Press Release

Bank Audi Consolidated Activity Highlights as at End-September 2016

Beirut, October 27, 2016

- **US$ 45.3 billion of assets,** of which 45% from entities outside Lebanon
- **US$ 37.0 billion of customers' deposits,** of which 42% from entities outside Lebanon
- **US$ 18.8 billion of loans to customers,** of which 66% from entities outside Lebanon
- **US$ 3.7 billion of shareholders' equity,** of which 89% of core common shareholders' equity
- **US$ 350 million of net profits in the first nine months of 2016,** growing by 15% relative to the corresponding period of 2015, and of which 44% from entities outside Lebanon

While most real sector indicators managed to display a positive growth this year, the Lebanese economy is still under lingering pressures in its real sector, within the context of ongoing regional uncertainties and their repercussions on the domestic scene. In fact, the Lebanese economy, which started the year with a noticeable improvement in the first quarter, has lost some steam in the second quarter and in the third quarter of the year. According to the Central Bank of Lebanon, the Lebanese economy is expected to grow by 1.5% to 2% in real terms in 2016. In parallel, the financial sector reported an improvement in activity on the back of the recent BDL financial engineering operations that resulted in a 37% growth in financial inflows over the first eight months of the year, generating a surplus in the balance of payments of US$ 366 million, against a deficit of US$ 1,649 million in the first eight months of 2015. Subsequently, banking activity saw a US$ 9.8 billion growth in assets over the first eight months of 2016, against a growth of US$ 5.9 billion realized over last year's same period.

In the MENA region, where Bank Audi has a large presence, recent reforms and lower oil prices have helped contain overall macro pressures in oil-importing countries of the region, though growth remains fragile due to security concerns, social tensions and lingering structural impediments. In Egypt in particular, the IMF revised growth upwards to 3.8% driven by a number of supporting factors, namely the agreement with the IMF for a US$ 12 billion loan over a three-year period that adds to a stream of bilateral and multilateral loans recently secured and easing external financing prospects. In Turkey, the IMF revised the 2016 real GDP growth to 3.3% against a previous forecast of 3.8% pre-coup attempt in an environment where foreign demand was received a hit in its multiple components of FDI, portfolio inflows and tourism, but domestic demand remains strong, with consumption benefitting this year from a hike in minimum wages, the positive term-of-trade from low oil prices, and growing demand from refugees living in Turkey.

Despite the persistently challenging environment both domestically and regionally, Bank Audi achieved a growth in consolidated net profits of 15.2% in the first nine months of 2016 relative to the corresponding period of 2015, rising to US$ 350 million. This growth stemmed in particular from the main development pillars of the Group (Turkey and Egypt), whereby the increase in net profits in Odea Bank and Bank Audi Egypt contributed to 64% of the total increase in consolidated net profits, amounting to US$ 46 million. In parallel, consolidated assets of Bank Audi grew by 7.1%, reaching US$ 45.3 billion at end-September 2016, of which 45% from entities outside Lebanon, and which further reinforces the Group's positioning among the leading regional banking groups.

Bank Audi had realized non recurring exceptional revenues as a result of the exchange transactions offered by the Central Bank of Lebanon for a limited period of time and with enticing conditions. As per the Central Bank's directives, those revenues were primarily used to constitute provisions in preparation for the application of IFRS 9 in 2018. In addition, the General Management decided to use the excess revenues to impair goodwill in a number of entities and to increase the collective provisions on loans, further reinforcing the overall asset quality. Moreover, the Bank's Management resolved to write off its investments in Syria and Sudan, which entails bearing impairments while realizing the related foreign currency translation losses which were already accounted for in common equity. The latter amounts are recorded in the consolidated financial statements under "results of discontinued operations, net of tax".

In details:

- Consolidated assets of Bank Audi increased in the first nine months of 2016 from US$ 42.3 billion at end-December 2015 to US$ 45.3 billion at end-September 2016, corresponding to an increase by US$ 3 billion, i.e. a growth of 7.1%. Accounting for assets under management, fiduciary deposits and custody accounts, consolidated assets would reach US$ 55.8 billion.

- In parallel, consolidated deposits rose from US$ 35.6 billion at end-December 2015 to US$ 37 billion at end-September 2016, corresponding to an increase of US$ 1.4 billion, driven primarily by an increase in deposits of the Lebanese entities. Within this context, consolidated net loans grew by 4.9%, reaching US$ 18.8 billion at end-September 2016 driven by an increase in loans in entities operating in Egypt, Turkey and Lebanon respectively.

- Lending growth was coupled with a strengthening of the lending portfolio quality, as Management took US$ 227 million of net loan loss provision charges in the first nine months of 2016, a large part of it in the form of collective provisions. Subsequently, the ratio of collective provisions to net loans surged from 0.9% at end-December 2015 to 1.26% at end-September 2016. In parallel, gross doubtful loans continued to represent 3.2% only of gross loans ratio while the coverage of those loans by specific provisions increased from 68.4% to 76.5% over the same period, reaching 100% when accounting for real guarantees. Subsequently, the net doubtful loans to gross loans ratio improved from 0.93% at end-December 2015 to a mere 0.75% at end-September 2016.

- Over and above the additional collective provisions on loans, Management took US$ 302 million of other provisions in the first nine months of 2016 in preparation for the application of IFRS 9 in 2018. As per applicable regulations, those provisions are included in the Tier 2 capital, reinforcing capital ratios. Accordingly, total collective provisions have reached US$ 539 million at end-September 2016, representing 2% of consolidated risk weighted assets.

- In addition, Bank Audi used a part of the realized exceptional revenues to write off its investments in Syria and Sudan for an amount of US$ 191 million, accounted for under “results of discontinued operations, net of tax”, of which US$ 136 million of foreign currency translation losses already accounted for in common equity, which have therefore translated by a similar increase in the Tier 1 capital.

- Adding to the above the positive impact of the capital increase of Odea Bank in Turkey, the Bank’s consolidated capital adequacy ratio as per Basel III improved from 13.4% at end-December 2015 to US$ 15.3% at end-September 2016, of which 9.9% of common equity Tier 1 ratio, in spite of the adverse impact of the downgrade of Turkey’s sovereign rating.

- In parallel, consolidated primary liquidity placed with central banks and foreign banks was further reinforced, increasing to US$ 20.3 billion, the equivalent of 54.9% of consolidated customers’ deposits, a high level when compared to regional and global averages.

- Consequently, Bank Audi’s consolidated net earnings rose to US$ 350 million in the first nine months of 2016 as compared to US$ 304 million in the corresponding period of last year, growing by 15.2% year-on-year. Adjusting the results of the first nine months of 2015 to the results of our entities in Syria and Sudan, Bank Audi would have achieved a year-on-year growth in recurrent net profits by 12%.

- Based on such results, the Bank’s return on average assets ratio reached 1.1%, while the return on average common equity improved to 15.1%. In parallel, the Bank’s common earnings per share rose to US$ 1.1 on an annualized basis, while its common book value per share increased to US$ 7.60 at end-September 2016.

In sum, with the reinforcement of the Bank's fundamentals, Management is now looking to the future with greater confidence, while the Group steadily pursues its strategic orientations, in particular its expansion plan aiming at servicing its customers in Lebanon and abroad and adding value to all its stakeholders.

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