Bank Audi Consolidated Activity Highlights as at End-December 2018

Sustained Profits' Ability with Resilient Financial Standing

Beirut, January 30, 2019

Sustained profits' ability

- US$ 501 million of net profits in 2018, increasing by 8% relative to 2017
- US$ 127 million of net profits generated from entities abroad, after the allocation of Odea Bank's net operating results to provisions
- 46% of cost to income ratio in 2018, compared to 51.2% in 2017
- 14% of return on average common equity, improving from 13.4% in 2017

Key balance sheet metrics

- US$ 47.2 billion of consolidated assets
- US$ 32.0 billion of consolidated customers' deposits
- US$ 13.3 billion of consolidated net loans
- US$ 3.1 billion of common shareholders' equity and US$ 3.9 billion of total shareholders' equity

Resilient financial standing

- 11.3% of CET1 ratio and 18.8% of total capital adequacy ratio
- 80.4% of primary liquidity to customers' deposits ratio
- 5.5% of gross NPLs to gross loans ratio post adoption of IFRS 9, amid a contraction by 17.7% of gross loans
- 107% coverage of doubtful loans by specific provisions and real guarantees

Real sector of the Lebanese economy characterized by relatively tough conditions in 2018, but the banking sector continues to grow moderately

- The IMF has revised down its 2018 real growth for Lebanon to 1% from a previous forecast of 1.5%. BDL estimates Lebanon's 2018 growth within a range of 1%-1.5%.
- At the banking level, Lebanon's customers' deposits managed to grow by US$ 7.5 billion in 2018, against US$ 6.2 billion in 2017.
- In particular, non-resident deposits grew by US$ 4.3 billion in 2018, against US$ 1.2 billion in 2017. Growth in non-resident deposits explains to a large extent the widening balance of payments deficit in 2018.

Slightly improving regional economic growth, with bullish prospects in Egypt and relative rebalancing in Turkey

- In the MENA region, growth among oil-importing countries has modestly improved, projected to reach 3.8% in 2018, up from 3.5% in 2017.
- Measured by the consolidated assets of MENA banks, banking activity reported an annual growth of 3.4% in November 2018 relative to the same month of the previous year. Likewise, deposits registered a growth of 3.8% and loans reported a growth of 2.5% over the same period.
- In Egypt, the macro environment continued to improve over the past year within the context of the continuation of adjustment reforms and the improvement of the investment framework, supporting the country's economic prospects on the back of a relative enhancement in macro and fiscal fundamentals.
- In Turkey, macro fears have now shifted from the external imbalances and currency issues (which are improving) to the real economy with a noticeable growth contraction.

Bank Audi's consolidated assets grew by 8% in nominal terms driven mainly by Lebanese entities

Consolidated assets of Bank Audi rose from US$ 43.8 billion as at end-December 2017 to US$ 47.2 billion as at end-December 2018, increasing by US$ 3.5 billion, or a growth of 8%. The latter was primarily driven by a 21% assets growth in Lebanon within a 13.5% contraction of assets outside Lebanon. Consolidated assets under management, including fiduciary deposits and custody accounts, have in turn increased from US$ 11 billion as at end-December 2017 to US$ 12.2 billion as at end-December 2018, highlighting the importance of Private Banking as a fourth development pillar of the Group.

Deposits in Audi Lebanon increased by US$ 642 million

Consolidated customers' deposits amounted to US$ 32 billion at end-December 2018 compared to US$ 33.5 billion as at end-December 2017, decreasing by US$ 1.5 billion during the year. Still deposits of Bank Audi Lebanon increased by US$ 642 million (a growth of 3.2%) over the same period, while deposits of Bank Audi in Egypt reported a year-on-year increase by US$ 607 million, i.e. a growth of 22.9%. Hence, the contraction of consolidated deposits stems principally from Odea Bank in Turkey, as a result of the adopted deleveraging strategy driving a real decrease in deposits by US$ 1.7 billion within a FX translation impact of US$ 0.6 billion.

Loans policy focused on improving efficiency and reducing risk

Consolidated loan portfolio shrank by US$ 3 billion to US$ 13.3 billion as at end-December 2018, of which US$ 2.3 billion of real decrease and US$ 0.7 billion due to FX translation impact. Amid a persisting challenging environment in Lebanon and Turkey, Management adopted a policy focusing on improving efficiency and reducing risk, resulting mainly in net loan settlements and a reduction of loan exposures of US$ 1.7 billion in Odea Bank in Turkey. In Egypt, where a stronger macroeconomic situation supports business prospects, Bank Audi Egypt registered an increase in its loan portfolio by US$ 101 million.

Asset quality

As at end-December 2018, gross NPLs represented 5.5% of gross loans post adoption of IFRS 9 as compared to 3.9% as at end-December 2017. This 1.6% increase is accounted to the extent of 1% by the contraction in gross loans by 17.7% over the year. The coverage ratio of NPLs by specific provisions increased to 63%, reaching 107% when including real guarantees. Collective provisions on loans amounted to US$ 312 million at end-December 2018, representing 2.4% of net loans. Total collective provisions as per IFRS 9 amounted to US$ 384 million, representing 1.9% of consolidated credit risk-weighted assets and rising to 2.5% when accounting the excess provisions booked under provisions for risk and charges.

