spring Account community spread their knowledge and experience outside the boundaries of the Bank by delivering the "More Than Money" module to 292 students in 7 public schools. It was a record outreach, with a total of 1,410 students receiving essential banking knowledge and being taught how to be financially responsible and how to plan their future. Another financial literacy outreach was achieved through our "Let's Talk Money" module which consists of a six-module game on our website, where one can obtain a certification for acquiring proper financial knowledge in banking.

Another example of our Community Development pillar is the employees' community engagement through the corporate Volunteer Program which reached out to 3,213 beneficiaries in 2019 and extended a helpful hand to nineteen NGOs. 2019 also saw the outreach of our "Spring" clientele, aged 18 to 24, by giving back to others through our corporate volunteer culture. Similarly, the Bank encourages its interns to participate in its Volunteer Program every summer, with 30 of them on average joining our programs to encourage pro-bono giving back.

Bank Audi's CSR Unit continues to participate in major national and regional CSR conferences and workshops, thus becoming a benchmark among CSR practitioners and mentoring several institutions.

At Bank Audi, our motivation is relentless in backing people and businesses, helping them grow beyond their potential and build confidence, and supporting communities in shaping a more prosperous tomorrow. More information is available on Bank Audi's online interactive 2019 CSR Report.

IN TURKEY

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

Ever since Odea Bank was established, we were always pressing ahead actively and authentically to integrate the principles of corporate citizenship into our business applications.

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

Transparency, respect for people, speed, quality, environmental and social awareness, and innovation are the Bank's priorities.

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

Odea Bank is also environmentally responsible in its activities:

- In an effort to build an optimal service area with the right technical equipment to provide the best services to its customers, it carefully evaluates its customers' journey at the Bank.
- It prioritises environmental practices in its premises, with all meetings held on Apple TV and using "whiteboard" technology instead of paper.
- It adopts eco-friendly business processes that do not make use of paper and utilise "business intelligence" applications to analyse data. At the same time, it saves all customer-related documents 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. Documents in branches are presented in electronic format.
- Another "green approach" adopted by 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 upon ATM transactions.
- Because greenhouse gases sourced by fossil have a high impact on climate change and in order to minimise our carbon footprint, we strongly support video calls for off-site meetings. All our employees are trained in this technology and have access to it.
- The Bank launched the "Odea Bank Secures the Oxygen of the Future" project with TEMA Foundation. Through this initiative 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 planted 20,578 trees and provided nature education to 9,196 children since 2017.

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 forbidden within its premises, and guarantees equal treatment and equal career opportunities to all employees alike. Throughout 2019, it continued to provide the appropriate guidance, training and supervision to all its employees for ultimate efficiency and success at work, by implementing advanced learning and development methods, in line with its values and culture. In addition, the Bank continues to support health services and conduct "First Aid Certification Renewal" trainings to increase know-how and awareness in this respect. In parallel, the Bank's in-house doctor shares seasonal medical information with its employees to privilege their wellness.

Furthermore, in an effort to spread the sports culture among the young generation, a basketball school managed by a team of basketball professionals was set in-house in 2014, with the objective of training employees' children. Over and above, and in collaboration with the Turkish Foundation for Children in Need of Protection, the school has trained 293 children, among whom 121 are in need, since 2014.

Odea Bank’s Art Platform, “O’Art”, hosts, since 2015, exhibitions of contemporary artists with the mission to provide an art platform for art students and make art more accessible for everyone. Odea Bank is the first bank to include an exhibition center within one of its branches.

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

IN EGYPT

For Bank Audi Egypt, Corporate Social Responsibility is the way the Bank integrates social, environmental and economic concerns into its values, culture, decision-making, strategy and operations with a view to establishing better practices within the Bank, helping improve society, and ensuring long-term superior value to all stakeholders (employees, customers, community, shareholders and third parties).

In 2019, the Bank continued to positively impact the Egyptian community by maintaining its vital role in advancing the United Nations’ Sustainable Development Goals – "SDGs". This comes in line with Egypt's commitment to achieve the SDGs "Egypt's Vision 2030", whereby the country's three-dimensional strategic plan (economic, social and environmental) is based on ten pillars which broadly cover SDGs.

The activities of Bank Audi Egypt during 2019 focused on a number of defined goals including SDG3 “Ensure healthy lives and promote wellbeing”, SDG4 “Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all”, SDG 8 “Decent Work and Economic Growth”, SDG 9 “Industry, Innovation and Infrastructure”, and SDG13 “Climate Action”. In addition to that, the Bank continued to support the Central Bank of Egypt's initiatives to boost financial inclusion in the country.

Corporate Social Responsibility activities in 2019 included:

SDG3 *Good Health and Wellbeing:*

Bank Audi Egypt kicked off its annual Ramadan football tournament for the twelfth year in a row, confirming once again that sports-related initiatives are at the core of its CSR agenda. The Bank also launched a wellness program to assure healthy lifestyles to employees by helping them understand how lifestyle affects general health conditions, and how to make positive changes to fuel productivity. Topics covered in the program included meditation, parenting and nutrition.

SDG 4 *Ensure Inclusive and Equitable Quality Education and Promote Lifelong Learning Opportunities for All:*

- In line with its continuous support to education, we took part in the “Step by Step 2019” education fair aiming at attracting a large number of students who wish to pursue studies abroad.

SDG8 *Decent Work and Economic Growth:*

- Bank Audi Egypt organised rounds of team building events during which 669 employees demonstrated that teams are more efficient and collaborative when they act and operate as one.
- Convinced of the importance of human development and in cooperation with the American University in Cairo, the Bank also launched the Advanced Corporate Banking Credit Program which targets senior corporate banking professionals.
- In parallel, the Bank designed the Leadership School to develop leadership notions and skills at all managerial levels. Training and development being key elements in developing employees, unifying Management’s leadership language and style was one of the main objectives of this school.
- Bank Audi Egypt invited over 1,500 colleagues for its annual Iftar gathering that was attended by the Bank’s Board of Directors. The core message of the event is to show the importance of the Human Capital and making the Bank members feel like a family, as employees are one of the most valuable assets of our institution.

SDG9 *Industry, Innovation and Infrastructure:*

- Bank Audi Egypt launched “Nafeza”, a new e-finance payment platform allowing cross-border traders to submit regulatory documents at a single location and/or single entity. This comes in line with the Bank's efforts to offer the most innovative electronic payment solutions in Egypt and to include the country’s unbanked population in the formal economy.
- In addition, the Bank launched a new service which allows companies to make all e-finance governmental payments (customs, taxes, “Nafeza” and others to come) online through the eCPS electronic portal, without the need to visit any Bank Audi branch or any other financial institution.

SDG13 *Climate Action*

- In its efforts to encourage the use of electronic payments to preserve the environment and protect world climate, Bank Audi Egypt sponsored the annual “Kermesse SCG’19” fair that took place at Sacré-Coeur school and during which a branded Bank Audi stand promoted the “Audi2Pay” mobile wallet that helps students know more about new e-payment solutions.

Civic Role and Community Development

- Because Bank Audi Egypt has a strong belief in civic role and community development, which are among its core values, it offered its employees entrance tickets to one of the Egyptian team’s sixteenth round match in the AFCON 2019 championship.
- The Bank sponsored the Bab Al Qasr tent at the Royal Maxim Palace Kempinski hotel during the holy month of Ramadan. The Bank used an activation designed for that purpose to invite its “Select” affluent segment to a suhoor reception during which products targeting this category of clients were promoted.
- In line with its belief to support all vulnerable segments in Egypt, the Bank also donated EGP 10 million to the Martyrs Fund in order to back this segment.

03
Financial Statements

Sharing Solutions

Knowing there lies a solution behind any challenge, communicating ideas through shared discussions, enabling us to make better decisions in the future.

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

On 29 July 2020, the Board of Directors of the Bank adopted the following proposals to the Annual General Assembly of shareholders relating to the approval of the financial statements and the appropriation of profits:

Proposal No. 1

The Ordinary General Assembly of shareholders of the Bank is invited to approve the Bank's accounts, in particular the balance sheet and the Profit and Loss Statement as at and for the year ended on 31 December 2019, 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 2019.

Proposal No. 2

The Ordinary General Assembly of shareholders of the Bank is invited to approve the transfer of the 2019 annual results in deduction of previously retained earnings, and to authorise the transfer of other amounts to retained earnings, to reserve appropriated to capital increase, or to reserve for foreclosed assets, all pursuant to the relevant circulars or memos of the Lebanese Banking Control Commission.

Other Proposals to the General Assembly

The Board of Directors of the Bank also adopted other proposals to the Annual General Assembly of shareholders to the effect of: (i) ratifying loans and transactions that are subject to the approval of the Ordinary General Assembly of shareholders; (ii) authorising the entry into similar loans and transactions during the year 2019; (iii) entering into acquisition and assumption agreements with fully owned banking subsidiaries to the effect of transferring their assets and liabilities to the Bank; (iv) Determining the remuneration of the Directors and electing a new member of the Board; and (v) other matters falling within the prerogatives of the Ordinary General Assembly, all as more fully described in the present Annual Report, in the enclosed financial statements, and in the other supporting documents addressed to the General Assembly and published separately.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BANK AUDI sal

Adverse 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 2019, 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, because of the significance of the matters discussed in the "Basis for Adverse Opinion" section of our report, the accompanying consolidated financial statements do not present fairly the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Adverse Opinion

1. As disclosed in Note 52.3 to the consolidated financial statements, the Group holds assets with the Central Bank of Lebanon, a portfolio of Lebanese government treasury bills, a portfolio of loans to the private sector and other assets concentrated in Lebanon which represent 60% of the Group's total assets as at 31 December 2019. In addition, assets with the Central Bank of Lebanon include accumulated fair value adjustments from hedge accounting disclosed in Note 19 and other assets include a receivable from Central Bank of Lebanon recognized by the Group during 2019, based on the estimated present value of the future cash flows expected to be received from the leverage arrangements in local currency entered into with the latter against a simultaneous purchase of Lebanese government Eurobonds as further described in Notes 23, 29, and 31.

   As disclosed in Note 1, the accompanying consolidated financial statements do not include adjustments, as required by IFRS, to the carrying amounts of the above assets and related disclosures that would result from the resolution of the uncertainties described in Note 1 and the future effects of the economic crisis and the restructuring plan. Also, as disclosed in Note 47, management was unable to produce faithful estimation of the fair value of these assets and other financial instruments concentrated in Lebanon and these consolidated financial statements do not include the fair value disclosures required by IFRS.

   Had such adjustments and disclosures been determined and made, as would have been required by IFRS had the uncertainties described in Note 1 been resolved, many elements and related disclosures in the accompanying consolidated financial statements would have been materially affected. The effects of the resolution of these uncertainties on the carrying amounts of the assets and the related disclosures in these consolidated financial statements have not been determined.

2. The events and conditions described in Note 1 and the matters described in paragraph 1 above, affect the liquidity, solvency and profitability of the Group and represent events and conditions that may cast significant doubt on the Group's ability to continue as a going concern. We were unable to obtain sufficient appropriate audit evidence about the Group's ability to continue as a going concern and the accompanying consolidated financial statements do not include adequate disclosure of management's plan to deal with the events and conditions giving rise to the material uncertainty.

Basis for Adverse Opinion (continued)

3. As disclosed in Note 37 to the consolidated financial statements, due to regulatory requirements enacted since 2016, the Group carried provisions for risks and charges of LBP 186 billion as at 31 December 2018 which do not meet the accounting criteria of IAS 37 (the "excess provisions"). This caused us to qualify our opinion on the consolidated financial statements relating to previous years affected by these regulatory requirements, as these transactions constitute a departure from International Financial Reporting Standards (IFRS). During 2019, these provisions were transferred to allowances for expected credit losses on balances with central banks, loans and advances to customers at amortised cost and financial assets held at amortised cost which also constitutes a departure from IFRS. This matter is linked to the matters described in paragraph 1 and the overall effects of departures from IFRS and the resolution of the uncertainties described in Note 1 on the elements of these consolidated financial statements have not been determined.

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 Code of Ethics for Professional Accountants (including International Independence Standards)* (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 adverse opinion.

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 2019. Except for the matters described in the "*Basis for Adverse Opinion*" section of our report, we have determined that there are no other key audit matters to communicate in our report.

Other Information Included in the Group's 2019 Annual Report

Other information consists of the information included in the Group's 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 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. As described in the "*Basis for Adverse Opinion*" section of our report, the consolidated financial statements do not include adjustments to the carrying amounts of the assets concentrated in Lebanon and related disclosures as a result of the resolution of the uncertainties stated in Note 1. We have concluded that the other information is materially misstated for the same reasons with respect to the amounts or other items in the Group's 2019 Annual Report affected by the resolution of these uncertainties.

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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 judgement 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.

Ernst & Young

BDO, Semaan, Gholam & Co.

30 July 2020
Beirut, Lebanon

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 LBP Million	2018 LBP Million
Interest and similar income	4	4,947,109	4,720,920
Interest and similar expense	5	(3,243,403)	(2,973,394)
Net interest income		**1,703,706**	1,747,526
Fee and commission income	6	338,457	388,074
Fee and commission expense	7	(56,143)	(55,737)
Net fee and commission income		**282,314**	332,337
Net gain on financial assets at fair value through profit or loss	8	2,875	123,521
Net (loss) gain on sale of financial assets at amortised cost	9	(2,260)	505
Non-interest revenues from financial assets at fair value through other comprehensive income	24	2,936	3,770
Share of profit of associates under equity method	25	9,275	831
Other operating income	10	21,889	43,800
Total operating income		**2,020,735**	2,252,290
Net impairment loss on financial assets	11	(1,871,778)	(265,241)
Net operating income		**148,957**	1,987,049
Personnel expenses	12	(495,987)	(550,771)
Other operating expenses	13	(327,937)	(407,603)
Depreciation of property and equipment and right-of-use assets	26	(87,013)	(61,397)
Amortisation of intangible assets	27	(24,529)	(22,541)
Impairment losses on non-current assets held for sale	28	(15,522)	-
Total operating expenses		**(950,988)**	(1,042,312)
Operating (loss) profit		**(802,031)**	944,737
Net (loss) gain on revaluation and disposal of fixed assets		(5,512)	436
(Loss) profit before tax		**(807,543)**	945,173
Income tax	14	(100,145)	(190,583)
(Loss) profit for the year		**(907,688)**	754,590
Attributable to:			
Equity holders of the parent		(912,177)	753,260
Non-controlling interest		4,489	1,330
		(907,688)	754,590
(Loss) earnings per share			
		LBP	LBP
Basic and diluted (loss) earnings per share	15	(2,289)	1,739

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 LBP Million	2018 LBP Million
(Loss) profit for the year		(907,688)	754,590
Other comprehensive (loss) that will be reclassified to the income statement in subsequent periods			
Foreign currency translation			
Exchange differences on translation of foreign operations		(47,752)	(380,162)
Loss reclassified to income statement		-	6,607
Net gain (loss) on hedge of net investments	19	2,212	(5,066)
Tax effects	14	-	527
Net foreign currency translation		**(45,540)**	(378,094)
Cash flow hedge			
Hedging net losses arising during the year	19	(4,408)	(31,508)
Loss reclassified to income statement	19	8,311	-
Tax effects	14	(1,829)	6,802
Net change in cash flow hedge		**2,074**	(24,706)
Time value of hedging			
Change in fair value of the time value of an option	19	-	5,816
Amortisation to profit or loss of cumulative gain arising on changes in fair value of the time value of option	19	-	6,899
Tax effects	14	-	(991)
Net change in time value of hedging		-	11,724
Debt instruments at fair value through other comprehensive income			
Change in fair value during the year	24	34,517	(9,697)
Gain reclassified to income statement	24	(847)	(564)
Tax effects	14	(7,481)	1,120
Net gain (loss) on debt instruments at fair value through other comprehensive income		**26,189**	(9,141)
Total other comprehensive loss that will be reclassified to the income statement in subsequent periods		**(17,277)**	(400,217)
Other comprehensive (loss) income that will not be reclassified to the income statement in subsequent periods			
Remeasurement gains (losses) on defined benefit plans			
Actuarial gain (loss) on defined benefits plans	37	4,549	(335)
Tax effects	14	(11)	68
Net remeasurement gains (losses) on defined benefit plans		**4,538**	(267)
Equity instruments at fair value through other comprehensive income			
Net unrealised gains		3,744	4,007
Tax effects	14	(109)	487
Net unrealised gains on equity instruments at fair value through other comprehensive income		**3,635**	4,494
Revaluation of lands and buildings			
Revaluation loss		(4,981)	-
Tax effects	14	(14,118)	-
Net loss on revaluation of lands and buildings		**(19,099)**	-
Other gains			
Share of other comprehensive income from associates		-	918
Net other gains		-	918
Total other comprehensive (loss) income that will not be reclassified to the income statement in subsequent periods		**(10,926)**	5,145
Other comprehensive (loss) for the year, net of tax		**(28,203)**	(395,072)
Total comprehensive (loss) income for the year, net of tax		**(935,891)**	359,518
Attributable to:			
Equity holders of the parent		**(920,698)**	452,985
Non-controlling interest		**(15,193)**	(93,467)
		(935,891)	359,518

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	2019 LBP Million	2018 LBP Million
ASSETS			
Cash and balances with central banks	16	23,169,519	24,793,682
Due from banks and financial institutions	17	2,177,906	3,843,626
Loans to banks and financial institutions and reverse repurchase agreements	18	700,457	266,645
Derivative financial instruments	19	290,924	419,749
Financial assets at fair value through profit or loss	20	381,082	220,122
Loans and advances to customers at amortised cost	21	15,461,671	19,846,966
Loans and advances to related parties at amortised cost	22	140,489	153,671
Debtors by acceptances		657,579	414,625
Financial assets at amortised cost	23	12,318,944	17,788,534
Financial assets at fair value through other comprehensive income	24	1,154,893	1,257,435
Investments in associates	25	121,139	144,865
Property and equipment and right-of-use assets	26	997,186	877,701
Intangible assets	27	115,144	68,476
Non-current assets held for sale	28	289,989	193,721
Other assets	29	1,492,867	714,815
Deferred tax assets	14	87,126	108,879
Goodwill	30	42,422	42,413
TOTAL ASSETS		**59,599,337**	71,155,925
LIABILITIES			
Due to central banks	31	5,651,962	11,919,990
Due to banks and financial institutions	32	1,556,504	2,183,687
Due to banks under repurchase agreements	32	42,969	1,304
Derivative financial instruments	19	372,102	408,253
Customers' deposits	33	44,336,560	47,777,071
Deposits from related parties	34	276,310	396,114
Debt issued and other borrowed funds	35	1,393,639	1,293,689
Engagements by acceptances		657,579	414,625
Other liabilities	36	584,064	404,851
Current tax liabilities	14	28,325	114,960
Deferred tax liabilities	14	43,878	39,819
Provisions for risks and charges	37	178,819	342,794
TOTAL LIABILITIES		**55,122,711**	65,297,157
SHAREHOLDERS' EQUITY – GROUP SHARE			
Share capital – common shares	38	667,581	667,581
Share capital – preferred shares	38	10,020	10,020
Issue premium – common shares	38	883,582	883,582
Issue premium – preferred shares	38	894,480	894,480
Warrants issued on subsidiary shares	38	-	12,629
Cash contribution to capital	39	72,586	72,586
Non-distributable reserves	40	2,025,201	1,919,796
Distributable reserves	41	433,057	430,685
Treasury shares	43	(9,190)	(9,073)
Retained earnings		1,466,788	1,249,915
Other components of equity	44	(1,252,582)	(1,244,056)
Result of the year		(912,177)	753,260
		4,279,346	5,641,405
NON-CONTROLLING INTERESTS	45	**197,280**	217,363
TOTAL SHAREHOLDERS' EQUITY		**4,476,626**	5,858,768
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**59,599,337**	71,155,925

CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 LBP Million	2018 LBP Million
OPERATING ACTIVITIES			
(Loss) profit before tax		(807,543)	945,173
Adjustments for non-cash items:			
Depreciation and amortisation	26 & 27	111,542	83,938
Impairment of assets acquired in settlement of debt	28	15,522	-
Net gain (loss) on financial instruments at amortised cost	9	2,260	(505)
Net impairment losses on financial assets	11	1,871,778	265,241
Impairment of investments in associates	13	19,725	-
Share of net profit of associates	25	(9,275)	(831)
Net (loss) on disposal of assets acquired in settlement of debt		(222)	(7,567)
Net gain (loss) on sale or disposal of fixed assets		5,734	(436)
Provision for risks and charges		23,954	38,190
Write-back of provisions for risks and charges	10	(378)	(2,162)
Gain (loss) on revaluation of interest retained		325	(12,289)
		1,233,422	1,308,752
Changes in operating assets and liabilities:			
Balances with central banks, banks and financial institutions maturing in more than 3 months		(5,505,872)	2,951,595
Change in derivatives and financial assets held for trading		(74,906)	1,455,140
Change in loans and advances to customers and related parties		3,470,451	4,046,041
Change in other assets		76,502	12,801
Change in deposits from customers and related parties		(3,560,315)	(2,254,894)
Change in other liabilities		65,712	(18,634)
Cash (used in) from operations		**(4,295,006)**	7,500,801
Provisions for risks and charges paid		(15,926)	(29,530)
Taxation paid		(167,176)	(135,606)
Net cash (used in) from operating activities		**(4,478,108)**	7,335,665
INVESTING ACTIVITIES			
Change in financial assets – other than trading		2,066,067	(4,371,103)
Purchase of property and equipment and intangibles	26 & 27	(142,762)	(93,046)
Proceeds from sale of an associate		11,238	-
Proceeds from sale of property and equipment and intangibles		18,562	26,029
Net cash from (used in) investing activities		**1,953,105**	(4,438,120)
FINANCING ACTIVITIES			
Cancellation of preferred shares series "G"	38	-	(226,125)
Dividends paid	38	(393,228)	(395,322)
Treasury shares transactions		(175)	92,192
Debt issued and other borrowed funds	35	99,950	58,421
Lease liability payments	36	(42,177)	-
Net cash used in financing activities		**(335,630)**	(470,834)
CHANGE IN CASH AND CASH EQUIVALENTS		**(2,860,633)**	2,426,711
Net foreign exchange difference in respect of cash and cash equivalents		(42,265)	(322,320)
Cash and cash equivalents at 1 January		9,415,945	7,311,554
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	46	**6,513,047**	9,415,945
Operational cash flows from interest and dividends			
Interest paid		(3,248,411)	(2,857,676)
Interest received		4,811,722	4,464,066
Dividends received		2,158	3,206

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Share Capital - Common Shares	Share Capital - Preferred Shares	Issue Premium - Common Shares	Issue Premium - Preferred Shares	Warrants Issued on Subsidiary Shares
	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million
Balance at 1 January 2019	**667,581**	**10,020**	**883,582**	**894,480**	**12,629**
Impact of IFRS 16 at 1 January	-	-	-	-	-
Restated balance at 1 January 2019	**667,581**	**10,020**	**883,582**	**894,480**	**12,629**
Net loss for the year	-	-	-	-	-
Other comprehensive loss	-	-	-	-	-
Total comprehensive loss	-	-	-	-	-
Appropriation of 2018 profits	-	-	-	-	-
Distribution of dividends on ordinary shares	-	-	-	-	-
Distribution of dividends on preferred shares	-	-	-	-	-
Cancellation of warrants	-	-	-	-	(12,629)
Sale of an associate	-	-	-	-	-
Sale of financial assets at FVTOCI	-	-	-	-	-
Treasury shares transactions	-	-	-	-	-
Transfer between reserves	-	-	-	-	-
Other movements	-	-	-	-	-
Balance at 31 December 2019	**667,581**	**10,020**	**883,582**	**894,480**	-
Balance at 1 January 2018	664,783	12,472	883,582	1,118,153	12,629
Impact of IFRS 9 at 1 January	-	-	-	-	-
Restated balance at 1 January 2018	664,783	12,472	883,582	1,118,153	12,629
Net profit for the year	-	-	-	-	-
Other comprehensive loss	-	-	-	-	-
Total comprehensive income	-	-	-	-	-
Appropriation of 2017 profits	-	-	-	-	-
Redemption of preferred share series “G”	-	(2,494)	-	(223,631)	-
Distribution of dividends on ordinary shares	-	-	-	-	-
Distribution of dividends on preferred shares	-	-	-	-	-
Capital increase	2,798	42	-	(42)	-
Sale of financial assets at FVTOCI	-	-	-	-	-
Treasury shares transactions	-	-	-	-	-
Transfer between reserves	-	-	-	-	-
Other movements	-	-	-	-	-
Balance at 31 December 2018	667,581	10,020	883,582	894,480	12,629

Attributable to the Equity Holders of the Parent									
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
72,586	**1,919,796**	**430,685**	**(9,073)**	**1,249,915**	**(1,244,056)**	**753,260**	**5,641,405**	**217,363**	**5,858,768**
-	-	-	-	(36,532)	-	-	(36,532)	(4,890)	**(41,422)**
72,586	**1,919,796**	**430,685**	**(9,073)**	**1,213,383**	**(1,244,056)**	**753,260**	**5,604,873**	**212,473**	**5,817,346**
-	-	-	-	-	-	(912,177)	(912,177)	4,489	**(907,688)**
-	-	-	-	-	(8,521)	-	(8,521)	(19,682)	**(28,203)**
-	**-**	**-**	**-**	**-**	**(8,521)**	**(912,177)**	**(920,698)**	**(15,193)**	**(935,891)**
-	137,403	-	-	222,629	-	(360,032)	-	-	-
-	-	-	-	-	-	(330,478)	(330,478)	-	**(330,478)**
-	-	-	-	-	-	(62,750)	(62,750)	-	**(62,750)**
-	-	1,345	-	11,284	-	-	-	-	-
-	-	1,626	-	3,838	(5,464)	-	-	-	-
-	-	-	-	(5,459)	5,459	-	-	-	-
-	-	(58)	(117)	-	-	-	(175)	-	**(175)**
-	(31,998)	(541)	-	32,539	-	-	-	-	-
-	-	-	-	(11,426)	-	-	(11,426)	-	**(11,426)**
72,586	**2,025,201**	**433,057**	**(9,190)**	**1,466,788**	**(1,252,582)**	**(912,177)**	**4,279,346**	**197,280**	**4,476,626**

72,586	1,719,917	430,592	(94,532)	1,249,004	(939,745)	811,217	5,940,658	372,603	6,313,261
-	-	-	-	(201,073)	(1,220)	-	(202,293)	(58,945)	(261,238)
72,586	1,719,917	430,592	(94,532)	1,047,931	(940,965)	811,217	5,738,365	313,658	6,052,023
-	-	-	-	-	-	753,260	753,260	1,330	754,590
-	-	-	-	-	(300,275)	-	(300,275)	(94,797)	(395,072)
-	-	-	-	-	(300,275)	753,260	452,985	(93,467)	359,518
-	194,304	-	-	221,591	-	(415,895)	-	-	-
-	-	-	-	-	-	-	(226,125)	-	(226,125)
-	-	-	-	-	-	(331,442)	(331,442)	-	(331,442)
-	-	-	-	-	-	(63,880)	(63,880)	-	(63,880)
-	(2,798)	-	-	-	-	-	-	-	-
-	-	-	-	2,816	(2,816)	-	-	-	-
-	6,640	93	85,459	-	-	-	92,192	-	92,192
-	1,608	-	-	(1,608)	-	-	-	-	-
-	125	-	-	(20,815)	-	-	(20,690)	(2,828)	(23,518)
72,586	1,919,796	430,685	(9,073)	1,249,915	(1,244,056)	753,260	5,641,405	217,363	5,858,768

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2019

NOTES' INDEX

1.0. | CORPORATE INFORMATION

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

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

The consolidated financial statements were authorised for issue in accordance with the Board of Directors' resolution on 29 July 2020.

1.1. MACROECONOMIC ENVIRONMENT

More than 60% of the Group's operations during 2019 took place in Lebanon that has been witnessing, since 17 October 2019, severe events that have set off an interconnected fiscal, monetary and economic crisis, as well as deep recession that have reached unprecedented levels.
Sovereign credit ratings have witnessed a series of downgrades by all major rating agencies and reached the level of default when, on 7 March 2020, the Lebanese Republic announced that it will withhold payment on the bonds due on 9 March 2020, which was followed by another announcement on 23 March 2020 for the discontinuation of payments on all of its USD-denominated Eurobonds.

Throughout this sequence of events, the ability of the Lebanese government and the banking sector in Lebanon to borrow funds from international markets was significantly affected. Banks have imposed unofficial capital controls, restricted transfers of foreign currencies outside Lebanon and significantly reduced credit lines to companies and withdrawals of cash to private depositors, all of which added to the disruption the country's economic activity, as the economic model of Lebanon relies mainly on imports and consumption. Businesses are downsizing, closing or going bankrupt and unemployment and poverty are rising fast and have reached unprecedented levels.

The difficulty in accessing foreign currencies led to the emergence of a parallel market to the peg whereby the price to access foreign currencies has been increasing constantly, deviating significantly from the peg of 1,507.5 USD/LBP. This has resulted in an uncontrolled rise in prices and the incessant de facto depreciation of the Lebanese Pound, impacting intensely the purchasing power of the Lebanese citizens, driving high inflation and rise in the consumer price index.

The economy has been contracting at an accelerating pace since the last quarter of 2019 and the coronavirus affecting Lebanon and the whole world is contributing to further deterioration of the economic environment, disruption of businesses, rise of unemployment, and rise in poverty lines.

On 30 April 2020, the Council of Ministers approved the Lebanese government's Financial Recovery Plan (the Plan). The Plan relies on nine central and interrelated pillars, namely reviewing the peg policy; a comprehensive government debt restructuring; a comprehensive restructuring of the financial system addressing accumulated FX mismatches, embedded losses and resizing the banking sector (see below); a strong phased fiscal adjustment focused on improving tax compliance, streamlining expenditure and reforming the public sector; growth-enhancing reforms promoting a productive economy and enhancing the competitiveness of the Lebanese economy; a social sector reform; ambitious anti-corruption strategy; environmental reforms; and international financial assistance to close the large external financing gap and finance the development of the infrastructures that are necessary to support the growth of the economy.

On 1 May 2020, the Lebanese Prime Minister and the Lebanese Finance Minister signed a request for aid from the International Monetary Fund (IMF). The government believes the Plan conveys good faith in the negotiations with the International Monetary Fund. Lebanon began detailed discussions with the IMF on 1 May 2020. Multilateral intervention is expected to catalyse additional external support and unlock part of the USD 11 billion in pledges from international donors made in 2018 in the "Conférence Economique pour le Dévelopment par les Réformes et avec les Entreprises (CEDRE)", as well as other external financial support to cover the net external financial needs for a gradual economic recovery and successful restructuring of the government's foreign currency debt.

RESTRUCTURING OF THE BANKING SECTOR

As per the Plan, the preliminary global estimation of losses will result from the restructuring of the Central Bank of Lebanon (BdL) and impairment of assets held at BdL; the impact of the economic crisis and the impairment of banks' loans portfolio; and the government debt restructuring and impairment of the government securities portfolio.

An Asset Quality Review will be conducted by an international institution to assess the impairment losses on the private loans portfolio of the banking sector. The impact of losses and the recapitalisation needs will be determined on a bank by bank basis when a more granular plan is drawn, and further measures related to bank deposits will be determined. On a bank by bank basis, the Plan stipulates that large depositors could be offered voluntarily (for part of their deposits):

- Conversion into their bank's capital. New legal provisions will be needed.
- Conversion into tradable equity stakes in a newly established special Recovery Fund that will receive the proceeds of the ill-gotten assets tracking and recovery program.
- Conversion into long dated, subordinated bank obligation with no or limited interest.

Banks will be asked to propose to the authorities and relevant supervisory bodies business plans and restructuring/recapitalisation plans including mergers with or acquisitions by other domestic and foreign banks to address their structural funding issues and generate synergies. The new capital base will be rebuilt via capital raising in the market and a conversion of some deposits into shares. Fresh liquidity will be provided to the reorganised banking sector.

Conducting a full restructuring of the banking sector will require new legal powers for the government and the relevant supervisory bodies.

1.2. REGULATORY ENVIRONMENT

Throughout this period and up to the date of the authorisation of issue of these financial statements, the Central Bank of Lebanon has issued several circulars to address the situations, mainly:

- Intermediary Circular 532 issued on 4 November 2019, requiring Lebanese banks not to distribute dividends from the profits of the financial year 2019, and to increase the regulatory capital by 20% of the common equity Tier 1 capital as at 31 December 2018 through cash contributions in US Dollars, in two phases: 10% by 31 December 2019 and another 10% by 30 June 2020.

- Intermediary Circular 534 issued on 19 November 2019, extending the deadline for reaching the 25% ratio of "net loans granted in LBP/net deposits in LBP" from 31 December 2019 to 31 December 2020. Banks that expect to be unable to reach the said ratio within the set time limit may refer to BdL Central Council before 31 December 2020.

- Intermediary Circular 536 issued on 4 December 2019, stating that the Central Bank of Lebanon will settle the interest on banks' term deposits and certificates of deposit in USD 50% in USD and 50% in LBP. As for the deposits received or renewed after 4 December 2019, banks have to comply with the following interest rates:
  - 5% for deposits in foreign currencies; and
  - 8.5% for deposits in LBP.

  As for the deposits received before the mentioned date, the conditions of which are maintained, banks have to pay interests split as follows: 50 % in the account's currency and 50% in LBP. This decision is applicable until 4 June 2020 (6 months from the circular's issuing date).

- Intermediary Circular 542 issued on 3 February 2020, requiring that the ratios of expected credit losses for the years 2019 and 2020 on LBP and foreign currency-denominated investment portfolio at the Central Bank of Lebanon, including certificates of deposit and investments in Lebanese Treasury bills denominated in LBP and foreign currency, not to exceed the regulatory expected credit losses ratios calculated as per BdL Basic Circular 44 related to the "Capital Adequacy Ratio".

- Intermediary Circular 543 issued on 3 February 2020, increasing the regulatory expected credit losses on foreign currency exposures to Lebanese Sovereign and Central Bank of Lebanon and exposures to resident corporates, retail and SMEs. The circular increased risk weights to be applied on exposures to the Central Bank of Lebanon in foreign currencies and lowered the minimum required capital adequacy ratios. The circular also imposed maximum expected credit losses on exposures to Lebanese Sovereign and Central Bank of Lebanon to be recorded in banks' financial statements as per the table below:

Type of Financial Instrument	Maximum Loss Rate
Exposures to Central Bank of Lebanon in foreign currencies	Up to 1.89%
Exposures to Central Bank of Lebanon in Lebanese Pounds	0%
Lebanese government securities in foreign currencies	Up to 9.45%
Lebanese government securities in Lebanese Pounds	0%

- Intermediary Circular 544 issued on 13 February 2020, requiring banks to abide with the maximum ceilings of interest rates on new or renewed deposits, as follows:
  - Deposits in foreign currencies: 2% for 1-month deposits, 3% for 6 months deposits, and 4% on deposits for a year and above.
  - Deposits in LBP: 5.5% on deposits for one month, 6.5% for 6 months, and 7.5% on deposits for one year and above.

