

**Flash Note**

1 February 2010

**Blom Bank Q4 '09 Results**

Sector: Banking

Country: Lebanon

**Robust balance sheet growth (+15.8% yoy) triggered by a strong uptake in customer deposits (+18.9% yoy), in line with our forecasts**

Despite a modest expansion of the Bank's deposit base over Q4 09 (+2.6% qoq), total growth over the year remained strong as reflected by a 18.9% yoy increase. Customer deposits at year-end 2009 came in at USD 17,968 mn, just 1.5% higher than our estimates. Triggered by this strong surge in deposits, total balance sheet grew significantly to reach USD 20,719 mn at year-end 2009 up from USD 17,898 mn at end-Dec 2008, depicting a 15.8% yoy growth, right in line with our expectations.

**Outstanding loan book growth, in line with estimates and loans-to-deposits ratio broadly unchanged**

Loans grew by USD 547 mn over the year (or +15.7% yoy) to reach USD 4,021 mn by year-end 2009, implying that this uptake in loans & advances over 2009 came very slightly above our expectations (+1.7%). The last quarter of 2009 significantly contributed to this substantial growth as loan book expansion over Q4 09 stood at 5.6%.

Matched by the significant customer deposits growth, this strong loan book expansion translated into a loans-to-deposits ratio remaining practically unchanged as it slightly went down moving from 23% at end-Dec 2008 to 22.3% by year-end 2009.

Also, it is worth noting that interbank assets remained constant at USD 3,840 mn and shareholders' equity increased by 16.4% to end the year at USD 1,699 mn.

**Table 1: Summary Balance Sheet**

<i>USD million</i>	<b>Q4 08 actual</b>	<b>Q3 09 actual</b>	<b>Q4 09 actual</b>	<b>Q4 09 FFA Est.</b>	<b>Act. Vs FFA Est.</b>	<b>QoQ change</b>	<b>Ytd change</b>
Cash & Balances with BDL	2,375	2,911	3,117	2,750	13.3%	7.1%	31.2%
Financial Assets	7,640	9,066	9,176	9,484	-3.3%	1.2%	20.1%
Due from Banks	3,859	3,923	3,840	3,918	-2.0%	-2.1%	-0.5%
Loans & advances	3,474	3,808	4,021	3,955	1.7%	5.6%	15.7%
Other assets	550	549	567	603	-6.0%	3.2%	3.1%
<b>Total Assets</b>	<b>17,898</b>	<b>20,258</b>	<b>20,719</b>	<b>20,710</b>	0.0%	2.3%	15.8%
Due to banks and other financial institutions	794	558	474	703	-32.5%	-15.0%	-40.3%
Deposits	15,109	17,519	17,968	17,700	1.5%	2.6%	18.9%
Other Liabilities	536	580	578	653	-11.5%	-0.4%	7.8%
Shareholder's Equity	1,459	1,600	1,699	1,654	2.7%	6.1%	16.4%
<b>Total Liabilities and Shareholders' Equity</b>	<b>17,898</b>	<b>20,258</b>	<b>20,719</b>	<b>20,710</b>	0.0%	2.3%	15.8%

Source: Blom Bank and FFA Private Bank estimates

**Contacts:**

**Head of Research and Advisory: Marwan Salem**  
 m.salem@ffapivatebank.com  
 +961 1 985 195

**Analyst: Raya Freyha**  
 r.freyha@ffapivatebank.com  
 +961 1 985 195

**Sales and Trading, FFA Private Bank (Beirut)**  
 +961 1 985225

**Sales and Trading, FFA Dubai Ltd (DIFC)**  
 + 971 4 3230300

**Disclaimer:**

This document has been issued by FFA Private Bank for informational purposes only. This document is not an offer or a solicitation to buy or sell the securities mentioned. This document was prepared by FFA Private Bank from sources it believes to be reliable. FFA Private Bank makes no guarantee or warranty to the accuracy and thoroughness of the information mentioned, and accepts no responsibility or liability for damages incurred as a result of opinions formed and decisions made based on information presented in this document. All opinions expressed herein are subject to change without prior notice.

