Press Release

Bank Audi Consolidated Activity Highlights as at End-June 2018

Beirut, July 30, 2018

- **US$ 44.9 billion of assets**
- **US$ 31.3 billion of customers' deposits**
- **US$ 14.6 billion of loans to customers**
- **US$ 4.0 billion of shareholders' equity**
- **US$ 265 million of net profits in the first half of 2018,** rising by 25% relative to the recurrent net profits of the corresponding period of 2017

While Lebanon has witnessed in the first half of the year the early adoption of a 2018 public budget regularizing the state's accounts and a number of successful international support conferences as well as the achievement of the parliamentary elections, the country's economy remains subdued. Meanwhile, amid a slight increase in financial inflows and a corollary surplus in the balance of payments, banking activity was sound, with satisfactory deposit growth but with negative lending growth. Deposit growth reported US$ 3.7 billion over the first 5 months of 2018, similar to the same period last year. In addition, the average life of Lebanese Pound deposits reported a noticeable increase from circa 40 days in October 2017 to more than 120 days today, reinforcing the monetary position and the stability of the currency.

In Egypt and Turkey where Bank Audi has a significant presence, economic performances were uneven. The Egyptian economy moved closer to macroeconomic stability and market confidence has been gradually restored. As a result, growth is edging up to 5.3% in fiscal year 2017/18 and core inflation is falling gradually. On the other hand, Turkey started with an adequate economic performance in the first few months of 2018, buoyed by higher consumption and investment spending, before pressures emerged on the Lira and on consumer prices in May, due to a widening current account deficit driven by high growth rates within the context of a retreat in the interest of emerging markets investors and capital inflows to this region. Nonetheless, this background did not prevent our subsidiaries in Egypt and Turkey to develop their activity and generate satisfactory results.

In fact, Bank Audi sal achieved a good performance in the first half of 2018, attributed to an improvement in operating conditions and the optimization of resources deployed in addition to the adopted conservative and balanced risk management policy. Accordingly, consolidated net profits of Bank Audi rose to US$ 265 million, representing a growth by 25% relative to the recurrent net profits of the corresponding period of 2017. The contribution of entities abroad to consolidated net profits reached US$ 95 million, of which US$ 39 million in Odea Bank in Turkey and US$ 33 million in Bank Audi Egypt. This resulted into a further reinforcement of the financial standing and overall efficiency of the Group, as witnessed by a 70.1% primary liquidity to customers' deposits ratio, a 4.1% gross doubtful loans to gross loans ratio, an 18.3% capital adequacy ratio and a 14.7% return of average common equity ratio.

In details:

- Consolidated assets reached US$ 44.9 billion at end-June 2018 as compared to US$ 43.8 billion as at end-December 2017, corresponding to a growth of 2.5%. Accordingly, consolidated assets expanded by US$ 1.1 billion, representing a nominal increase which takes into account the devaluation of the Turkish Lira. When adopting a constant exchange rate (the same as the one at end-December 2017), the real increase would have reached US$ 1.9 billion. In parallel, total assets under management, comprising of fiduciary deposits, custody accounts and assets under management, increased from US$ 11 billion as at end-December 2017 to US$ 12 billion, with total consolidated assets and assets under management reaching US$ 56.9 billion as at end-June 2018. The size of Bank Audi makes it the only Lebanese bank to be ranked among the top 20 Arab banking groups.

- Consolidated customers' deposits amounted to US$ 31.3 billion at end-June 2018 while consolidated net loans reached US$ 14.6 billion, both registering contractions relative to end-December 2017 attributed principally to the adopted strategy favouring activity consolidation in the Group's main markets of presence while forgoing unstable costly deposits and not renewing some maturing loans with limited ancillary contribution to the franchise building.

- Consolidated gross doubtful loans reached US$ 624 million as at end-June 2018, almost the same level as at end-December 2017. In parallel, gross doubtful loans represented 4.1% of gross loans as at end-June 2018 as compared to 3.5% as at end-December 2017, whereby this evolution is exclusively attributed to the 11.4% contraction in gross loans as a result of the adopted policy rather than to a deterioration in the loan quality. In the first half of 2018, Management allocated US$ 60 million of net loan loss provisions. The coverage ratio of doubtful loans by specific provisions and real guarantees reached 101% at end-June 2018, of which 60% by specific provisions, while consolidated collective provisions on loans and advances amounted to US$ 204 million, representing 1.4% of net loans.

- In parallel, the Bank's capital adequacy ratio as per Basel III improved from 16.9% at end-December 2017 to 18.3% at end-June 2018 while the core equity Tier one ratio (CET1) increased from 10.5% to 11.1%. In addition, primary liquidity placed with central banks and foreign banks continued to represent a high level when compared to regional and global benchmarks, standing at 70.1%.

- At the profitability level, Bank Audi registered in the first half of 2018 a growth in its consolidated net profits of 25% relative to the net profits before discontinued operations achieved in the corresponding period of 2017, to reach US$ 265 million. This performance is principally attributed to the adopted conservative and balanced policy across all Group entities and which translated in an increase in net interest income by US$ 74 million over the same period resulting from an improvement in consolidated spread by 34 basis driven by spread improvement across all entities. The increase in net interest income would have amounted to US$ 117 million if there were no new taxes on financial investments in Lebanon. The increase in the net interest income was offset by a decrease in non-interest income tied mainly to a decrease in profits from financial instruments, be it shares and bonds, within the context of an adopted policy to gradually replace market operations subject to fluctuations by recurrent non-interest income arising from the Bank's core activities.

  In addition, the performance management strategy aiming at optimizing deployed resources has started to yield results with a reinforcement of the overall efficiency, as indicated by the decrease in consolidated general operating expenses in the first half of 2018 as compared to the first half of 2017 by US$ 56 million, of which US$ 18 million in Lebanon and US$ 38 million in entities abroad. Nonetheless it is important to adjust the latter from the currency translation effect of the devaluation of the Turkish Lira estimated at US$ 9 million. Savings in general operating expenses in Lebanese entities were achieved while maintaining the same staff count and developing the branch network.

- Based on such results, the Bank's return on average assets improved to 1.22% as compared to 1.06% as at end-December 2017 while the return on average common equity increased from 13.4% as at end-December 2017 to 14.7% as at end-June 2018. In parallel, the earnings per common share rose from US$ 1.03 in 2017 to US$ 1.20 on an annualised basis in the first half of 2018.

In conclusion, our medium term strategy revolves around strengthening our leadership position in the Lebanese market. In parallel, we are seeking to improve our privileged positioning in the Turkish and Egyptian markets, among privately owned commercial banks. To this end, the Group

does not hesitate to enhance the deployment of required resources to develop its human and technical capacities, particularly in the field of digital banking, in addition to the diversification of its products and services. Our goal is to keep up with the development dynamics of the banking profession and to ensure our constant readiness to meet the needs of our customers who are becoming more demanding and more involved in the world of innovation. The ensuing natural outcome should be a steady growth of assets and earnings in the years to come.

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