  Banks are required to calculate the BRR based on the above creditor interest rates. This decision is applicable until 13 August 2020 (6 months from the circular's issuing date).

- Basic Circular 148 issued on 3 April 2020, requesting banks to allow clients with small accounts to withdraw cash paid in LBP by first calculating the equivalent of the account balance in USD at the official exchange rate, then paying an amount of cash in LBP equal to the counter value of the calculated amount as per the market exchange rate. USD amounts resulting from these operations should be sold to the Central Bank of Lebanon as per the market exchange rate.

- Basic Circular 149 issued on 3 April 2020, announcing the creation of a special unit at the Central Bank of Lebanon to conduct FOREX operations as per the market rate. Money dealers (of "type A") may adhere to this unit, upon Central Bank of Lebanon's discretion. An electronic platform will be created encompassing the Central Bank of Lebanon, banks and money dealers for FOREX operations, abrogating Article 18 which was introduced by Intermediary Circular 546 to Basic Circular 3 related to money dealers.

- Basic Circular 151 issued on 21 April 2020, concerning the clients that are not tackled in Basic Circular 148 and who wish to withdraw amounts of cash from their foreign currencies accounts. Banks should settle, with the client's consent, the equivalent of those amounts in LBP as per the market exchange rate. The resulting foreign currencies should be sold to the Central Bank of Lebanon. The exchange rate specified by the Central Bank of Lebanon in its transactions with banks will remain applicable to all other operations in USD. Banks should disclose daily their adopted market exchange rate.

- Intermediary Circular 552 issued on 22 April 2020, requesting banks to grant loans against the settlement of facilities and instalments due during the months of March, April, May and June for the clients who are not able to pay their dues, due to the current economic situation as assessed by the bank. The new loans are to be granted up to 5 years starting 30 June 2020 and provided, among others, that these are granted to repay the above months settlements or, if the client is an establishment or corporation, to pay the staff or the production and operational fees, with no commissions or fees and zero interest rate. The Central Bank of Lebanon will grant the banks loans with zero interest rate against the said loans.

1.3. PARTICULAR SITUATION OF THE GROUP

As indicated in Note 2.5, assets and liabilities in foreign currency as of 31 December 2019 were valued at the official exchange rate of 1,507.5 USD/LBP. However, several exchange rates have emerged since the last quarter of 2019 that vary significantly among each other and from the official exchange rate: parallel exchange markets with high volatility, recently issued BdL circulars, estimation exchange rates detailed in the Plan, in addition to a wide range of exchange rates adopted for commercial transactions currently undertaken in the Lebanese territory. These financial statements do not include adjustments from any future change in the official exchange rate. The impact of the valuation of the assets and liabilities in foreign currencies at a different rate is expected to be significant and will be recognised in these financial statements once the revamping of the peg is implemented by the Lebanese government. FX currency mismatch is detailed in Note 53 to these financial statements.

Loss allowances on assets held at the Central Bank of Lebanon and the portfolio of Lebanese government securities held at amortised cost (excluding Lebanese government Eurobonds) are recorded in these financial statements based on the guidelines issued on 4 February 2020 by BdL in its Intermediary Circular 543 (refer to above). Accordingly, these financial statements do not include adjustments of the carrying amount of these assets to their recoverable amounts based on International Financial Reporting Standards and an expected credit losses model. The impact is expected to be pervasive and will be reflected in the financial statements once the debt restructuring has been defined conclusively by the government and all uncertainties and constraints are resolved and the mechanism for allocating losses by asset class and currency is clear and conclusive. With respect to Lebanese government Eurobonds held by the Group at 31 December 2019, Management recorded expected credit losses on these financial assets based on the cash flows that the Group expects to receive. Maximum exposures to the credit risk of the Central Bank of Lebanon and the Lebanese government and the recognised loss allowances, as well as their staging, are detailed in Note 52 to these financial statements.

As a result of the negative economic conditions and the deepening of the recession, the credit quality of the private loans portfolio concentrated in Lebanon has significantly deteriorated since the last quarter of 2019. Management is undergoing massive deleveraging by reducing its assets size and has set up a centralised and specialised remedial function to proactively review and manage the quality of these assets. Loss allowances on the Group's portfolio of these private loans have been estimated and recorded based on the best available information at the reporting date, about past events, current conditions and forecasts of economic conditions combined with expert judgments. The exercise being carried out by Management is expected to reveal additional embedded losses in its private loans portfolios. The impact is expected to be pervasive and will be reflected in the financial statements once the results of the exercise undertaken by Management are measurable and determinable. Maximum exposures to the credit risk of the Group's portfolio of private loans portfolio and the recognised loss allowances, as well as their staging, are detailed in Note 52 to these financial statements.

Management has concerns about the effects that the above matters will have on the equity of the Group recapitalisation needs that will arise once the necessary adjustments are determined and recorded.

In line with the comments issued by the Association of Banks in Lebanon on 1 May 2020, Management has determined the following uncertainties in relation to the assumptions of the Plan, which might have an impact on the figures and estimations provided therein:

- Ability to successfully secure sufficient external financing (from the IMF, from CEDRE and from other international donors unspecified in the Plan).
- Ability to revamp the peg at the detailed estimated rates.
- Parameters of the restructuring of BdL and restructuring of the government debt in foreign currencies.
- Ability of issuing new laws with the constraints in the legal framework and the Lebanese constitution.
- Finalisation of the Asset Quality Review and determination of losses and recapitalisation needs of banks.
- Ability to claw back sums which have unlawfully escaped the country.
- Ability to claw back dividend and/or interest distributed over the last years.

Besides, on 20 May 2020, the Association of Banks in Lebanon submitted an alternative approach in response to the present economic crisis that Lebanon, and particularly the banking sector, is experiencing. It rests on addressing the external financing needs, while avoiding an internal debt default; and the launch of long-overdue structural reforms to promote sustainable and inclusive growth as the result of economic diversification.

Until the above uncertainties are resolved and a plan is implemented, the Group will continue its operations as performed since 17 October 2019 and in accordance with the laws and regulations. Unofficial capital controls and inability to transfer foreign currencies to correspondent banks outside Lebanon are exposing the Group to litigations that are dealt with on a case by case basis when they occur. Meanwhile, the Group is exerting extended efforts to review the quality of its private loans portfolio and deleveraging it as appropriate, to reduce its commitments and contingencies to correspondent banks outside Lebanon and to secure its liquidity needs mainly through borrowing from the Central Bank of Lebanon at the available rates and by selling foreign assets.

Once the above uncertainties are resolved, a pro-forma balance sheet of the Group will be prepared which will include the effects of the revaluation of the assets and liabilities in foreign currencies, the effects of the restructuring of the government debt securities, the effects of the restructuring of the Central Bank of Lebanon, and the effects on its private loan portfolio.

As disclosed in Note 58 to these financial statements, the Group's capital adequacy ratio as at 31 December 2019 was calculated based on the recorded figures and does not take into consideration the adjustments that will result from the resolution of the uncertainties reflected above. To meet the requirements of Central Bank of Lebanon Intermediary Circular 532 towards increasing its regulatory capital by 10% by 31 December 2019, the Bank initiated the process of increasing its regulatory capital subsequently and has increased its capital by LBP 315,278 million effective 20 February 2020.

In addition, Management is currently assessing and developing restructuring and recapitalisation plans based on the various available scenarios. However, a reasonable and credible plan can only be achieved once the above uncertainties are resolved and the amount of recapitalisation needs is accurately determinable.

2.0. | ACCOUNTING POLICIES

2.1. BASIS OF PREPARATION

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

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

STATEMENT OF COMPLIANCE

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

PRESENTATION OF FINANCIAL STATEMENTS

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

Financial assets and financial liabilities are generally reported gross in the consolidated statement of financial position. They are offset and the net amount is reported only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis – or to realise the assets and settle the liability simultaneously – in all of the following circumstances: a) the normal course of business, b) the event of default, and c) the event of insolvency or bankruptcy of the Group and/or its counterparties. Only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement. This is not generally the case with master netting agreements, therefore the related assets and liabilities are presented gross in the consolidated statement of financial position. Income and expense will not be offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group. The effect of netting arrangements are disclosed in Notes 31 and 52.

2.2. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of Bank Audi sal and its subsidiaries as at 31 December 2019. Details of the principal subsidiaries are given in Note 45.

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

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

- Contractual arrangements such as call rights, put rights and liquidation rights; and
- Whether the Group is exposed, or has rights, to variable returns from its involvement with the investee, and has the power to affect the variability of such returns.

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

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

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

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

NON-CONTROLLING INTERESTS

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

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

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

2.3. NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2019. The nature and the impact of each amendment are described below:

IFRS 16 *LEASES*

Effective 1 January 2019, the Group adopted IFRS 16 Leases, which supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases, and requires lessees to account for most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised as an adjustment to the opening retained earnings at the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Group has lease contracts for various items primarily comprising head offices and branches. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as an operating lease.

The Group did not have finance leases at 31 December 2018.
Please refer to Note 2.5 for the accounting policy prior to 1 January 2019.

The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option "short-term leases", and lease contracts for which the underlying asset is of low value "low-value assets". Refer to Note 2.5 for the accounting policy beginning 1 January 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

Leases Previously Accounted for as Operating Leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:
- Used a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Relied on its assessment of whether leases are onerous immediately before the date of initial application.
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The effect of adoption IFRS 16 as at 1 January 2019 is as follows:

	Impact of IFRS 16 LBP Million
Assets	
Property and equipment and right-of-use assets	143,252
Prepaid charges	(20,422)
Deferred tax assets	6,564
Total assets	**129,394**
Liabilities	
Other liabilities	(170,816)
Total adjustment on equity:	
Retained earnings	(36,532)
Non-controlling interests	(4,890)
	(41,422)

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	LBP Million
Total undiscounted operating lease commitments as at 31 December 2018	**260,737**
Effect of discounting using incremental borrowing rates as at 1 January 2019 (1.51% - 25%)	(80,250)
Discounted operating lease commitments at 1 January 2019	**180,487**
Less:	
Commitments relating to short-term leases and leases of low-value assets	(1,644)
Other items	(8,027)
Lease liabilities as at 1 January 2019	**170,816**

AMENDMENTS TO IFRS 9, IAS 39 AND IFRS 7: INTEREST RATE BENCHMARK REFORM

On 26 September 2019, the International Accounting Standards Board (IASB or the Board) published "Interest Rate Benchmark Reform, Amendments to IFRS 9, IAS 39 and IFRS 7" (the "amendments"). This concludes phase one of the IASB's work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an "RFR").

The effective date of the amendments is for annual periods beginning on or after 1 January 2020, with early application permitted. The requirements must be applied retrospectively. However, any hedge relationships that have previously been de-designated cannot be reinstated upon application, nor can any hedge relationships be designated with the benefit of hindsight.

With phase one completed, the IASB is now shifting its focus to consider those issues that could affect financial reporting when an existing interest rate benchmark is replaced with an RFR. This is referred to as phase two of the IASB's project. The IASB tentatively agreed the list of phase two issues and may add to the list of issues and revise the timetable as work on phase two progresses.

The Group has early adopted the amendments in its financial statements for the year ended 31 December 2019 and has provided the required disclosures in the notes to the financial statements.

AMENDMENTS TO IFRS 9: PREPAYMENT FEATURES WITH NEGATIVE COMPENSATION

The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments do not have any significant impact on the Group's consolidated financial statements.

AMENDMENTS TO IAS 19: PLAN AMENDMENT, CURTAILMENT OR SETTLEMENT

The IASB issued amendments to the guidance in IAS 19, Employee Benefits, in connection with accounting for plan amendments, curtailments and settlements. These amendments do not have any significant impact on the Group's consolidated financial statements.

IFRIC INTERPRETATION 23 UNCERTAINTY OVER INCOME TAX TREATMENT

IFRIC 23 clarifies the application of IAS 12 to accounting for income tax treatments that have yet to be accepted by tax authorities, in scenarios where it may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept an entity's tax treatment. This interpretation does not have any significant impact on the Group's consolidated financial statements.

ANNUAL IMPROVEMENTS TO IFRS STANDARDS 2015-2017 CYCLE

Effective 1 January 2019, the Group adopted Annual Improvements to IFRS Standards 2015-2017 Cycle, which resulted in amendments to IFRS 3, Business Combinations, IFRS 11, Joint Arrangements, IAS 12, Income Taxes, and IAS 23, Borrowing Costs. These improvements do not have any impact on the Group's consolidated financial statements.

2.4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2019, with the Group not opting for early adoption. These have therefore not been applied in preparing these consolidated financial statements.

AMENDMENTS TO IFRS 3: DEFINITION OF A BUSINESS

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

AMENDMENTS TO IAS 1 AND IAS 8: DEFINITION OF MATERIAL

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of "material" across the standards and to clarify certain aspects of the definition. The new definition states that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments to the definition of material are not expected to have a significant impact on the Group's consolidated financial statements.

2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS COMBINATIONS AND GOODWILL

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

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

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

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

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

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

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

INVESTMENTS IN ASSOCIATES

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

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

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

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

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

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

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

FOREIGN CURRENCIES

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

Transactions and Balances

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

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

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

Group Companies

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

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

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

	2019		2018	
	Year-end Rate	Average Rate	Year-end Rate	Average Rate
	LBP	LBP	LBP	LBP
US Dollar	**1,507.50**	**1,507.50**	1,507.50	1,507.50
Euro	**1,686.89**	**1,690.30**	1,724.73	1,780.96
Swiss Franc	**1,551.09**	**1,519.52**	1,529.68	1,544.12
Turkish Lira	**253.37**	**267.23**	286.12	327.34
Jordanian Dinar	**2,124.74**	**2,125.79**	2,123.84	2,124.49
Egyptian Pound	**93.93**	**89.72**	84.26	84.64
Saudi Riyal	**401.86**	**401.94**	401.86	401.94
Qatari Riyal	**414.03**	**414.03**	414.03	414.03
Iraqi Dinar	**1.29**	**1.29**	1.29	1.29

FINANCIAL INSTRUMENTS – INITIAL RECOGNITION

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.

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

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

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

FINANCIAL ASSETS – CLASSIFICATION AND MEASUREMENT

On initial recognition, financial assets are classified as measured at: amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of two criteria:
(i) The business model within which financial assets are measured; and
(ii) Their contractual cash flow characteristics (whether the cash flows represent "solely payments of principal and interest" (SPPI)).

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

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

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

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

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

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

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:
- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's Key Management Personnel.
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.
- How Managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

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

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

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

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

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

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

Financial Assets at Amortised Cost

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

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

Financial Assets at Fair Value through Other Comprehensive Income

Debt Instruments at Fair Value through Other Comprehensive Income

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

Equity Instruments at Fair Value through Other Comprehensive Income

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

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

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

Financial Assets at Fair Value through Profit or Loss

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

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

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

Equity Instruments at Fair Value through Profit or Loss

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

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

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

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

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

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

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

Debt Issued and Other Borrowed Funds

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

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

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

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

After initial measurement, due to central banks, banks and financial institutions, bonds under repurchase agreements, customers' and related parties' deposits are measured at amortised cost less amounts repaid using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method. Customers' deposits which are linked to the performance of indices or commodities are subsequently measured at fair value through profit or loss.

DERIVATIVES RECORDED AT FAIR VALUE THROUGH PROFIT OR LOSS

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

(a) Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (also known as the "underlying").

(b) It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

(c) It is settled at a future date.

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

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

EMBEDDED DERIVATIVES

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

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

(a) The hybrid contract contains a host that is not an asset within the scope of IFRS 9;

(b) The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host;

(c) A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

(d) The hybrid contract is not measured at fair value with changes in fair value recognised in profit or loss.

FINANCIAL GUARANTEES, LETTERS OF CREDIT AND UNDRAWN LOAN COMMITMENTS

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

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

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

RECLASSIFICATION OF FINANCIAL ASSETS

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

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

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

DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial Assets

Derecognition Due to Substantial Modification of Terms and Conditions

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

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

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

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

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

Derecognition Other than for Substantial Modification

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

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

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

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

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

A transfer only qualifies for derecognition if either:

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

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

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

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

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

Financial Liabilities

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

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

REPURCHASE AND REVERSE REPURCHASE AGREEMENTS

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

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

IMPAIRMENT OF FINANCIAL ASSETS

Overview of the ECL Principles

The Group records allowance for expected credit losses based on a forward-looking approach for all loans and other financial assets not held at fair value through profit or loss, together with loan commitments and financial guarantee contracts, in this section all referred to as "financial instruments". Equity instruments are not subject to impairment under IFRS 9.

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

Measurement of ECLs

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

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

They key inputs into the measurements of ECL are:

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

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

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

Forborne and Modified Loans

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

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

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

Credit-impaired Financial Assets

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

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

Write-offs

Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to "net impairment losses on financial assets".

Debt Instruments at Fair Value through Other Comprehensive Income

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

Collateral Repossessed

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

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

FAIR VALUE MEASUREMENT

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

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

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

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

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

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

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

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

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

HEDGE ACCOUNTING

As part of its risk management, the Group has identified a series of risk categories with corresponding hedging strategies using derivative instruments as set out in Note 19.

When a hedging relationship meets the specified hedge accounting criteria set out in IFRS 9, the Group applies one of the three types of hedge accounting: fair value hedges, cash flow hedges or hedges of net investments in a foreign operation.

At the inception, the Group formally documents how the hedging relationship meets the hedge accounting criteria. It also records the economic relationship between the hedged item and the hedging instrument, including the nature of the risk, the risk management objective and strategy for undertaking the hedge, and the method that will be used to assess the effectiveness.

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 following hedge effectiveness requirements:
- 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 which would create hedge ineffectiveness that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

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.

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

The Group has early adopted Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 which include a number of reliefs, that apply to all hedging relationships directly affected by interest rate benchmark reform. The reliefs apply during the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("RFR"). A hedging relationship is affected if interest rate benchmark reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. The reliefs cease to apply once certain conditions are met. These include when the uncertainty arising from IBOR reform is no longer present with respect to the timing and amount of the benchmark-based cash flows of the hedged item, if the hedging relationship is discontinued or once amounts in the cash flow hedge reserve have been released.

Disclosures of the Group's hedge accounting are set out in the Notes.

Fair Value Hedges

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

If the hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, or the Group decides to voluntarily discontinue the hedging relationship, the hedge relationship is discontinued prospectively. If the relationship does not meet the hedge effectiveness criteria, the Group discontinues hedge accounting from the last date on which compliance with hedge effectiveness was demonstrated. If the hedge accounting relationship is terminated for an item recorded at amortised cost, the accumulated fair value hedge adjustment to the carrying amount of the hedged item is amortised over the remaining term of the original hedge by recalculating the EIR. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

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.

When a hedging instrument expires, is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the consolidated income statement.

Hedge of Net Investments

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

LEASES (POLICY APPLICABLE FROM 1 JANUARY 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a Lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use Assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented within "Property, equipment and right-of-use assets" on the consolidated financial statements and are subject to impairment in line with the Group's policy as described under Impairment of non-financial assets.

Depreciation charge for right-of-use assets is presented within "Depreciation of property, equipment and right-of-use assets" on the consolidated financial statements.

Lease Liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in- substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The Group's lease liabilities are included under "other liabilities". Moreover, the interest charge on lease liabilities is presented within "interest and similar expenses" from financial instruments measured at amortised cost in consolidated financial statements.

Short-term Leases and Leases of Low-value Assets

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the lease of low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Other rental expenses (including non-lease components paid to landlords) presented within other operating expenses.

Group as a Lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease 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.

LEASES (POLICY APPLICABLE BEFORE 1 JANUARY 2019)

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

Group as a Lessee

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

Group as a Lessor

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

REVENUE RECOGNITION

The following specific recognition criteria must also be met before revenue is recognised.

Interest and Similar Income and Expense

The Effective Interest Rate

Interest income and expense are recognised in the income statement applying the EIR method for all financial instruments measured at amortised cost, financial instruments designated at fair value through profit or loss and interest bearing financial assets measured at fair value through other comprehensive income.

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

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

Interest Income and Interest Expense

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

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

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

Presentation

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

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

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

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

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

CASH AND CASH EQUIVALENTS

"Cash and cash equivalents" as referred to in the cash flow statement comprises balances with original maturities of a period of three months or less including cash and balances with central banks, deposits with banks and financial institutions, deposits due to banks and financial institutions, and repurchase and reverse repurchased agreements.

PROPERTY AND EQUIPMENT

"Property and equipment", except for land and buildings, is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment. When significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the consolidated income statement as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.
Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised since the date of revaluation. Valuations are performed by internal or external valuers with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

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

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation is calculated using straight line method to write down the cost of property and equipment to their residual value over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

• Buildings	40-50 years
• Freehold improvements	5-10 years
• Leasehold improvements	5-10 years
• Motor vehicles	5-7 years
• Office equipment and computer hardware	5-10 years
• Office machinery and furniture	10 years

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

INTANGIBLE ASSETS

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

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

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

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.
The Group does not have intangible assets with indefinite economic life.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

• Computer software	5 years
• Key money	70 years

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition, Management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification.

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale, and: a) represents a separate major line of business or geographical area of operations; b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or c) is a subsidiary acquired exclusively with a view to resale.

In the consolidated income statement of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the loss of control. The resulting profit or loss (after taxes) is reported separately in the income statement.

IMPAIRMENT OF NON-FINANCIAL ASSETS

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement, unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

PROVISIONS FOR RISKS AND CHARGES

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

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

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

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

PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

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

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

Past service costs are recognised in profit or loss on the earlier of:
- The date of the plan amendment or curtailment; and
- The date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "personnel expenses" in consolidated statement of income:
- Service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements.
- Net interest expense or income.

TAXES

Taxes are provided for in accordance with regulations and laws that are effective in the countries where the Group operates.

Current Tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred Tax

Deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:
- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Current tax and deferred tax relating to items recognised directly in other comprehensive income are also recognised in other comprehensive income and not in the consolidated income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

WARRANTS ISSUED ON SUBSIDIARY SHARES

The value of warrants issued on subsidiary shares is reported as part of Group share of equity and is based on the issuance date fair value. Subsequently, the carrying amount of those warrants is reduced by the cost of warrants acquired pursuant to trading transactions. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of those warrants.

DIVIDENDS ON COMMON SHARES

Dividends on common shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

TREASURY SHARES

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

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

Contracts on own shares that require physical settlement of a fixed number of own shares for a fixed consideration are classified as equity and added to or deducted from equity. Contracts on own shares that require net cash settlement or provide a choice of settlement are classified as trading instruments and changes in the fair value are reported in the consolidated income statement.

ASSETS UNDER MANAGEMENT AND ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

The Group provides custody and administration services that result in the holding or investing of assets on behalf of its clients. Assets held in trust, under management or under custody or under administration, are not treated as assets of the Group and, accordingly, are recorded as off-balance sheet items.

CUSTOMERS' ACCEPTANCES

Customers' acceptances represent term documentary credits which the Group has committed to settle on behalf of its clients against commitments by those clients (acceptances). The commitments resulting from these acceptances are stated as a liability in the statement of financial position for the same amount.

2.6. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires Management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

JUDGMENTS

In the process of applying the Group's accounting policies, Management has made the following judgments, apart from those involving estimations, which have the most significant effect in the amounts recognised in the financial statements:

Going Concern

Notwithstanding the events and conditions disclosed in Note 1, these financial statements have been prepared based on the going concern assumption. The Board of Directors believe that they are taking all the measures available to maintain the viability of the Group and continue its operations in the current business and economic environment.

Impairment of Goodwill

Management judgment is required in estimating the future cash flows of the CGUs. These values are sensitive to cash flows projected for the periods for which detailed forecasts are available, and to assumptions regarding the term sustainable pattern of cash flows thereafter. While the acceptable range within which underlying assumptions can be applied is governed by the requirement for resulting forecasts to be compared with actual performance and verifiable economic data in future years, the cash flow forecasts necessarily and appropriately reflect Management's view of future business prospects.

Business Model

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows, the Group considers:

- Management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- How Management evaluates the performance of the portfolio;
- Whether Management's strategy focuses on earning contractual interest revenues;
- The degree of frequency of any expected asset sales;
- The reason for any asset sales; and
- Whether assets that are sold are held for an extended period of time relative to their contractual maturity.

Contractual Cash Flows of Financial Assets

The Group exercises judgment in determining whether the contractual terms of financial assets it originates or acquires give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding, and so may qualify for amortised cost measurement. In making the assessment, the Group considers all contractual terms, including any prepayment terms or provisions to extend the maturity of the assets, terms that change the amount and timing of cash flows and whether the contractual terms contain leverage.

Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

Hedge Accounting

The Group's hedge accounting policies include an element of judgment and estimation. Estimates of future interest rates and the general economic environment will influence the availability and timing of suitable hedged items, with an impact on the effectiveness of the hedge relationships. Details of the Group's hedge accounting policies and the sensitivities most relevant to risks are disclosed in notes.

The Group has early adopted Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform. The amendments provide temporary reliefs which enable the Group's hedge accounting to continue during the period of uncertainty, before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate.

Determining the Lease Term of Contracts with Renewal and Termination Options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgment in evaluating if it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., a change in business strategy).

The Group included the renewal period as part of the lease term for leases of head offices and branches due to the significance of these assets to its operations. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

ESTIMATES AND ASSUMPTIONS

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

Fair Value of Financial Instruments

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

Impairment Losses on Financial Instruments

The measurement of impairment losses across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs. Components of ECL models that are considered accounting judgments and estimates include:

- The Group's internal credit rating model;
- The Group's criteria for assessing if there has been a significant increase in credit risk;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and economic inputs and their impact on ECL calculation; and
- Selection of forward-looking macroeconomic scenarios and their probability of occurrence, to derive the the ECL models.

As per internal policy, the Group regularly review its models in the context of actual loss experience and adjust when necessary.

Impairment of Non-financial Assets

Impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model, as well as the expected future cash inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the Group.

Revaluation of Property and Equipment

The Group carries its land and buildings and building improvements at fair value, with changes in fair value being recognised in other comprehensive income. These were valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property. The Group engaged an independent valuation specialist to assess fair values as at 31 December 2019 for property and equipment. The key assumptions used to determine the fair value of the properties and sensitivity analyses are provided in Note 26.

Pensions Obligation

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are highly sensitive to changes in these assumptions.

3.0. | SEGMENT REPORTING

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

Interest income is reported net, since Management monitors net interest income as a performance measure and not the gross income and expense amounts. Net interest income is allocated to the business segment based on the assumption that all positions are funded or invested via a central funding unit. An internal Funds Transfer Pricing (FTP) mechanism was implemented between operating segments. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

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

BUSINESS SEGMENTS

The Group operates in four main business segments which are Corporate and Commercial Banking, Retail and Personal Banking, Treasury and Capital Markets, and Group Functions and Head Office.

Corporate and Commercial Banking provides diverse products and services to the corporate and commercial customers including loans, deposits, trade finance, exchange of foreign currencies, as well as all regular Corporate and Commercial Banking activities.

Retail and Personal Banking provides individual customers' deposits and consumer loans, overdrafts, credit cards, and funds transfer facilities, as well as all regular Retail and Private Banking activities.

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

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

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

NET OPERATING INCOME INFORMATION

	2019				
	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	**422,149**	**591,083**	**588,547**	**101,927**	**1,703,706**
Non-interest income					
Net fee and commission income	116,350	150,842	13,542	1,580	282,314
Financial operations	13,009	52,356	(66,552)	4,738	3,551
Share of profit of associates	-	-	-	9,275	9,275
Other operating income	313	5,793	(4)	15,787	21,889
Total non-interest income	**129,672**	**208,991**	**(53,014)**	**31,380**	**317,029**
Total operating income	**551,821**	**800,074**	**535,533**	**133,307**	**2,020,735**
Net impairment loss on financial assets	(521,821)	(351,253)	(998,704)	-	(1,871,778)
Net operating income	**30,000**	**448,821**	**(463,171)**	**133,307**	**148,957**

	2018				
	Corporate and Commercial Banking LBP Million	Retail and Personal Banking LBP Million	Treasury and Capital Markets LBP Million	Group Functions and Head Office LBP Million	Total LBP Million
Net interest income	487,927	609,468	534,968	115,163	1,747,526
Non-interest income					
Net fee and commission income	137,549	185,916	11,327	(2,455)	332,337
Financial operations	3,504	35,153	76,497	12,642	127,796
Share of profit of associates	-	-	-	831	831
Other operating income	3,048	8,062	2,014	30,676	43,800
Total non-interest income	144,101	229,131	89,838	41,694	504,764
Total operating income	632,028	838,599	624,806	156,857	2,252,290
Net impairment loss on financial assets	(191,074)	(78,163)	3,996	-	(265,241)
Net operating income	440,954	760,436	628,802	156,857	1,987,049

FINANCIAL POSITION INFORMATION

	2019				
	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	-	-	-	121,139	**121,139**
Total assets	11,956,327	6,281,877	39,601,588	1,759,545	**59,599,337**
Total liabilities	11,412,659	33,335,836	9,114,494	1,259,722	**55,122,711**

	2018				
	Corporate and Commercial Banking LBP Million	Retail and Personal Banking LBP Million	Treasury and Capital Markets LBP Million	Group Functions and Head Office LBP Million	Total LBP Million
Investments in associates	-	-	-	144,865	144,865
Total assets	14,793,480	7,405,678	46,812,624	2,144,143	71,155,925
Total liabilities	12,654,494	35,239,448	15,435,321	1,967,894	65,297,157

Capital expenditures amounting to LBP 142,762 million for the year 2019 (2018: LBP 93,046 million) are allocated to the Group Functions and Head Office business segment.

Interest and similar income from exposure to the Central Bank of Lebanon and Lebanese Sovereign amounted to LBP 2,581,764 million in 2019 (2018: LBP 2,098,522 million) arising from time deposits with the Central Bank of Lebanon and financial instruments held by the Group. The breakdown of interest and similar income from exposure to the Central Bank of Lebanon and Lebanese sovereign is as follows:

	2019 LBP Million	2018 LBP Million
Interest and similar income		
Central Bank of Lebanon	2,093,392	1,122,262
Lebanese Sovereign	488,372	976,260
	2,581,764	2,098,522

GEOGRAPHICAL SEGMENTS

The Group operates in three geographical segments: Lebanon, Middle East and North Africa, and Turkey (MENAT) and Europe. As such, it is subject to different risks and returns. The following tables show the distribution of the Group's 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

	2019			
	Lebanon LBP Million	MENAT LBP Million	Europe LBP Million	**Total LBP Million**
Net interest income	**1,065,466**	**568,395**	**69,845**	**1,703,706**
Non-interest income				
Net fee and commission income	95,585	124,972	61,757	282,314
Financial operations	(38,255)	5,549	36,257	3,551
Share of profit or loss of associates	9,275	-	-	9,275
Other operating income	17,523	2,174	2,192	21,889
Total non-interest income	**84,128**	**132,695**	**100,206**	**317,029**
Total external operating income	**1,149,594**	**701,090**	**170,051**	**2,020,735**
Net impairment loss on financial assets	(1,474,751)	(368,175)	(28,852)	(1,871,778)
Net external operating income	**(325,157)**	**332,915**	**141,199**	**148,957**

	2018			
	Lebanon LBP Million	MENAT LBP Million	Europe LBP Million	Total LBP Million
Net interest income	1,083,982	592,089	71,455	1,747,526
Non-interest income				
Net fee and commission income	139,721	127,260	65,356	332,337
Financial operations	59,643	45,907	22,246	127,796
Share of profit or loss of associates	831	-	-	831
Other operating income	21,910	16,456	5,434	43,800
Total non-interest income	222,105	189,623	93,036	504,764
Total external operating income	1,306,087	781,712	164,491	2,252,290
Net impairment loss on financial assets	(55,720)	(211,796)	2,275	(265,241)
Net external operating income	1,250,367	569,916	166,766	1,987,049

FINANCIAL POSITION INFORMATION

	2019			
	Lebanon LBP Million	MENAT LBP Million	Europe LBP Million	**Total LBP Million**
Capital expenditures	89,819	47,261	5,682	**142,762**
Investments in associates	121,139	-	-	**121,139**
Total assets	40,888,013	14,735,584	3,975,740	**59,599,337**
Total liabilities	36,335,815	15,429,036	3,357,860	**55,122,711**

	2018			
	Lebanon LBP Million	MENAT LBP Million	Europe LBP Million	Total LBP Million
Capital expenditures	48,137	43,466	1,443	93,046
Investments in associates	144,865	-	-	144,865
Total assets	52,834,119	14,456,857	3,864,949	71,155,925
Total liabilities	46,799,501	15,216,315	3,281,341	65,297,157

4.0. | INTEREST AND SIMILAR INCOME

	2019 LBP Million	2018 LBP Million
Balances with central banks	1,862,986	1,204,651
Due from banks and financial institutions	67,606	73,967
Loans to banks and financial institutions and reverse repurchase agreements	37,725	34,688
Loans and advances to customers at amortised cost	1,733,136	2,128,756
Loans and advances to related parties at amortised cost	6,083	7,883
Financial assets classified at amortised cost	1,043,381	1,137,070
Debt instruments classified at fair value through other comprehensive income	196,192	133,905
	4,947,109	4,720,920

Withholding taxes amounting to LBP 235,140 million were deducted from interest and similar income (2018: LBP 146,112 million).

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

	2019 LBP Million	2018 LBP Million
Corporate and SME	1,261,755	1,603,162
Retail and Personal Banking	447,279	492,775
Public sector	24,102	32,819
	1,733,136	2,128,756

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

	2019 LBP Million	2018 LBP Million
Lebanese Sovereign and Central Bank of Lebanon	886,495	976,260
Other sovereign	150,210	152,666
Private sector and other securities	6,676	8,144
	1,043,381	1,137,070

The components of interest and similar income from financial assets classified at fair value through other comprehensive income are detailed as follows:

	2019 LBP Million	2018 LBP Million
Lebanese Sovereign and Central Bank of Lebanon	-	6,493
Other sovereign	196,192	127,412
	196,192	133,905

5.0. | INTEREST AND SIMILAR EXPENSE

	2019 LBP Million	2018 LBP Million
Due to central banks	131,168	190,747
Due to banks and financial institutions	75,031	122,706
Due to banks under repurchase agreement	1,610	6,739
Customers' deposits	2,872,601	2,526,235
Deposits from related parties	15,852	26,756
Debt issued and other borrowed funds	131,911	100,211
Lease liabilities	15,230	-
	3,243,403	2,973,394

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

	2019 LBP Million	2018 LBP Million
Corporate and SME	466,617	469,910
Retail and Personal Banking	2,254,305	1,922,380
Public sector	151,679	133,945
	2,872,601	2,526,235

6.0. | FEE AND COMMISSION INCOME

	2019 LBP Million	2018 LBP Million
Credit-related fees and commissions	56,145	78,147
Brokerage and custody income	81,737	87,171
Commercial Banking income	72,847	67,898
Electronic Banking	33,525	43,765
Trade Finance income	60,472	56,347
Corporate Finance fees	6,489	26,546
Trust and fiduciary activities	18,316	16,427
Insurance Brokerage income	5,644	8,849
Other fees and commissions	3,282	2,924
	338,457	388,074

7.0. | FEE AND COMMISSION EXPENSE

	2019 LBP Million	2018 LBP Million
Electronic Banking	17,835	20,012
Brokerage and custody fees	24,142	16,708
Commercial Banking expenses	6,581	10,113
Insurance Brokerage fees	587	1,024
Other fees and commissions	6,998	7,880
	56,143	55,737

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

	2019 LBP Million	2018 LBP Million
a) Net gain on financial instruments		
Lebanese Sovereign and Central Bank of Lebanon		
Certificates of deposit	-	2,257
Treasury bills	102	1,415
Eurobonds	2,357	(76)
	2,459	3,596
Other sovereign		
Treasury bills	7,874	(1,110)
Eurobonds	85	37
	7,959	(1,073)
Private sector and other securities		
Banks and financial institutions debt instruments	54	150
Loans and advances	1,107	(2,543)
Corporate debt instruments	35	19
Funds	(404)	(720)
Equity instruments	2,068	11,018
	2,860	7,924
b) Other trading income		
Foreign exchange	76,856	70,900
Credit derivatives	(51,349)	34,672
Other derivatives	(35,979)	7,502
Dividends	69	-
	(10,403)	113,074
	2,875	123,521

Foreign exchange includes gains and losses from spot and forward contracts and other currency derivatives, as well as the result of the revaluation of the daily open foreign currency positions.

