Press Release

Bank Audi Consolidated Activity Highlights as at End-December 2017

Beirut, January 30, 2018

- **US$ 43.8 billion of assets,**
- **US$ 33.5 billion of customers' deposits**
- **US$ 16.3 billion of loans to customers**
- **US$ 4.2 billion of shareholders' equity**
- **US$ 559 million of net profits in 2017,** and US$ 464 million excluding net profits from discontinued operations, of which 45% from entities outside Lebanon

Lebanon's economic activity improved modestly in 2017, as suggested by the evolution of real sector indicators. In parallel, the contraction in banking aggregates in November post PM Hariri's resignation weighed on the figures in the first 11 months of the year, yet without their growth slipping into cumulative negative levels. Customers' deposits increased by US$ 4.3 billion over this period as compared to US$ 7.6 billion in the corresponding period of 2016, which was marked by the large-scale financial engineering operations of the Central Bank of Lebanon. At the lending side, the year 2017 was almost equivalent to the previous year in terms of loan growth. The latter reported an increase by US$ 2.4 billion over the first 11 months, against US$ 2.7 billion over the corresponding period of 2016 and US$ 3.0 billion over the same period on average during the past five years. Despite the adverse political developments in the last couple of months, the year 2017 was characterised by a relative improvement in political governance, as witnessed by the finalization of the granting process of the first operational licenses for oil exploration and the adoption of the 2017 budget with a determination to pass as rapidly as possible the 2018 budget law.

In spite of strengthening global recovery, economic conditions of the MENA region, where Bank Audi has a wide presence, remain relatively subdued owing to the adjustment to low oil prices and regional conflicts. In Egypt, growth has picked up to reach circa 4.3% in full-year 2017 as a result of the growth in several sectors, including communication, tourism and manufacturing and supported by the gradual implementation of promising reforms and improved competitiveness, while banking activity continued to be resilient with bank assets growing by 18% over the first nine months. In parallel, Turkey's economy rebounded in 2017, with growth set to reach 5.1%, which positively impacted the banking activity, as witnessed by the growth in assets and net profits by 19.7% and 20.4% respectively.

Within this context, Bank Audi sal achieved a good performance in 2017, with consolidated unaudited net profits of US$ 559 million, reaching US$ 464 million when excluding profits from discontinued operations, representing a net growth of 13% relative to the recurrent net profits of 2016. The contribution of entities outside Lebanon to consolidated net profits reached 45% over the period, of which 19% from Odea Bank. In fact, Odea Bank's net profits after tax reported a net growth by 29%, reaching US$ 88 million in 2017, and this after the allocation of US$ 95 million of specific provisions. The contribution of Bank Audi in Egypt to consolidated net profits reached US$ 55 million, i.e. 12%. Those results were realised following an allocation of US$ 147 million of consolidated net loan loss provisions, thus reinforcing the Bank's asset quality and resilience. Meanwhile, General Management continues to adopt a consolidation mode favouring operating conditions over growth, sustaining the Bank's financial flexibility and efficiency.

In details:

- Consolidated assets reached US$ 43.8 billion at end-December 2017 and US$ 54.7 billion when accounting for fiduciary deposits, security accounts and assets under management, sustaining Bank Audi's ranking at the forefront of the Lebanese banking sector and among the top 20 Arab banking groups. Consolidated assets decreased by US$ 515 million relative to end-December 2016, driven by a contraction of Odea Bank's assets by US$ 2 billion, within the context of the adoption by Odea Bank's Management of a policy favouring activity consolidation while further reinforcing risk control, and aiming at forgoing unstable costly deposits while not renewing some maturing loans with limited contribution to the franchise building.

- In parallel, consolidated customers' deposits decreased by US$ 2.5 billion in 2017, to stand at US$ 33.5 billion as at end-December 2017, of which 37% from entities outside Lebanon. Likewise, consolidated net loans contracted by US$ 921 million, reaching US$ 16.3 billion, of which 58% from entities outside Lebanon. The decrease in consolidated net loans was principally driven by Odea Bank within an increase in loans at Bank Audi Lebanon and Bank Audi (Egypt) by US$ 687 million and US$ 26 million respectively. The evolution of those aggregates resulted in a slight improvement in the loans to deposits ratio relative to the level as at end-December 2016, to reach 49% at end-December 2017.

- Consolidated shareholders' equity grew by 13.2%, from US$ 3.7 billion as at end-December 2016 to US$ 4.2 billion as at end-December 2017, representing 18% of the consolidated equity of the Lebanese banking sector. This translated in an additional improvement of the Bank's capital adequacy ratio as per Basel III to 16.9% as compared to 14.8% at end-December 2016, while core equity ratio (CET1) increased from 9.1% to 10.5% over the same period.

- Despite the delicate operating conditions across a number of countries of presence of the Group, consolidated gross doubtful loans continued to represent 3.5% only of gross loans at end-December 2017, while this ratio reached 3% in Bank Audi Lebanon, 1.5% for Bank Audi Egypt and 4.7% for Odea Bank. In parallel, the coverage ratio of doubtful loans by specific provisions and real guarantees reached 107% at the same date, of which 60% by specific provisions. Management is putting a special emphasis on following up on the quality of the loan portfolio and ensuring an adequate provision coverage.

- Within this context, Bank Audi allocated US$ 440 million of collective provisions to cover credit risks tied to all kinds of on-balance sheet assets as well as off-balance sheet financial commitments, a level which exceeds the requirements of the Central Bank of Lebanon in connection with the application of IFRS 9.

- Primary liquidity placed with central banks and foreign banks continued to increase to reach US$ 21.2 billion as at end-December 2017, representing 63.3% of customers' deposits, a high level when compared to regional and global averages.

- In parallel, an enhancement of the Bank's consolidated total revenues was recorded, owing to a good performance in Lebanon mainly driven by the Bank's improved interest margin, in addition to a growth in revenues in entities abroad. As such, total revenues increased by 5% in 2017 relative to the recurrent results of 2016, translating in a strengthening of the overall efficiency, with the cost to income ratio decreasing from 54.4% in 2016 to 51% in 2017. General Management has taken a number of initiatives aiming at reinforcing the overall financial efficiency of the Group, which are expected to result in a further improvement in the cost to income ratio over the short term.

- Based on such results and excluding profits for discontinued operations, the Bank's return on average assets ratio reached 1.1%, while the return on average common equity registered 13.4% in 2017 rising to 16.4% when including profits from discontinued operations. In parallel, the common book per share increased to US$ 8.09, while the earnings per common share reached US$ 1.03. Based on an ordinary share price of US$ 6.0 as at 29 January 2018, this corresponds to a price to book multiple of 0.74 times, and a price to earnings multiple of 5.8 times, both levels being very low when compared to peer regional banks' averages in relation to the Group's profitability and to the average growth rate of its earnings per share over the past 5 years, bearing witness to the attractiveness of the share price .

The Bank's performances in the year 2017 sincerely reflect the strategic choices and orientations adopted by Management, focusing on strengthening the Group's financial standing and reinforcing its financial flexibility, while sustaining its profitability in spite of tough operating conditions. Bank Audi aims at becoming a privileged partner to customers in main countries of presence, through ensuring a wide and diversified array of banking products and services that takes into account technological innovation and the global development of the profession.

Among Top Regional Banking Groups

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REPRESENTATIVE OFFICE IN ABU DHABI

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