Bank Audi Consolidated Activity Highlights as at End-June 2019

Beirut, July 30, 2019

Key balance sheet metrics

- USD 47.5 billion of consolidated assets
- USD 31.8 billion of consolidated customers' deposits
- USD 12.1 billion of consolidated net loans
- USD 3.8 billion of total shareholders' equity, of which USD 3.1 billion of common shareholders' equity
- USD 250 million of net profits in the first half of 2019, of which USD 176 million of net profits generated in entities operated in Lebanon and USD 74 million generated in entities abroad

Financial Standing Indicators

- 84.3% of primary liquidity to customers' deposits ratio
- 19.3% of total capital adequacy ratio as per Basel III, of which 11.9% of CET1 ratio
- 7.1% of gross credit-impaired loans to gross loans ratio, covered up to 100% by specific provisions and real guarantees
- 2.1% of allowances for expected credit losses on performing loans (Stage 1 & 2) to net loans ratio post adoption of IFRS 9
- 14.3% of return on average common equity

Sluggish domestic real economic performance this year, driven by weakening private investment, and generating a net contraction in bank lending portfolios

- The Lebanese economy witnessed an increased sluggishness in the first few months of 2019. Yet, real GDP growth for the year 2019 is forecast at 1.3% as per the IMF, suggesting that the economy is still avoiding the recessionary trap.
- Economic growth is supported mainly by private consumption, touristic spending and exports, while the weakness in private investment continues to be an impediment on growth.
- Subsequently, banking sector loans to the private sector contracted by USD 3.1 billion over the first five months of this year amid scarce lending opportunities.
- The public budget ratification represents a relative breakthrough, with a targeted deficit ratio of 7.5% of GDP in 2019, against 11% achieved last year.

Regionally, weaker external demand, particularly from key trading partners, represents a key challenge to countries across MENA

- Economic growth in the MENA region is slowing down to 1.3% this year, amid lower oil prices, restrained oil production, and slowing global growth.
- Growth in regional oil importers is projected to remain relatively modest, constrained by persistent structural rigidities and elevated public debt in many countries, leaving economies vulnerable to less favorable financial conditions.
- Egypt, where Bank Audi has an extensive presence, represents a relative breakthrough, with a 2019 growth forecasted at a 12-year high of 5.5% amid wide structural and fiscal reforms fostering the overall confidence factor.
- Despite difficult conditions so far this year, the Turkish economy is likely to renew with positive GDP growth rates as of next year, helped by a dynamic and diversified private sector, solid public finances and a financially sound banking industry.

Consolidated assets for Bank Audi remained stable in the first half of 2019

Consolidated assets of Bank Audi remained stable in the first half of 2019 reaching USD 47.5 billion as at end-June 2019, sustaining the Bank's leading positioning among Lebanese banking groups and among the top 20 Arab banking groups. In parallel, consolidated assets under management, encompassing assets under management, fiduciary deposits and custody accounts, rose to USD 12.5 billion as at end-June 2019, raising total consolidated assets and assets under management to USD 60 billion.

Sustained consolidation direction in Lebanon and Turkey within promising growth in Egypt

Consolidated customers' deposits stood at USD 31.8 billion at end-June 2019, registering a decrease by USD 165 million relative to end-December 2018, driven primarily by the consolidation direction adopted in Lebanon and Turkey, while Bank Audi Egypt reported an increase in its deposits base by USD 404 million over the same period. In parallel, the de-risking policy also resulted in an additional contraction in consolidated loans to customers to USD 12.1 billion at end-June 2019, compared to USD 13.3 billion end-December 2018.

Asset quality

At end-June 2019, the ratio of gross credit-impaired loans to gross loans reached 7.1% as compared to 5.5% as at end-December 2018. This indicator would have then increased by 1.5% in the first half of 2019, of which 0.56% is accounted for by the contraction in gross loans by 8% over the period. Management allocated USD 70.1 million of net provisions for credit losses on loans in the first half of 2019, whereby the coverage ratio of credit-impaired loans by specific provisions improved to 64.6% and reaching 100% when accounted for real guarantees. Total allowances for expected credit losses (ECL) on Stage 1 & 2 assets as per IFRS 9 amounted to USD 335 million at end-June 2019, representing 1.5% of consolidated credit risk-weighted assets.

Improved financial flexibility

The Bank's core equity tier one ratio (CET1) as per Basel III improved from 11.4% as at end-December 2018, to 11.9% as at end-June 2019 while total capital adequacy ratio also improved from 18.9% to 19.3% over the same period, both levels comfortably above the minimum regulatory ratios of 10% and 15% respectively. Primary liquidity continued to be solid representing 84.3% of customers' deposits.