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.

Interest income from debt instruments at fair value through profit or loss amounted to LBP 2,130 million during 2019 (2018: LBP 9,306 million).

9.0. | NET (LOSS) GAIN ON SALE OF FINANCIAL ASSETS AT AMORTISED COST

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

- Deterioration of the credit rating below the ceiling allowed in the Group's investment policy;
- Liquidity gap and yield management;
- Exchange of certificates of deposit by the Central Bank of Lebanon; or
- Currency risk management as a result of change in the currency base of deposits.

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

	2019			2018		
	Gains LBP Million	Losses LBP Million	Net LBP Million	Gains LBP Million	Losses LBP Million	Net LBP Million
Lebanese Sovereign and Central Bank of Lebanon						
Certificates of deposit	2,531	-	2,531	8,434	(7,619)	815
Treasury bills	-	(78)	(78)	3,137	(3,474)	(337)
Eurobonds	-	(4,758)	(4,758)	33	(6)	27
	2,531	**(4,836)**	**(2,305)**	11,604	(11,099)	505
Other sovereign						
Treasury bills	45	-	45	-	-	-
	45	-	**45**	-	-	-
	2,576	**(4,836)**	**(2,260)**	11,604	(11,099)	505

10.0. | OTHER OPERATING INCOME

	2019 LBP Million	2018 LBP Million
Safe rental	1,480	1,611
Release of provision for risks and charges (Note 37)	378	2,162
Gain on revaluation of interest retained (Note 25)	-	12,289
Income from disposal of assets acquired against debts	222	7,567
Other income	19,809	20,171
	21,889	43,800

11.0. | NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

	2019 LBP Million	2018 LBP Million
Re-measurements:		
Cash and balances with central banks	86,522	(4,248)
Due from banks and financial institutions	799	(117)
Loans to banks and financial institutions and reverse repurchase agreements	2,437	(944)
Loans and advances to customers at amortised cost	959,128	368,404
Loans and advances to related parties at amortised cost	-	(154)
Financial assets at amortised cost	969,938	1,313
Financial guarantees and other commitments	20,156	2,818
	2,038,980	367,072
Recoveries:		
Loans and advances to customers at amortised cost	(112,017)	(100,995)
Financial guarantees and other commitments	(8,700)	-
	(120,717)	(100,995)
Net direct recoveries	(46,485)	(836)
	1,871,778	265,241

12.0. | PERSONNEL EXPENSES

	2019 LBP Million	2018 LBP Million
Salaries and related benefits	388,674	439,802
Social security contributions	43,392	43,885
End of service benefits (Note 37)	13,650	13,388
Transportation	12,187	16,388
Schooling	11,850	11,863
Medical expenses	7,066	6,951
Food and beverage	6,063	6,054
Training and seminars	2,926	3,248
Others	10,179	9,192
	495,987	550,771

13.0. | OTHER OPERATING EXPENSES

	2019 LBP Million	2018 LBP Million
Rental charges under operating leases	10,192	61,311
Professional fees	26,667	24,269
Board of Directors' fees	3,659	4,400
Advertising fees	28,213	31,632
Taxes and similar disbursements	19,912	32,653
Outsourcing services	27,805	26,271
Premium for guarantee of deposits	25,641	23,722
Information technology	44,664	48,673
Donations and social aids	12,791	13,784
Provisions for risks and charges (Note 37)	7,379	16,546
Travel and related expenses	7,727	8,680
Telephone and mail	8,813	10,240
Electricity, water and fuel	10,375	10,566
Maintenance	9,516	10,532
Insurance premiums	7,667	7,395
Facilities services	9,620	9,650
Subscription to communication services	8,802	9,412
Office supplies	3,611	4,272
Receptions and gifts	2,982	3,312
Electronic cards expenses	5,391	6,592
Regulatory charges	9,896	8,425
Documentation and miscellaneous subscriptions	2,502	2,765
Impairment of an associate (Note 25)	19,725	-
Others	14,387	32,501
	327,937	407,603

14.0. | INCOME TAX

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

	2019 LBP Million	2018 LBP Million
Current tax		
Current income tax	81,559	166,887
Adjustment in respect of current income tax of prior years	1,520	1,354
Other taxes treated as income tax	19,934	8,693
	103,013	176,934
Deferred tax		
Relating to origination and reversal of temporary differences	(2,868)	13,649
	100,145	190,583

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:

	2019 LBP Million	2018 LBP Million
Operating (loss) profit before tax	**(807,543)**	945,173
At applicable tax rate	**(54,487)**	218,748
Non-deductible expenses:		
Non-deductible expenses	23,637	10,233
Non-deductible provisions	165,215	3,544
Unrealised losses on financial instruments	9,140	1,123
Other non-deductibles	5,809	14,888
	203,801	29,788
Income not subject to tax:		
Revenues previously subject to tax	29,195	17,098
Provision recoveries previously subject to tax	5,091	8,498
Exempted revenues	2,303	429
Unrealised gains on financial instruments	14,503	5,860
Other deductibles	16,663	49,764
	67,755	81,649
Income tax	**81,559**	166,887
Effective income tax rate	**(10.10%)**	17.66%

The tax rates applicable to the parent and subsidiaries vary from 8% to 31% in accordance with the income tax laws of the countries where the Group operates. For the purpose of determining the taxable results of the subsidiaries for the year, the accounting results have been adjusted for tax purposes. Such adjustments include items relating to both income and expense, and are based on the current understanding of the existing tax laws and regulations and tax practices.

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

	2019 LBP Million	2018 LBP Million
Balance at 1 January	**114,960**	94,702
Charges for the year	103,013	176,934
Transfer from deferred tax assets	(3,201)	(8,884)
Transfer to tax regularisation accounts	(19,822)	(15,369)
Other transfers	(3,732)	3,906
	76,258	156,587
Less taxes paid:		
Current year tax liability(*)	(73,922)	(57,213)
Prior year tax liabilities	(93,254)	(78,393)
	(167,176)	(135,606)
Foreign exchange difference	4,283	(723)
Balance at 31 December	**28,325**	114,960

(*) *Represents taxes paid on interest received on Treasury bills and the Central Bank's certificates of deposit.*

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

	2019			
	Deferred Tax Assets LBP Million	Deferred Tax Liabilities LBP Million	Income Statement LBP Million	Other Comprehensive Income LBP Million
Provisions	28,332	6,305	20,319	-
Impairment allowance on financial assets	47,283	-	(17,066)	-
Financial instruments at FVTOCI	363	4,050	-	(7,590)
Difference in depreciation rates	1,763	8,400	1,223	-
Defined benefit obligation	4,030	89	-	(11)
Revaluation of real estate	-	22,148	-	(14,118)
Foreign currency translation reserve	-	2,872	(2,268)	-
Cash flow hedge reserve	3,187	-	-	(1,829)
Other temporary differences	2,168	14	660	-
	87,126	**43,878**	**2,868**	**(23,548)**

	2018			
	Deferred Tax Assets LBP Million	Deferred Tax Liabilities LBP Million	Income Statement LBP Million	Other Comprehensive Income LBP Million
Provisions	20,650	15,427	10,659	-
Impairment allowance on financial assets	73,107	-	(29,319)	-
Financial instruments at FVTOCI	2,020	796	-	1,607
Difference in depreciation rates	(813)	6,785	2,291	-
Defined benefit obligation	3,387	96	-	68
Revaluation of real estate	-	6,909	-	-
Foreign currency translation reserve	-	605	318	527
Net gain on hedge of net investment	-	-	-	(991)
Cash flow hedge reserve	6,802	-	-	6,802
Other temporary differences	3,726	9,201	2,402	-
	108,879	39,819	(13,649)	8,013

15.0. | (LOSS) EARNINGS PER SHARE

Basic (loss) earnings per share are calculated by dividing the (loss) 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 (loss) earnings per share:

	2019 LBP Million	2018 LBP Million
(Loss) profit attributable to equity holders of the Bank	(912,177)	753,260
Less: dividends attributable to preferred shares	-	(62,750)
(Loss) profit available to holders of common shares	**(912,177)**	690,510
Weighted average number of shares outstanding	**398,574,269**	396,968,691
	LBP	LBP
Basic and diluted (loss) earnings per share	**(2,289)**	1,739

The Bank increased its capital by LBP 315,278 million effective 20 February 2020 through the issuance of 188,789,011 common shares at a nominal value of LBP 1,670.

There have been no other transactions involving common shares or potential common shares between the reporting date and the date of authorisation of these consolidated financial statements.

16.0. | CASH AND BALANCES WITH CENTRAL BANKS

	2019 LBP Million	2018 LBP Million
Cash on hand	**505,486**	515,370
Central Bank of Lebanon		
Current accounts	477,176	911,019
Time deposits	17,460,137	19,877,186
Accrued interest	647,152	466,636
	18,584,465	21,254,841
Other central banks		
Current accounts	2,068,594	1,523,999
Time deposits	2,168,842	1,537,486
Accrued interest	18,697	9,255
	4,256,133	3,070,740
	23,346,084	24,840,951
Less: allowance for expected credit losses (Note 52)	(176,565)	(47,269)
	23,169,519	24,793,682

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.

During 2019, the Bank and the Central Bank of Lebanon signed a netting agreement for specified financial assets and liabilities that qualifies for netting under the requirements of IAS 32. Accordingly, as at 31 December 2019, time deposits with the Central Bank of Lebanon amounting to LBP 9,254,889 million (2018: nil) and term borrowings from the Central Bank of Lebanon (Note 31) are reported on a net basis on the statement of financial position.

As at 31 December 2018, time deposits with the Central Bank of Lebanon amounting to LBP 4,772,032 million were blocked against term borrowings from the Central Bank of Lebanon (Note 31).

The following table summarises the Group's placements in central banks available against the obligatory reserves as of 31 December:

	2019			2018		
	Lebanese Pounds LBP Million	Foreign Currencies LBP Million	**Total LBP Million**	Lebanese Pounds LBP Million	Foreign Currencies LBP Million	Total LBP Million
Central Bank of Lebanon						
Current accounts	466,331	-	466,331	743,069	-	743,069
Time deposits	28,409	3,399,487	3,427,896	7,958	3,816,574	3,824,532
	494,740	**3,399,487**	**3,894,227**	751,027	3,816,574	4,567,601
Other central banks						
Current accounts	-	679,061	679,061	-	302,488	302,488
Time deposits	-	579,209	579,209	-	618,256	618,256
	-	**1,258,270**	**1,258,270**	-	920,744	920,744
	494,740	**4,657,757**	**5,152,497**	751,027	4,737,318	5,488,345

17.0. | DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2019 LBP Million	2018 LBP Million
Current accounts	1,165,643	1,369,987
Time deposits	991,549	2,341,400
Checks for collection	10,686	106,614
Other amounts due	10,766	25,102
Accrued interest	849	1,463
	2,179,493	3,844,566
Less: allowance for expected credit losses (Note 52)	(1,587)	(940)
	2,177,906	3,843,626

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

	2019 LBP Million	2018 LBP Million
Loans and advances	180,304	68,945
Reverse repurchase agreements	521,942	197,423
Accrued interest	767	396
	703,013	266,764
Less: allowance for expected credit losses (Note 52)	(2,556)	(119)
	700,457	266,645

The Group purchased Turkish Treasury bills under a commitment to resell them (reverse repurchase agreements). The securities are not included in the statement of financial position 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 521,942 million at 31 December 2019, including accrued interest (2018: LBP 197,423 million).

19.0. | 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 future contracts are contractual agreements to buy and 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 financial instruments 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.

The Group has positions in the following type of derivatives:

31 December 2019	Positive Fair Value LBP Million	Negative Fair Value LBP Million	**Notional Amount LBP Million**
Derivatives held for trading			
Forward foreign exchange contracts	10,418	17,908	1,268,105
Forward precious metals contracts	-	29	853
Currency swaps	165,819	139,046	6,198,522
Precious metals swaps	88	2,652	91,161
Currency options	59,316	11,894	1,201,208
Interest rate swaps	44,173	30,404	1,778,467
Interest rate options	-	-	51,790
Credit derivatives	3,137	-	741,532
Equity options	5,638	4,087	12,115
	288,589	**206,020**	**11,343,753**
Derivatives held as fair value hedge			
Interest rate swaps	-	157,705	1,582,875
Derivatives held to hedge net investments in foreign operations			
Currency swaps	2,335	-	98,683
Derivatives held as cash flow hedge			
Interest rate swaps	-	8,377	188,438
Total	**290,924**	**372,102**	**13,213,749**

31 December 2018	Positive Fair Value LBP Million	Negative Fair Value LBP Million	Notional Amount LBP Million
Derivatives held for trading			
Forward foreign exchange contracts	34,747	20,151	2,056,327
Forward precious metals contracts	-	68	1,523
Currency swaps	186,686	178,532	5,559,155
Precious metals swaps	-	2,582	144,037
Currency options	106,018	75,163	4,385,864
Interest rate swaps	16,808	28,470	5,663,214
Interest rate options	-	-	216,267
Credit derivatives	54,486	-	1,488,087
Equity options	15,908	15,907	20,909
	414,653	320,873	19,535,383
Derivatives held as fair value hedge			
Interest rate swaps	-	50,644	1,507,500
Derivatives held to hedge net investments in foreign operations			
Currency swaps	4,300	-	100,897
Derivatives held as cash flow hedge			
Interest rate swaps	796	36,736	265,198
Total	419,749	408,253	21,408,978

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 risk and market risk. This is achieved by hedging specific financial instruments, portfolio of fixed rate financial instruments and forecast transaction, as well as strategic hedging against overall financial position exposures.

HEDGES OF NET INVESTMENTS IN FOREIGN OPERATIONS

The Group uses currency swaps contracts to hedge certain net investments in foreign operations.

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 (2018: the same). Amounts reclassified from deferred cost of hedging (time value) to profit or loss were reflected under net gain on financial assets at fair value through profit or loss in the consolidated income statement.

The amounts relating to items designated as hedging instruments were as follows (the amounts are gross of tax):

(In LBP Million)		Currency	Notional Amount	Fair value Positive	Change in Value of Hedging Instrument Recognised in OCI	Time Value: Change in Time Value Recognised in OCI	Time Value: Amount Reclassified to Profit or Loss
31 December 2019							
Bank Audi France sa	Currency swap	EUR	98,683	2,335	2,212	-	-
				2,335	**2,212**	-	-
31 December 2018							
Odea Bank A.Ş.	Capped calls	TRY	-	-	(9,982)	5,816	6,899
Other subsidiaries							
Bank Audi France sa	Currency swap	EUR	100,897	4,300	4,785	-	-
Bank Audi LLC (Qatar)	Currency swap	QAR	-	-	131	-	-
				4,300	(5,066)	5,816	6,899

HEDGES OF INTEREST RATE RISK

The Group's risk management strategy is to hedge interest rate risk with interest rate derivatives. The interest rate risk management strategy is to reduce the Group's exposure to interest rate risk to within approved risk limits. The Group uses interest rate swaps to hedge mismatches between fixed interest rates and floating interest rates. The hedging instruments share the same risk exposures as the hedged items. Hedge ineffectiveness is assessed with reference to the shared risks, but to the extent hedging instruments are exposed to different risks than the hedged items, this could result in ineffectiveness. The Group establishes a hedge ratio of 100% by aligning the par amount of the hedged item and the notional amount of the interest rate swap designated as a hedging instrument.

In these hedging relationships, the Group uses benchmark interest rate as a component of interest rate risk. Using the benchmark interest rate results in other risks such as credit risk and liquidity risk which are excluded from the hedge accounting relationship.

Sources of ineffectiveness affecting hedge accounting are as follows:
- The effect of the counterparty and the Group's own credit risk on the fair value of the swap, which is not reflected in the fair value of the hedged item attributable to the change in interest rate; and
- Differences in maturities or timing of cash flows of the swap and the hedged items.

There were no other sources of ineffectiveness in these hedge relationships.

IBOR RISK

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates, the Group has established a project to manage the transition for any of its contracts that could be affected. The project is sponsored by the Group CFO and is being led by senior representatives from functions across the Group including the client facing teams, Legal, Finance, Operations and Technology. The project provides monthly progress updates to the Managing Board and bi-annually to the Audit Committee.

The table below indicates the nominal amount and weighted average maturity of derivatives in hedging relationships that will be affected by IBOR reform, analysed by interest rate and cross currency basis. The derivative hedging instruments provide close approximation to the extent of the risk exposure the Group manages through hedging relationships.

31 December 2019	Nominal Amount LBP Million	Average Maturity Years
Interest rate swaps		
LIBOR (USD) – 3 months	1,582,875	8.38
LIBOR (USD) – 6 months	188,438	5.80
	1,771,313	

FAIR VALUE HEDGES OF INTEREST RATE RISK

The Group held the following interest rate swaps as hedging instruments in fair value hedges of interest rate risk:

	2019	2018
Nominal amount – LBP million	1,582,875	1,507,500
Average fixed interest rate	3.01%	3.01%
Maturity	More than 5 years	More than 5 years

As at 31 December, the amounts relating to the hedging instruments were as follows:

		Fair Value		
	Notional Amount LBP Million	Positive LBP Million	Negative LBP Million	Change in Fair Value Used for Calculating Hedge Ineffectiveness LBP Million
31 December 2019				
Interest rate swaps	1,582,875	-	157,705	96,623
31 December 2018				
Interest rate swaps	1,507,500	-	50,644	39,769

As at 31 December, the amounts relating to the hedged items were as follows:

	2019		2018	
	Carrying Value LBP Million	Change in Value Used for Calculating Hedge Ineffectiveness LBP Million	Carrying Value LBP Million	Change in Value Used for Calculating Hedge Ineffectiveness LBP Million
Time deposits with Central Bank of Lebanon	1,725,922	102,842	1,547,705	40,205

Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item amounted to LBP 143,047 million as at 31 December 2019 (2018: LBP 40,205 million). No ineffectiveness from these hedges was recognised in profit or loss during the year as the hedging instrument and the hedged item are closely aligned. There were no accumulated amounts of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses.

The below table sets the outcome of the Group's hedging strategy, in particular, to changes in the fair value of the hedged item and hedging instrument in the current and comparative year, used as the basis for recognising ineffectiveness.

		2019			2018		
		Gains/Losses Attributed to the Hedged Risk			Gains/Losses Attributed to the Hedged Risk		
Hedged Item	**Hedging Instrument**	Hedged Item LBP Million	Hedging Instrument LBP Million	Hedge Ineffectiveness LBP Million	Hedged Item LBP Million	Hedging Instrument LBP Million	Hedge Ineffectiveness LBP Million
Time deposits with Central Bank of Lebanon	Interest rate swaps	(26,664)	(100,658)	**(127,322)**	40,205	(39,769)	436

CASH FLOW HEDGES OF INTEREST RATE RISK

As of 31 December 2019, interest rate swaps were held as hedging instrument against borrowing from banks and financial institutions for a notional amount of USD 125 million (equivalent to LBP 188,438 million) (2018:USD 100 million (equivalent to LBP 150,750 million)), maturing in October 2025 and paying an average fixed interests rate of 3.15%. Interest rates swaps that were held as at 31 December 2018, as hedging instruments against customers' deposits for a notional amount of TRY 400 million (equivalent to LBP 114,448 million), maturing in September 2028 and paying an average fixed interest rate of 19.96% were discontinued during 2019. For calculating hedge ineffectiveness, change in fair value of the hedging instruments and the hedged items was LBP 4,408 million and LBP 4,408 million respectively (2018: LBP 31,508 million and LBP 31,508 million respectively). No ineffectiveness from these hedges was recognised in profit or loss as the hedging instrument and the hedge item are closely aligned. Cash flow hedge reserves relating to continuing and discontinued hedges amounted to LBP 6,575 million and LBP 12,270 million respectively (2018: LBP 19,391 million and nil respectively). Gain (losses) on cash flow hedges reclassified to the income statement amounted to LBP 8,311 million (2018: nil) and were reflected under interests and similar expenses.

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

	2019 LBP Million	2018 LBP Million
Lebanese Sovereign and Central Bank of Lebanon		
Treasury bills	722	149
Eurobonds	36	5,094
	758	5,243
Other sovereign		
Treasury bills and bonds	**1,038**	935
Private sector and other securities		
Banks and financial institutions	294,053	69,681
Loans and advances to customers	18,157	37,233
Mutual funds	67,071	58,295
Equity instruments	5	48,735
	379,286	213,944
	381,082	220,122

21.0. | LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST

	2019 LBP Million	2018 LBP Million
Corporate and SME	11,581,548	14,573,054
Retail and Personal Banking	5,545,072	6,109,569
Public sector	300,403	366,948
	17,427,023	21,049,571
Less: allowance for expected credit losses (Note 52)	(1,965,352)	(1,202,605)
	15,461,671	19,846,966

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

	2019 LBP Million	2018 LBP Million
Corporate and SME	13,756	13,970
Retail and Personal Banking	126,800	139,718
	140,556	153,688
Less: allowance for expected credit losses (Note 52)	(67)	(17)
	140,489	153,671

23.0. | FINANCIAL ASSETS AT AMORTISED COST

	2019 LBP Million	2018 LBP Million
Lebanese Sovereign and Central Bank of Lebanon		
Certificates of deposit	6,359,285	9,632,854
Treasury bills	3,330,933	3,332,290
Eurobonds	1,979,348	2,999,814
	11,669,566	15,964,958
Other sovereign		
Treasury bills	1,326,508	1,030,235
Eurobonds	284,138	461,036
Other governmental securities	13,519	63,200
	1,624,165	1,554,471
Private sector and other securities		
Banks and financial institutions debt instruments	163,353	203,665
Corporate debt instruments	23,851	109,701
	187,204	313,366
	13,480,935	17,832,795
Less: allowance for expected credit losses (Note 52)	(1,161,991)	(44,261)
	12,318,944	17,788,534

During 2019, the Bank and the Central Bank of Lebanon signed a netting agreement for specified financial assets and liabilities that qualifies for netting under the requirements of IAS 32. Accordingly, as at 31 December 2019, certificates of deposit amounting to LBP 2,638,000 million (2018: nil) and term borrowings from the Central Bank of Lebanon (Note 31) are reported on a net basis on the statement of financial position.

At 31 December 2019, Lebanese Treasury bills of LBP 1,979,141 million were pledged against term borrowings from the Central Bank of Lebanon (2018: Lebanese Treasury bills and certificates of deposits of LBP 1,979,141 million and LBP 2,638,000 million, respectively) (Note 31).

The Lebanese government Eurobonds were acquired during 2018 against a leverage arrangement with the Central Bank of Lebanon (refer to Note 31). During 2019, the amortised cost was adjusted by an amount equivalent to the present value of expected future cash flows from leverage arrangements. These financial instruments were mostly liquidated during the first three months of 2020 at a price approximating their adjusted carrying amount net of the allowances for expected credit losses at 31 December 2019.

24.0. | FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 LBP million	2018 LBP million
Debt instruments		
Other sovereign		
Treasury bills	913,815	1,183,790
Eurobonds	157,117	-
	1,070,932	1,183,790
Private sector and other securities		
Banks and financial institutions debt instruments	15,180	-
	1,086,112	1,183,790
Equity instruments		
Quoted	176	1,520
Unquoted	68,605	72,125
	68,781	73,645
	1,154,893	1,257,435

DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The change in fair value on debt instruments at fair value through other comprehensive income amounted to gain LBP 34,517 million during 2019 (2018: loss LBP 9,697 million). Over the course of the year, out of the Group's debt instruments at fair value through other comprehensive income portfolio, instruments with a principal of LBP 1,144,424 million matured. In relation to this, the Group transfered LBP 847 million unrealised gains from other comprehensive income to the income statement (2018: LBP 564 million).

EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The Group classified the following instruments in private sector securities at fair value through other comprehensive income as it holds them for strategic reasons. The tables below list those equity instruments, dividends received, and the changes in fair value net of applicable taxes:

	2019		
	Fair Value LBP Million	Cumulative Changes in Fair Value LBP Million	Dividends LBP Million
Quoted	176	-	-
Unquoted:	68,605	11,535	2,089
Banque de l'Habitat sal	16,350	10,095	-
Other equity instruments	52,255	1,440	2,089
	68,781	**11,535**	**2,089**

	2018		
	Fair Value LBP Million	Cumulative Changes in Fair Value LBP Million	Dividends LBP Million
Quoted	1,520	-	-
Unquoted:	72,125	2,554	3,206
Phoenicia – Aer Rianta Co. sal	10,729	-	-
Banque de l'Habitat sal	16,350	10,095	-
Other equity instruments	45,046	(7,541)	3,206
	73,645	2,554	3,206

Over the course of the year, the Group sold equity instruments at fair value through other comprehensive income with a fair value of LBP 13,158 million (2018: LBP 42,137 million). In relation to this, the Group transferred LBP 5,459 million unrealised losses from other comprehensive income to the retained earnings (2018: LBP 2,816 million).

25.0. | INVESTMENTS IN ASSOCIATES

	Country of Incorporation	Activity	Ownership %	2019 LBP Million	2018 LBP Million
GlobalCom Holding sal	Lebanon	Communication	**31.00%**	40,874	40,320
M1 Financial Technologies Holding sal	Lebanon	Services	**30.00%**	69,117	82,920
Other associates				11,148	21,625
				121,139	144,865

INDIVIDUALLY MATERIAL ASSOCIATES

GlobalCom Holding sal and M1 Financial Technologies Holding sal are the only individually material investments in associates held by the Group. The following table illustrates the summarised financial information of the all material associates. The information disclosed reflects the amounts presented in the financial statements of the relevant associates and not the Group's share of those amounts. They have been amended to reflect adjustments made by the Group when using the equity method, including fair value adjustments and modifications for differences in accounting policies.

	2019		2018	
	GlobalCom Holding sal LBP Million	M1 Financial Technologies Holding sal LBP Million	GlobalCom Holding sal LBP Million	M1 Financial Technologies Holding sal LBP Million
Current assets	98,127	79,512	79,223	58,034
Non-current assets	51,635	39,549	55,404	22,465
Current liabilities	(98,526)	(60,692)	(85,034)	(38,015)
Non-current liabilities	(6,292)	(22,606)	(6,438)	(26,447)
Equity	**44,944**	**35,763**	43,155	16,037
Group's share of equity	13,933	10,729	13,379	4,811
Goodwill	26,941	58,388	26,941	78,109
	40,874	**69,117**	40,320	82,920
Revenues	96,803	140,558	83,050	-
Expenses	(89,459)	(134,540)	(73,854)	-
Profit for the period	7,344	1,805	9,196	-
	2,277	**5,918**	2,851	-

GlobalCom Holding sal and M1 Financial Technologies Holding sal had no contingent liabilities or capital commitments as at 31 December 2019 (2018: the same).

During 2019, the Group received dividends in the amount of LBP 1,168 million from GlobalCom Holding sal (2018: LBP 1,168 million).

M1 FINANCIAL TECHNOLOGIES HOLDING SAL

At 31 December 2019, due to the current economic crisis Lebanon is going through, and its impact on banking and electronic card transactions, the Group performed an impairment test on the carrying amount of M1 Financial Technologies Holding sal. The recoverable amount as determined by a value-in-use ("VIU") calculation was lower than the carrying value and accordingly, the Group recorded an impairment loss of LBP 19,725 million (Note 13). Calculation was based on cash flow projections from financial budgets approved by Senior Management covering a five-year period, with a terminal growth rate of 2.00%. The forecast cash flows were discounted at a pre-tax rate of 15.90%.

OTHER ASSOCIATES

The aggregate amount of the Group's share of profit of its individually immaterial associates amounted to a profit of LBP 1,080 million for the year ended 31 December 2019 (2018: a loss of LBP 2,020 million).

During 2019, the Group sold its investment in Assurex sal, an associate, to a third party for a total consideration of LBP 11,238 million. The disposal of this associate resulted in a loss of LBP 325 million. Accordingly, the Group share of Assurex sal's other comprehensive income amounting to LBP 5,464 million was transferred to "retained earnings". This associate had contingent liabilities of LBP 3,181 million of which LBP 3,100 million related to guarantees issued in accordance with regulatory requirements at 31 December 2018.

During 2018, the Group sold 14% of its interest in Capital B Solutions Holding sal to a third party, which resulted in loss of control of this former subsidiary. The Group recognised the investment retained at its fair value under "other associates". Gain recognised from this transaction amounted to LBP 12,289 million reflected under "other operating income" (Note 10).

26.0. | PROPERTY AND EQUIPMENT AND RIGHT-OF-USE ASSETS

	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	Right-of-use LBP Million	Other LBP Million	**Total LBP Million**
Cost or revaluation:									
At 1 January 2019	187,791	639,906	144,393	3,255	206,971	99,977	-	8,882	1,291,175
IFRS 16 adoption	-	-	-	-	-	-	143,252	-	143,252
Revaluation recognised in OCI	(23,618)	18,637	-	-	-	-	-	-	(4,981)
Revaluation adjustments	-	(85,929)	-	-	-	-	-	-	(85,929)
Additions	-	18,520	8,070	158	21,857	1,695	22,035	-	72,335
Disposals	(1,788)	(8,218)	(3,066)	(122)	(3,012)	(1,185)	(7,281)	-	(24,672)
Transfer	992	(17,757)	16,765	-	(472)	472	-	-	-
Foreign exchange difference	130	16,365	(1,626)	147	(236)	(265)	(5,072)	(267)	9,176
At 31 December 2019	**163,507**	**581,524**	**164,536**	**3,438**	**225,108**	**100,694**	**152,934**	**8,615**	**1,400,356**
Depreciation:									
At 1 January 2019	-	67,208	105,259	1,942	154,347	77,690	-	7,028	413,474
Revaluation adjustments	-	(85,929)	-	-	-	-	-	-	(85,929)
Depreciation during the year	-	20,932	11,300	383	20,211	4,671	29,459	57	87,013
Disposals	-	(1,311)	(1,900)	(116)	(2,916)	(1,058)	(2,885)	-	(10,186)
Transfer	-	(1,041)	1,042	-	(481)	480	-	-	-
Foreign exchange difference	-	141	(1,054)	55	(558)	(421)	1,031	(396)	(1,202)
At 31 December 2019	**-**	**-**	**114,647**	**2,264**	**170,603**	**81,362**	**27,605**	**6,689**	**403,170**
Net book value:									
At 31 December 2019	**163,507**	**581,524**	**49,889**	**1,174**	**54,505**	**19,332**	**125,329**	**1,926**	**997,186**

	Land LBP Million	Buildings and Freehold Improvements LBP Million	Leasehold Improvements LBP Million	Motor Vehicles LBP Million	Office Equipment and Computer Hardware LBP Million	Office Machinery and Furniture LBP Million	Other LBP Million	Total LBP Million
Cost or revaluation:								
At 1 January 2018	197,506	597,101	156,716	2,906	219,438	102,415	8,969	1,285,051
Additions	169	45,000	6,051	377	15,914	1,441	15	68,967
Disposals	-	(9,622)	(3,114)	(27)	(9,152)	(3,812)	(17)	(25,744)
Transfer	(9,805)	9,805	-	-	(2,894)	2,894	-	-
Foreign exchange difference	(79)	(2,378)	(15,260)	(1)	(16,335)	(2,961)	(85)	(37,099)
At 31 December 2018	187,791	639,906	144,393	3,255	206,971	99,977	8,882	1,291,175
Depreciation:								
At 1 January 2018	-	54,245	106,147	1,615	157,160	74,500	6,984	400,651
Depreciation during the year	-	22,654	11,673	358	20,341	6,256	115	61,397
Disposals	-	(9,144)	(3,114)	(27)	(9,109)	(3,800)	-	(25,194)
Transfer	-	-	-	-	(2,533)	2,533	-	-
Foreign exchange difference	-	(547)	(9,447)	(4)	(11,512)	(1,799)	(71)	(23,380)
At 31 December 2018	-	67,208	105,259	1,942	154,347	77,690	7,028	413,474
Net book value:								
At 31 December 2018	187,791	572,698	39,134	1,313	52,624	22,287	1,854	877,701

The Group has lease contracts for various items primarily comprising head offices and branches, used in its operations. Leases of head offices and branches generally have lease terms between 1 and 30 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets and some contracts require the Group to maintain certain financial ratios. There are several lease contracts that include extension and termination options and variable lease payments.

Effective 1 January 2019, upon adoption of IFRS 16, prepaid operating leases amounting to LBP 20,422 million was reclassified to property and equipment (Note 29).

REVALUATION OF LAND AND BUILDINGS

Pursuant to the decision of the Board of Directors held on 3 September 2014, the Group changed its accounting policy for measuring land and buildings and related improvements from the cost model to the revaluation model. Management determined that each constitutes a single class of asset under IFRS 13, based on the nature, characteristics and risks of the property. These assets are classified under Level 3 in the fair value hierarchy.

Fair value of the land and buildings and freehold improvements was determined using the market comparable method. The valuations have been performed by the valuer and are based on proprietary databases of prices of transactions for properties of similar location and condition of the specific property. As at the date of revaluation, the properties' fair values are based on valuations carried out by independent valuers accredited by the local regulators in the countries in which the properties are situated.

