# *Press Release*

## *Bank Audi Consolidated Activity Highlights as at End-September 2017*

### *Beirut, October 26, 2017*

- **US$ 44.7 billion of assets,** of which 40% from entities outside Lebanon
- **US$ 35.7 billion of customers' deposits**
- **US$ 17.2 billion of loans to customers**
- **US$ 3.8 billion of shareholders' equity**
- **US$ 437 million of net profits in the first nine months of 2017,** and US$ 341 million excluding net profits from the sale of the Card and Electronic Payment process and acquiring activities, of which 46% from entities outside Lebanon.

In Lebanon, the real economy is reporting a slight improvement in the first nine months of 2017, with BDL forecasting growth at 2.5% for the year, but the economy is still operating at way below potential output as filling the output gap requires the implementation of long awaited administrative and fiscal reforms. The Parliamentary budget discussions, along with the statements of the Minister of Finance, point to a determination on behalf of authorities to ensure the 2018 budget law would include long awaited reforms. In parallel, the banking sector remains at the image of a slightly improving economy. Bank deposits grew by US$ 6.7 billion over the first eight months of 2017, against US$ 5.5 billion over the same period of last year. Loan growth did not share the improving pace, as loans to the resident private sector grew this year at the same pace as last year (circa US$ 1.8 billion).

In Turkey, one of the main regional market for Bank Audi, external financing challenges remain significant, although the country has so far succeeded in renewing all its funding maturities. Still, the noticeable development was the announcement of a 5.1% growth rate in the second quarter, almost similar to the first quarter, with economic growth expected to remain robust in the third quarter as per the IMF forecast. This is actually reflected in the relative improvement in the business environment and banks' operating conditions, as witnessed by the recent performances of large Turkish banks.

In Egypt, the other key regional market for the Bank, the fruits of the challenging reform process are becoming evident, with real economic activity picking up, foreign currency reserves improving to their highest level on record, tourist arrivals recovering from low levels, and the capital market performing solidly, along with parallel improvement in banking activity at large. Yet, short-term challenges remain, bearing in mind that Egyptian authorities appear to be determined to overcome them in order to ensure a sustainable real GDP growth.

**In the first nine months of 2017, consolidated net profits of Bank Audi sal reached US$ 437 million and US$ 341 million when excluding profits from discontinued operations, as compared to US$ 316 million of recurrent net profits in the first nine months of 2016, i.e. a net growth by 8% year-on-year. The breakdown of those profits over the various entities of the Group shows a diversified growth across main pillars of the Group. The contribution of entities outside Lebanon to consolidated net profits reached 46% over the period, of which 19% from Odea Bank. In fact, Odea Bank's net profits reached US$ 65 million in the first nine months of 2017 as compared to US$ 69 million achieved in full year 2016. Private Banking entities reported a 25% growth in net profits, contributing by 13% in total net profits, on a backdrop of a 12% contribution from Bank Audi Egypt. Those results were realised following an allocation of US$ 125 million of net loan loss provisions, thus reinforcing the Bank's asset quality and resilience against a relatively challenging regional environment. In parallel, consolidated assets increased to US$ 44.7 billion at end-September 2017, of which 40% from entities outside Lebanon.**

**In details:**

- Consolidated assets of Bank Audi increased by US$ 416 million, reaching US$ 44.7 billion as at end-September 2017 against US$ 44.3 billion as at end-December 2016, registering a slight growth by 0.9%. This increase mainly results from Bank Audi Egypt and Lebanese entities which registered asset growth of 12.7% and 1.4% respectively. In parallel, a slight contraction of Odea Bank's assets by 6.1% was recorded, as Management adopted a policy favouring activity consolidation in Turkey while further reinforcing risk control. When adding letters of credit, letters of guarantees, and assets and derivatives under management to consolidated assets, the Bank's consolidated footings would reach US$ 67.6 billion, of which 53% from entities outside Lebanon, sustaining Bank Audi's ranking at the forefront of the Lebanese banking sector and among the top 20 Arab banking groups.