Improved overall efficiency

The Bank's overall efficiency strengthened during the first half of 2019, within a contraction in general operating expenses by 9.6% exceeding the decrease in total income by 7%. This resulted in an improvement at the level of the cost-to-income ratio by 1.2%, with the latter declining from 45.7% in the first half of 2018 to 44.5% in the first half of 2019.

USD 250 million consolidated net profits in the first half of 2019, turning stable profitability ratios

Consolidated net profits of Bank Audi after provisions and taxes reached USD 250 million in the first half of 2019 compared to USD 265 million in the corresponding period of 2018, i.e. a decrease by 5.7%, after deducting provisions of USD 70.1 million, against similar provisions of USD 59.7 million in the first half of 2018. Pre-provision earnings thus moved from USD 325 million in the first half of 2018 to USD 320 million in the first half of 2019, implying a contraction narrowing to 1.4%.

Over the same period, net profits of entities operating in Lebanon reached USD 176 million compared to USD 170 million in the corresponding period of 2018, i.e. a growth of 3.5%.

Based on such results, consolidated profitability ratios reported similar levels as in 2018 with the ratio of return on average assets standing at 1.1% as at end-June 2019 while the ratio of return on average common equity reached 14.3%.

Finally, the results of the Bank in the first half of 2019 highlights the Bank's ability to maintain its earning power amidst tough operating conditions, which enables it to allocate the provisions required to face adverse regional developments, and enhance the Group's capital adequacy and resilience. Such performances also translate in consolidating the Group's leading positioning in its domestic market and reinforce its ranking among the top 20 Arab banking groups.

Among Top Regional Banking Groups

LEBANON | SWITZERLAND | FRANCE | JORDAN | EGYPT | KSA | QATAR | MONACO | TURKEY | IRAQ | REP. OFF. IN ABU DHABI

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SUMMARISED INCOME STATEMENT

In US$ Million	QII-19	QII-18	QoQ %	HI-19	HI-18	YoY %
Net interest income	**287**	**307**	**-6.6%**	**562**	**582**	**-3.4%**
Non-interest income	**56**	**87**	**-35.7%**	**126**	**159**	**-20.9%**
o.w. Net commissions	48	53	-10.3%	96	105	-8.8%
o.w. Other income	8	34	-75.5%	30	54	-44.7%
Total operating income	**343**	**394**	**-13.0%**	**688**	**741**	**-7.1%**
General operating expenses	152	162	-6.6%	306	339	-9.6%
Net loan loss provisions	30	33	-7.7%	70	60	17.4%
Income Tax	32	47	-32.4%	61	77	-20.7%
Total costs	**214**	**242**	**-11.8%**	**438**	**476**	**-8.0%**
Net profits from continuing operations	**129**	**151**	**-15.0%**	**250**	**265**	**-5.7%**
Profits from discontinued operations						
Net profits	**129**	**151**	**-15.0%**	**250**	**265**	**-5.7%**

SUMMARISED BALANCE SHEET

In US$ Million	Jun-19	Jun-18	YoY %	Dec-18	YTD%
Total assets	47,507	44,860	5.9%	47,201	0.6%
Customers' deposits	31,791	31,320	1.5%	31,956	-0.5%
Loans to customers' (net)	12,115	14,572	-16.9%	13,267	-8.7%
Shareholders' equity	3,810	4,026	-5.4%	3,886	-2.0%
o.w. Common shareholders' equity	*3,060*	*3,051*	*0.3%*	*3,101*	*-1.3%*
Number of branches	203	201	1.0%	201	1.0%
Number of staff	6,197	6,307	-1.7%	6,306	-1.7%

KEY RATIOS

	QII-19	QII-18	QoQ %	HI-19	HI-18	YoY %
Spread	2.5%	2.8%	-0.3%	2.4%	2.7%	-0.2%
Cost/Income	44.2%	41.2%	3.0%	44.5%	45.7%	-1.2%
Cost of risk (bps)	1.0%	0.9%	0.1%			
ROAA	1.1%	1.4%	-0.3%	1.1%	1.2%	-0.1%
ROACE	15.0%	17.2%	-2.2%	14.3%	14.6%	-0.4%
	Jun-19	**Jun-18**	**YoY %**		**Dec-18**	**YTD%**
Loan/Deposits	38.1%	46.5%	-8.4%		41.5%	-3.4%
Credit impaired/Gross loans	7.1%	4.3%	2.7%		5.5%	1.5%
Credit impaired coverage	64.6%	58.2%	6.4%		63.0%	1.6%
Allowance for ECL stage 1 & 2/Net loans	2.1%	1.4%	0.7%		2.3%	-0.3%
CET1	11.9%	11.1%	0.9%		11.4%	0.6%
CAR ratio	19.3%	18.3%	1.1%		18.9%	0.5%