SIGNIFICANT UNOBSERVABLE VALUATION INPUT

Description of valuation techniques used and key inputs to valuation of land and buildings:

	Valuation Technique	Significant Unobservable Inputs	Weighted Average	**Fair Value LBP Million**
Land:				
Lebanon	Market comparable method	Price per sqm	LBP 5.082 million	153,331
Egypt	Market comparable method	Price per sqm	LBP 3.680 million	87
Buildings and freehold improvements:				
Lebanon	Market comparable method	Price per sqm	LBP 3.456 million	316,101
Egypt	Market comparable method	Price per sqm	LBP 4.584 million	172,059
Switzerland	Market comparable method	Price per sqm	LBP 27.243 million	68,755

Significant increase (decrease) in the estimated price per square meter in isolation would result in significantly higher (lower) fair value on a linear basis. If land, buildings, and related improvements were measured using the cost model, the carrying amounts as of 31 December would have been as follows:

	2019	
	Land LBP Million	Buildings and Freehold Improvements LBP Million
Cost	69,890	556,116
Accumulated depreciation	-	(201,567)
Net book value	**69,890**	**354,549**

	2018	
	Land LBP Million	Buildings and Freehold Improvements LBP Million
Cost	70,566	545,977
Accumulated depreciation	-	(188,953)
Net book value	70,566	357,024

27.0. | INTANGIBLE ASSETS

	Computer Software LBP Million	Other LBP Million	**Total LBP Million**
Cost:			
At 1 January 2019	182,934	105	183,039
Additions	70,427	-	70,427
Foreign exchange difference	(2,837)	(12)	(2,849)
At 31 December 2019	**250,524**	**93**	**250,617**
Amortisation:			
At 1 January 2019	114,458	105	114,563
Amortisation during the year	24,529	-	24,529
Foreign exchange difference	(3,607)	(12)	(3,619)
At 31 December 2019	**135,380**	**93**	**135,473**
Net book value:			
At 31 December 2019	**115,144**	**-**	**115,144**

	Computer Software LBP Million	Other LBP Million	Total LBP Million
Cost:			
At 1 January 2018	187,620	328	187,948
Additions	24,079	-	24,079
Disposals	(5,064)	-	(5,064)
Foreign exchange difference	(23,701)	(223)	(23,924)
At 31 December 2018	182,934	105	183,039
Amortisation:			
At 1 January 2018	111,456	249	111,705
Amortisation during the year	22,541	-	22,541
Disposals	(5,064)	-	(5,064)
Foreign exchange difference	(14,475)	(144)	(14,619)
At 31 December 2018	114,458	105	114,563
Net book value:			
At 31 December 2018	68,476	-	68,476

28.0. | NON-CURRENT ASSETS HELD FOR SALE

The Group occasionally takes possession of assets in settlement of loans and advances. The Group is in the process of selling these assets which are, as such, included in non-current assets held for sale. Gains or losses on disposal are recognised in the consolidated income statement for the year.

	2019			2018		
	Financial Instruments LBP Million	Properties LBP Million	**Total LBP Million**	Financial Instruments LBP Million	Properties LBP Million	Total LBP Million
Cost:						
At 1 January	40,390	155,626	196,016	-	146,758	146,758
Additions	-	134,048	134,048	40,390	38,708	79,098
Disposals	-	(9,588)	(9,588)	-	(17,786)	(17,786)
Foreign exchange difference	-	(12,685)	(12,685)	-	(12,054)	(12,054)
At 31 December	**40,390**	**267,401**	**307,791**	40,390	155,626	196,016
Impairment:						
At 1 January	-	2,295	2,295	-	2,700	2,700
Impairment for the year	-	15,522	15,522	-	-	-
Disposals	-	-	-	-	(310)	(310)
Foreign exchange difference	-	(15)	(15)	-	(95)	(95)
At 31 December	**-**	**17,802**	**17,802**	-	2,295	2,295
Net book value:						
At 31 December	**40,390**	**249,599**	**289,989**	40,390	153,331	193,721

In 2019, the impairment loss of LBP 15,522 million represents the write-down of non-current assets held for sale as a result of the sudden decline in real estate prices due to the deep recession facing Lebanon.

The impairment loss was recognised in the consolidated income statement as a separate line item. The recoverable amount was based on fair value determined by the market comparable method. The fair values are based on valuations carried out by independent valuers accredited by the local regulators in the countries in which the properties are situated.

SIGNIFICANT UNOBSERVABLE VALUATION INPUT

Description of valuation techniques used and key inputs to valuation of properties:

	Valuation Technique	Significant Unobservable Inputs	Weighted Average
Lebanon:			
Land	Market comparable method	Price per sqm	LBP 325 million
Buildings	Market comparable method	Price per sqm	LBP 2,033.82 million

29.0. | OTHER ASSETS

	2019 LBP Million	2018 LBP Million
Advances on acquisition of property and equipment	6,572	28,299
Advances on acquisition of intangible assets	4,097	38,048
Prepaid charges	41,112	67,200
Electronic cards and regularisation accounts	31,923	23,806
Receivables related to non-banking operations	40,507	25,482
Advances to staff	13,342	21,172
Hospitalisation and medical care under collection	43,626	39,581
Interest and commissions receivable	5,925	4,921
Funds management fees	78	104
Fiscal stamps, bullions and commemorative coins	1,212	1,646
Management and advisory fees receivable	827	1,386
Tax regularisation account	10,784	27,156
Other debtor accounts	182,801	220,751
Receivables from Central Bank of Lebanon under leverage arrangements	1,110,061	215,263
	1,492,867	714,815

Effective 1 January 2019, upon adoption of IFRS 16, prepaid operating leases amounting to LBP 20,422 million were reclassified to property and equipment (Note 27).

As at 31 December 2019, other debtors accounts include an amount of LBP 98,452 million representing collateral under process of being repossessed against settlement of loans by a subsidiary (2018: LBP 131,494 million).

"Receivables from Central Bank of Lebanon under leverage arrangements" represents the present value of expected future cash flows from leverage arrangements entered with the Central Bank of Lebanon during 2018 against a simultaneous purchase of Lebanese government Eurobonds. These Lebanese government Eurobonds are recorded at amortised cost as at 31 December 2019 and 2018. During 2019, the amortised cost was adjusted by an amount equivalent to the present value of expected future cash flows from leverage arrangements. The Lebanese government Eurobonds were mostly liquidated during the first three months of 2020 (refer to Notes 23 and 31).

30.0. | GOODWILL

	2019 LBP Million	2018 LBP Million
Cost:		
At 1 January	199,980	200,280
Foreign exchange difference	9	(300)
At 31 December	**199,989**	199,980
Impairment:		
At 1 January	57,567	157,567
At 31 December	**57,567**	157,567
Net book value:		
At 31 December	**42,422**	42,413

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 2019 and 2018.

As at 31 December, the carrying amount of goodwill was allocated to the following CGUs:

	2019 LBP Million	2018 LBP Million
Private Banking – Switzerland	**42,422**	42,413

These CGUs do not carry on their statement of financial position any intangible assets with indefinite lives, other than goodwill.

RECOVERABLE AMOUNT

The Private Banking CGU in Switzerland is a separate legal entity offering Private Banking activities to its customers and is reported mainly under the Retail and Personal Banking business segment and the Europe geographical segment. The recoverable amount of this CGU was determined based on a value in use calculation using cash flow projections from financial budgets approved by Senior Management covering a five-year period, with a terminal growth rate of 2.00% (2018: 2.00%). The forecast cash flows were discounted at a pre-tax rate of 10.00% (2018: 10.00%). Based on these assumptions, the recoverable amount exceeds the carrying amount including goodwill by LBP 61,510 million (2018: LBP 61,305 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 following table, 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 0.1% causes a decrease in the value in use by 0.28% (LBP 1,163 million) (2018: 0.23% (LBP 946 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 1.72% (LBP 7,101 million) (2018: 0.5% (LBP 9,260 million)).
Growth rate	Growth rate is the percentage change of the compounded annualised rate of growth of revenues, earnings, dividends and even including macro concepts such as GDP and the economy as a whole.	A decrease of 0.50% causes a decrease in the value in use by 2.41% (LBP 9,979 million) (2018: 2.24% (LBP 9,260 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:

	2019	2018
Interest margin	(3.76%)	(4.81%)
Cost of equity	12.78%	12.98%
Growth rate	(2.55%)	(3.10%)

31.0. | DUE TO CENTRAL BANKS

	2019 LBP Million	2018 LBP Million
Central Bank of Lebanon		
Subsidised loans	803,600	891,641
Term borrowings under leverage arrangements	1,979,141	9,389,173
Other borrowings	2,798,525	1,371,825
Accrued interest	25,215	68,562
Other central banks		
Term loan	-	198,789
Repurchase agreements	45,481	-
	5,651,962	11,919,990

SUBSIDISED LOANS

As at 31 December 2019, 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 (2018: the same).

TERM BORROWINGS UNDER LEVERAGE ARRANGEMENTS

Leverage arrangements with the Central Bank of Lebanon represent term borrowings denominated in LBP, bearing an interest rate 2% per annum and having maturities ranging between 2019 and 2031, fully invested in Lebanese Treasury bills, certificates of deposit with the Central Bank of Lebanon in LBP, and blocked term placements with Central Bank of Lebanon in LBP earning coupon rates ranging between 6.5% per annum and 10.5%. Simultaneously, the Bank has either deposited term placements with the Central Bank of Lebanon in foreign currencies at 6.5% per annum and in LBP at 10.5% per annum (originated from the sale of foreign currencies to the Central Bank of Lebanon) carrying the same maturities; or purchased Lebanese government Eurobonds from the Central Bank of Lebanon. During 2019, the Bank and the Central Bank of Lebanon signed a netting agreement covering only leverage arrangements that were invested in blocked term placement and pledged certificates of deposit with the Central Bank of Lebanon in LBP. This agreement qualifies for netting under the requirements of IAS 32.

The following table summarises the leverage arrangements and related financial assets subject to offsetting, and enforceable similar agreements, and whether offset is achieved in the balance sheet. The table identifies the amounts that have been offset in the statement of financial position and also those amounts that are covered by enforceable netting arrangements (financial collateral) but do not qualify for netting under the requirements of IAS 32 described in the accounting policies:

	2019 LBP Million	2018 LBP Million
Leverage arrangements		
Gross amounts	13,872,030	9,389,173
Amounts offset against[1]		
Placement with the Central Bank of Lebanon (Note 16)	9,254,889	-
Certificates of deposit with the Central Bank of Lebanon (Note 23)	2,638,000	-
Net amounts reported on the statement of financial position	**1,979,141**	9,389,173
Financial collateral		
Placement with the Central Bank of Lebanon (Note 16)	-	4,772,032
Certificates of deposit with the Central Bank of Lebanon (Note 23)	-	2,638,000
Lebanese Treasury bills (Note 23)	1,979,141	1,979,141
	1,979,141	9,389,173

[1] Represents amounts that can be offset under IAS 32. Placements with the Central Bank of Lebanon and certificates of deposit with the Central Bank of Lebanon have also been reported on the statement of financial position net of the amounts above.

REPURCHASE AGREEMENTS

The Group sells government bonds subject to a commitment to repurchase them (repurchase agreement). The consideration received (or cash collateral provided) is accounted for as a financial liability reflecting the transaction's economic substance as a borrowing to the Group. As the Group retains substantially all the risks and rewards of ownership, the securities transferred are retained on the statement of financial position under:

	2019 LBP Million	2018 LBP Million
Financial assets at amortised cost - Non-Lebanese government bonds	**55,195**	-
Financial assets at fair value through comprehensive income - Non-Lebanese government bonds	**1,066**	-

32.0. | DUE TO BANKS AND FINANCIAL INSTITUTIONS AND REPURCHASE AGREEMENTS

	2019 LBP Million	2018 LBP Million
Current accounts	461,109	448,597
Term loans	777,934	1,357,236
Time deposits	308,531	357,193
Accrued interest	8,930	20,661
	1,556,504	2,183,687
Repurchase agreements	42,969	1,304
	1,599,473	2,184,991

Included in term loans above an amount of LBP 520,050 million (2018: LBP 460,802 million) representing loans granted from various supranational entities for the purpose of financing small and medium-size enterprises in the private sector, with annual interest rates ranging from 0.83% to 5.68% (2018: same).

The commitments arising from bank facilities received are disclosed in Note 48 to these consolidated financial statements.

REPURCHASE AGREEMENTS

The Group sells government bonds subject to a commitment to repurchase them (repurchase agreement). The consideration received (or cash collateral provided) is accounted for as a financial liability reflecting the transaction's economic substance as a borrowing to the Group. As the Group retains substantially all the risks and rewards of ownership, the securities transferred are retained on the statement of financial position under:

	2019 LBP Million	2018 LBP Million
Financial assets at amortised cost - Non-Lebanese government bonds	**59,655**	1,304

33.0. | CUSTOMERS' DEPOSITS

	2019			
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	Public Sector LBP Million	**Total LBP Million**
Sight deposits	3,439,779	6,132,189	415,591	9,987,559
Time deposits	5,489,419	21,052,388	1,315,430	27,857,237
Saving accounts	309,851	3,905,653	-	4,215,504
Certificates of deposit	30,085	1,337,413	235	1,367,733
Margins on LC's and LG's	764,258	17,325	690	782,273
Other margins	17,878	13,344	-	31,222
Other deposits	56,461	38,571	-	95,032
	10,107,731	**32,496,883**	**1,731,946**	**44,336,560**
Deposits pledged as collateral				**4,164,992**

	2018			
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	Public Sector LBP Million	Total LBP Million
Sight deposits	3,099,778	5,177,092	194,326	8,471,196
Time deposits	7,675,599	23,744,468	1,128,300	32,548,367
Saving accounts	483,425	4,784,192	-	5,267,617
Certificates of deposit	53,972	832,557	1,365	887,894
Margins on LC's and LG's	285,609	28,932	614	315,155
Other margins	24,580	90,515	-	115,095
Other deposits	112,289	59,458	-	171,747
	11,735,252	34,717,214	1,324,605	47,777,071
Deposits pledged as collateral				4,239,236

Sight deposits include balances of bullion amounting to LBP 303,997 million (2018: LBP 98,431 million) which were carried at fair value through profit or loss.

Time deposits include balances amounting to LBP 741,532 million as at 31 December 2019 (2018: LBP 1,488,087 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 USD and having the same nominal amount.

34.0. | DEPOSITS FROM RELATED PARTIES

	2019		
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	**Total LBP Million**
Sight deposits	12,482	80,041	92,523
Time deposits	3,245	178,315	181,560
Other deposits and margin accounts	482	1,745	2,227
	16,209	**260,101**	**276,310**
Deposits pledged as collateral			**96,952**

	2018		
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	Total LBP Million
Sight deposits	6,928	37,216	44,144
Time deposits	6,491	344,355	350,846
Other deposits and margin accounts	482	642	1,124
	13,901	382,213	396,114
Deposits pledged as collateral			117,569

35.0. | DEBT ISSUED AND OTHER BORROWED FUNDS

	2019 LBP Million	2018 LBP Million
USD 346,730,000 (2018: USD 350,000,000) due 16 October 2023 – 6.75%	522,695	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 283,000,000 (2018: 300,000,000) due 1 August 2027 – 7.625%	421,370	453,724
Turkish bills	192,561	58,834
Accrued interests	30,888	27,381
	1,393,639	1,293,689

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 346,700,000 (2018: 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.

Subject to the prior approval of the Central Bank and to compliance with all applicable Lebanese laws and regulations, the issuer may, at any time after the anniversary of the issue date, purchase or procure others to purchase for its accounts, notes at any price.

During 2019, the Bank acquired notes with a notional amount of USD 3,270,000 for a total consideration of USD 2,615,970. This transaction resulted in a gain of LBP 985 million.

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 283,000,000 (2018: 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. As of 31 December 2019, the total amount bought back amounted to USD 17 million. Odea Bank A.Ş. has not redeemed or cancelled the shares in circulation, thus selling back any portion of such amount at any time is completely at Management's discretion.

Turkish bills

Odea Bank A.Ş. issued bills in TRY at discount maturing during the first three months of 2020 with effective interest rate of 13.00% (2018: maturing during the first three months of 2019 with effective interest rate of 23.50%).

Cash and Non-cash Changes in Debt Issued and Other Borrowed Funds

All changes in debt issued and other borrowed funds arise mainly from cash flows. Non-cash changes such as foreign exchange gains and losses were not significant during 2019 (2018: the same).

36.0. | OTHER LIABILITIES

	2019 LBP Million	2018 LBP Million
Lease liabilities	149,853	-
Accrued expenses	104,134	145,240
Miscellaneous suppliers and other payables	22,801	24,288
Operational taxes	144,717	100,089
Employee accrued benefits	3,692	3,409
Electronic cards and regularisation accounts	49,618	35,812
Social security dues	6,315	5,139
Other credit balances	102,934	90,874
	584,064	404,851

Set out below are the carrying amounts of lease liabilities and the movements during the year ended 31 December 2019:

	2019 LBP Million
Balance at 1 January	**170,816**
Additions	20,052
Termination	(9,133)
Interest expense	15,230
Paid during the year	(42,177)
Foreign exchange	(4,935)
Balance at 31 December	**149,853**

37.0. | PROVISIONS FOR RISKS AND CHARGES

	2019 LBP Million	2018 LBP Million
Provisions for risks and charges	52,127	222,571
Provisions for ECL on financial guarantees and commitments (Note 52)	40,074	28,446
End of service benefits	86,618	91,777
	178,819	342,794

PROVISIONS FOR RISKS AND CHARGES

	2019 LBP Million	2018 LBP Million
General provision	-	185,588
Provision for legal claims	10,779	8,235
Other provisions	41,348	28,748
	52,127	222,571

GENERAL PROVISION

As at 31 December 2018, general provision consists of provisions allowed under regulatory acts amounting to LBP 185,588 million which do not meet the accounting criteria of IAS 37. During 2019, these provisions were transferred to allowances for expected credit losses on balances with central banks, loans and advances to customers at amortised cost and financial assets held at amortised cost in the amount of LBP 43,701 million, LBP 4,687 million, and LBP 137,200 million, respectively.

	2019 LBP Million	2018 LBP Million
Balance at 1 January	**36,983**	24,173
Add:		
Charge reflected under operating expenses (Note 13)	7,379	16,546
Charge reflected under other expenses	2,925	8,256
Transfer from current tax liability	5,096	-
Less:		
Paid during the year	(915)	(7,865)
Net provisions recoveries (Note 10)	(378)	(2,162)
Foreign exchange difference	1,037	(1,965)
Balance at 31 December	**52,127**	36,983

END OF SERVICE BENEFITS

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:

	2019		
	Lebanon LBP Million	Foreign Countries LBP Million	**Total LBP Million**
Balance at 1 January	75,667	16,110	91,777
Charge for the year (Note 12)	9,471	4,179	13,650
Paid during the year	(12,057)	(2,954)	(15,011)
Actuarial loss on obligation – experience	83	149	232
Actuarial loss on obligation – demographic assumptions	-	2,311	2,311
Actuarial (gain) loss on obligation – economic assumptions	(14,573)	7,481	(7,092)
Foreign exchange difference	-	751	751
Balance at 31 December	**58,591**	**28,027**	**86,618**

	2018		
	Lebanon LBP Million	Foreign Countries LBP Million	Total LBP Million
Balance at 1 January	82,216	18,360	100,576
Charge for the year (Note 12)	10,313	3,075	13,388
Paid during the year	(17,425)	(4,240)	(21,665)
Actuarial loss on obligation – experience	563	1,536	2,099
Actuarial gain on obligation – economic assumptions	-	(1,764)	(1,764)
Foreign exchange difference	-	(857)	(857)
Balance at 31 December	75,667	16,110	91,777

The charge for the year is broken down as follows:

	2019 LBP Million	2018 LBP Million
Past service cost	-	309
Current service cost	8,285	7,268
Interest on obligation	5,365	5,811
	13,650	13,388

The key assumptions used in the calculation of retirement benefit obligation are as follows:

	Lebanon		Switzerland	
	2019	2018	**2019**	2018
Economic assumptions				
Discount rate (p.a.)	10.50%	8.00%	0.15%	0.90%
Salary increase (p.a.)				
Employees	4.00%	4.00%	1.25%	1.25%
Senior Managers	6.00%	6.00%	1.25%	1.25%
Expected annual rate of return on NSSF contributions	5.00%	5.00%	None	None
Expected future pension increases	None	None	1.25%	1.25%
Treatment of bonus	3-year average as a % of basic	3-year average as a % of basic	3-year average as a % of basic	3-year average as a % of basic
Demographic assumptions				
Retirement age	Earliest of age 64 or completion of 20 contribution years	Earliest of age 64 or completion of 20 contribution years	Age 65 for men and 64 for women	Age 65 for men and 64 for women
Pre-termination mortality	None	None	BVG 2015 + 1.5%	BVG 2015 + 1.5%
Pre-termination turnover rates age related with average of	2.00% – 4.00%	2.00% – 4.00%	4.40% – 28.50%	4.40% – 28.50%

A quantitative sensitivity analysis for significant assumptions is shown below:

	Discount Rate		Future Salary Increase	
	% Increase LBP Million	% Decrease LBP Million	% Increase LBP Million	% Decrease LBP Million
Impact on net defined benefit obligation – 2019	**(3,949)**	**4,272**	**2,731**	**(2,132)**
Impact on net defined benefit obligation – 2018	(4,119)	4,891	4,288	(3,642)

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.

38.0. | SHARE CAPITAL AND WARRANTS ISSUED ON SUBSIDIARY CAPITAL

SHARE CAPITAL

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

	2019			2018		
	Number of Shares	**Share Capital LBP Million**	**Issue Premium LBP Million**	Number of Shares	Share Capital LBP Million	Issue Premium LBP Million
Common shares	399,749,204	667,581	883,582	399,749,204	667,581	883,582
Preferred shares series "H"	750,000	1,252	111,811	750,000	1,252	111,811
Preferred shares series "I"	2,500,000	4,175	372,700	2,500,000	4,175	372,700
Preferred shares series "J"	2,750,000	4,593	409,969	2,750,000	4,593	409,969
	6,000,000	**10,020**	**894,480**	6,000,000	10,020	894,480
	405,749,204	**677,601**	**1,778,062**	405,749,204	677,601	1,778,062

LISTING OF SHARES

		2019	2018
	Stock Exchange	Number of Shares	Number of Shares
Ordinary shares	Beirut	280,109,443	279,824,443
Global depository receipts	London SEAQ and Beirut	119,639,761	119,924,761
Preferred shares	Beirut	6,000,000	6,000,000
		405,749,204	405,749,204

The Board of Directors has approved the delisting of the global depository receipts from the London SEAQ on 29 July 2020.

1. In its meeting dated 27 July 2018, the Extraordinary General Assembly of shareholders decided to cancel the series "G" preferred shares totaling 1,500,000 shares which have a nominal value of LBP 2,495 million and to simultaneously replenish the share capital accounts by transferring the same amount from general reserves. As a result and for the avoidance of decimals in the share nominal value, the Bank increased its capital up to LBP 677,581 million, by transferring an amount of LBP 2,798 million from free reserves, so that the nominal value per share after the cancellation and capital increase amounted to LBP 1,670. The Bank had issued preferred shares series "G" pursuant to the resolution of the Extraordinary General Assembly held on 15 April 2013, under the following terms:

Preferred shares series "G"

- Number of shares:	1,500,000.
- Share's issue price:	USD 100.
- Share's nominal value:	LBP 1,299 (later became LBP 1,663 upon increasing the nominal value).
- Issue premium :	Calculated in USD as the difference between USD 100 and the 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.

2. Pursuant to the resolution of the Extraordinary General Assembly of shareholders held on 15 April 2013, the Bank issued series "H" preferred shares under the following terms:

Preferred shares series "H"

- Number of shares:	750,000.
- Share's issue price:	USD 100.
- Share's nominal value:	LBP 1,299 (later became LBP 1,670 upon increasing the nominal value).
- Issue premium :	Calculated in USD as the difference between USD 100 and the 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 "H".

3. Pursuant to the resolution of the Extraordinary General Assembly of shareholders held on 29 November 2016, the Bank issued preferred shares series "I" under the following terms:

Preferred shares series "I"

- Number of shares:	2,500,000.
- Share's issue price:	USD 100.
- Share's nominal value:	LBP 1,656 (later became LBP 1,670 upon increasing the nominal value).
- Issue premium:	Calculated in USD as the difference between USD 100 and the 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 (later become LBP 1,670 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 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 ended 30 days after 15 May 2019 whereby no warrants were exercised. The warrants were in registered form, detachable and freely tradable.

	2019		2018	
	Number of Warrants Outstanding	Cost LBP Million	Number of Warrants Outstanding	Cost LBP Million
Balance at 31 December	-	-	124,872,304	12,629

PAID DIVIDENDS

In accordance with the resolution of the General Assembly of shareholders held on 12 April 2019, dividends were distributed as follows:

	2019		
	Number of Shares	Distribution per Share LBP	**Total LBP million**
Preferred shares series "H"	750,000	9,799	7,349
Preferred shares series "I"	2,500,000	10,553	26,380
Preferred shares series "J"	2,750,000	10,553	29,021
Common shares	399,749,204	829	331,442
			394,192
Less: dividends on Treasury shares			**(964)**
			393,228

In accordance with the resolution of the General Assembly of shareholders held on 10 April 2018, dividends were distributed as follows:

	2018		
	Number of Shares	Distribution per Share LBP	Total LBP Million
Preferred shares series "G"	1,500,000	9,045	13,568
Preferred shares series "H"	750,000	9,799	7,349
Preferred shares series "I"	2,500,000	10,553	26,380
Preferred shares series "J"	2,750,000	6,030	16,583
Common shares	399,749,204	829	331,442
			395,322

39.0. | 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 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.

40.0. | 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 2019	**659,366**	**160,978**	**6,640**	**108,481**	**57,234**	**18,963**	**908,134**	**1,919,796**
Appropriation of 2018 profits	82,741	606	-	-	44,205	9,851	-	137,403
Transfers between reserves	4,790	131	-	(218)	(36,788)	87	-	(31,988)
Balance at 31 December 2019	**746,897**	**161,715**	**6,640**	**108,263**	**64,651**	**28,901**	**908,134**	**2,025,201**

	Legal Reserve LBP Million	Reserves Appropriated for Capital Increase LBP Million	Gain on Sale of Treasury Shares LBP Million	Reserve for General Banking Risks LBP Million	Unrealised Gain on Fair Value through Profit or Loss LBP Million	Reserve for Foreclosed Assets LBP Million	Other Reserves LBP Million	Total LBP Million
Balance at 1 January 2018	562,016	420,046	-	665,397	43,023	11,021	18,414	1,719,917
Appropriation of 2017 profits	95,752	2,460	-	71,666	14,211	10,215	-	194,304
Capital increase	-	(2,798)	-	-	-	-	-	(2,798)
Treasury share transaction	-	-	6,640	-	-	-	-	6,640
Transfers between reserves	1,608	(258,730)	-	(628,717)	-	(2,273)	889,720	1,608
Other movements	(10)	-	-	135	-	-	-	125
Balance at 31 December 2018	659,366	160,978	6,640	108,481	57,234	18,963	908,134	1,919,796

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 82,741 million (2018: LBP 95,752 million) as required by the laws applicable in the countries in which they operate.

RESERVES APPROPRIATED FOR CAPITAL INCREASE

The Group transferred LBP 606 million (2018: LBP 2,460 million) to reserves appropriated for capital increase. This amount represents the net gain on the disposal of fixed assets acquired in settlement of debt, in addition to reserves on recovered provisions for doubtful loans and debts previously written off, whenever recoveries exceed booked allowances.

GAIN ON SALE OF TREASURY SHARES

These gains arise from the Global Depository Receipts (GDRs) owned by the Group. Based on the applicable regulations, the Group does not have the right to distribute these gains.

OTHER RESERVES

According to the Central Bank of Lebanon's Main Circular 143, banks in Lebanon are required to transfer to other reserves, the balance of reserves for general banking risks and general reserves for loans and advances (totalling LBP 889,720 million) previously appropriated in line with the requirements of Decision 7129 and Decision 7776 respectively. This reserve is part of the Group's equity and is not available for distribution.

RESERVE FOR UNREALISED REVALUATION GAINS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As per the Banking Control Commission Circular 296 dated 4 June 2018, banks operating in Lebanon are required to appropriate in a special reserve from their annual net profits the value of gross unrealised profits on financial assets at fair value through profit or loss. This reserve is not available for dividend distribution until such profits are realised and released to general reserves.

RESERVE FOR FORECLOSED ASSETS

The reserve for foreclosed assets represents appropriation against assets acquired in settlement of debt in accordance with the circulars of the Lebanese Banking Control Commission. Appropriations against assets acquired in settlement of debt shall be transferred to unrestricted reserves upon the disposal of the related assets.

41.0. | 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 2019	**447,122**	**(1,345)**	**(15,092)**	**430,685**
Sale of an associate	1,626	-	-	1,626
Cancellation of warrants	-	1,345	-	1,345
Transfer between reserves	(3,171)	-	2,630	(541)
Treasury shares transactions	(58)	-	-	(58)
Balance at 31 December 2019	**445,519**	**-**	**(12,462)**	**433,507**

	General Reserves LBP Million	Loss on Sale of Subsidiary Warrants LBP Million	Cost of Capital Issued LBP Million	Total LBP Million
Balance at 1 January 2018	447,029	(1,345)	(15,092)	430,592
Treasury shares transactions	93	-	-	93
Balance at 31 December 2018	447,122	(1,345)	(15,092)	430,685

42.0. | PROPOSED DIVIDENDS

In accordance with the Central Bank of Lebanon Intermediary Circular 532, the Board of Directors does not propose the payment of dividends for 2019.

43.0. | TREASURY SHARES

	2019		2018	
	Number of Shares	Cost LBP Million	Number of Shares	Cost LBP Million
Balance at 1 January	**1,152,594**	**9,073**	10,463,036	94,532
Purchase of Treasury shares	30,488	200	1,274,605	10,141
Sale of Treasury shares	(10,700)	(30)	(10,585,047)	(95,694)
(Loss)/Gain	-	(53)	-	94
Balance at 31 December	**1,172,382**	**9,190**	1,152,594	9,073

44.0. | OTHER COMPONENTS OF EQUITY

	2019							
	Real Estate Revaluation Reserve LBP Million	Cumulative Changes in Fair Value LBP Million	Foreign Currency Translation Reserve LBP Million	Actuarial Loss on Defined Benefit Obligation LBP Million	Group Share of Associates' Other Comprehensive Income LBP Million	Change in Time Value of Hedging Instruments LBP Million	Cash Flow Hedge Reserve LBP Million	**Total LBP Million**
Balance at 1 January 2019	**357,137**	**(6,319)**	**(1,567,917)**	**(13,030)**	**5,464**	**-**	**(19,391)**	**(1,244,056)**
Other comprehensive income	(19,113)	26,177	(20,793)	4,662	-	-	546	(8,521)
Sale of financial assets at FVTOCI	-	5,459	-	-	-	-	-	5,459
Sale of an associate	-	-	-	-	(5,464)	-	-	(5,464)
Balance at 31 December 2019	**338,024**	**25,317**	**(1,588,710)**	**(8,368)**	**-**	**-**	**(18,845)**	**(1,252,582)**

	2018							
	Real Estate Revaluation Reserve LBP Million	Cumulative Changes in Fair Value LBP Million	Foreign Currency Translation Reserve LBP Million	Actuarial Loss on Defined Benefit Obligation LBP Million	Group Share of Associates' Other Comprehensive Income LBP Million	Change in Time Value of Hedging Instruments LBP Million	Cash Flow Hedge Reserve LBP Million	Total LBP Million
Balance at 1 January 2018	357,137	877	(1,277,774)	(12,807)	4,546	(11,724)	-	(939,745)
Impact of adoption of IFRS 9	-	(1,220)	-	-	-	-	-	(1,220)
Restated balance at 1 January	**357,137**	**(343)**	**(1,277,774)**	**(12,807)**	**4,546**	**(11,724)**	**-**	**(940,965)**
Other comprehensive income	-	(3,160)	(290,143)	(223)	918	11,724	(19,391)	(300,275)
Sale of financial assets at FVTOCI	-	(2,816)	-	-	-	-	-	(2,816)
Balance at 31 December 2018	357,137	(6,319)	(1,567,917)	(13,030)	5,464	-	(19,391)	(1,244,056)

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.

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 2019	**(7,543)**	**1,224**	**(6,319)**
Other comprehensive income	33,767	(7,590)	26,177
Sale of financial assets at FVOCI	5,459	-	5,459
Adjustments	(850)	850	-
Balance at 31 December 2019	**30,833**	**(5,516)**	**25,317**

Balance at 1 January 2018	318	559	877
Impact of adoption of IFRS 9	(1,220)	-	(1,220)
Other comprehensive income	(4,767)	1,607	(3,160)
Sale of financial assets at FVOCI	(2,607)	(209)	(2,816)
Adjustments	733	(733)	-
Balance at 31 December 2018	(7,543)	1,224	(6,319)

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 19).

45.0. | GROUP SUBSIDIARIES

A. LIST OF SIGNIFICANT SUBSIDIARIES

The following table shows information related to the significant subsidiaries of the Bank.

	Percentage of Ownership		Country of Incorporation	Principal Activity	Functional Currency
	2019	2018			
Bank Audi France sa	100.00	100.00	France	Banking (Commercial)	EUR
Audi Investment Bank sal	100.00	100.00	Lebanon	Banking (Investment)	LBP
Audi Private Bank sal	100.00	100.00	Lebanon	Banking (Private)	LBP
Banque Audi (Suisse) SA	100.00	100.00	Switzerland	Banking (Private)	CHF
Bank Audi sae	100.00	100.00	Egypt	Banking (Commercial)	EGP
Audi Capital (KSA)	99.99	99.99	Saudi Arabia	Financial Services	SAR
Bank Audi LLC (Qatar)	100.00	100.00	Qatar	Banking Services	QAR
Société Libanaise de Factoring sal	100.00	100.00	Lebanon	Factoring	LBP
Odea Bank A.Ş.	76.42	76.42	Turkey	Banking (Commercial)	TRY
Audi Investments Holding sal	100.00	100.00	Lebanon	Investment	USD

B. SIGNIFICANT RESTRICTIONS

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate. The supervisory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group, and comply with other ratios.

C. NON-CONTROLLING INTERESTS

Odea Bank A.Ş is the only subsidiary of the Group that has a material non-controlling interest with 23.58% equity interests held by non-controlling interests as at 31 December 2019 (2018: the same).