- Consolidated customers' deposits sustained at end-September 2017 almost the same December 2016 level of US$ 35.7 billion, of which 38% from entities outside Lebanon. In parallel, consolidated net loans stood at US$ 17.2 billion, of which 62% from entities outside Lebanon, translating into a sustained loans to deposits ratio of 48%, i.e. maintaining its level as at the end of last year.

- Consolidated shareholders' equity increased in the first nine months to reach US$ 3.8 billion as at end-September 2017, in spite of Management calling the Series "F" preferred shares of US$ 150 million in order to cancel it, driven primarily by a further reinforcement of internal capital generation. Subsequently, the Bank's capital adequacy ratio as per Basel III improved from 14.8% at end-December 2016 to 15.6% at end-September 2017, while core equity ratio (CET1) increased from 9.1% to 10.1% over the same period. In parallel, the capital adequacy ratio of Odea Bank and Bank Audi Egypt reached 18.4% and 16.2% respectively, with most of this ratio accounted for by CET1, clearly highlighting the availability of sufficient capital at the level of those entities to fund the expected activity growth over the medium term. Within this context, it is worth mentioning that Odea Bank issued, for the first time on international capital markets, a US$ 300 million 10 year 144A/RegS subordinated Basel III compliant Tier 2 bond. Subsequent to this transaction, the Bank was assigned a Ba3 rating by Moody's and a BB- rating by Fitch, i.e. 3 notches higher than the rating of largest Lebanese banking groups.

- Consolidated gross doubtful loans continued to represent 3.3% of gross loans at end-September 2017, while this ratio reached 2.5% in Bank Audi Lebanon, 1.4% for Bank Audi Egypt and 4.3% for Odea Bank. In the first nine months of 2017, General Management allocated US$ 125 million of consolidated loan loss provisions, with the coverage ratio of doubtful loans by specific provisions and real guarantees reaching 111% at end-September 2017. Over and above the specific provisions, collective provisions as per BDL's requirements amounted to US$ 448 million, corresponding to 2.6% of net loans. Within a persisting challenging environment in the region, the Group's current strategy revolves around favouring the improvement of operating conditions and asset quality over growth. As such, a special emphasis is being put on following up on the quality of the loan portfolio and ensuring a sufficient provision coverage as needed.

- Primary liquidity placed with central banks and foreign banks continued to increase to reach US$ 21.4 billion as at end-September 2017, representing 59.9% of customers' deposits, a high level when compared to regional and global averages.

- Based on such results and excluding profits for the sale of the Card and Electronic Payment processing and acquiring activities, the Bank's return on average assets ratio reached 1%, while the return on average common equity registered 13.7%. In parallel, the common book per share increased to US$ 7.93, which corresponds to, based on an ordinary share price of US$ 5.82 as at 18 October 2017, a price to book multiple of 0.73 times, a low level when compared to peer regional banks averages in relation to their profitability.

**In conclusion, the results of the first nine months of 2017 once again confirm the Group's ability to maintain favourable growth in net earnings amid tough operating conditions, allowing it to further reinforce its asset quality and allocate required provisions to cover risks arising from the current regional environment. This performance likewise reinforced the Group's leading positioning in the domestic market and among leading Arab banking groups at the service of a wide range of customers. In addition, the Group is currently targeting the realisation of better efficiency in the medium term at both revenue and cost levels in order to further reinforce its financial standing and create value to shareholders.**

## Among Top Regional Banking Groups

**LEBANON │ SWITZERLAND │ FRANCE │ JORDAN │ EGYPT│**
**KINGDOM OF SAUDI ARABIA │ QATAR │ MONACO│ TURKEY │IRAQ│**
**REPRESENTATIVE OFFICE IN ABU DHABI**

**For more information:**
**Dr. Freddie C. Baz** **Tel: +961 1 977 477**
**General Manager – Group Strategy Director** **Email: Freddie.baz@banqueaudi.com**

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