Improved financial flexibility

The Bank's core equity Tier One ratio (CET1) as per Basel III stood at 11.3% as at end-December 2018, compared to 10.5% as at end-December 2017 and 10% minimum regulatory ratio. Capital adequacy ratio also improved from 16.9% to 18.8% over the same period. Primary liquidity represented 80.4% of customers' deposits at year-end 2018, with 9.4% of foreign currency deposits placed with correspondent banks.

8% year-on-year growth in net profits driven by effective asset utilisation policies

Bank Audi reported US$ 501 million of recurrent consolidated net profits after provisions and taxes in 2018, rising by 7.9% compared to the net profits before discontinued operations in 2017. This performance is even more significant when considering that it was achieved amid the allocation of Odea Bank's operating results to loan loss provisions (compared to a contribution to consolidated net profits of US$ 88 million in 2017) and within an increase in taxes on income and interest in Lebanon by US$ 106 million.

The Bank's earning power has strengthened in 2018 amid effective asset utilization policies, in particular in Lebanese entities, which benefitted from market opportunities totally offsetting rising costs of deposits and the aforementioned new taxes. Subsequently, consolidated spread expanded from 2.39% as at end-December 2017 to 2.62% as at end-December 2018.

Consolidated general operating expenses decreased year-on-year by US$ 81 million, driving an improvement in the cost to income ratio from 51.2% in 2017 to 46% in 2018. In parallel, loan loss provisions of US$ 176 million consumed 21.9% of pre-provisions pre-tax profits compared to 19.5% in 2017.

Solid profitability

Net income represented 1.12% of average assets as at end-December 2018 as compared to 1.06% as at end-December 2017. Net common income represented 14% of average common equity compared to 13.4% as at end-December 2017; and the earnings per common share rose from US$ 1.03 in 2017 to US$ 1.15 in 2018.

Strengthening the balance sheet, reinforcing the financial flexibility and delivering a solid growth of recurrent net profits are the key headlines of Bank Audi's results in 2018. The Group's main purpose remains to achieve quality growth by efficiently meeting the needs of both businesses and individuals in the various countries of presence and ensuring long-term sustainable value to all stakeholders.

SUMMARISED INCOME STATEMENT

In US$ Million	QIV-18	QIV-17	YoY %	2018	2017	YoY %
Net interest income	**268**	**271**	**-1.2%**	**1,175**	**1,051**	**11.8%**
Non-interest income	**72**	**97**	**-25%**	**319**	**458**	**-30.4%**
o.w. Net commissions	57	63	-9.5%	220	243	-9.1%
o.w. Other income	15	33	-54.8%	99	216	-54.2%
Total operating income	**340**	**368**	**-7.5%**	**1,494**	**1,509**	**-1.0%**
General operating expenses	186	186	0.0%	691	772	-10.5%
Net loan loss provisions	50	19	166.8%	176	144	22.4%
Income tax	13	40	-67.0%	126	129	-2.1%
Total costs	**249**	**245**	**1.7%**	**994**	**1,045**	**-4.9%**
Net profits from continuing operations	**91**	**122**	**-25.8%**	**501**	**464**	**7.9%**
Profits from discontinued operations		0			95	- 100.0%
Net profits	**91**	**122**	**-25.7%**	**501**	**559**	**-10.5%**

SUMMARISED BALANCE SHEET

In US$ Million	Dec-18	Dec-17	YoY %
Total assets	47,225	43,752	7.9%
Customers' deposits	31,956	33,451	-4.5%
Loans to customers' (net)	13,264	16,294	-18.6%
Shareholders' equity	3,884	4,188	-7.2%
o.w. Common shareholders' equity	*3,099*	*3,148*	*-1.6%*
Number of branches	201	203	-1.0%
Number of staff	6,306	6,541	-3.6%

KEY RATIOS

	QIV-18	QIV-17	YoY %	2018	2017	YoY %
Spread	2.3%	2.5%	-0.2%	2.6%	2.4%	0.2%
Cost/income	54.7%	50.6%	4.1%	46.3%	51.2%	-4.9%
Cost of risk (bps)	1.5%	0.5%	1.0%	1.3%	0.9%	0.4%
ROAA	0.8%	1.1%	-0.3%	1.1%	1.1%	0.1%
ROACE	9.7%	13.5%	-3.8%	14.0%	13.4%	0.6%

	Dec-18	Dec-17	YoY %
Loan/deposits	41.5%	48.7%	-7.2%
Gross NPLs/gross loans	5.5%	3.9%	1.6%
Provision coverage (specific)	63.0%	54.7%	8.3%
Collective provisions/net loans	2.4%	1.2%	1.2%
CET1	11.3%	10.5%	0.8%
CAR ratio	18.8%	16.9%	1.8%

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