MATERIAL PARTIALLY OWNED SUBSIDIARIES

	Odea Bank A.Ş.	
	2019 %	2018 %
Proportion of equity interests held by non-controlling interests	**23.58%**	23.58%

Financial information relating to Odea Bank A.Ş. are provided below:

SUMMARISED STATEMENT OF PROFIT OR LOSS

	Odea Bank A.Ş.	
	2019 LBP Million	2018 LBP Million
Net interest income	254,105	341,183
Net fee and commission income	42,813	53,259
Net loss on financial assets at fair value through profit or loss	(10,493)	(2,345)
Net gain on financial assets at fair value through profit and loss	45	-
Revenues from financial assets at fair value through other comprehensive income	-	6
Other operating income	3,861	16,090
Total operating income	**290,331**	**408,193**
Net credit losses	(97,518)	(188,007)
Total operating expenses	(168,741)	(214,742)
Profit before tax	**24,072**	**5,444**
Income tax	(5,066)	170
Profit for the year	**19,006**	**5,614**
Attributable to non-controlling interests	4,482	1,324
Dividends paid to non-controlling interests	-	-

SUMMARISED STATEMENT OF FINANCIAL POSITION

	Odea Bank A.Ş.	
	2019 LBP Million	2018 LBP Million
ASSETS		
Cash and balances with central banks	916,343	1,164,786
Due from banks and financial institutions	769,704	714,368
Loans to banks and financial institutions and reverse repurchase agreements	662,232	197,557
Due from related financial institutions	67,822	0
Derivative financial instruments	352,056	310,526
Financial assets at fair value through profit or loss	1,037	935
Loans and advances to customers at amortised cost	4,184,675	5,309,313
Debtors by acceptances	100,275	186,280
Financial assets at amortised cost	585,715	767,145
Financial assets at fair value through other comprehensive income	290,694	87,237
Property and equipment and right-of-use assets	53,795	24,842
Intangible assets	18,955	18,009
Non-current assets held for sale	149,608	68,247
Other assets	214,508	306,101
TOTAL ASSETS	**8,367,419**	9,155,346
LIABILITIES		
Due to central banks	1,020	198,789
Due to banks and financial institutions	417,517	867,377
Due to banks under repurchase agreement	42,969	29
Derivative financial instruments	319,477	341,232
Due to related financial institutions	275,083	15,677
Customers' deposits	5,605,084	5,986,751
Deposits from related parties	-	1,396
Debt issued and other borrowed funds	632,364	527,354
Engagements by acceptances	100,275	186,280
Other liabilities	106,942	73,120
Provisions for risks and charges	30,677	36,086
TOTAL LIABILITIES	**7,531,405**	8,234,091
TOTAL SHAREHOLDERS' EQUITY	**836,014**	921,255
Of which: non-controlling interests	*197,142*	*217,232*
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**8,367,419**	9,155,346

SUMMARISED CASH FLOW INFORMATION

	2019 LBP Million	2018 LBP Million
Operating activities	169,707	(305,602)
Investing activities	(144,176)	198,126
Financing activities	142,367	61,793
	168,898	(45,683)

46.0. | CASH AND CASH EQUIVALENTS

	2019 LBP Million	2018 LBP Million
Cash and balances with central banks	6,204,884	6,276,022
Due from banks and financial institutions	2,177,906	3,787,428
Loans to banks and financial institutions and reverse repurchase agreements	521,653	197,797
Due to central banks	(1,588,706)	(198,709)
Due to banks and financial institutions	(802,690)	(646,593)
	6,513,047	9,415,945

Cash and balances with central banks include amounts of LBP 2,076,309 million at 31 December 2019 (2018: LBP 2,701,621 million) representing mandatory reserve deposits and balances.

47.0. | 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).

FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

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

	2019			
	Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million	**Total LBP Million**
FINANCIAL ASSETS				
Derivative financial instruments				
Derivatives held for trading				
Forward foreign exchange contracts	5,981	4,437	-	10,418
Currency swaps	15,908	149,911	-	165,819
Precious metals swaps	88	-	-	88
Currency options	-	59,316	-	59,316
Interest rate swaps	407	43,766	-	44,173
Credit derivatives	-	3,137	-	3,137
Equity options	5,638	-	-	5,638
Derivatives held to hedge net investments in foreign operations				
Currency swaps	2,335	-	-	2,335
	30,357	**260,567**	**-**	**290,924**
Financial assets at fair value through profit or loss				
Lebanese Sovereign and Central Bank of Lebanon				
Treasury bills	-	722	-	722
Eurobonds	36	-	-	36
Other sovereign				
Treasury bills and bonds	1,038	-	-	1,038
Private sector and other securities				
Banks and financial institutions	294,053	-	-	294,053
Loans and advances to customers	-	18,157	-	18,157
Mutual funds	3,247	9,647	54,177	67,071
Equity instruments	5	-	-	5
	298,379	**28,526**	**54,177**	**381,082**
Financial assets designated at fair value through other comprehensive income				
Debt instruments				
Other sovereign				
Treasury bills	115,230	798,585	-	913,815
Eurobonds	157,117	-	-	157,117
Private sector and other securities				
Banks and financial institutions	15,180	-	-	15,180
Equity instruments				
Quoted	176	-	-	176
Unquoted	-	2,153	66,452	68,605
	287,703	**800,738**	**66,452**	**1,154,893**
	616,439	**1,089,831**	**120,629**	**1,826,899**

	2019			
	Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million	**Total** **LBP Million**
FINANCIAL LIABILITIES				
Derivative financial instruments				
Derivatives held for trading				
Forward foreign exchange contracts	9,060	8,848	-	17,908
Forward precious metals contracts	29	-	-	29
Currency swaps	15,500	123,546	-	139,046
Precious metals swaps	2,652	-	-	2,652
Currency options	-	11,894	-	11,894
Interest rate swaps	412	29,992	-	30,404
Equity options	4,087	-	-	4,087
Derivatives held as cash flow hedge				
Interest rate swaps	-	8,377	-	8,377
Derivatives held for fair value hedge				
Interest rate swaps	-	157,705	-	157,705
	31,740	**340,362**	**-**	**372,102**
Customers' deposits – sight	303,997	-	-	**303,997**
	335,737	**340,362**	**-**	**676,099**

	2018			
	Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million	Total LBP Million
FINANCIAL ASSETS				
Derivative financial instruments				
Derivatives held for trading				
Forward foreign exchange contracts	3,756	30,991	-	34,747
Currency swaps	13,374	173,312	-	186,686
Currency options	-	106,018	-	106,018
Interest rate swaps	359	16,449	-	16,808
Credit derivatives	-	54,486	-	54,486
Equity options	15,908	-	-	15,908
Derivatives held to hedge net investments in foreign operations				
Currency swaps	4,300	-	-	4,300
Derivatives held as cash flow hedge				
Interest rate swaps	-	796	-	796
	37,697	382,052	-	419,749
Financial assets at fair value through profit or loss				
Lebanese Sovereign and Central Bank of Lebanon				
Treasury bills	-	149	-	149
Eurobonds	5,094	-	-	5,094
Other sovereign				
Treasury bills and bonds	935	-	-	935
Private sector and other securities				
Banks and financial institutions	69,681	-	-	69,681
Loans and advances to customers	-	37,233	-	37,233
Mutual funds	2,284	4,098	51,913	58,295
Equity instruments	5	-	48,730	48,735
	77,999	41,480	100,643	220,122
Financial assets designated at fair value through other comprehensive income				
Debt instruments				
Other sovereign				
Treasury bills	84,463	1,099,327	-	1,183,790
Equity instruments				
Quoted	1,520	-	-	1,520
Unquoted	-	1,201	70,924	72,125
	85,983	1,100,528	70,924	1,257,435
	201,679	1,524,060	171,567	1,897,306
FINANCIAL LIABILITIES				
Derivative financial instruments				
Derivatives held for trading				
Forward foreign exchange contracts	3,539	16,612	-	20,151
Forward precious metals contracts	68	-	-	68
Currency swaps	16,261	162,271	-	178,532
Precious metals swaps	2,582	-	-	2,582
Currency options	-	75,163	-	75,163
Interest rate swaps	-	28,470	-	28,470
Equity options	15,907	-	-	15,907
Derivatives held as cash flow hedge				
Interest rate swaps	-	36,736	-	36,736
Derivatives held for fair value hedge				
Interest rate swaps	-	50,644	-	50,644
	38,357	369,896	-	408,253
Customers’ deposits – sight	98,431	-	-	98,431
	136,789	369,896	-	506,684

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 Derivatives

Foreign exchange contracts include open spot contracts, foreign exchange forward and swap contracts, and over-the-counter foreign exchange options. These instruments are valued by either observable foreign exchange rates, observable or calculated forward points and option valuation models. With the exception of contracts where a directly observable rate is available which are disclosed as Level 1, the Group classifies foreign exchange contracts as Level 2 financial instruments when no unobservable inputs are used for their valuation or the unobservable inputs used are not significant to the measurement (as a whole). The Group does not have foreign exchange derivatives classified as Level 3.

Government Bonds, Certificates of Deposit and Other Debt Instruments

The Group values these unquoted debt securities using discounted cash flow valuation models using observable market inputs, comprising of interest rates and yield curves, implied volatilities, and credit spreads. The Group does not have Level 3 government bonds, certificates of deposit and other debt instruments.

Loans and Advances to Customers at Fair Value through Profit or Loss

The fair value of loans and advances to customers that fall in this category is estimated using discounted cash flows by applying current market rates for new loans with similar remaining maturities and to counterparties with similar credit risk. The Group does not have Level 3 loans and advances to customers at fair value through profit or loss.

Funds and Equity Shares of Non-listed Entities

Units held in funds are measured based on their net asset value (NAV), taking into account redemption and/or other restrictions. Classification between Level 2 and Level 3 is dependent on whether the NAV is observable or unobservable (i.e. recent and published by the fund administrator or not).

Equity shares of non-listed entities comprise mainly the Group's strategic investments are generally classified at fair value through other comprehensive income and are not traded in active markets. These are investments in private companies, for which there is no or only limited sufficient recent information to determine fair value. The Group determined that cost adjusted to reflect the investee's financial position and results since initial recognition represents the best estimate of fair value. Classification between Level 2 and Level 3 is based on whether the financial statements of the investee are recent and published or not. These instruments are fair valued using third-party information (NAV or financial statements of non-listed entities), without adjustment. Accordingly, quantitative information about significant unobservable inputs and sensitivity analysis cannot be developed by the Group in accordance with IFRS 13.93 (d).

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

	2019		2018	
	Financial Instruments at Fair Value through Profit or Loss LBP Million	Financial Instruments at Fair Value through Other Comprehensive Income LBP Million	Financial Instruments at Fair Value through Profit or Loss LBP Million	Financial Instruments at Fair Value through Other Comprehensive Income LBP Million
FINANCIAL ASSETS				
Balance at 1 January	100,643	70,924	53,959	140,117
Re-measurement recognised in other comprehensive income	-	4,331	-	4,494
Re-measurement recognised in the income statement	-	-	10,225	-
Transfers	-	-	37,688	(37,688)
Purchases	-	4,673	-	6,569
Sales	(46,466)	(13,158)	(1,229)	(42,137)
Foreign exchange difference	-	(318)	-	(431)
Balance at 31 December	**54,177**	**66,452**	100,643	70,924

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.

FINANCIAL ASSETS AND LIABILITIES CONCENTRATED IN LEBANON

These assets consist of balances with the Central Bank of Lebanon and Lebanese banks, Lebanese government securities, loans and advances to customers and related parties and customers' deposits. These are illiquid in nature and the measurement of their fair value is usually determined through discounted cash flow valuation models using observable market inputs, comprising of interest rates and yield curves, implied volatilities, and credit spreads. Due to the situation described in Note 1 and to the unprecedented levels of uncertainty surrounding the economic crisis that Lebanon, and particularly the banking sector, is experiencing, Management is unable to produce a faithful estimation of the fair value of these financial assets and liabilities. Accordingly, the table below does not include fair value disclosures for these assets and liabilities.

FAIR VALUE MEASUREMENT HIERARCHY OF THE FINANCIAL ASSETS AND LIABILITIES FOR WHICH FAIR VALUE IS DISCLOSED

	Carrying Value	Fair Value			
31 December 2019	LBP Million	Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million	**Total LBP Million**
FINANCIAL ASSETS					
Cash and balances with central banks	4,419,227	165,378	4,253,864	-	**4,419,242**
Due from banks and financial institutions	2,153,140	-	2,152,890	-	**2,152,890**
Loans to banks and financial institutions and reverse repurchase agreements	689,984	-	689,984	-	**689,984**
Net loans & advances to customers	9,692,435	-	-	9,677,567	**9,677,567**
Corporate and SME	*7,136,188*	-	-	*7,087,364*	7,087,364
Retail and Personal Banking	*2,339,670*	-	-	*2,373,626*	2,373,626
Public sector	*216,577*	-	-	*216,577*	216,577
Net loans & advances to related parties	2,703	-	-	2,775	**2,775**
Corporate and SME	-	-	-	-	-
Retail and Personal Banking	*2,703*	-	-	*2,775*	2,775
Financial assets classified at amortised cost	1,809,593	584,503	1,258,163	-	**1,842,666**
Other sovereign	*1,622,790*	*400,742*	*1,249,890*	-	1,650,632
Private sector and other securities	*186,803*	*183,761*	*8,273*	-	192,034
	18,767,082	**749,881**	**8,354,901**	**9,680,342**	**18,785,124**
FINANCIAL LIABILITIES					
Due to central banks	45,481	-	45,481	-	**45,481**
Due to banks and financial institutions	905,120	-	905,102	-	**905,102**
Due to banks under repurchase agreements	42,969	-	42,969	-	**42,969**
Customers' deposits	16,097,053	-	16,114,456	-	**16,114,456**
Deposits from related parties	92,662	-	92,655	-	**92,655**
Debt issued and other borrowed funds	632,364	340,907	197,581	-	**538,488**
	17,815,649	**340,907**	**17,398,244**	-	**17,739,151**

31 December 2018	Carrying Value LBP Million	Fair Value Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million	Total LBP Million
FINANCIAL ASSETS					
Cash and balances with central banks	3,251,057	182,213	3,068,142	-	3,250,355
Due from banks and financial institutions	3,627,001	-	3,627,047	-	3,627,047
Loans to banks and financial institutions and reverse repurchase agreements	247,884	-	224,884	-	224,884
Net loans & advances to customers	11,139,447	-	-	11,084,862	11,084,862
Corporate and SME	*8,583,044*	-	-	*8,516,879*	*8,516,879*
Retail and Personal Banking	*2,281,473*	-	-	*2,293,051*	*2,293,051*
Public sector	*274,930*	-	-	*274,932*	*274,932*
Net loans & advances to related parties	594	-	-	635	635
Corporate and SME	*311*	-	-	*311*	*311*
Retail and Personal Banking	*283*	-	-	*324*	*324*
Financial assets classified at amortised cost	1,860,304	970,931	887,567	-	1,858,498
Other sovereign	*1,550,425*	*659,157*	*887,567*	-	*1,546,724*
Private sector and other securities	*309,879*	*311,774*	-	-	*311,774*
	21,126,287	1,153,144	7,807,640	11,085,497	20,046,281
FINANCIAL LIABILITIES					
Due to central banks	198,789	-	198,789	-	198,789
Due to banks and financial institutions	1,356,349	-	1,356,730	-	1,356,730
Due to banks under repurchase agreements	1,304	-	1,304	-	1,304
Customers' deposits	15,554,830	-	15,475,239	-	15,475,239
Deposits from related parties	22,656	-	22,604	-	22,604
Debt issued and other borrowed funds	526,930	349,528	59,258	-	408,786
	17,660,858	349,528	17,113,924	-	17,463,452

VALUATION TECHNIQUES USED FOR MATERIAL CLASSES OF FINANCIAL ASSETS AND LIABILITIES CATEGORISED WITHIN LEVEL 2 AND LEVEL 3

Short-term Financial Assets and Liabilities

For financial assets and financial liabilities that have a short-term maturity (less than three months), the carrying amounts are a reasonable approximation of their fair value. Such instruments include: cash and balances with central banks; due to and from banks; demand deposits; and savings accounts without a specific maturity.

Deposits with Banks and Loans and Advances to Banks

For the purpose of this disclosure, for financial assets that are short-term in nature or have interest rates that reprice frequently, there is minimal difference between fair value and carrying amount. 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 Deposit and Other Debt Securities

The Group values these unquoted debt securities using discounted cash flow valuation models using observable market inputs, comprising of interest rates and yield curves, implied volatilities, and credit spreads.

Loans and Advances to Customers

For the purpose of this disclosure, in many cases, the fair value disclosed approximates carrying value because these advances are short-term in nature or have interest rates that re-price frequently. The fair value of loans and advances to customers that do not fall in this category is estimated using discounted cash flows by applying current rates to new loans with similar remaining maturities and to counterparties with similar credit quality.

Deposits from Banks and Customers

In many cases, the fair value disclosed approximates carrying value because these financial liabilities are short-term in nature or have interest rates that re-price frequently. The fair value for deposits with long-term maturities, such as time deposits, is estimated using discounted cash flows, applying either market rates or current rates for deposits of similar remaining maturities. Where market data is unavailable, a number of proxy/extrapolation techniques are employed to 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.

48.0. | 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.

	2019		
	Banks LBP Million	Customers LBP Million	**Total LBP Million**
Guarantees and contingent liabilities			
Financial guarantees	77,874	715,024	792,898
Other guarantees	14,018	1,101,480	1,115,498
	91,892	**1,816,504**	**1,908,396**
Commitments			
Documentary credits	-	663,645	663,645
Loan commitments	-	3,873,428	3,873,428
Of which revocable	-	*3,237,199*	*3,237,199*
Of which irrevocable	-	*636,229*	*636,229*
		4,537,073	**4,537,073**

	2018		
	Banks LBP Million	Customers LBP Million	Total LBP Million
Guarantees and contingent liabilities			
Financial guarantees	79,546	771,821	851,367
Other guarantees	15,128	1,277,842	1,292,970
	94,674	2,049,663	2,144,337
Commitments			
Documentary credits	-	420,241	420,241
Loan commitments	-	4,756,412	4,756,412
Of which revocable	-	*4,202,570*	*4,202,570*
Of which irrevocable	-	*553,842*	*553,842*
	-	5,176,653	5,176,653

GUARANTEES (INCLUDING STANDBY LETTERS OF CREDIT)

Guarantees are given as security to support the performance of a customer to third parties. The main types of guarantees provided are:

- Financial guarantees given to banks and financial institutions on behalf of customers to secure loans, overdrafts, and other banking facilities; and
- Other guarantees are contracts that have similar features to the financial guarantee contracts but fail to meet the strict definition of a financial guarantee contract under IFRS. These mainly include performance and tender guarantees.

DOCUMENTARY CREDITS

Documentary credits commit the Group to make payments to third parties, on production of documents which are usually reimbursed immediately by customers.

LOAN COMMITMENTS

Loan commitments are defined amounts (unutilised credit lines or undrawn portions of credit lines) against which clients can borrow money under defined terms and conditions.

Revocable loan commitments are those commitments that can be unconditionally cancelled at any time subject to notice requirements according to their general terms and conditions. Irrevocable loan commitments result from arrangements where the Group has no right to withdraw the loan commitment once communicated to the beneficiary.

INVESTMENT COMMITMENTS

The Group invested in funds pursuant to the provisions of Decision No. 6116 dated 7 March 1996 of the Central Bank of Lebanon. In accordance with this resolution, the Group can benefit from facilities granted by the Central Bank of Lebanon to be invested in startup companies, incubators and accelerators whose objects are restricted to supporting the development, success and growth of startup companies in Lebanon or companies whose objects are restricted to investing venture capital in startup companies in Lebanon. These investments have resulted in future commitments on the Group of LBP 21,029 million as of 31 December 2019 (2018: LBP 21,354 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 claims, many of which are beyond its control. At year-end, the Group had several unresolved legal claims including: those relating to the restrictive measures and capital controls in place; and a civil action filed in US federal courts in the US District Court in the Eastern District of New York (EDNY) against eleven Lebanese banks including Bank Audi sal, asserting primary and secondary liability claims under the Anti-Terrorism Act (“ATA”).

The extent of the impact of these matters cannot always be predicted but may materially impact the Group’s operations, financial results, condition and prospects. However, 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. Based on advice from legal counsel, and despite the novelty of certain claims and the uncertainties inherent in their unique situation, Management believes that legal claims will not result in any material financial loss to the Group, except as provided for in Note 37.

CAPITAL EXPENDITURE COMMITMENTS

	2019 LBP Million	2018 LBP Million
Capital expenditure commitments	12,306	25,706

COMMITMENTS RESULTING FROM CREDIT FACILITIES RECEIVED

The Group has the following commitments resulting from the credit facilities received from non-resident financial institutions:

- The net past due loans (after the deduction of provisions) should not exceed 5 percent of the net credit facilities granted.
- The allowance for expected credit losses for past due loans should not fall below 70 percent of the past due loans.
- The net credit-impaired loans should not exceed 20 percent of the Tier 1 capital.
- Sustaining a liquidity ratio exceeding 115 percent.
- Sustaining a capital adequacy exceeding the minimum ratio as per the regulations applied by the Central Bank of Lebanon and the requirements of the Basel agreements to the extent it is applied by the Central Bank of Lebanon.

OTHER COMMITMENTS AND CONTINGENCIES

Certain areas of the Lebanese tax legislation and the tax legislations where the subsidiaries operate are subject to different interpretations in respect of the taxability of certain types of financial transactions and activities. The Bank’s books in Lebanon for the years 2015 to 2017 (inclusive) are currently under review by the tax authorities. The outcome of this review cannot be determined yet. The Bank’s books in Lebanon remain subject to the review of the tax authorities for the year 2018 and the review of the National Social Security Fund (NSSF) for the period from 30 September 2011 to 31 December 2019. 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.

49.0. | 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.

	2019 LBP Million	2018 LBP Million
Assets under management	13,169,267	15,292,527
Fiduciary assets	3,428,141	3,097,179
	16,597,408	18,389,706

50.0. | 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 25 to these financial statements.

Amounts included in the Group's financial statements are as follows:

	2019 LBP Million	2018 LBP Million
Loans and advances	**140,489**	153,671
Of which: granted to Key Management Personnel	*23,232*	*15,879*
Of which: cash collateral received against loans	*87,944*	*115,068*
Indirect facilities	**1,853**	156
Deposits	**276,310**	396,114
Interest income on loans	**6,083**	7,883
Interest expense on deposits	**15,852**	26,756

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.

	2019 LBP Million	2018 LBP Million
Short-term benefits	**40,183**	39,272
Post-employment benefits	**862**	2,567

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 2,819 million as of 31 December 2019 (2018: LBP 4,190 million).

51.0. | RISK MANAGEMENT

The Group is exposed to various risk types, 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, political 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, which 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 and approves the risk policies for the Group. The Board monitors the risk profile in comparison to the risk appetite on a regular basis and follow-up on existing and emerging risks. A number of Management committees and departments are also responsible for various levels of risk management, as set out below.

BOARD GROUP RISK COMMITTEE

The role of the Board's Group Risk Committee (BGRC) is to oversee the risk management framework and assess its effectiveness, review and recommend to the Board the group risk policies and risk appetite, monitor the Group's risk profile, review stress test 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 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, as well as to develop and implement business policies 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

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 CRO. 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, as well as monitoring and aggregating risks across the Group.

RISK APPETITE

The Risk appetite reflects the level and type of risk that the Group is willing to accept, taking into account the Group's strategy market environment and regulatory constraints.

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 and includes key risk indicators covering various risk types.

Information independently compiled from all business lines and risk-taking units is examined and aggregated in order to identify and measure the risk profile. The results are reported and presented on a regular basis to the Management and to the Board.

52.0. | CREDIT RISK

Credit risk is the risk that the Group will incur a loss because its obligors or counterparties fail to meet their contractual obligations, including the full and timely payment of principal and interest. Credit risk arises from various balance sheet and off-balance sheet exposures including bank placements, loans and advances, credit commitments, financial guarantees, letters of credit, acceptances, investments in debt securities (including sovereign) and derivative financial instruments. Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position. In the case of credit derivatives, the Group is also exposed to the risk of default of the derivative's counterparty.

CREDIT RISK MANAGEMENT

Credit risk appetite and limits are set at the Group level by the Board and are cascaded to entities. The Group manages and controls credit risk by setting limits on the level of risk it is willing to accept for individual counterparties and for geographical and sector concentrations, and by monitoring exposures in relation to such limits.

Credit risk is monitored by the Credit Review and Credit Risk functions in each entity, which are independent from business lines. These functions ensure proper coverage of credit risk though the implementation of various processes, including but not limited to: providing independent opinions on credit files, reviewing and approving obligors risk ratings, conducting portfolio reviews, ensuring compliance with the Group's credit policy and limits, aggregating and reporting the credit risk profile to relevant stakeholders.

The Group has established various credit quality review processes for the early detections of changes in borrowers' creditworthiness. These processes include regular portfolio reviews held for each business line and entity, as well as individual credit assessments held for non-retail obligors on certain frequencies. The credit quality review processes allow the Group the early identification of problematic borrowers and consequently to take proactive corrective actions.

The Group has also established an approval limit structure for granting and renewal of credit facilities. Credit officers and credit committees are responsible for the approval of facilities up to their own assigned limits. 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.

During 2019, the economic situation in Lebanon exerted significant pressure on the asset quality of the domestic loan portfolio. As a result, credit quality of the Lebanese loan portfolio has declined driven by a weakening in the borrowers' creditworthiness across various segment types. In order to address the challenging operating conditions, the Group has implemented a series of remedial actions that included: i) risk deleveraging by reducing its assets size, ii) increasing collection capacity across various business lines, iii) increasing specific and collective provision coverages, and iv) setting-up an independent, centralised and specialised remedial function to proactively manage borrowers showing weak or deteriorating credit profiles and not yet classified Stage 3.

EXPECTED CREDIT LOSSES

GOVERNANCE AND OVERSIGHT OF EXPECTED CREDIT LOSSES

The Group IFRS 9 Impairment Committee, which is a committee composed of Executive Committee members, oversees the impairment estimation framework by: i) approving the IFRS 9 Impairment Policy; ii) reviewing key assumptions and estimations that are part of the ECL calculations; iii) approving the forward-looking economic scenarios; iv) approving staging classifications on a name-by-name basis for material exposures; and v) reviewing ECL results.

The Group reviews its IFRS 9 Impairment Policy on annual basis at least, and amends it when necessary to ensure adherence to accounting standards, evolving methodologies and regulatory requirements.

Key judgments inherent in policy, including the estimated life of revolving credit facilities and the quantitative criteria for assessing the Significant Increase in Credit Risk (SICR), are assessed through a combination of expert judgment and data-driven methodologies.

ECL is estimated using a model that takes into account the borrower's exposure, internal obligor risk rating, facility characteristics, and collateral information among other. Models are, by their nature, imperfect and incomplete representations of reality because they rely on assumptions and inputs, and so they may be subject to errors affecting the accuracy of their outputs. To manage the model risks, the Group has established a systematic approach for the development, validation, approval, implementation and on-going use of the models. Models are validated by a qualified independent party to the model development unit, before first use and at regular intervals thereafter.

Each model is designated an owner who is responsible for: i) monitoring the performance of the model, which includes comparing estimated ECL versus actual realised losses; and ii) proposing post-model development adjustments to enhance model's accuracy or to account for situations where known or expected risk factors and information have not been considered in the modelling process. Models used in the estimation of ECL, including key inputs, are governed by a series of internal controls, which include the validation of completeness and accuracy of data, reconciliation with finance data, and documentation of the calculation steps.

ECL estimation takes into account a range of future economic scenarios, which are set by economists within the Group's Research Department using independent models and expert judgment. Economic scenarios, with their corresponding probabilities of occurrence, are updated at minimum annually, as well as in the event of a significant change in the prevailing economic conditions.

DEFINITION OF DEFAULT AND CURE

The Group considers a financial asset to be in default when:
- The borrower is unlikely to pay his credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- The borrower is more than 90 days past due on any material credit obligation to the Group.

As part of the qualitative assessment process of default identification, the Group carefully considers other criteria than the ones listed above in order to determine if an exposure should be classified in Stage 3 for ECL calculation purpose or if a Stage 2 classification is deemed more appropriate.

It is the Group's policy to consider a financial instrument as "cured" and therefore re-classified out of Stage 3 when none of the default criteria have been present for a specific period of time. The decision whether to classify an asset as Stage 2 or Stage 1 once cured is dependent on the absence of SICR criteria compared to initial recognition and is examined on a case-by-case basis. In case of forbearance under Stage 2, the borrower remains in this stage until all the following conditions have been met: i) at least a 12-month probation period has passed; ii) three consecutive payments under the new repayment schedule have been made; iii) the borrower has no past dues under any obligation to the Group; and iv) all the terms and conditions agreed to as part of the restructuring agreement have been met.

THE GROUP'S INTERNAL RATING AND PD ESTIMATION PROCESS

Central Banks, Sovereigns and Financial Institutions

For central banks, sovereigns and financial institutions' exposures, ratings from recognised external rating agencies are used and mapped to their corresponding PDs as reported by these agencies. These ratings with their corresponding PDs are monitored and updated on a regular basis. Following the issuance on 3 February 2020 of BdL Intermediary Circular 543, the expected credit losses on exposures in foreign currency to the Lebanese Sovereign and Central Bank of Lebanon as at 31 December 2019 figures are subject to maximum levels of 9.45% and 1.89% respectively, and those in Lebanese Pounds are subject to maximum level of 0%.

Non-retail Loans

The Risk function is responsible for the development of internal rating models, and for the estimation of Probability of Default (PD) and Loss Given Default (LGD). The Group uses an internal rating scale comprised of 19 performing grades and 3 non-performing grades. The grades generated by internal rating models are calibrated to PDs using historical default observations that are specific to each geography and business line segment. If historical default observations are not sufficient for a reliable PD estimation, then a low-default portfolio approach is adopted. The mapping of ratings to PDs, which is done initially on a through-the-cycle basis, is then adjusted to a point-in-time basis and to incorporate forward-looking information in line with the IFRS 9 standard.

Internal rating models for the Group's key lending portfolios including Corporate and SME obligors incorporate both qualitative and quantitative criteria such as:

- Historical and projected financial information prepaid by the customer. These include debt service coverage, operations, liquidity and capital structure and any other relevant ratios to measure performance.
- Account behaviour, repayment history and other non-financial information such as management quality, company standing and industry risk.
- Any publicly available information related to the clients from external parties. This includes external credit ratings issued by recognised rating agencies, independent analyst reports and other market disclosures.
- Macro economic information such as GDP growth relevant for the geography where the customer operates.
- Other supporting information on the obligor's willingness and capacity to repay.

Internal ratings are initially assigned by the credit origination functions (i.e. business lines) and are approved and validated by the Credit Review and Credit Risk functions, which are independent from business lines. Credit Review and Credit Risk functions are responsible for ensuring that ratings assigned to obligors are accurate and updated at all times.

Retail Loans and Private Banking

Retail lending comprises mainly of personal loans, car loans, credit cards and housing loans. The Group relies on application scorecards to score retail applicants and for either, the automation of decisions according to a certain cut-off score or as an additional input to support the approval or reject decision by specialised credit officers. The Group also relies on behavioural scorecard to predict the probability of default of retail borrowers within a specific timeframe. This scorecard was developed using the repayment history of retail borrowers, as well as other predictive factors. For the estimation of expected losses for retail products, the Group uses the loss approach by product based on the net flow of exposures from one days-past-due bucket to another. This estimation is adjusted by a forward-looking component in line with the IFRS 9 standard.

Private Banking credit exposures are mainly related to margin lending activities, where the Group typically holds traded securities as collateral with relatively high margin coverage ratios. These exposures are considered to have a low credit risk level. The Group estimates ECLs based on collateral types covering these exposures.

LOSS GIVEN DEFAULT (LGD)

LGD is the magnitude of the likely loss in the event of a default. The Group estimates LGD based on the history of recovery rates of claims against defaulted counterparties that are fully settled, as well as on the potential future recoveries on defaulted counterparties that still have outstanding balances. LGD estimation is dependent on the counterparty and collateral type, as well as recovery costs. For portfolios with limited historical data, external benchmark information is used to supplement the internally available data.

EXPOSURE AT DEFAULT (EAD)

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable.

SIGNIFICANT INCREASE IN CREDIT RISK

The Group continuously monitors all its credit risk exposures. In order to determine whether an instrument or a portfolio of instruments is subject to 12m ECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition, using reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information based on the Group's historical experience and expert credit assessment including forward-looking information. The Group assessment of significant increase in credit risk is being performed at least quarterly based on the following:

Non-retail Portfolio

Migration of obligor risk rating by a certain number of notches from origination to reporting date as a key indicator of the change in the risk of default at origination with the risk of default at reporting date. The Group also considers in its assessment of significant increase in credit risk various qualitative factors including significant adverse changes in the business condition, restructuring due to credit quality weakness during the past 12 months, and classification of an exposure under the "Follow-up and Regularisation" supervisory classification.

Retail Portfolio

For retail, the Group considers specific conditions that might be indicative of a significant increase in credit risk such as a restructuring event. The Group has also identified thresholds using historical default rates and historical payment behaviour to determine significant increase in credit risk.

Backstop

As a backstop, the financial instrument is considered to have experienced a significant increase in credit risk if the obligor is more than 30 days past-due on his contractual payment.

Downgrade from Stage 2 to Stage 3 is based on whether financial assets are credit-impaired at the reporting date.

EXPECTED LIFE

With the exception of credit cards and other revolving facilities, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Group has the legal right to call it earlier. With respect to credit cards and other revolving facilities, the Group does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Group's expectations of the customer behaviour, its likelihood of default, and the Group's future risk mitigation procedures, which could include reducing or cancelling the facilities.

FORWARD-LOOKING INFORMATION

The Group incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition, and the measurement of ECL.

The Group formulates three economic scenarios: a base case, which is the median scenario and two less likely scenarios, one upside and one downside, each assigned a specific probability of occurrence. The base case is aligned with information used by the Group for other purposes such as strategic planning and budgeting. These scenarios, including the weights attributable to them, are prepared by economists within the Research Department. They are determined using a combination of expert judgment and model output. The Group reviews the methodologies and assumptions including any forecasts of future economic conditions on a regular basis.

The Group has identified the real GDP growth among other, as the key driver of ECL for several countries where it operates. Using an analysis of historical data, the Group has estimated relationships between this macro-economic variable and credit losses. The ECL estimates have been assessed for sensitivity to changes to forecasts of the macro-variable and also together with changes to the weights assigned to the scenarios. With respect to countries other than Lebanon, the impact on ECL is not material. With respect to Lebanon, the environment is subject to rapid change due to the effects of the economic crisis and uncertainties disclosed in Note 1. Forecasts and scenarios are based on the best available information at the reporting date, combined with expert judgment. It is not practical at this time to determine and provide sensitivity analysis that is reasonably possible.

MODIFIED AND FORBORNE LOANS

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in, the *Summary of Significant Accounting Policies above*.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Group renegotiates loans to customers in financial difficulties (referred to as "forbearance activities") to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on his debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms. The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk.

The table below includes Stages 2 and 3 assets that were modified and, therefore, treated as forborne during the year.

	2019 LBP Million	2018 LBP Million
Amortised costs of financial assets modified during the period	**573,581**	895,215

FINANCIAL ASSETS AND EXPECTED CREDIT LOSSES BY STAGE

The tables below present an analysis of financial assets at amortised cost by gross exposure and impairment allowance by stage allocation as at 31 December 2019 and 31 December 2018. The Group does not hold any purchased or originated credit-impaired assets as at year-end.

