Press Release

Bank Audi Consolidated Activity Highlights as at End-December 2016

Beirut, January 30, 2017

- **US$ 44.4 billion of assets**
- **US$ 36.0 billion of customers' deposits**
- **US$ 17.3 billion of loans to customers**
- **US$ 3.8 billion of shareholders' equity**
- **US$ 470 million of net profits in 2016,** growing by 17% relative to 2015

The year 2016 was difficult for the entire Middle East and North Africa region. It was characterized by a deceleration of financial inflows, which impacted domestic liquidity, mostly in foreign currencies in a large number of countries, affecting their balance of payments and external positions, and putting pressure on exchange rates and interest rates.

In order to contain the unfavourable developments, monetary authorities of several countries, including Egypt, Turkey and Lebanon, adopted pre-emptive measures, although with uneven results across those countries. In fact, Turkey and Egypt recorded depreciations of their currencies of 18% and 58% respectively in 2016. Nevertheless, their economies continued to register growth rates of 2.9% for Turkey and 3.8% for Egypt, translating into acceptable growth of the main banking aggregates.

Lebanon is the only country that managed to maintain the stability of its exchange, interest and inflation rates, preserving accordingly its monetary resilience.

Indeed, the financial engineering transactions launched by Banque du Liban last May enabled it to achieve the following key objectives: firstly, boost foreign exchange reserves to a current record high level of US$ 40.7 billion dollars; secondly, stimulate the growth of domestic deposits which reached US$ 7.6 billion in the first 11 months of 2016 against US$ 5.4 billion in the corresponding period of 2015; and thirdly and probably more importantly, turning the US$ 1.7 billion balance of payments deficit of the first half-year into a cumulative surplus of US$ 1.3 billion at the end of December 2016.

Within this context and despite the depreciation of the Egyptian Pound and the Turkish Lira versus the US Dollar, Bank Audi recorded a rather good performance in 2016. Consolidated net profits reached US$ 470 million dollars, rising by 17% relative to 2015. Net profit growth was supported by a corollary increase in consolidated assets, reaching US$ 44.4 billion at end-December 2016. At the current exchange rates, this corresponds to an assets' increase by US$ 2.2 billion relative to end-December 2015, i.e. a growth of 5.2%. Nonetheless, at constant exchange rate (as at end-December 2015), consolidated assets would have increased by US$ 6.3 billion, i.e. a growth of 14.9%, thereby justifying the growth in net profits.

It is worth noting that Bank Audi achieved in 2016 close to US$ 1 billion of exceptional non-recurring revenues as a result of its participation in the exchange transactions offered by the Central Bank of Lebanon for a limited period of time and with enticing conditions. As per Banque du Liban's directives (Intermediary Circular No. 446), Bank Audi used those exceptional revenues to allocate collective provisions, so as the total balance of collective provisions would represent 2% of risk-weighted loans, as well as other provisions for the impairment of goodwill in a number of entities. In addition, the Bank wrote 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 addition, as per the directive of the Central Bank, the Bank allocated the remainder of those exceptional revenues as follows: 70% as reserves for capital increase accounted for as Common Equity Tier 1 capital, and 30% as deferred liabilities accounted for as Tier 2 capital. Accordingly, those exceptional revenues did not impact at all the consolidated net profits achieved by the Group in 2016, subject of this release. Meanwhile, net profits of Bank Audi Egypt and Odea Bank in Turkey contributed significantly to the increase in consolidated net profits. The evolution of asset and loan quality ratios bear witness to the resilience of the loan books of those entities within the prevailing challenging political and economic environment in their countries of presence.

In details:

- Consolidated assets of Bank Audi increased in 2016, moving from US$ 42.2 billion at end-December 2015 to US$ 44.4 billion at end-December 2016, corresponding to an increase of US$ 2.2 billion, i.e. a growth of 5%. Accounting for assets under management, fiduciary deposits and custody accounts, consolidated assets would reach US$ 55.2 billion.

- In parallel, consolidated deposits rose from US$ 35.6 billion at end-December 2015 to US$ 36 billion at end-December 2016, corresponding to an increase of US$ 346 million, while consolidated net loans contracted by 2.9%, reaching US$ 17.3 billion at end-December 2016. There is no doubt that those performances were affected by the depreciation of the Egyptian Pound and the Turkish Lira, since on the basis of a constant exchange rate (as at end-December 2015), consolidated customers' deposits would have increased by US$ 3.6 billion (+10%) driven primarily by entities operating in Lebanon, while loans to customers would have increased by US$ 1.7 billion (+10%), driven by an increase in loans in entities operating in Lebanon, Turkey and Egypt.

- Lending growth was coupled with a strengthening of the lending portfolio quality, as management took US$ 313 million of net loan loss provision charges in 2016, of which US$ 178 million of it in the form of collective provisions taken in implementation of the Central Bank of Lebanon's directives. Subsequently, collective provisions reached US$ 290 million at end-December 2016, representing 2% of risk-weighted loans and 1.67% of net loans against 0.9% at end-December 2015. In parallel, gross doubtful loans represented 2.4% only of gross loans ratio while the coverage of those loans by specific provisions maintained its 68% level, rising to 102% 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 0.8% at end-December 2016.

- Moreover, and as per the Central Bank's directives, the Bank used part of the exceptional revenues to impair goodwill in a number of entities for an amount of US$ 128 million and to write off its investments in Syria and Sudan for an amount of US$ 205 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 Tier 1 capital.

- When adding to the above, at the level of regulatory capital, the positive impact of the capital increase of Odea Bank in Turkey in addition to the remainder of the exceptional revenue mentioned above and amounting net of tax to US$ 302 million and the recent issuance of Series I preferred shares for US$ 250 million, 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-December 2016, of which 9.5% of Common Equity Tier 1 ratio, in spite of the adverse impact of the depreciation of Turkish Lira and the Egyptian Pound versus the US Dollar.

- In parallel, consolidated primary liquidity placed with central banks and foreign banks was further reinforced, increasing to US$ 21.8 billion, the equivalent of 60.5% of consolidated customers' deposits, a high level when compared to regional and global averages.

- Based on such results, the Bank's return on average assets ratio reached 1.1%, while the return on average common equity improved to 14.7%. In parallel, the Bank's common earnings per share rose to US$ 1.1, while its common book value per share increased to US$ 7.5 at end-December 2016.

In sum, the 2016 results confirm once again the high resilience of the Group in its capacity to withstand adverse developments in its markets of presence and to sustain favourable growth in activity and net profits parallel to the reinforcement of the Bank's fundamentals and of its financial flexibility. The Group is continuously looking to become more and more a privileged partner to customers in the Middle East and North Africa region and Turkey through the provision of a wide, universal and innovative bank offering mix at the service of individual and corporate customers.

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