### Net interest income in line with our expectations

Blom Bank has recorded a growth in net interest income of 2.4% yoy to reach USD 420 mn for FY 09, slightly above our estimations of USD 417 mn. This modest growth pace was expected as a result of continuing pressures on interest spread resulting from the international financial crisis, despite significant new additions in customer deposits.

### Non-interest income enjoys healthy growth on the back of better than expected trading and investment income

Slightly off our estimates, net fees and commission income vaguely retreated. It recorded a drop of 7.9% yoy shrinking by USD 6 mn over the year to reach USD 68 mn for FY 09. On the other hand, trading and investment income registered an important growth of 77% yoy to attain USD 55 mn, and was mostly generated during the fourth quarter of 2009 (approximately half of the USD 55 mn). This has led to a non-interest income exceeding our expectations (USD 123 mn actual vs USD 113 mn expected), translating into a growth of 17.1% yoy.

### Operating expenses contained with a slight growth of 3.4% yoy

As illustrated by operating expenses growing only 3.4% on a yearly basis, Blom Bank has succeeded in maintaining a tight cost containment policy despite its expansion strategy. This contained cost growth translated into total operating expenses slightly increasing from USD 223 mn in FY 08 to USD 231 mn in FY 09, in line with our estimates of USD 232 mn. By taking a closer look, we note that cost-efficiency levels have remained unchanged with a cost-to-income ratio at 43% in FY 08 and FY 09, slightly beating our 43.6% estimate.

### Positive impact of the credit recoveries on bottom line

Blom Bank has witnessed a net positive balance in its provisions for doubtful loans of USD 13 mn in 2009 compared to a credit loss expense of USD 19 mn in 2008. This has highly impacted profits and exceeded our expectations of a net balance of USD 5 mn by end year.

### Profitability on the rise driven by a bottom line growth of 16.5%

Blom Bank saw its bottom line rising significantly in 2009. Net profit was reported at USD 293 mn for FY 09 (+16.5% yoy), implying a result above our estimates of USD 276 mn, mainly on the back of higher trading income and better than expected credit loss expense figures. We will closely follow Blom Bank's performance in the quarters to come and review our fair value estimate accordingly.

**Table 2: Summary Income Statement**

<i>USD million</i>	<b>Q4 08 actual</b>	<b>Q4 09 actual</b>	<b>Q4 09 FFA Est.</b>	<b>Act. Vs FFA Est</b>	<b>YoY change</b>
<b>Net interest income</b>	410	420	417	0.6%	2.4%
Net fees & commissions income	74	68	71	-4.1%	-7.9%
Trading and investment income	31	55	42	30.2%	77.0%
<b>Non-interest income</b>	105	123	113	8.6%	17.1%
Other operating income	45	48	47	1.0%	6.0%
<b>Operating income</b>	560	590	578	2.2%	5.4%
Operating expenses	(223)	(231)	(232)	-0.4%	3.4%
Depreciation and amortization	(18)	(23)	(20)	13.9%	32.1%
Credit losses expenses	(19)	13	5	166.6%	-166.4%
<b>Profit before taxes</b>	300	349	330	5.7%	16.3%
Income tax expense	(52)	(56)	(54)	4.5%	8.5%
Net profit / (loss) on sale or disposal of other assets	3	1	0	-	-84.7%
<b>Net profit</b>	<b>252</b>	<b>293</b>	<b>276</b>	6.1%	16.5%

Source: Blom Bank and FFA Private Bank estimates

Contacts:

**Head of Research and Advisory: Marwan Salem**  
m.salem@ffapivatebank.com  
+961 1 985 195

**Analyst: Raya Freyha**  
r.freyha@ffapivatebank.com  
+961 1 985 195

**Sales and Trading, FFA Private Bank (Beirut)**  
+961 1 985225

**Sales and Trading, FFA Dubai Ltd (DIFC)**  
+ 971 4 3230300

Disclaimer:

This document has been issued by FFA Private Bank for informational purposes only. This document is not an offer or a solicitation to buy or sell the securities mentioned. This document was prepared by FFA Private Bank from sources it believes to be reliable. FFA Private Bank makes no guarantee or warranty to the accuracy and thoroughness of the information mentioned, and accepts no responsibility or liability for damages incurred as a result of opinions formed and decisions made based on information presented in this document. All opinions expressed herein are subject to change without prior notice.