	Gross Exposure			
31 December 2019	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	**Total LBP Million**
Central banks	4,256,133	18,584,465	-	**22,840,598**
Due from banks and financial institutions	2,153,548	24,779	1,166	**2,179,493**
Loans to banks and financial institutions and reverse repurchase agreements	690,011	13,002	-	**703,013**
Loans and advances to customers at amortised cost	12,103,964	3,018,288	2,304,771	**17,427,023**
Corporate and SME	*7,129,670*	*2,635,760*	*1,816,118*	***11,581,548***
Retail and Personal Banking	*4,772,667*	*355,252*	*417,153*	**5,545,072**
Public sector	*201,627*	*27,276*	*71,500*	**300,403**
Loans and advances to related parties at amortised cost	140,556	-	-	**140,556**
Financial assets at amortised cost	1,810,987	6,359,667	5,310,281	**13,480,935**
Financial guarantees and other commitments	3,662,133	177,008	26,708	**3,865,849**
Total	**24,817,332**	**28,177,209**	**7,642,926**	**60,637,467**

	Gross Exposure			
31 December 2018	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million
Central banks	24,325,581	-	-	24,325,581
Due from banks and financial institutions	3,843,417	-	1,149	3,844,566
Loans to banks and financial institutions and reverse repurchase agreements	266,764	-	-	266,764
Loans and advances to customers at amortised cost	16,568,992	3,310,960	1,169,619	21,049,571
Corporate and SME	*10,742,286*	*2,905,826*	*924,942*	*14,573,054*
Retail and Personal Banking	*5,461,593*	*405,134*	*242,842*	*6,109,569*
Public sector	*365,113*	-	*1,835*	*366,948*
Loans and advances to related parties at amortised cost	153,688	-	-	153,688
Financial assets at amortised cost	17,832,795	-	-	17,832,795
Financial guarantees and other commitments	3,308,064	199,263	25,718	3,533,045
Total	66,299,301	3,510,223	1,196,486	71,006,010

Impairment Allowance Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	**Total LBP Million**	**Net Exposure LBP Million**
2,283	174,282	-	**176,565**	**22,664,033**
746	13	828	**1,587**	**2,177,906**
27	2,529	-	**2,556**	**700,457**
99,757	455,034	1,410,561	**1,965,352**	**15,461,671**
84,763	*297,001*	*1,055,332*	*1,437,096*	*10,144,452*
13,643	*156,332*	*350,644*	*520,619*	*5,024,453*
1,351	*1,701*	*4,585*	*7,637*	*292,766*
67	-	-	**67**	**140,489**
1,393	105,072	1,055,526	**1,161,991**	**12,318,944**
21,240	6,520	12,314	**40,074**	**3,825,775**
125,513	**743,450**	**2,479,229**	**3,348,192**	**57,289,275**

Impairment Allowance Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million	Net Exposure LBP Million
47,269	-	-	47,269	24,278,312
129	-	811	940	3,843,626
119	-	-	119	266,645
80,892	385,396	736,317	1,202,605	19,846,966
64,958	*360,077*	*534,549*	*959,584*	*13,613,470*
11,157	*25,319*	*199,933*	*236,409*	*5,873,160*
4,777	-	*1,835*	*6,612*	*360,336*
17	-	-	17	153,671
44,261	-	-	44,261	17,788,534
10,872	5,057	12,517	28,446	3,504,599
183,559	390,453	749,645	1,323,657	69,682,353

The following table represents a reconciliation of the opening to the closing balance of impairment allowances of loans and advances at amortised cost:

	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	**Total** **LBP Million**
At 1 January 2019	80,892	385,396	736,317	1,202,605
Net re-measurements and reallocations	27,256	97,734	834,138	**959,128**
Recoveries	-	-	(112,017)	**(112,017)**
Write-offs	-	-	(67,491)	**(67,491)**
Other movements	-	-	48,377	**48,377**
Foreign exchange difference	(8,391)	(28,096)	(28,763)	**(65,250)**
Balance at 31 December 2019	**99,757**	**455,034**	**1,410,561**	**1,965,352**

The contractual amount outstanding on loans that have been written off, but were still subject to enforcement activity was LBP 863,842 million at 31 December 2019 (2018: LBP 847,449 million).

The following table represents a reconciliation of the opening to the closing balance of impairment allowances of financial assets at amortised cost:

	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	**Total** **LBP Million**
At 1 January 2019	44,261	-	-	44,261
Net re-measurements and reallocations	(40,202)	105,056	905,084	**969,938**
Other movements	-	-	148,535	**148,535**
Foreign exchange difference	(2,666)	16	1,907	**(743)**
Balance at 31 December 2019	**1,393**	**105,072**	**1,055,526**	**1,161,991**

The following table represents a reconciliation of the opening to the closing balance of impairment allowances of balances with central banks:

	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	**Total** **LBP Million**
At 1 January 2019	47,269	-	-	47,269
Net re-measurements and reallocations	(44,060)	130,582	-	**86,522**
Other movements	(1,077)	43,700	-	**42,623**
Foreign exchange difference	151	-	-	**151**
Balance at 31 December 2019	**2,283**	**174,282**	**-**	**176,565**

Net re-measurements and reallocations include re-measurements as a result of changes in the size of portfolios, reclassifications between stages and risk parameter changes.

	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million
At 1 January 2018	101,917	512,906	549,448	1,164,271
Net re-measurements and reallocations	(8,685)	(29,170)	473,983	436,128
Recoveries	-	-	(100,995)	(100,995)
Write-offs	-	-	(159,934)	(159,934)
Other movements	-	-	42,762	42,762
Foreign exchange difference	(12,340)	(98,340)	(68,947)	(179,627)
Balance at 31 December 2018	80,892	385,396	736,317	1,202,605

	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million
At 1 January 2018	44,273	-	-	44,273
Net re-measurements and reallocations	1,313	-	-	1,313
Foreign exchange difference	(1,325)	-	-	(1,325)
Balance at 31 December 2018	44,261	-	-	44,261

	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million
At 1 January 2018	51,533	-	-	51,533
Net re-measurements and reallocations	(4,248)	-	-	(4,248)
Foreign exchange difference	(16)	-	-	(16)
Balance at 31 December 2018	47,269	-	-	47,269

ANALYSIS OF RISK CONCENTRATIONS

GEOGRAPHICAL LOCATION ANALYSIS

The Group controls credit risk by maintaining close monitoring credit of its assets exposures by geographic location. The distribution of financial assets by geographic region as of 31 December is as follows:

	Lebanon LBP Million	Turkey LBP Million	MENA LBP Million
Balances with central banks	18,410,184	867,610	2,483,608
Due from banks and financial institutions	24,766	141,724	343,072
Loans to banks and financial institutions and reverse repurchase agreements	10,473	675,801	14,183
Derivative financial instruments	9,073	22,155	1,372
Financial assets at fair value through profit or loss	758	1,038	-
Loans and advances to customers at amortised cost	5,769,236	4,106,353	4,378,633
Loans and advances to related parties at amortised cost	137,786	-	1,753
Debtors by acceptances	68,410	100,275	476,401
Financial assets at amortised cost	10,509,351	343,135	1,313,365
Financial assets at fair value through other comprehensive income	-	272,346	798,586
Other assets	1,252,316	137,921	21,093
	36,190,353	**6,668,358**	**9,832,066**

	Lebanon LBP Million	Turkey LBP Million	MENA LBP Million
Balances with central banks	21,209,467	1,114,658	1,183,747
Due from banks and financial institutions	216,625	319,794	372,789
Loans to banks and financial institutions and reverse repurchase agreements	18,761	228,471	19,413
Derivative financial instruments	58,031	39,801	5,458
Financial assets at fair value through profit or loss	5,243	935	-
Loans and advances to customers at amortised cost	8,707,519	5,183,348	4,559,686
Loans and advances to related parties at amortised cost	153,077	-	406
Debtors by acceptances	157,068	186,374	53,729
Financial assets at amortised cost	15,928,230	557,514	1,075,151
Financial assets at fair value through other comprehensive income	-	84,463	1,099,327
Other assets	322,280	179,783	34,150
	46,776,301	7,895,141	8,403,856

2019

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**
902,631	-	-	-	-	-	22,664,033
1,206,197	458,165	3,972	10	-	-	2,177,906
-	-	-	-	-	-	700,457
221,164	37,160	-	-	-	-	290,924
312,210	-	-	-	-	-	314,006
342,421	261,053	121,046	383,494	49,130	50,305	15,461,671
933	17	-	-	-	-	140,489
764	-	-	11,729	-	-	657,579
49,639	60,960	15,108	-	-	27,386	12,318,944
-	-	7,781	7,399	-	-	1,086,112
20,972	-	-	-	-	-	1,430,302
3,056,931	**817,355**	**147,907**	**402,632**	**49,130**	**77,691**	**57,242,423**

2018

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
770,440	-	-	-	-	-	24,278,312
2,099,302	808,426	26,559	131	-	-	3,843,626
-	-	-	-	-	-	266,645
259,951	50,643	1,379	3,529	-	957	419,749
106,914	-	-	-	-	-	113,092
494,208	248,521	118,497	453,816	51,861	29,510	19,846,966
183	5	-	-	-	-	153,671
10,189	-	2,473	4,792	-	-	414,625
90,140	46,064	75,320	-	-	16,115	17,788,534
-	-	-	-	-	-	1,183,790
17,899	-	-	-	-	-	554,112
3,849,226	1,153,659	224,228	462,268	51,861	46,582	68,863,122

INDUSTRIAL ANALYSIS

The Group controls credit risk by maintaining close monitoring credit of its assets exposures by industry sector. The distribution of financial assets by industry sector as of 31 December is as follows:

	Financial Services and Brokerage LBP Million	Government LBP Million	Consumers LBP Million
Balances with central banks	-	22,664,033	-
Due from banks and financial institutions	2,177,906	-	-
Loans to banks and financial institutions and reverse repurchase agreements	700,457	-	-
Derivative financial instruments	270,770	-	10,514
Financial assets at fair value through profit or loss	312,205	1,796	-
Loans and advances to customers at amortised cost	1,091,711	285,393	5,095,929
Loans and advances to related parties at amortised cost	80,089	-	46,494
Debtors by acceptances	5,130	-	242
Financial assets at amortised cost	179,290	12,131,775	-
Financial assets at fair value through other comprehensive income	15,180	1,070,932	-
Other assets	249,300	1,167,660	13,342
	5,082,038	**37,321,589**	**5,166,521**

	Financial Services and Brokerage LBP Million	Government LBP Million	Consumers LBP Million
Balances with central banks	-	24,278,312	-
Due from banks and financial institutions	3,843,626	-	-
Loans to banks and financial institutions and reverse repurchase agreements	266,645	-	-
Derivative financial instruments	382,234	-	-
Financial assets at fair value through profit or loss	106,909	6,178	-
Loans and advances to customers at amortised cost	1,540,080	92,990	6,131,617
Loans and advances to related parties at amortised cost	105,820	-	35,385
Debtors by acceptances	3,577	-	-
Financial assets at amortised cost	219,882	17,475,220	-
Financial assets at fair value through other comprehensive income	-	1,183,790	-
Other assets	268,078	264,862	21,172
	6,736,851	43,301,352	6,188,174

2019						
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**
-	-	-	-	-	-	22,664,033
-	-	-	-	-	-	2,177,906
-	-	-	-	-	-	700,457
1,837	708	3,188	-	3,559	348	290,924
-	5	-	-	-	-	314,006
1,575,953	1,934,348	2,079,246	772,427	2,547,756	78,908	15,461,671
-	1	-	-	13,905	-	140,489
46,117	1,125	148,613	431,922	7,214	17,216	657,579
-	-	7,512	-	-	367	12,318,944
-	-	-	-	-	-	1,086,112
-	-	-	-	-	-	1,430,302
1,623,907	**1,936,187**	**2,238,559**	**1,204,349**	**2,572,434**	**96,839**	**57,242,423**

2018						
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
-	-	-	-	-	-	24,278,312
-	-	-	-	-	-	3,843,626
-	-	-	-	-	-	266,645
6,109	3,077	16,578	-	11,745	6	419,749
-	5	-	-	-	-	113,092
1,877,713	2,465,420	2,754,833	997,618	3,875,897	110,798	19,846,966
-	1	230	-	12,235	-	153,671
173,138	2,756	198,321	-	1,209	35,624	414,625
-	-	45,806	-	45,229	2,397	17,788,534
-	-	-	-	-	-	1,183,790
-	-	-	-	-	-	554,112
2,056,960	2,471,259	3,015,768	997,618	3,946,315	148,825	66,863,122

CREDIT QUALITY

The Group assesses the quality of its credit portfolio using the following credit rating methodologies:

(i) External ratings from approved credit rating agencies for fixed income instruments.

(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. The Group has designed specific internal rating models for Corporate, SME models, Project Finance and Individual borrowers.

(iii) Empirical and expert-based scorecards that 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 updated documentation related to a borrower's activity, an inconsistency between facilities' type and related conditions. (c) *Follow-up and regularisation* includes creditworthy borrowers requiring close monitoring without being impaired. These borrowers 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 with past-dues for over 6 months and debtors who are unable to repay their restructured loans. Finally, (f) *Bad loans* with no or little expected inflows from business or assets. This category also includes borrowers with significant delays and deemed insolvent.

SOVEREIGN & BANKS AND FINANCIAL INSTITUTIONS

External Rating Grade	Credit Quality Description
AA+, AA, AA-	High
A+, A, A-	High
BBB+, BBB, BBB-	Standard
BB+, BB, BB-	Standard
B+, B, B-	Weak
CCC+, CCC, CCC-	Weak
CC, C, D	Credit-impaired

NON-RETAIL LOANS

Internal Rating Grade*	Credit Quality Description
Performing	
1	High
2	High
3	High
4	Standard
5	Standard
6	Standard
7	Weak
Non-performing	
8	Credit-impaired
9	Credit-impaired
10	Credit-impaired

(*) The internal rating grade is based on the obligor risk rating (which is mapped to PD) and therefore does not incorporate facility risk characteristics and structure such as the existence of credit risk mitigants (impacting LGD). For this reason, an obligor risk rating can be mapped to different supervisory ratings depending on the expected loss level.

RETAIL

Internal Rating Grade*	Credit Quality Description
Performing	
B0 (0 days past due)	High
B1 (1 to 30 days past due)	Standard
B2 (31 to 60 days past due)	Standard
B3 (61 to 90 days past due)	Weak
Non-performing	
B4 – B6 (91 to 180 days past due)	Credit-impaired
B7 – B12 (181 days to 360 days past due)	Credit-impaired
B13 (more than 360 days past due)	Credit-impaired

The credit quality descriptions can be summarised as follows:

- *High*: there is a very high likelihood that the asset will be recovered in full. The counterparty exhibits high ability and willingness to meet its full obligation on due time.
- *Standard*: there is a high likelihood that the asset will be recovered in full. At the lower end of this scale, there are customers with some evidence of reduced financial strength or retail borrowers with early delinquency status.
- *Weak*: there is a concern on the obligor's ability to make payments when due. However, this has not materialised in an event of default. Under such classification, the borrower is continuing to make payments on due time, albeit with some and/or recurring delays. The counterparty, which is now under a close monitoring and follow-up, is still expected to settle its outstanding amounts of principal and interest, however with a higher probability of default.

The table below shows the credit quality of the Group's loans and advances to customers based credit quality segment and stage classification.

	2019				2018			
	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	**Total LBP Million**	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million
Loans and advances to customers at amortised cost	12,103,964	3,018,288	2,304,771	17,427,023	16,568,992	3,310,960	1,169,619	21,049,571
Corporate and SMEs	**7,129,670**	**2,365,760**	**1,816,118**	**11,581,548**	10,742,286	2,905,826	924,942	14,573,054
Performing								
High	*401,336*	*28,340*	-	*429,676*	*863,369*	*2,352*	-	*865,721*
Standard	*6,633,280*	*723,775*	-	*7,357,055*	*9,774,446*	*662,978*	-	*10,407,424*
Weak	*95,054*	*1,883,645*	-	*1,978,699*	*134,471*	*2,240,496*	-	*2,374,967*
Non-performing								
Credit-impaired	-	-	*1,816,118*	*1,816,118*	-	-	*924,942*	*924,942*
Retail and Private Banking	**4,772,667**	**355,252**	**417,153**	**5,545,072**	5,461,593	405,134	242,842	6,109,569
Performing								
High	*4,088,095*	-	-	*4,088,095*	*4,899,059*	*5,364*	-	*4,904,423*
Standard	*681,721*	*306,362*	-	*988,083*	*562,403*	*327,782*	-	*890,185*
Weak	*2,851*	*48,890*	-	*51,741*	*131*	*71,988*	-	*72,119*
Non-performing								
Credit-impaired	-	-	*417,153*	*417,153*	-	-	*242,842*	*242,842*
Public sector	**201,627**	**27,276**	**71,500**	**300,403**	365,113	-	1,835	366,948
Performing								
High	-	-	-	-	*365,113*	-	-	*365,113*
Standard	*201,627*	-	-	*201,627*	-	-	-	-
Weak	-	*27,276*	-	*27,276*	-	-	-	-
Non-performing								
Credit-impaired	-	-	*71,500*	*71,500*	-	-	*1,835*	*1,835*
Loans and advances to related parties at amortised cost	140,556	-	-	140,556	153,688	-	-	153,688
Performing								
High	*140,556*	-	-	*140,556*	*153,688*	-	-	*153,688*
Off-balance sheet loan commitments and financial guarantee contracts	3,662,133	177,008	26,708	3,865,849	3,308,064	199,263	25,718	3,533,045
Performing								
High	*965,873*	*1,390*	-	*967,263*	*1,118,289*	*403*	-	*1,118,692*
Standard	*2,670,707*	*83,804*	-	*2,754,511*	*2,159,276*	*74,498*	-	*2,233,774*
Weak	*25,553*	*91,814*	-	*117,367*	*30,499*	*124,362*	-	*154,861*
Non-performing								
Credit-impaired	-	-	*26,708*	*26,708*	-	-	*25,718*	*25,718*
Total	**15,906,653**	**3,195,296**	**2,331,479**	**21,433,428**	20,030,744	3,510,223	1,195,337	24,736,304

The table below shows the credit quality of the Group's financial instruments and balances due from banks and financial institutions as per external ratings.

	Sovereign and Central Banks					
	AAA to AA- LBP Million	A+ to BBB- LBP Million	BB+ to B- LBP Million	Below B- LBP Million	Unrated LBP Million	**Total LBP Million**
Balances with central banks	902,632	-	3,351,218	-	18,410,183	22,664,033
Due from banks and financial institutions	-	-	-	-	-	-
Loans to banks and financial institutions and reverse repurchase agreements	-	-	-	-	-	-
Financial assets at fair value through profit or loss	-	-	1,038	758	-	1,796
Financial assets at amortised cost	46,660	7,417	1,568,714	4,254,756	6,254,228	12,131,775
Financial assets at fair value through other comprehensive income	-	-	1,070,932	-	-	1,070,932
	949,292	**7,417**	**5,991,902**	**4,255,514**	**24,664,411**	**35,868,536**

	Sovereign and Central Banks					
	AAA to AA- LBP Million	A+ to BBB- LBP Million	BB+ to B- LBP Million	Below B- LBP Million	Unrated LBP Million	Total LBP Million
Balances with central banks	770,434	-	2,298,411	-	21,209,467	24,278,312
Due from banks and financial institutions	-	-	-	-	-	-
Loans to banks and financial institutions and reverse repurchase agreements	-	-	-	-	-	-
Financial assets at fair value through profit or loss	-	-	6,178	-	-	6,178
Financial assets at amortised cost	78,398	14,598	7,749,370	-	9,632,854	17,475,220
Financial assets at fair value through other comprehensive income	-	-	1,183,790	-	-	1,183,790
	848,832	14,598	11,237,749	-	30,842,321	42,943,500

2019

	Non-sovereign					
	AAA to AA- LBP Million	A+ to BBB- LBP Million	BB+ to B- LBP Million	Unrated LBP Million	**Total LBP Million**	**Grand Total LBP Million**
	-	-	-	-	-	**23,664,033**
	430,170	1,253,176	263,627	230,933	2,177,906	**2,177,906**
	-	-	675,801	24,656	700,457	**700,457**
	-	294,053	-	18,157	312,210	**314,006**
	87,377	99,426	-	366	187,169	**13,318,944**
	15,180	-	-	-	15,180	**1,086,112**
	532,727	**1,646,655**	**939,428**	**274,112**	**3,392,922**	**39,261,458**

2018

	Non-sovereign					
	AAA to AA- LBP Million	A+ to BBB- LBP Million	BB+ to B- LBP Million	Unrated LBP Million	Total LBP Million	Grand Total LBP Million
	-	-	-	-	-	24,278,312
	1,264,289	1,705,214	614,169	259,954	3,843,626	3,843,626
	-	-	266,645	-	266,645	266,645
	-	66,681	-	37,233	106,914	113,092
	181,342	129,576	2,396	-	313,314	17,788,534
	-	-	-	-	-	1,183,790
	1,445,631	1,904,471	883,210	297,187	4,530,499	47,473,999

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.

	Maximum Exposure LBP Million	Cash Collateral and Margins LBP Million	Securities LBP Million
Balances with central banks	22,664,033	-	-
Due from banks and financial institutions	2,177,906	-	-
Loans to banks and financial institutions and reverse repurchase agreements	700,457	-	-
Derivative financial instruments	290,924	-	-
Financial assets at fair value through profit or loss	314,006	-	-
Loans and advances to customers at amortised cost	15,461,671	1,834,279	1,527,259
Corporate and SME	*10,144,452*	*872,227*	*728,116*
Retail and Personal Banking	*5,024,453*	*959,372*	*799,143*
Public sector	*292,766*	*2,680*	-
Loans and advances to related parties at amortised cost	140,489	87,944	7,234
Debtors by acceptances	657,759	409,572	305
Financial assets at amortised cost	12,318,944	-	-
Financial assets at fair value through other comprehensive income	1,086,112	-	-
Other assets	1,430,302	-	-
Contingent liabilities	1,456,543	146,899	17,526
Letters of credit	*663,645*	*64,319*	-
Financial guarantee given to banks and financial institutions	*77,874*	-	-
Financial guarantee given to customers	*715,024*	*82,580*	*17,526*
Total	**58,699,146**	**2,478,694**	**1,552,324**
Guarantees received from banks, financial institutions and customers			
Utilised collateral		2,478,694	1,552,324
Surplus of collateral before undrawn credit lines		1,783,250	3,726,857
		4,261,944	**5,279,181**

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LBP 3,873,428 million as at 31 December 2019.

2019					
Guarantees Received from Banks and Financial Institutions LBP Million	Real Estate LBP Million	Vehicles LBP Million	Other Guarantees LBP Million	Risk Transfer LBP Million	Net Credit Exposure LBP Million
-	-	-	-	-	**22,664,033**
-	-	-	-	-	**2,177,906**
521,942	-	-	-	-	**178,515**
-	-	-	-	-	**290,924**
-	-	-	-	-	**314,006**
83,518	4,933,233	178,481	446,746	-	**6,458,155**
81,716	*3,249,555*	*36,469*	*394,402*	-	***4,781,967***
1,802	*1,683,678*	*142,012*	*52,344*	-	***1,386,102***
-	-	-	-	-	***290,086***
-	26,737	320	1,510	-	**16,744**
420	1,590	-	1,496	-	**244,196**
-	-	-	-	741,532	**11,577,412**
-	-	-	-	-	**1,086,112**
-	-	-	-	-	**1,430,302**
23,098	41,515	644	22,997	-	**1,203,864**
313	*1,056*	-	*27*	-	***597,930***
-	-	-	-	-	***77,874***
22,785	*40,459*	*644*	*22,970*	-	***528,060***
628,978	**5,003,075**	**179,445**	**472,749**	**741,532**	**47,642,349**
628,978	5,003,075	179,445	472,749	-	**10,315,265**
28,655	13,464,227	466,138	2,199,881	-	**21,669,008**
657,633	**18,467,302**	**645,583**	**2,672,630**	-	**31,984,273**

	Maximum Exposure LBP Million	Cash Collateral and Margins LBP Million	Securities LBP Million
Balances with central banks	24,278,312	-	-
Due from banks and financial institutions	3,843,626	-	-
Loans to banks and financial institutions and reverse repurchase agreements	266,645	-	-
Derivative financial instruments	419,749	-	-
Financial assets at fair value through profit or loss	113,092	-	-
Loans and advances to customers at amortised cost	19,846,966	2,390,625	1,683,899
Corporate and SME	*13,613,470*	*1,385,059*	*807,666*
Retail and Personal Banking	*5,873,160*	*1,002,354*	*876,233*
Public sector	*360,336*	*3,212*	-
Loans and advances to related parties at amortised cost	153,671	115,068	-
Debtors by acceptances	414,625	11,176	-
Financial assets at amortised cost	17,788,534	-	-
Financial assets at fair value through other comprehensive income	1,183,790	-	-
Other assets	554,112	-	-
Contingent liabilities	1,271,608	181,739	41,575
Letters of credit	*420,241*	*85,863*	*571*
Financial guarantee given to banks and financial institutions	*79,546*	-	-
Financial guarantee given to customers	*771,821*	*95,876*	*41,004*
Total	70,134,730	2,698,608	1,725,474
Guarantees received from banks, financial institutions and customers			
Utilised collateral		2,698,608	1,725,474
Surplus of collateral before undrawn credit lines		1,658,197	4,050,579
		4,356,805	5,776,053

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LBP 4,756,412 million as at 31 December 2018.

2018						
Guarantees Received from Banks and Financial Institutions LBP Million	Real Estate LBP Million	Vehicles LBP Million	Other Guarantees LBP Million	Netting Agreements LBP Million	Risk Transfer LBP Million	Net Credit Exposure LBP Million
-	-	-	-	4,772,032	-	19,506,280
-	-	-	-	-	-	3,843,626
197,423	-	-	-	-	-	69,222
-	-	-	-	-	-	419,749
-	-	-	-	-	-	113,092
99,861	6,095,879	305,808	513,079	-	-	8,757,815
97,669	*4,171,166*	*68,812*	*456,030*	-	-	*6,627,068*
2,192	*1,924,713*	*236,996*	*57,049*	-	-	*1,773,623*
-	-	-	-	-	-	*357,124*
-	25,733	483	784	-	-	11,603
23	2,771	-	4,406	-	-	396,249
-	-	-	-	-	1,488,087	16,300,447
-	-	-	-	-	-	1,183,790
-	-	-	-	-	-	554,112
20,231	39,181	729	45,836	-	-	942,317
6	*4,079*	-	*7,425*	-	-	*322,297*
-	-	-	-	-	-	*79,546*
20,225	*35,102*	729	*38,411*	-	-	*540,474*
317,538	6,163,564	307,020	564,105	4,772,032	1,488,087	52,098,302
317,538	6,163,564	307,020	564,105	-	-	11,776,309
19,855	14,823,357	398,031	2,658,127	-	-	23,608,146
337,393	20,986,921	705,051	3,222,232	-	-	35,384,455

COLLATERAL AND OTHER CREDIT ENHANCEMENTS

The amount and type of collateral required depend on the obligor's creditworthiness. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

Management monitors the market value of collateral on a regular basis and requests additional collateral in accordance with the underlying agreement when deemed necessary.

The main types of collateral obtained are as follows:

- *Securities:* the balances shown represent the fair value of the securities.
- *Letters of credit/guarantees:* the Group holds in some cases guarantees, letters of credit and similar instruments from banks and financial institutions, which enable it to claim settlement in the event of default on the part of the counterparty. The balances shown represent the notional amount of these types of guarantees held by the Group.
- *Real estate (commercial and residential):* the Group holds, in some cases, a first-degree mortgage over residential property (for housing loans) and commercial property (for commercial loans). The value shown reflects the fair value of the property limited to the related mortgaged amount.
- *Netting agreements:* the Group makes use of netting agreements and other arrangements not eligible for netting under *IAS 32 Financial Instruments: Presentation* with its counterparties. Such arrangements provide for net settlement of all financial instruments covered by the agreements in the event of default. Although these netting arrangements do not normally result in an offset of balance sheet assets and liabilities (as the conditions for offsetting under IAS 32 may not apply), they nevertheless reduce the Group's exposure to credit risk outstanding amounts of such contracts, as shown in the above table.

In addition to the above, the Group also obtains guarantees from parent companies for loans to their subsidiaries, personal guarantees from borrowing companies' shareholders, second degree mortgages on real estate assets, and assignments of insurance or bills proceeds and revenues, which are not reflected in the above table.

53.0. | 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 responsibilities of the Market Risk unit are to identify, measure, report, and monitor all potential and actual market risks to which the Group is exposed. The purpose is to introduce transparency around the Treasury, investment portfolio, and asset and liability risk profile through consistent and comprehensive risk measurements, aggregation, management and analysis. Policies are set and limits monitored in order to ensure the avoidance of large, unexpected losses and the consequent impact on the Group's financial 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 assumptions on potential future crisis that are relevant to the Group's exposures, as well as scenarios related to the Group's business operating environment.

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, fluctuations in interest rates and exchange rate volatility in general. Therefore, exchange rates and relevant interest rates are acknowledged as distinct risk factors.

In addition to regulatory limits, entities of the Group have set limits on positions by currency approved by their respective Board of Directors. These positions are monitored to ensure they are maintained within established limits.

The following tables present the breakdown of assets and liabilities by currency:

	2019						
	LBP LBP Million	USD LBP Million	EUR LBP Million	TRY LBP Million	EGP LBP Million	Other LBP Million	**Total** **LBP Million**
Assets							
Cash and balances with central banks	6,497,178	11,709,277	1,764,062	48,343	2,237,570	913,089	**23,169,519**
Due from banks and financial institutions	8,818	1,307,095	388,884	141,855	31,890	299,364	**2,177,906**
Loans to banks and financial institutions and reverse repurchase agreements	10,473	-	13,542	662,232	14,210	-	**700,457**
Derivative financial instruments	8,233	58,024	26,865	179,531	-	18,271	**290,924**
Financial assets at fair value through profit or loss	721	56,078	27,032	371	2,827	294,053	**381,082**
Loans and advances to customers at amortised cost	1,520,785	7,126,095	2,180,303	1,796,309	1,834,403	1,003,776	**15,461,671**
Loans and advances to related parties at amortised cost	18,186	120,321	226	-	-	1,756	**140,489**
Debtors by acceptances	-	577,764	71,725	-	440	7,650	**657,579**
Financial assets at amortised cost	2,469,640	8,349,453	123,097	159,753	826,454	390,547	**12,318,944**
Financial assets at fair value through other comprehensive income	24,594	43,762	11,054	131,651	798,930	144,902	**1,154,893**
Investments in associates	-	121,139	-	-	-	-	**121,139**
Property and equipment and right-of-use assets	598,245	3,250	5,413	53,795	212,912	123,571	**997,186**
Intangible assets	66,683	-	262	18,955	25,395	3,849	**115,144**
Non-current assets held for sale	(11,960)	151,548	523	149,608	270	-	**289,989**
Other assets	1,183,466	127,846	10,787	129,376	11,908	29,484	**1,492,867**
Deferred tax assets	5,512	(51)	12	62,288	-	19,365	**87,126**
Goodwill	-	42,422	-	-	-	-	**42,422**
Total assets	**12,400,574**	**29,794,023**	**4,623,787**	**3,534,067**	**5,997,209**	**3,249,677**	**59,599,337**
Liabilities and shareholders' equity							
Due to central banks	2,657,580	2,886,013	62,888	1,016	1,993	42,472	**5,651,962**
Due to banks and financial institutions	6,341	1,099,912	150,148	9,856	123,141	167,106	**1,556,504**
Due to banks under repurchase agreements	-	42,969	-	-	-	-	**42,969**
Derivative financial instruments	5,238	186,833	12,810	143,949	91	23,181	**372,102**
Customers' deposits	5,617,288	25,999,865	3,949,558	2,025,330	5,127,759	1,616,760	**44,336,560**
Deposits from related parties	7,954	245,674	19,676	-	-	3,006	**276,310**
Debt issued and other borrowed funds	-	1,201,078	-	192,561	-	-	**1,393,639**
Engagements by acceptances	-	577,764	71,725	-	440	7,650	**657,579**
Other liabilities	216,263	117,802	13,018	106,942	39,966	90,073	**584,064**
Deferred tax liabilities	2,326	694	-	-	35,504	5,354	**43,878**
Current tax liabilities	7,672	2,982	2	-	9,449	8,220	**28,325**
Provisions for risks and charges	86,726	10,097	1,103	30,677	21,549	28,667	**178,819**
Shareholders' equity	2,679,034	1,857,805	48,683	(767,328)	264,890	393,542	**4,476,626**
Total liabilities and shareholders' equity	**11,286,422**	**34,229,488**	**4,329,611**	**1,743,003**	**5,624,782**	**2,386,031**	**59,599,337**

	2018						
	LBP LBP Million	USD LBP Million	EUR LBP Million	TRY LBP Million	EGP LBP Million	Other LBP Million	Total LBP Million
Assets							
Cash and balances with central banks	11,985,037	9,199,139	1,465,589	292,588	863,022	988,307	24,793,682
Due from banks and financial institutions	32,493	2,251,373	659,471	319,832	1,010	579,447	3,843,626
Loans to banks and financial institutions and reverse repurchase agreements	18,777	7,589	23,308	197,557	19,414	-	266,645
Derivative financial instruments	35,596	304,745	36,308	25,654	80	17,366	419,749
Financial assets at fair value through profit or loss	149	142,887	4,065	935	2,404	69,682	220,122
Loans and advances to customers at amortised cost	2,303,760	9,691,478	2,653,094	2,413,361	1,770,573	1,014,700	19,846,966
Loans and advances to related parties at amortised cost	17,173	135,527	556	-	-	415	153,671
Debtors by acceptances	-	292,047	117,973	1,390	-	3,215	414,625
Financial assets at amortised cost	7,378,706	9,239,954	129,224	134,528	494,950	411,172	17,788,534
Financial assets at fair value through other comprehensive income	16,627	41,021	515	85,864	1,099,637	13,771	1,257,435
Investments in associates	-	144,865	-	-	-	-	144,865
Property and equipment and right-of-use assets	616,464	912	1,094	24,842	137,768	96,621	877,701
Intangible assets	22,264	-	1,698	18,009	22,386	4,119	68,476
Non-current assets held for sale	2,721	121,976	535	68,247	242	-	193,721
Other assets	239,779	203,648	26,782	199,427	13,193	31,986	714,815
Deferred tax assets	12,938	(51)	14	77,872	-	18,106	108,879
Goodwill	-	42,413	-	-	-	-	42,413
Total assets	22,682,484	31,819,523	5,120,226	3,860,106	4,424,679	3,248,907	71,155,925
Liabilities and shareholders' equity							
Due to central banks	10,309,763	1,411,438	-	198,789	-	-	11,919,990
Due to banks and financial institutions	17,570	1,491,456	385,081	3,224	81,169	205,187	2,183,687
Due to banks under repurchase agreements	-	-	-	29	1,275	-	1,304
Derivative financial instruments	725	97,380	21,202	270,461	174	18,311	408,253
Customers' deposits	7,587,803	27,964,643	3,770,870	2,445,849	3,831,089	2,176,817	47,777,071
Deposits from related parties	32,446	334,829	22,769	1,106	-	4,964	396,114
Debt issued and other borrowed funds	-	1,234,431	-	59,258	-	-	1,293,689
Engagements by acceptances	-	292,047	117,973	1,390	-	3,215	414,625
Other liabilities	182,956	83,100	9,452	46,723	30,687	51,933	404,851
Deferred tax liabilities	9,933	17	-	-	27,164	2,705	39,819
Current tax liabilities	96,651	(3,328)	1,455	-	14,749	5,433	114,960
Provisions for risks and charges	267,801	4,189	5,275	36,086	11,953	17,490	342,794
Shareholders' equity	4,463,319	1,672,643	19,978	(715,689)	94,886	323,631	5,858,768
Total liabilities and shareholders' equity	22,968,967	34,582,845	4,354,055	2,347,226	4,093,146	2,809,686	71,155,925

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, Egyptian Pounds and Turkish Liras.

As disclosed in Note 1, the Group's assets and liabilities in foreign currencies are valued at the official exchange rate, and due to the high volatility and the significant variance in exchange rates between the multiple markets, Management is unable to determine what would be a reasonable possible movement in order to provide useful quantitative sensitivity analysis. The impact of the valuation of these assets and liabilities at a different rate will be recognised in the financial statements once the change in the official exchange rate is implemented by the Lebanese government.

HEDGING NET INVESTMENTS IN FOREIGN OPERATIONS

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 may enter into foreign currency derivative transactions. The hedged risk in the net investment hedge is the risk of a weakening foreign currency against the Lebanese Pound that will result in a reduction in the carrying amount of the Group's investment in foreign subsidiaries.

ASSESSMENT OF HEDGE EFFECTIVENESS CRITERIA

The Group establishes that an economic relationship exists between the hedged item and the hedging instruments since the hedging instruments have fair value changes that offset the changes in the value of the net investment resulting from the hedged risk. The effect of credit risk does not dominate the value changes that result from that economic relationship. The analysis of the possible behaviour of the hedging relationship during its term indicates that it is expected to meet the risk management objective.

The hedge ratio is being designated based on actual amounts of the hedged item and hedging instrument. The notional amounts of the options and forward described above are on a par with the components of net investment hedged. Hence, the hedge ratio is 100%.

The details of the Group's hedging activities are disclosed in Note 19.

INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair value of financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities. Positions are monitored on a daily basis by Management and, whenever possible, hedging strategies are used to ensure positions are maintained within established limits.

The Group employs hedging activities, utilising derivative instruments to ensure positions are maintained within the established limits. The details of the Group's hedging activities are disclosed in Note 19.

INTEREST RATE SENSITIVITY

The table below shows the sensitivity of net interest income to 1% parallel change in interest rates, all other variables being held constant.

The impact of interest rate changes on net interest income is due to assumed changes in interest paid and received on floating rate financial assets and liabilities, and to the reinvestment or refunding of fixed rated financial assets and liabilities at the assumed rates. The result includes the effect of hedging instruments and assets and liabilities held at 31 December 2019 and 2018. Given the prolonged nature of the economic crisis and the high levels of uncertainty, the Group expects lower interest rates during 2020. However, the Group is unable to determine what would be a reasonably possible change in interest rates. The Central Bank of Lebanon has already decreased interest rates through Intermediary Circulars 536 and 544 (please refer to Note 1). The change in interest income is calculated over a one-year period. The impact also incorporates the fact that some monetary items do not immediately respond to changes in interest rates and are not passed through in full, reflecting sticky interest rate behaviour. The pass-through rate and lag in response time are estimated based on historical statistical analysis and are reflected in the outcome.

Besides, the effect on equity resulting from the discount rate applied to defined benefit plan obligations is disclosed in Note 37 to these financial statements.

The effect of any future associated hedges made by the Group is not accounted for.

		Sensitivity of Net Interest Income	
		2019	2018
	Decrease in Basis Points	LBP Million Decrease	LBP Million Decrease
LBP	- 100	27,267	27,616
USD	- 100	129,708	60,128
EUR	- 100	8,448	7,038
TRY	- 100	1,168	2,452
EGP	- 100	(8,960)	1,280

The Group's interest sensitivity position based on contractual repricing arrangements is shown in the table below. The expected repricing and maturity dates may differ significantly from the contractual dates, particularly with regard to the maturity of customers' demand deposits.

	Up to 1 Month LBP Million	1 to 3 Months LBP Million	3 Months to 1 Year LBP Million
Assets			
Cash and balances with central banks	5,341,802	1,179,040	869,829
Due from banks and financial institutions	2,118,410	34,761	-
Loans to banks and financial institutions and reverse repurchase agreements	666,595	14,215	18,938
Derivative financial instruments	26,445	43,103	69,041
Financial assets at fair value through profit or loss	294,090	156	45
Loans and advances to customers at amortised cost	5,538,913	1,784,778	2,731,165
Loans and advances to related parties at amortised cost	29,275	347	2,253
Financial assets at amortised cost	40,142	638,338	296,772
Financial assets at fair value through other comprehensive income	10,039	27,937	585,925
Total assets	**14,065,711**	**3,722,675**	**4,573,968**
Liabilities			
Due to central banks	1,653,211	17,263	1,259,952
Due to banks and financial institutions	1,099,462	123,739	268,763
Due to banks under repurchase agreements	42,743	-	-
Derivative financial instruments	37,456	30,467	54,104
Customers' deposits	24,433,461	6,155,618	8,151,020
Deposits from related parties	152,230	37,951	5,646
Debt issued & other borrowed funds	-	192,562	226,125
Lease liabilities	30,072	2,680	15,574
Total liabilities	**27,428,625**	**6,560,280**	**(9,981,184)**
Interest rate sensitivity gap	**(13,362,914)**	**(2,837,605)**	**(5,407,216)**
Cumulative gap	**(13,362,914)**	**(16,200,519)**	**(21,607,735)**

	Up to 1 Month LBP Million	1 to 3 Months LBP Million	3 Months to 1 Year LBP Million
Assets			
Cash and balances with central banks	5,813,015	4,788,992	939,151
Due from banks and financial institutions	3,180,209	77,721	-
Loans to banks and financial institutions and reverse repurchase agreements	207,326	32,037	26,923
Derivative financial instruments	54,117	85,894	89,462
Financial assets at fair value through profit or loss	69,681	17,717	685
Loans and advances to customers at amortised cost	7,057,910	4,224,032	4,175,663
Loans and advances to related parties at amortised cost	116,094	385	9,528
Financial assets at amortised cost	235,675	261,273	617,995
Financial assets at fair value through other comprehensive income	-	-	1,183,790
Total assets	16,734,027	9,488,051	7,043,197
Liabilities			
Due to central banks	211,977	611,557	830,747
Due to banks and financial institutions	782,399	273,471	598,690
Due to banks under repurchase agreements	1,295	-	-
Derivative financial instruments	33,050	28,913	58,300
Customers' deposits	26,206,558	7,437,826	8,371,832
Deposits from related parties	260,114	14,698	116,977
Debt issued & other borrowed funds	-	58,834	226,125
Total liabilities	27,495,393	8,425,299	10,202,671
Interest rate sensitivity gap	(10,761,366)	1,062,752	(3,159,474)
Cumulative gap	(10,761,366)	(9,698,614)	(12,858,088)

2019					
Total Less than 1 Year LBP Million	1 to 5 Years LBP Million	Over 5 Years LBP Million	Total More than 1 Year LBP Million	Non-interest Bearing LBP Million	**Total LBP Million**
7,390,671	3,224,139	10,546,267	13,770,406	2,008,442	23,169,519
2,153,171	-	-	-	24,735	2,177,906
699,748	-	-	-	709	700,457
138,589	140,361	4,866	145,227	7,108	290,924
294,291	16,688	639	17,327	69,364	381,082
10,054,856	3,302,371	1,834,163	5,136,534	270,281	15,461,671
31,875	95,016	13,373	108,389	225	140,489
975,251	5,943,362	5,172,092	11,115,454	228,238	12,318,944
623,901	272,121	190,090	462,211	68,781	1,154,893
22,362,354	**12,994,058**	**17,761,490**	**30,755,548**	**2,677,983**	**55,795,885**
2,930,436	359,908	2,336,403	2,696,311	25,215	5,651,962
1,491,964	43,743	-	43,743	20,797	1,556,504
42,723	-	-	-	246	42,969
122,027	81,766	162,911	244,677	5,398	372,102
38,740,099	4,515,166	70,523	4,585,689	1,010,772	44,336,560
195,827	79,887	79	79,966	517	276,310
418,687	522,695	426,300	948,995	25,957	1,393,639
28,326	64,857	56,670	121,527	-	149,853
43,970,089	**5,668,022**	**3,052,886**	**8,720,908**	**1,088,902**	**53,779,899**
	7,326,036	**14,708,604**			
	(14,281,699)	**426,905**			

2018					
Total Less than 1 Year LBP Million	1 to 5 Years LBP Million	Over 5 Years LBP Million	Total More than 1 Year LBP Million	Non-interest Bearing LBP Million	Total LBP Million
11,541,158	476,725	11,283,848	11,760,573	1,491,951	24,793,682
3,257,930	-	-	-	585,696	3,843,626
266,286	-	-	-	359	266,645
229,473	90,965	47,084	138,049	52,227	419,749
88,083	19,576	5,021	24,597	107,442	220,122
15,457,605	3,532,605	620,188	4,152,793	236,568	19,846,966
126,007	15,986	10,159	26,145	1,519	153,671
1,114,943	6,674,014	9,741,954	16,451,968	257,623	17,788,534
1,183,790	-	-	-	73,645	1,257,435
33,265,275	10,809,871	21,708,254	32,518,125	2,807,030	68,590,430
1,654,281	459,185	9,737,902	10,197,087	68,622	11,919,990
1,654,560	261,602	218,841	480,443	48,684	2,183,687
1,295	-	-	-	9	1,304
120,263	146,482	88,299	234,781	53,209	408,253
42,016,216	4,657,085	14,486	4,671,571	1,089,284	47,777,071
391,789	2,072	-	2,072	2,253	396,114
284,959	527,625	453,724	981,349	27,381	1,293,689
46,123,363	6,054,051	10,513,252	16,567,303	1,289,442	63,980,108
	4,755,820	11,195,002			
	(8,102,268)	3,092,734			

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.

54.0. | 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.

Given its business model, the Group manages liquidity at the entity level independently while keeping sight of intra-group dependencies.

The Group recognises that its ability to meet its liquidity requirements may come under increasing pressure under the deteriorating operating environment.

MONITORING PROCESS

DAILY

Due to the ongoing economic and financial crisis in Lebanon, Management focused its monitoring effort on cash flows and highly liquid assets rather than supervisory liquidity ratios, which in its view do not capture the full extent of the crisis impact on liquidity. Ensuring positive near-term cash flow and availability of highly liquid assets is critical to maintain the uninterrupted operation of the Group's Management activities.

On a daily basis, the Market Risk unit within Group Risk Management prepares a report on highly liquid assets showing the change in the position compared to the previous day and upcoming short-term cash flow. In addition, Treasury monitors daily and intra-day inflows and outflows to ensure funding gaps are met.

WEEKLY

The Market Risk unit prepares a weekly report on expected outflows for the current and next quarter, as well as of highly liquid assets and cash inflows for the reported periods.

MONTHLY

The Market Risk unit submits a monthly ALM report to ALCO showing changes in the liquidity position including highly liquid assets and upcoming flows.

QUARTERLY

The Board of Directors is informed of compliance with internal and regulatory liquidity ratios for each banking unit and for the Group on at least a quarterly basis.

PERIODIC

The liquidity position is assessed under various scenarios, including simulation of Group-specific crisis and market-wide crisis. The stress scenarios are applied to both on-balance sheet and off-balance sheet commitments, to provide a complete picture of potential cash outflows.

Moreover, stress testing is carried out annually for all banking units of the Group as part of the ICAAP preparation and submission. Scenarios used in these stress tests vary between entities to reflect their local market operating environments. Scenarios may include, among others, the following assumptions:
- Significant withdrawals of USD and/or foreign currency deposits;
- Significant withdrawals of undrawn and committed credit lines;
- Significant haircut on liquid assets;
- Unavailability of wholesale (interbank) funding; and
- Significant reduction in assets eligible as collateral in the refinancing operations.

Furthermore, the Group has stipulated a series of procedures for monitoring and managing liquidity risk. This includes setting up actions to be taken on response to potential liquidity stress events.

The Group's Liquidity Policy is reviewed by ALCO. The latter submits the updated policy with its recommendations to the Board Risk Committee for approval. The approved policy is notified to the Central Bank of Lebanon.

As per applicable regulations, the Group must retain obligatory reserves with the central banks where the Group entities operate.

LIQUIDITY RATIOS

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. Group Risk Management monitors on a daily basis the ratio of available highly liquid assets to financial commitments due in the next week, month, and on a six-month horizon.

SOURCES OF FUNDING

Customers' deposits were the main funding source of the Group as at 31 December 2019 and 2018. The distribution of sources and the maturity of deposits are actively monitored in order to avoid concentration of funding maturing at any point in time or from a large number of depositors. The Group monitors the percentage of time deposits that are renewed every quarter and aims to ensure that this percentage is maintained at high levels.

The Group stresses the importance of customers' deposits as source of funds to finance its lending activities. This is monitored by using the advances to deposits ratio, which compares loans and advances to customers as a percentage of clients' deposits.

	Loans to Deposits	
	2019 %	2018 %
Year-end	36	42
Maximum	41	49
Minimum	36	42
Average	38	46

ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

The table below summarises the maturity profile of the Group's financial liabilities as of 31 December based on contractual undiscounted cash flows. The contractual maturities were determined based on the period remaining to reach maturity as per the statement of financial position's actual commitments. Repayments which are subject to notice are treated as if notice were to be given immediately.

	2019					
	Less than 1 Month LBP Million	1 to 3 Months LBP Million	3 to 12 Months LBP Million	1 to 5 Years LBP Million	Over 5 Years LBP Million	**Total LBP Million**
Financial liabilities						
Due to central banks	1,697,105	63,055	1,704,570	2,379,191	3,968,959	9,812,880
Due to banks and financial institutions	548,286	188,586	212,223	493,906	160,968	1,603,969
Due to banks under repurchase agreements	42,969	-	-	-	-	42,969
Derivative financial instruments	42,853	30,467	54,105	81,766	162,911	372,102
Customers' deposits	23,972,715	7,486,212	8,665,025	6,024,122	226,879	46,374,953
Deposits from related parties	154,189	38,661	5,871	80,755	464	279,940
Debt issued and other borrowed funds	9,816	192,610	49,691	939,983	439,803	1,631,903
Engagements by acceptances	117,255	312,107	228,031	-	186	657,579
Lease liabilities	10,072	2,680	15,574	64,857	56,670	149,853
Total financial liabilities	**26,595,260**	**8,314,378**	**10,935,090**	**10,064,580**	**5,016,840**	**60,926,148**

	2018					
	Less than 1 Month LBP Million	1 to 3 Months LBP Million	3 to 12 Months LBP Million	1 to 5 Years LBP Million	Over 5 Years LBP Million	Total LBP Million
Financial liabilities						
Due to central banks	246,067	656,145	1,029,293	1,263,334	10,611,669	13,806,508
Due to banks and financial institutions	731,072	300,569	359,930	577,116	285,684	2,254,371
Due to banks under repurchase agreements	1,304	-	-	-	-	1,304
Derivative financial instruments	81,130	33,623	58,719	146,482	88,299	408,253
Customers' deposits	26,325,501	8,216,071	8,991,822	5,384,692	55,277	48,973,363
Deposits from related parties	261,729	15,593	119,502	27,928	-	424,752
Debt issued and other borrowed funds	9,574	59,258	51,038	763,409	704,716	1,587,995
Engagements by acceptances	124,032	170,369	120,065	-	159	414,625
Total financial liabilities	27,780,409	9,451,628	10,730,369	8,162,961	11,745,804	67,871,171

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.

	2019				
	Less than 3 Months LBP Million	3 to 12 Months LBP Million	1 to 5 Years LBP Million	More than 5 Years LBP Million	**Total LBP Million**
Financial guarantees	606,233	155,628	27,981	3,056	792,898
Other guarantees	964,027	119,939	12,940	18,592	1,115,498
Documentary credits	564,736	96,830	2,079	-	663,645
Loan commitments	3,615,690	231,349	26,389	-	3,873,428
	5,751,286	**603,146**	**69,389**	**21,648**	**6,445,469**

	2018				
	Less than 3 Months LBP Million	3 to 12 Months LBP Million	1 to 5 Years LBP Million	More than 5 Years LBP Million	Total LBP Million
Financial guarantees	731,520	57,619	49,993	12,235	851,367
Other guarantees	963,433	298,215	16,892	14,430	1,292,970
Documentary credits	341,461	77,036	1,744	-	420,241
Loan commitments	4,426,690	313,555	16,167	-	4,756,412
	6,463,104	746,425	84,796	26,665	7,320,990

MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the Group's assets and liabilities.

The maturity profile of the assets and liabilities at 31 December 2019 is as follows:

	Less than 1 Year LBP Million	More than 1 Year LBP Million	**Total LBP Million**
Assets			
Cash and balances with central banks	8,024,915	15,144,604	23,169,519
Due from banks and financial institutions	2,177,906	-	2,177,906
Loans to banks and financial institutions and reverse repurchase agreements	688,628	11,829	700,457
Derivative financial instruments	147,472	143,452	290,924
Financial assets at fair value through profit or loss	361,378	19,704	381,082
Loans and advances to customers at amortised cost	8,082,659	7,379,012	15,461,671
Loans and advances to related parties at amortised cost	31,402	109,087	140,489
Debtors by acceptances	657,393	186	657,579
Financial assets at amortised cost	894,567	11,424,377	12,318,944
Financial assets at fair value through other comprehensive income	689,590	465,303	1,154,893
Investments in associates	-	121,139	121,139
Property and equipment and right-of-use assets	-	997,186	997,186
Intangible assets	-	115,144	115,144
Non-current assets held for sale	-	289,989	289,989
Other assets	135,100	1,357,767	1,492,867
Deferred tax assets	-	87,126	87,126
Goodwill	-	42,422	42,422
Total assets	**21,891,010**	**37,708,327**	**59,599,337**
Liabilities and shareholders' equity			
Due to central banks	2,955,652	2,696,310	5,651,962
Due to banks and financial institutions	935,895	620,609	1,556,504
Due to banks under repurchase agreements	42,969	-	42,969
Derivative financial instruments	127,425	244,677	372,102
Customers' deposits	39,400,970	4,935,590	44,336,560
Deposits from related parties	196,344	79,966	276,310
Debt issued and other borrowed funds	205,016	1,188,623	1,393,639
Engagements by acceptances	657,393	186	657,579
Other liabilities	378,489	205,575	584,064
Current tax liability	28,325	-	28,325
Deferred tax liabilities	-	43,878	43,878
Provision for risks and charges	-	178,819	178,819
Shareholders' equity	-	4,476,626	4,476,626
Total liabilities and shareholders' equity	**44,928,478**	**14,670,859**	**59,599,337**

The maturity profile of the assets and liabilities at 31 December 2018 is as follows:

	Less than 1 Year LBP Million	More than 1 Year LBP Million	Total LBP Million
Assets			
Cash and balances with central banks	8,527,700	16,265,982	24,793,682
Due from banks and financial institutions	3,843,626	-	3,843,626
Loans to banks and financial institutions and reverse repurchase agreements	242,824	23,821	266,645
Derivative financial instruments	154,360	265,389	419,749
Financial assets at fair value through profit or loss	176,966	43,156	220,122
Loans and advances to customers at amortised cost	12,411,819	7,435,147	19,846,966
Loans and advances to related parties at amortised cost	119,917	33,754	153,671
Debtors by acceptances	414,467	158	414,625
Financial assets at amortised cost	1,075,583	16,712,951	17,788,534
Financial assets at fair value through other comprehensive income	1,115,725	141,710	1,257,435
Investments in associates	-	144,865	144,865
Property and equipment and right-of-use assets	-	877,701	877,701
Intangible assets	-	68,476	68,476
Non-current assets held for sale	-	193,721	193,721
Other assets	137,111	577,704	714,815
Deferred tax assets	-	108,879	108,879
Goodwill	-	42,413	42,413
Total assets	28,220,098	42,935,827	71,155,925
Liabilities and shareholders' equity			
Due to central banks	1,722,903	10,197,087	11,919,990
Due to banks and financial institutions	1,372,154	811,533	2,183,687
Due to banks under repurchase agreements	1,304	-	1,304
Derivative financial instruments	173,472	234,781	408,253
Customers' deposits	42,952,153	4,824,918	47,777,071
Deposits from related parties	393,944	2,170	396,114
Debt issued and other borrowed funds	86,215	1,207,474	1,293,689
Engagements by acceptances	414,467	158	414,625
Other liabilities	390,691	14,160	404,851
Current tax liability	114,960	-	114,960
Deferred tax liabilities	-	39,819	39,819
Provision for risks and charges	-	342,794	342,794
Shareholders' equity	-	5,858,768	5,858,768
Total liabilities and shareholders' equity	47,622,263	23,533,662	71,155,925

55.0. | 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 in mitigating operational risk may result in reputational and/or franchise risk, business disruptions, business loss, or non-compliance with laws and regulations which 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 unit 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 Group Operational Risk Policy. 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 Self-Assessments (RCSAs) 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, RCSA findings and operational losses are reported to the Board of Directors and Board Group 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.

56.0. | LITIGATION RISK

The Group may, from time to time, become involved in legal or arbitration proceedings which may affect its operations and results. Litigation risk arises from pending or potential legal claims against the Group (Note 48) and in the event that legal issues are not properly dealt with by the Group. Since 17 October 2019, the Group has been subject to an increased litigation risk level as a result of the restrictive measures adopted by Lebanese banks. Management has carefully considered the impact of existing litigation and claims against the Group in relation to these restrictive measures. While there are still uncertainties related to the consequences of these restrictive measures, based on the current available information and the prevailing laws and local banking practices, Management considers that the said claims seem unlikely to have a material adverse impact on the financial position and capital adequacy of the Group.

57.0. | POLITICAL RISK

External factors which are beyond the control of the Group, such as political developments and government actions in Lebanon (Note 1) and other countries may adversely affect the operations of the Group, its strategy and prospects. Other important political risk factors include government intervention on the Group's activities and social developments in the countries in which the Group operates, political developments in Lebanon, and the political and social unrest and political instability or military conflict in neighbouring countries and/or other overseas areas. Given the above, the Group recognises that unforeseen political events can have negative effects on the fulfilment of contractual relationships and obligations of its customers and other counterparties which will result in significant impact on the Group's activities, operating results and position.

58.0. | CAPITAL MANAGEMENT

The Group maintains an actively managed capital base to cover risks resulting from potential stressed situations, retain sufficient financial strength and flexibility to meet changes in capital requirements, and comply with national and international minimum regulatory capital adequacy ratios levels 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.

On 3 February 2020, the Central Bank of Lebanon issued Intermediary Circular 543 in which it decreased the minimum regulatory capital adequacy ratios levels as reflected in the table below. Under the same circular, the regulator has increased the risk weight on foreign currency exposures to the Central Bank of Lebanon from 50% to 150%, excluding deposits with original maturities less than one year, which are still subject to a 50% risk weight. The Central Bank of Lebanon also requires minimum levels of 7%, 8.50% and 10.50% for CET1, Tier 1 and Total CAR respectively for dividends' payments eligibility, and 4.5%, 6% and 8% respectively, excluding the capital conservation buffer. The capital conservation buffer of 2.5%, comprised of Common Equity Tier 1, is established above the regulatory minimum capital requirement. When capital levels fall within this range, banks are required to increase capital levels above the conservation range within 3 years. In addition, constraints related to dividends are imposed.

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 2019			
Minimum required capital ratios	4.50%	6.00%	8.00%
With capital conservation buffer	7.00%	8.50%	10.50%
Year ended 31 December 2018			
Minimum required capital ratios	5.50%	8.50%	10.50%
With capital conservation buffer	10.00%	13.00%	15.00%

	2019 LBP Million	2018 LBP Million
Risk-weighted assets:		
Credit risk	39,624,309	30,219,261
Market risk	792,337	501,209
Operational risk	3,838,150	4,150,376
Total risk-weighted assets	**44,254,769**	34,870,846

The regulatory capital including net (loss) income for the year as of 31 December is as follows:

	2019 LBP Million	2018 LBP Million
Tier 1 capital	3,856,763	4,886,738
Of which: common Tier 1	*2,925,854*	*3,965,452*
Tier 2 capital	1,143,595	1,707,936
Total capital	**5,000,358**	6,594,674

The capital adequacy ratio including net income for the year as of 31 December is as follows:

	2019	2018
Capital adequacy – Common Tier 1	**6.61%**	11.37%
Capital adequacy – Tier 1	**8.71%**	14.01%
Capital adequacy – Total capital	**11.30%**	18.91%

On 4 November 2019, the Central Bank of Lebanon issued Intermediary Circular 532 requiring Lebanese banks not to distribute dividends from the profits of the financial year 2019, and to increase the regulatory capital by 20% of the common equity Tier 1 capital as at 31 December 2018 through cash contributions in USD, in two phases: 10% by 31 December 2019 and another 10% by 30 June 2020.

To meet the requirements of Intermediary Circular 532 towards increasing its regulatory capital by 10% by 31 December 2019, the Bank initiated the process of increasing its regulatory capital subsequently and has increased its capital by LBP 315,278 million effective 20 February 2020 through the issuance of 188,789,011 common shares at a nominal value of LBP 1,670.

The capital adequacy ratios as at 31 December 2019 were calculated based on the recorded figures and do not take into consideration the adjustments that will result from the resolution of the uncertainties reflected in Note 1. The Group is currently assessing the impact of the future effects of the economic crisis and the restructuring plan on its capital adequacy ratios, based on the various available scenarios. However, until all uncertainties are resolved, the amount of the recapitalisation needs that will be required cannot be determined presently.

59.0. | SUBSEQUENT EVENTS

OUTBREAK OF COVID-19

The COVID-19 pandemic has had, and continues to have, a material impact on businesses around the world and the economic environments in which they operate. It has caused disruption to businesses and economic activities and increased the level of uncertainty in domestic and international markets. Regulators and governments across the globe have introduced schemes to provide financial support to parts of the economy most impacted by the COVID-19 pandemic.

In the case of the Group, similar to many entities for which the operating environment is mostly in Lebanon, the impact of COVID-19 cannot be isolated and assessed independently from the economic crisis that the country is witnessing, which is described in Note 1. COVID-19 will add up to the severity of the economic downturn from a commercial, regulatory and risk perspective. Future impairment charges, already subject to high uncertainty and volatility due to the severe crisis in Lebanon described in Note 1, may be subject to further uncertainty and volatility as a result of the COVID-19 pandemic and related containment measures. More adverse economic scenarios and macro-economic variables, with higher probabilities than as at 31 December 2019, will be considered for Expected Credit Losses financial impact in the first half of 2020.

It remains unclear how this will evolve through 2020 and thereafter, and the Group continues to monitor the situation closely. All such events mentioned above will add up to the already material adverse prospects on the Group’s business, financial condition, results of operations, prospects, liquidity, and capital position disclosed in Note 1.

OTHER MAJOR SUBSEQUENT EVENTS

These relate to the subsequent sale of Lebanese government Eurobonds and the subsequent capital increase, which are disclosed in Notes 28 and 58 to these financial statements, respectively.

04
Management

Fusing Ideas And People

Recognising supportive efforts across all fields, joining forces and innovations that encourage a team building spirit and trickle from top to bottom.

1.0. | GROUP AND BANK AUDI sal MANAGEMENT

LEBANON

EXECUTIVE BOARD MEMBERS

Mr. Samir N. HANNA	Chairman and Group Chief Executive Officer
Mr. Marc J. AUDI	Vice-Chairman

GROUP EXECUTIVE COMMITTEE (EFFECTIVE JULY 2020)

Voting Members

Mr. Khalil I. DEBS *(Co-chair)*	Deputy Group Chief Executive Officer
Mr. Tamer M. GHAZALEH *(Co-chair)*	Deputy Group Chief Executive Officer
Mr. Michel E. ARAMOUNI	Chief Capital Markets Officer
Mr. Mouayed C. MAKHLOUF	Head of International Division
Mr. Hassan A. SALEH	Chief Operating Officer

Non-voting Members

Mr. Elias L. ABOUSLEIMAN	Group Chief Risk Officer
Mr. Chahdan E. JEBEYLI	Group Chief Legal & Compliance Officer

Secretary

Dr. Farid F. LAHOUD	Group Corporate Secretary

CENTRAL DEPARTMENTS

Mr. Toufic S. ARIDA	Assistant Chief Operating Officer – Technology
Mrs. Marcelle R. ATTAR	Head of Information Technology
Mrs. Carol J. AYAT	Head of Energy
Dr. Marwan S. BARAKAT	Group Chief Economist & Head of Research
Mr. Antoine G. BOUFARAH	Chief Compliance Officer
Mr. Georges J. BOUSTANY	Head of Remedial Management
Mrs. Grace E. EID	Head of Retail Banking
Mr. Khalil G. GEAGEA	Group Head of Financial Institutions & Correspondent Banking
Mr. Karl A. HADDAD	Head of Corporate Credit Risk Lebanon
Mrs. Bassima G. HARB	Head of Corporate and Commercial Banking
Mr. Mahmoud A. KURDY	Chief Financial Officer
Mr. Mahmoud M. MAJZOUB	Group Head of Internal Audit
Mrs. Nayiri H. MANOUKIAN	Head of Human Resources
Mr. Assaad G. MEOUCHY	Head of Branch Network Management
Mr. Antoine N. NAJM	Group Head of Corporate Credit Management
Mrs. Rana S. NASSIF	Head of Internal Audit Lebanon
Mr. Fady A. OBEID	Assistant Chief Operating Officer – Operations
Mr. Hassan H. SABBAH	Head of SME Banking
Mr. Jean N. TRABOULSI	Head of Marketing & Communications

BRANCHES NETWORK

Mrs. Ghina M. DANDAN	Network Manager
Mr. Salam G. NADDA	Network Manager
Ms. Wafaa' S. YOUNES	Network Manager
Mr. Rabih E. BERBERY	Network Manager
Mr. Kamal S. TABBARA	Network Manager
Mr. Abdo M. ABI-NADER	Senior Regional Manager
Mrs. Carol S. ABOU JAOUDE	Regional Manager
Mr. Nagib A. CHEAIB	Regional Manager
Mr. Georges K. KARAM	Regional Manager
Mrs. Roula I. MIKHAEL	Regional Manager
Mr. Robert J. MOUBARAK	Regional Manager
Mrs. Joumana A. NAJJAR	Regional Manager
Mr. Fadi V. SAADE	Regional Manager

INVESTOR RELATIONS

Ms. Sana M. SABRA	Investor Relations
	Tel: (961-1) 977496. Fax: (961-1) 999399.

2.0. | ENTITIES' MANAGEMENT

2.1. | ODEA BANK A.Ş.

TURKEY

BOARD OF DIRECTORS

		Member of the Credit Committee	Member of the Audit Committee	Member of the Risk Committee	Member of the Remuneration Committee	Member of the Corporate Governance Committee
Mr. Samir N. HANNA	Chairman				•	
Dr. Imad I. ITANI	Vice-Chairman		Chair •		Chair •	
Mr. Bülent T. ADANIR	Member		•	Chair •	•	
Mr. Khalil I. DEBS	Member	•				
Dr. Marwan M. GHANDOUR	Member					
Mr. Tamer M. GHAZALEH	Member	Alternate		•	•	
Mr. Philippe F. EL KHOURY	Member		Advisor			Chair •
Mr. Mert R. ÖNCÜ	Member	Chair •				
Mr. Mouayed C. MAKHLOUF	Member	Alternate		•		•
Mr. Antoine N. NAJM *(since January 2020)*	Member	•				
Mrs. Dragica N. PILIPOVIC-CHAFFEY	Member			•		•

MANAGEMENT

Mr. Mert R. ÖNCÜ	General Manager – Chief Executive Officer
Mr. Yalçin F. AVCI	Assistant General Manager – Commercial Banking – Deputy CEO
Mr. Emir Kadir F. ALPAY	Assistant General Manager – Treasury, Capital Markets and FI
Mr. Cenk R. DEMIRÖZ	Assistant General Manager – Credit Allocation
Mr. Hüseyin H. GÖNÜL	Assistant General Manager – Internal Systems – CRO
Mr. Cem A. MURATOĞLU	Assistant General Manager – Retail Banking
Mr. Sinan Erdem S. ÖZER	Assistant General Manager – Information Technologies and Operations – CIOO
Mr. Mehmet Gökmen C. UÇAR	Assistant General Manager – Chief Financial Officer/in charge of Finance, Financial Control and Strategy

2.2. | BANK AUDI sae
EGYPT

BOARD OF DIRECTORS

		Member of the Audit Committee	Member of the Risk Committee	Member of the Corporate Governance & Nomination Committee	Member of the Remuneration Committee
Mr. Hatem A. SADEK	Chairman		•	Chair •	
Mr. Mohamed M. BEDEIR	CEO & Managing Director		•		
Mr. Samir N. HANNA	Member				
Dr. Imad I. ITANI	Member	Chair •			•
Mr. Khalil I. DEBS	Member	•			
Mr. Mounir F. ABDELNOUR	Member	•		•	
Mr. Tamer M. GHAZALEH	Member				•
Mr. Ahmed F. IBRAHIM	Secretary of the Board				

EXECUTIVE COMMITTEE

Mr. Mohamed M. BEDEIR	CEO & Managing Director
Mr. Karim F. HOSNI	Chief Risk Officer
Mr. Bassel E. KELADA	Chief Operating Officer
Mr. Mohamed R. LATIF	Chief Institutional & Islamic Banking Officer
Mr. Hesham F. RAGAB	Chief Legal Counsel
Mr. Sherif M. SABRY	Chief Corporate Banking Officer
Mr. Mohamed A. SHAWKY	Chief Financial Officer

2.3. | BAPB HOLDING LIMITED
CYPRUS

BOARD OF DIRECTORS

Mr. Marc J. AUDI	Member
Mr. Tamer M. GHAZALEH	Member
Mr. Chahdan E. JEBEYLI	Member
Mr. Alkis I. KAILOS	Member
Dr. Farid F. LAHOUD	Member
Mr. Georgios V. ROLOGIS	Member
Mr. Philippe R. SEDNAOUI	Member
Alter Domus Services Limited	Company Secretary

2.3.1. | BANQUE AUDI (SUISSE) SA
SWITZERLAND

BOARD OF DIRECTORS

H.E. Mr. Raymond W. AUDI	Honorary Chairman

		Member of the Audit Committee	Member of the Remuneration Committee
Mr. Philippe R. SEDNAOUI	Chairman		
Mr. Michel A. CARTILLIER	Vice-Chairman	Chair	
Mr. Marc J. AUDI	Member		•
Mr. Pierre C. DE BLONAY	Member	•	
Mr. Samir N. HANNA	Member		•
Mr. Jean-Pierre R. JACQUEMOUD	Member	•	•
Mr. Pierre J. RESPINGER	Member		Chair

MANAGEMENT

Mr. Ragi J. BOUSTANY	General Manager
Mr. Elie J. BAZ	Head of Forex & Treasury
Mr. Jean-Marc S. CODORELLO	Head of Business Management
Mrs. Mireille L. GAVARD	Corporate Secretary
Mr. Joseph M. HALLIT	Head of Private Banking
Mr. Ian Gregor MACINTOSH	Chief Investment Officer
Mr. Gregory K. SATNARINE	Chief Financial Officer/Chief Operating Officer

2.3.2. | AUDI PRIVATE BANK sal
LEBANON

BOARD OF DIRECTORS

		Member of the Audit Committee	Member of the Risk Committee	Member of the Remuneration Committee	Member of the Compliance & AML/ CFT Committee
Mr. Philippe R. SEDNAOUI	Chairman				
Mr. Toufic R. AOUAD	Member		•		
Dr. Khalil M. BITAR	Member		Chair	•	
Dr. Joe A. DEBBANE *(until December 2019)*	Member				Chair
Mr. Chahdan E. JEBEYLI	Member				•
Mr. Salam G. NADDA	Member	•		•	•
Mr. Ghassan Michel M. NASSIF *(until March 2020)*	Member	Chair	•	Chair	
Mrs. Wafaa' S. YOUNES	Member	•			

MANAGEMENT

Mr. Philippe R. SEDNAOUI	Chairman & General Manager
Mr. Toufic R. AOUAD	General Manager

2.3.3. | AUDI CAPITAL (KSA) cjsc
KINGDOM OF SAUDI ARABIA

BOARD OF DIRECTORS

		Member of the Audit Committee	Member of the Nomination & Remuneration Committee
Mr. Abdullah I. AL HOBAYB	Chairman		Chair
Mr. Philippe R. SEDNAOUI	Vice-Chairman – Member		•
Mr. Chahdan E. JEBEYLI	Member	Chair	
Mr. Youssef A. NIZAM	Member		•
Dr. Asem T. ARAB	Independent member	•	
Dr. Khalil A. KORDI	Independent member	•	

MANAGEMENT

Mr. Daniel R. ASMAR	General Manager (CEO) & Acting Head of Private Banking
Mr. Tony G. ABOU FAYSSAL	CFO & Acting Head of Investment Banking
Mr. John S. GEBEILY	Head of Investment Office & Acting Head of Asset Management
Mr. Raafat F. EL-ZOUHEIRY	Head of Corporate Governance

2.4. | OTHER ENTITIES

2.4.1. | BANK AUDI LLC
QATAR

BOARD OF DIRECTORS

		Member of the Executive Credit Committee
Mr. Khalil I. DEBS	Chairman	•
Mr. Rashed Nasser S. AL-KAABI	Member	
Mr. Elia S. SAMAHA	Member	
Mr. Philippe R. SEDNAOUI	Member	
Mrs. Ghina M. DANDAN	Member	
Mr. Hani R. ZAOUK	Member	•

MANAGEMENT

Mr. Hani R. ZAOUK	General Manager

2.4.2. | BANK AUDI FRANCE sa
FRANCE

BOARD OF DIRECTORS

		Member of the Audit & Risk Committee
Mr. Elia S. SAMAHA *(since September 2019)*	Chairman	•
Ms. Sherine R. AUDI	Member & General Manager	
Mr. Antoine G. BOUFARAH	Member	•
Mr. Denis G. GILLET	Member	•
Bank Audi sal *(represented by Mr. Khalil I. DEBS)*	Member	

MANAGEMENT

Mrs. Sherine R. AUDI	General Manager – Chief Executive Officer
Mr. Noel J. HAKIM	Deputy General Manager – Chief Business Officer
Mr. Emile G. GHAZI	Assistant General Manager – Head of Corporate Banking

2.4.3. | AUDI INVESTMENT BANK sal
LEBANON

BOARD OF DIRECTORS

		Member of the Audit Committee	Member of the Risk Committee	Member of the Remuneration Committee
Dr. Imad I. ITANI	Chairman & General Manager			
Mr. Michel E. ARAMOUNI	Member		•	
Mr. Khalil I. DEBS	Member		•	
Dr. Farid F. LAHOUD	Member	•		•
Mr. Maurice H. SAYDE *(until February 2020)*		Chair		Chair
Bank Audi sal				
Mrs. Marie-Josette A. AFTIMOS	Secretary of the Board			

2.4.4. | SOLIFAC sal
LEBANON

BOARD OF DIRECTORS

		Member of the Risk & Audit Committee	Member of the ALCO Committee	Member of the Credit Committee	Member of the AML/CFT Committee
Mr. Khalil I. DEBS	Chairman	Chair	•	Chair	
Mr. Elie J. KAMAR	Chief Executive Officer	•	•	•	
Mr. Tamer M. GHAZALEH	Member	•	Chair		
Mr. Hassan A. SALEH	Member	•	•		Chair

MANAGEMENT

Mr. Elie J. KAMAR	Chief Executive Officer
Mrs. Lina F. SALEM	Assistant Chief Executive Officer

2.4.5. | BANK AUDI sal – JORDAN BRANCHES
JORDAN

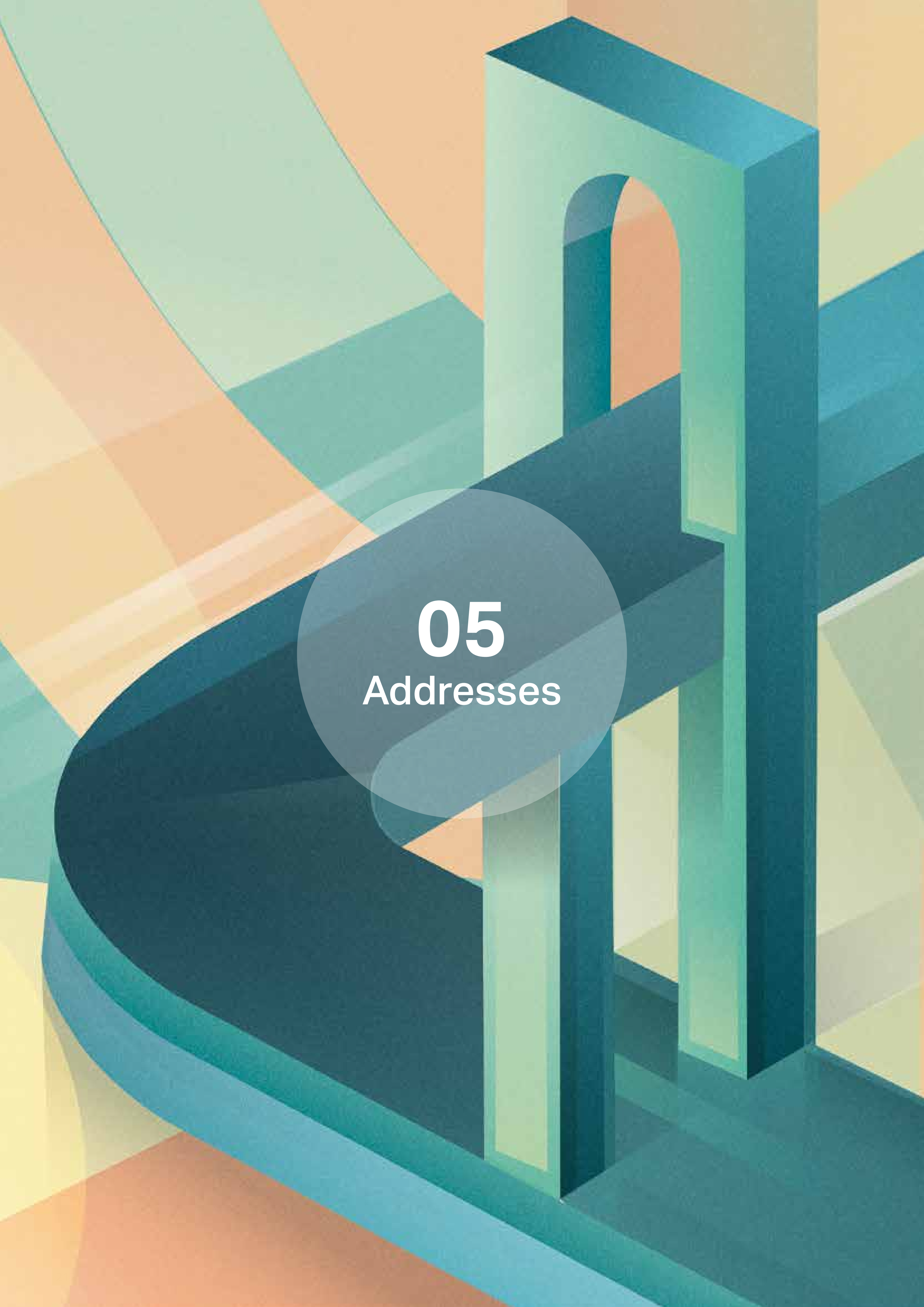
MANAGEMENT

Mr. Yousef A. ENSOUR	Regional Manager
Mr. Samer I. AL ALOUL	Deputy Regional Manager

2.4.6. | BANK AUDI sal – IRAQ BRANCHES
IRAQ

MANAGEMENT

Mr. Jamil R. CHOUCAIR	Country Manager
Mr. Akil A. EZZEDDINE	COO & Deputy Country Manager



05
Addresses

Building Bridges

Having a constant line of communication open, from every corner, that ensures fruitful, lifelong opportunities.

1.0. | LEBANON

BANK AUDI sal

Member of the Association of Banks in Lebanon
Capital: LBP 677,601,170,680 *(as at December 2019)*
Consolidated shareholders' equity:
LBP 4,476,626,108,471 *(as at December 2019)*
C.R. 11347 Beirut
List of Banks No. 56

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Swift: AUDBLBBX.
contactus@bankaudi.com.lb
bankaudigroup.com

COUNTRY MANAGEMENT LEBANON

Bank Audi Palladium, Bab Idriss.
P.O. Box: 11-2560 Beirut – Lebanon.
Tel: (961-1) 994000. Fax: (961-1) 990555.
Customer helpline: (961-1) 212120.
Swift: AUDBLBBX.
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Customer helpline: (961-1) 212120.
Swift: AUDBLBBX.
contactus@bankaudi.com.lb
bankaudi.com.lb

BRANCHES

CORPORATE BRANCHES

ASHRAFIEH – MAIN BRANCH
SOFIL Center, Charles Malek Avenue.
Tel: (961-1) 200250. Fax: (961-1) 200724, 339092.
Senior Manager: Mrs. Rita M. Freiha

BAB IDRISS
Bank Audi Plaza, Omar Daouk Street.
Tel: (961-1) 977588. Fax: (961-1) 999410, 971502.
Network Manager – Corporate Banking:
Mrs. Ghina M. Dandan
Branch Manager: Mrs. Patricia G. Debs

VERDUN
Verdun 2000 Center, Rashid Karameh Avenue.
Tel: (961-1) 805805. Fax: (961-1) 865635, 861885.
Network Manager – Corporate Banking:
Mrs. Wafaa S. Younes
Branch Manager: Mr. Haytham M. Ramadan

BEIRUT

ASHRAFIEH – SASSINE
Le Gabriel Hotel, Elias Sarkis Avenue, Sassine.
Tel: (961-1) 200640. Fax: (961-1) 216685.
Branch Manager: Ms. Rita C. Haddad

ASHRAFIEH – SAYDEH
Shibli Bldg., Istiklal Street.
Tel: (961-1) 200753. Fax: (961-1) 204972.
Branch Manager: Mrs. Hoda A. Abou-Moussa

BADARO
Ibrahim Ghattas Bldg., Badaro Street.
Tel: (961-1) 387395. Fax: (961-1) 387398.
Branch Manager: Mrs. Nayla S. Hanna

BASTA
Ouzaï Street, Noueiri Quarter.
Tel: (961-1) 661323. Fax: (961-1) 651798.
Branch Manager: Mrs. Hiba M. Kayal

BESHARA EL-KHOURY
Banna & Sayrawan Bldg., Beshara El-Khoury Street.
Tel: (961-1) 664093. Fax: (961-1) 664096.
Branch Manager: Mrs. Roula F. Ramadan

BLISS
Kanater Bldg., Bliss Street.
Tel: (961-1) 361793. Fax: (961-1) 361796.
Branch Manager: Ms. Nisrine A. Ismail

EL-HORGE
Khattab Bldg., Hamad Street.
Tel: (961-1) 660636. Fax: (961-1) 660686.
Branch Manager: Mrs. Reine G. Doughan

GEFINOR
Gefinor Center, Clemenceau Street.
Tel: (961-1) 743400. Fax: (961-1) 743412.
Branch Manager: Ms. Rima M. Hoss

HAMRA
Mroueh Bldg., Hamra Street.
Tel: (961-1) 341491. Fax: (961-1) 344680.
Branch Manager: Mrs. Dima R. Chahine

JNAH
Tahseen Khayat Bldg., Khalil Moutran Street.
Tel: (961-1) 844870. Fax: (961-1) 844875.
Acting Branch Manager: Mrs. Mariam H. Nizam

MAZRAA
Wakf El-Roum Bldg., Saeb Salam Blvd.
Tel: (961-1) 305612. Fax: (961-1) 316873, 300451.
Branch Manager: Mr. Moustafa M. Anouty

MOUSSEITBEH
Makassed Commercial Center, Mar Elias Street.
Tel: (961-1) 818277. Fax: (961-1) 303084.
Branch Manager: Mrs. Ghada S. Al-Ameen

RAOUSHEH
Majdalani Bldg., Raousheh Corniche.
Tel: (961-1) 805068. Fax: (961-1) 805071.
Branch Manager: Mrs. Hind A. Ghalayini

SAIFI
El-Hadissa Bldg., El-Arz Street, Saifi.
Tel: (961-1) 580530. Fax: (961-1) 580885.
Branch Manager: Mrs. Rawan K. Baydoun

SELIM SALAM
Sharkawi Bldg., Selim Salam Avenue.
Tel: (961-1) 318824. Fax: (961-1) 318657.
Branch Manager: Mrs. Iman M. Hankir

SODECO
Alieh Bldg., Istiklal Street.
Tel: (961-1) 612790. Fax: (961-1) 612793.
Branch Manager: Mrs. Josette F. Aramouni

TABARIS
Saifi Plaza, Fouad Shehab Avenue
& Georges Haddad crossroad.
Tel: (961-1) 992335-9. Fax: (961-1) 990416, 990516.
Branch Manager: Mrs. Raghida N. Bacha

ZARIF
Salhab Center, Algeria Street.
Tel: (961-1) 747550. Fax: (961-1) 747553.
Acting Branch Manager: Mr. Taha N. Keshly

MOUNT LEBANON

AIN EL-REMMANEH
Etoile Center, El-Areed Street.
Tel: (961-1) 292870. Fax: (961-1) 292869.
Branch Manager: Mrs. Roula E. Fayad

AJALTOUN
Bou Shaaya & Khoury Center, El-Midane.
Tel: (961-9) 234620. Fax: (961-9) 234439.
Branch Manager: Mr. Emile J. Moukarzel

ALEY
Beshara El-Khoury Road (near Aley Club), Aley.
Tel: (961-5) 556902. Fax: (961-5) 558903.
Branch Manager: Mrs. Olfat A. Hamza

BAABDA
Boulos Brothers Bldg., Damascus International Road.
Tel: (961-5) 451452. Fax: (961-5) 953236.
Branch Manager: Mr. Elias J. Daniel

BAABDA SQUARE
Helou Bldg., Charles Helou Avenue.
Tel: (961-5) 921827. Fax: (961-5) 921767.
Branch Manager: Mrs. Hala N. Younes

BAUSHRIEH – JDEIDEH
Joseph Kassouf Bldg., Mar Youhanna Street.
Tel: (961-1) 892701. Fax: (961-1) 892428.
Branch Manager: Mr. Raymond Y. Sleiman

BHAMDOUN
Main Road.
Tel: (961-5) 261285. Fax: (961-5) 261289.
Branch Manager: Mr. Youssef C. Obeid

BOURJ HAMMOUD
Mekheterian Bldg., Municipality Square.
Tel: (961-1) 263325. Fax: (961-1) 265679.
Acting Branch Manager: Mr. Christapor A. Libarian

BROUMMANA
Lodge Center, Main Road.
Tel: (961-4) 860163. Fax: (961-4) 860167.
Branch Manager: Mr. Hadi M. Chaoul

DEKWANEH
El-Nefaa, Main Road.
Tel: (961-1) 693790. Fax: (961-1) 693795.
Branch Manager: Mr. Salam N. Dagher

DORA
Cité Dora 1, Dora Highway.
Tel: (961-1) 255686. Fax: (961-1) 255695, 259071.
Senior Branch Manager: Mrs. Hilda G. Sadek

DORA – VARTANIAN
Vartanian Center, Dora Highway.
Tel: (961-1) 250404. Fax: (961-1) 241647.
Branch Manager: Ms. Bassima P. Moradides

ELYSSAR
Elyssar Main Road, Mazraat Yashouh.
Tel: (961-4) 913928. Fax: (961-4) 913932.
Branch Manager: Mrs. Nisrine N. Chidiac

FANAR
La Rose Center, Main Road.
Tel: (961-1) 879637. Fax: (961-1) 879641.
Branch Manager: Mrs. Claude A. Habib

GHAZIR
Main Road, Ghazir, Kfarhebab.
Tel: (961-9) 851720. Fax: (961-9) 856376.
Branch Manager: Ms. Roula F. Kmeid

GHOBEYRI
Hoteit Bldg., Shiyah Blvd., Mousharrafieh Square.
Tel: (961-1) 541125. Fax: (961-1) 272342.
Branch Manager: Mrs. Lina A. Hayek

HADATH
El-Ain Square, Main Road.
Tel: (961-5) 464050. Fax: (961-5) 471854.
Branch Manager: Mrs. Rachel J. Sarkis

HARET HREIK
Ahmad Abbas Bldg., Baajour Street, Main Road.
Tel: (961-1) 277270. Fax: (961-1) 547265.
Branch Manager: Mr. Yasser A. Zein

HARET SAKHR
Gray Pearl Bldg., Harissa crossroad.
Tel: (961-9) 638060. Fax: (961-9) 915511.
Branch Manager: Mrs. Nancy S. Boustany

HAZMIEH
Dar Assayad Bldg., Saïd Freiha Street, Hazmieh Roundabout.
Tel: (961-5) 451850. Fax: (961-5) 457963.
Branch Manager: Mr. Ibrahim M. Harati

HORSH TABET
Central Business Center, Saint Antoine de Padoue Street.
Tel: (961-1) 480483. Fax: (961-1) 480423.
Branch Manager: Mrs. Karla M. Ghaoui

JAL EL-DIB
Milad Sarkis Bldg., Main Road.
Tel: (961-4) 710393. Fax: (961-4) 710395.
Branch Manager: Mr. Charles A. Berbery

JBEIL
Byblos Sun Bldg., Jbeil Roundabout.
Tel: (961-9) 543890. Fax: (961-9) 543895.
Branch Manager: Mr. Chady F. Kassis

JEITA – ANTOURA
Antoura Square.
Tel: (961-9) 235257. Fax: (961-9) 235260.
Branch Manager: Mrs. Christiane Y. Akiki

JOUNIEH
La Joconde Center, Fouad Shehab Blvd.
Tel: (961-9) 641660. Fax: (961-9) 644224.
Branch Manager: Mrs. Rana A. Khoury

KHALDEH
Lebanese Commercial Mall, Saida Highway.
Tel: (961-5) 801988. Fax: (961-5) 806405.
Branch Manager: Mrs. Rana N. Mecharrafieh

MANSOURIEH
Kikano Bldg., Main Road.
Tel: (961-4) 533610. Fax: (961-4) 533614.
Acting Branch Manager: Mr. Roger D. Chami

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.
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Branch Manager: Mrs. Georgina Y. Nakad

RABIEH
Rabieh First Entrance, Street No. 5.
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Branch Manager: Mrs. Marthe A. Nawar

ROUEISS
Hoteit Bldg., Hady Nasrallah Blvd.
Tel: (961-1) 541146. Fax: (961-1) 541149.
Acting Branch Manager: Mr. Majed A. Hajj

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Al-Noujoum Center, Main Road.
Tel: (961-5) 502682-3. Fax: (961-5) 502685.
Branch Supervisor: Mr. Alaa Y. Azzam

SHIYAH
Youssef Khalil Bldg., Assaad El-Assaad Street.
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Branch Manager: Mrs. Leila K. Barakat

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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.
Acting Branch Manager: Mrs. Rita A. Nasr

ZOUK
Val de Zouk Center, Zouk Mikhael.
Tel: (961-9) 211140. Fax: (961-9) 223603, 225505.
Branch Manager: Mr. Pierre E. Harb

ZOUK – ESPACE
Vega Center, Zouk Mikhael Highway.
Tel: (961-9) 210900. Fax: (961-9) 210897.
Branch Manager: Mrs. Grace E. Moussa

NORTH

AMYOUN
Main Road.
Tel: (961-6) 955600. Fax: (961-6) 955604.
Acting Branch Manager: Mrs. Theodora A. Bachawaty

BATROUN
Batroun Square Center, Main Road No. 7.
Tel: (961-6) 642371. Fax: (961-6) 642347.
Branch Manager: Mr. Tannous N. Abi-Saab

HALBA
Main Road.
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Branch Manager: Mr. Ali A. Hammad

SHEKKA
Main Road.
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Branch Manager: Mrs. Houda A. Azar

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Fayad Bldg., Azmi Street.
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Branch Manager: Mr. Georges A. Khodr

TRIPOLI – EL-BOHSAS
Fattal Tower 1, El-Bohsas Blvd.
Tel: (961-6) 410200. Fax: (961-6) 410799.
Acting Branch Manager: Mr. Mohsen A. Dabliz

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Branch Manager: Mr. Ziad M. Kabbara

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Branch Manager: Mr. Elias S. Stephan

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Branch Manager: Mr. Marwan F. Massaad

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Tyre North Entrance, Main Road, Abbassieh.
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ZGHARTA
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2.0. | TURKEY

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Branch Manager: Ms. Hayal M. Yuksel (Retail)

LEVENT CARSI
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3.0. | EGYPT

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PYRAMIDS HEIGHTS
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Tel: (20-2) 35362053. Fax: (20-2) 35362052.
Branch Manager: Ms. Ragia M. El-Badawy

SHEIKH ZAYED
Units 002 & 101, Bldg. B3, Capital Business Park, Phase 1, Sheikh Zayed, Sixth of October City.
Tel: (20-2) 38653551-2-3.
Senior Branch Manager: Mr. Hatem G. Mohamed

OCTOBER (ISLAMIC BRANCH)
Prima Vista Center, Unit F1/G1 – Central Axis, Sixth of October City.
Tel: (20-2) 38897821-3-6-9.
Branch Manager: Mr. Haytham A. Al-Edassy

CAIRO

MAKRAM EBEID
1 Makram Ebeid Street, Nasr City.
Tel: (20-2) 23520160-4, 23520454, 23520538, 23520594. Fax: (20-2) 22726755.
Senior Branch Manager: Mr. Karim A. Abdel-Baki

ABBASS EL-AKKAD
70 Abbass El-Akkad Street, Nasr City.
Tel: (20-2) 22708723, 22708735, 22708783, 22708790, 22708740. Fax: (20-2) 22708757.
Branch Manager: Mr. Ayman M. Farrag

BEIRUT
54 Demeshk Street, Heliopolis.
Tel: (20-2) 24508643, 24508610, 24508633, 24508644. Fax: (20-2) 24508653.
Area Manager: Mr. Mohamed A. Abdel-Wahed

SHOUBRA
128 Shoubra Street, Shoubra.
Tel: (20-2) 22092482, 22092683, 22092756, 22092774. Fax: (20-2) 22075779.
Branch Manager: Mr. Hesham A. Awaad

ZAMALEK
1B Hassan Sabry Street, Zamalek.
Tel: (20-2) 27375001-2-3-4-5. Fax: (20-2) 27375008.
Area Manager: Ms. Ghada M. El-Garrahy

MASAKEN SHERATON
11 Khaled Ibn El Waleed Street, Masaken Sheraton.
Tel: (20-2) 22683381-3, 22683397, 22683448, 22683303. Fax: (20-2) 22683433.
Branch Manager: Mr. Ahmed M. El-Sebaey

SHAMS CLUB
17 Abdel Hamid Badawy Street, Heliopolis.
Tel: (20-2) 21804942-4, 21805143.
Fax: (20-2) 26210945.
Branch Manager: Ms. Nancy N. Helmy

MOKATTAM
Plot 6034, Street 9, Mokattam.
Tel: (20-2) 25053634, 25057040, 25056978.
Fax: (20-2) 25057566.
Branch Manager: Mr. Ahmed Y. Awad

ABBASSIA
109 Abbassia Street, Abbassia.
Tel: (20-2) 24871906-8. Fax: (20-2) 24871957.
Branch Manager: Ms. Marwa N. Arnaout

EL OBOUR
Shops 43, 44, 45, Golf City, El Obour City.
Tel: (20-2) 44828308, 46104326. Fax: (20-2) 46104324.
Branch Manager: Mr. Ahmed H. Hassanen

EL MANIAL
90 El Manial Street, El Manial.
Tel: (20-2) 23630119, 23630156, 23630163, 23629935, 23629955. Fax: (20-2) 23630099.
Branch Manager: Mr. Mostafa A. Qomsan

TRIUMPH
8 Plot 740, intersection of Othman Ibn Affan Street and Mohamed Adly Kaffafi Street, Heliopolis.
Tel: (20-2) 27740220, 27740242, 27740549.
Fax: (20-2) 26352929.
Branch Manager: Ms. Amira G. Zohdy

ABD EL KHALEK THARWAT
42 Abd El Khalek Tharwat Street, Downtown.
Tel: (20-2) 23910638, 23910752. Fax: (20-2) 23904162.
Branch Manager: Mr. Sameh M. Mousa

GARDEN CITY
1 Aisha El Taymoria Street, Garden City.
Tel: (20-2) 27928975-6-7. Fax: (20-2) 27928977.
Branch Manager: Mr. Ramy A. Fayek

SALAH SALEM
Bldg. 15, Salah Salem Street, Heliopolis.
Tel: (20-2) 24053298, 24053289, 24053285, 24053278, 24053260 Fax: (20-2) 22607168.
Branch Manager: Mr. Ahmed M. SalahElDin

MAADI – DEGLA
1-B, 256 Street, Degla, Maadi.
Tel: (20-2) 25162094, 25162044, 25193243, 25195238.
Fax: (20-2) 25194938.
Senior Branch Manager: Mr. Ahmed M. El-Sheikh

MAADI
Plot 1&2 D/5, intersection of Laselky Street and Nasr Street, New Maadi.
Tel: (20-2) 25197913, 25197901-8.
Fax: (20-2) 25197921.
Branch Manager: Mr. Mohamed M. Abou El Dahab

TAYARAN
40 Tayaran Street, Nasr City.
Tel: (20-2) 24048619, 24048626, 24048634-9, 24048642. Fax: (20-2) 24048683.
Branch Manager: Mr. Bassel H. Zohdy

MERGHANY
100 A Merghany Street, Heliopolis.
Tel: (20-2) 24192349, 24192264, 24192166, 24192079, 24192059, 24158725.
Senior Branch Manager: Mr. Sherif A. El-Aidy

TAGAMOU EL KHAMES
Waterway Compound – Phase One, Ground & First Floors, Commercial Units CGS4-CFS4, Investors' Zone – North, New Cairo.
Tel: (20-2) 24508633.
Branch Manager: Mr. Moataz M. Hussein

MADINATY
Plot 6, Banks Zone, Madinaty, New Cairo.
Branch Manager: Mr. Amir E. Henawy

AIRPORT
Cargo Village, Cairo Airport, Cairo.
Tel: (20-2) 20646066, 20646077, 20646099.
Branch Manager: Mr. Mohamed A. Hafeez

NEW CAIRO HEADQUARTERS
84 District 1, 5th Settlement, Cairo.
Tel: (20-2) 28138804-5-6-9.
Branch Manager: Ms. Maie A. Saeed

ALEXANDRIA

SMOUHA
35 Victor Emmanuel Square, Smouha.
Tel: (20-3) 4244502, 4244679, 4245097, 4245089.
Fax: (20-3) 4244510.
Branch Manager: Mr. Ibrahim E. El-Khatib

SULTAN HUSSEIN
38B Sultan Hussein Street, Azarita.
Tel: (20-3) 4782132-3-4-5-6-7-8. Fax: (20-3) 4877198.
Branch Manager: Mr. Mohamed A. Abdel-Wahid

MIAMI (ISLAMIC BRANCH)
4 El Asafra Al Bahariya, Street 489, Montazah, Alexandria.
Tel: (20-3) 5485312-9, 5505227.
Fax: (20-3) 5505136.
Branch Manager: Ms. Salma A. Hassanien

SAN STEFANO
413 El-Gaish Road, San Stefano, Loran.
Tel: (20-3) 5859719, 5859761-2-3-5-6.
Fax: (20-3) 5859790.
Branch Manager: Mr. Ahmed M. Beltagy

GLEEM
1 Mostafa Fahmy Street, Gleem.
Tel: (20-3) 5825546, 5825574, 5825587, 5825741-6, 5825768, 5825867. Fax: (20-3) 5825866.
Branch Manager: Ms. Eman H. Saad

ALEX DOWNTOWN
Merosa Compound, Unit E, Suez Canal Street, Alexandria.
Tel: (20-3) 3681369, 3681370-2-3-5.
Fax: (20-3) 3681377.
Branch Manager: Mr. Mahmoud Y. El-Sharnouby

BEHIRA

DAMANHOUR
El Madina El Monawara Bldg., Street 26, Damanhour.
Tel: (20-45) 3190552-3.
Branch Manager: Mr. Mohamed A. El-Kady

DAQAHLIA

MANSOURA
26 Saad Zaghloul Street, Toreil, Mansoura.
Tel: (20-50) 2309783-4-5. Fax: (20-50) 2309782.
Branch Manager: Mr. Karim M. El-Gohary

GHARBIA

TANTA
El Safa Tower, 32 El Gueish Road, Tanta.
Tel: (20-40) 3403306-7-9, 3342405.
Fax: (20-40) 3403100.
Area Manager: Mr. Amr A. Dorgham

SHARQIYA

ZAGAZIK
95 Saad Zaghloul Street, Zagazik.
Tel: (20-55) 2369783-4, 2369814-5, 2369826, 2369837-8, 2369824-5.
Branch Manager: Mr. Mohamed A. Ibrahim

RED SEA

EL GOUNA
Service Area Fba-12e, El Balad District, El Gouna, Hurghada.
Tel: (20-65) 3580096. Fax: (20-65) 3580095.
Branch Manager: Mr. Hossam S. Zaki

SHERATON ROAD
23 Taksim El Hadaba El Shamaleya, 167 Sheraton Road, Hurghada.
Tel: (20-65) 3452015-6-8-9, 3452020.
Fax: (20-65) 3452023.
Branch Manager: Mr. Shady E. El Awady

SOUTH SINAI

NAEMA BAY
207 Rabwet Naema Bay, Sharm El Sheikh.
Tel: (20-69) 3604514-6-8-9. Fax: (20-69) 3604520.
Branch Manager: Mr. Mohamed K. Abbas

ASSUIT

ASSUIT
Chamber of Commerce Bldg., Mahmoud Fahmy Al Noqrashi Street, Assuit.
Tel: (20-88) 2286120-4-6, 2286130-3-4-6-7-8, 2286140.
Branch Manager: Mr. Sami S. Osman

DAMIETTA

DAMIETTA
49 Nile Corniche Street, Ezbat Al Lahm, Damietta.
Tel: (20-57) 2367030, 2367040, 2367060, 2367070, 2367080, 2367090, 2368060.
Branch Manager: Mr. Khaled M. Shoeib

PORT SAID

PORT SAID
27 A, July 23rd Street, El-Sharq Division, Port Said.
Tel: (20-66) 3239930-1-2-3-4-5-6.
Branch Manager: Mr. Mohamed S. Mansy

PORT SAID PORT
Admin. Bldg., Port Said Customs, Gate 21, Port Said.
Tel: (20-66) 3245466.
Branch Manager: Mr. Mohamed A. Saleh

MONOFIA

SHEBEEN EL KOM
Marsellia Bldg., Gamal Abd El Nasser Street, Shebeen El Kom.
Tel: (20-48) 2312468, 2312768, 2313129.
Branch Manager: Mr. Mohamed M. Qabeel

ISMALIA

ISMALIA
7 Garden City Street, Ismalia.
Tel: (20-64) 3108941-2, 3108950-1.
Branch Manager: Mr. Ahmed M. Abdel-Wahab

MINYA

MINYA
191/193 El Horya Street, Corniche El Nil.
Tel: (20-86) 2338882, 2338901-2-3-4.
Branch Manager: Mr. Mohamed O. El-Mogy

KAFR EL SHEIKH

KAFR EL SHEIKH
Abu Dhabi Mall, Hakr El Dababsha, Kafr El Sheikh.
Branch Manager: Mr. Hazem G. Hamouda

4.0. | CYPRUS

BAPB HOLDING LIMITED

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5.0. | SWITZERLAND

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6.0. | SAUDI ARABIA

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7.0. | QATAR

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8.0. | FRANCE

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9.0. | JORDAN

BANK AUDI sal – JORDAN BRANCHES

HEADQUARTERS

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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, 6th Circle,
opposite Emmar Towers, Amman.
Tel: (962-6) 4648834. Fax: (962-6) 4648835.
Branch Manager: Mrs. Lubna I. Oweiss

LE ROYAL HOTEL
Le Royal Hotel Complex, Zahran Street, 3rd Circle,
Jabal Amman, Amman.
Tel: (962-6) 4604004. Fax: (962-6) 4680010.
Branch Manager: Ms. Samar H. Toukan

MECCA MALL
Mecca Mall Complex (Extension - Gate # 4 - 2nd Floor),
Mecca Street, Amman.
Tel: (962-6) 5518736. Fax: (962-6) 5542175.
Branch Manager: Mrs. Grace B. Atallah

TAJ MALL
Taj Mall, Market Level No. 2,
Prince Hashem Street, Amman.
Tel: (962-6) 5924261. Fax: (962-6) 4648835.
Branch Manager: Mrs. Roba G. Ghannam

JABAL HUSSEIN
Al-Husseini Center, Khaled Ben Walid Street, Firas Circle,
Jabal Hussein, Amman.
Tel: (962-6) 5605252. Fax: (962-6) 5604242.
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. Homsi

AL-MADINA AL-MOUNAWARA STREET
Al-Ameer Complex, Al-Madina Al-Mounawara Street,
Amman.
Tel: (962-6) 5563850. Fax: (962-6) 5563851.
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

10.0. | IRAQ

BANK AUDI sal – IRAQ BRANCHES

HEADQUARTERS

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BAGHDAD (MAIN BRANCH)
Al-Jadriya Street, District 923, Baghdad.
Tel: (964-772) 9768920.
Branch Manager: Mr. Wafic A. Jammoul

SULAYMANIYAH
Salem Street, Sulaymaniyah City.
Tel: (964-772) 9768940.
Branch Manager: Mr. Fadi B. El-Kaed

BASRA
Bldg. No. 85, Manawi Pasha Street, District 89, Basra.
Tel: (964-772) 9768960.
Branch Manager: Mr. Hassan H. Mouazzen

NAJAF
Al Ameer Street, Najaf City.
Tel: (964-772) 9768950.
Branch Manager: Mr. Hisham A. Zein

ERBIL
Plaza BC Bldg., Ainkawa Road, Bakhtiari District, Erbil City.
Tel: (964-772) 9768930.
Branch Manager: Mr. Mahmoud S. Itani.
Regional Manager for Kurdistan Region: Mr. Jean E. Nseir

11.0. | UNITED ARAB EMIRATES

BANK AUDI sal – ABU DHABI REPRESENTATIVE OFFICE

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