

**Flash Note**

4 Nov 2009

**Bank Audi Q3 '09 Results**
**Sector:** Banking  
**Country:** Lebanon

**Outstanding balance sheet growth above our expectations with Bank Audi distancing itself in its leading position from peers**

Bank Audi recorded an outstanding 20.9% growth in its balance sheet over the first nine months of 2009.

Deposits' growth of 23.8% since the beginning of 2009 was significantly above peers (Blom Bank + 16% and Byblos Bank +18.5%). On the other hand, loans grew by 9.6% over the first three quarters of 2009.

On the back of this strong growth in balance sheet items, the Bank's asset base, deposit base and loan portfolio reached USD 24,666 mn, USD 21,332 mn and USD 6,717 mn respectively, comforting the Bank's leading position in all major criteria and distancing the Bank in its leading position from peers.

Balance sheet growth exceeded our expectations and was USD 273 mn ahead of our estimate for 2009. With the deposit base reaching USD 21,332 mn in Q3 09, the differential relative to our expectations for the whole year stands at USD 468 mn. As for the loans' expansion, Q3 09 results are in line with our expectations.

**Q3 09 accounts for the bulk of Bank Audi's growth**

Bank Audi has witnessed a qoq growth of 10%, 11% and 6% in assets, deposits and loans respectively.

In absolute terms, the Bank accumulated USD 4,102 mn of deposits since the beginning of 2009, of which USD 2,236 were accumulated during the third quarter, whereas the Bank's loan portfolio expanded by USD 588 mn since the beginning of the year with Q3 09 contributing to USD 379 mn of total growth.

This implies a Q3 09 loans-to-deposits ratio of 31.5% down from 35.6% at end December 2008.

**Summary Balance Sheet**

| <i>USD million</i>                  | <b>Q4 08</b>  | <b>Q2 09</b>  | <b>Q3 09</b>  | <b>q-o-q%</b> | <b>Ytd%</b>  |
|-------------------------------------|---------------|---------------|---------------|---------------|--------------|
| Cash & Balances with BDL            | 2,946         | 3,470         | 4,024         | 16.0%         | 36.6%        |
| Financial assets                    | 6,882         | 8,009         | 9,372         | 17.0%         | 36.2%        |
| Due from banks                      | 3,622         | 3,749         | 3,709         | (1.1%)        | 2.4%         |
| Loans & advances                    | 6,129         | 6,338         | 6,717         | 6.0%          | 9.6%         |
| Other assets                        | 831           | 864           | 843           | (2.4%)        | 1.4%         |
| <b>Total Assets</b>                 | <b>20,410</b> | <b>22,430</b> | <b>24,666</b> | <b>10.0%</b>  | <b>20.9%</b> |
| Due to banks                        | 464           | 497           | 447           | (10.1%)       | -3.7%        |
| Deposits                            | 17,230        | 19,224        | 21,332        | 11.0%         | 23.8%        |
| Other liabilities                   | 751           | 797           | 793           | (0.6%)        | 5.5%         |
| Shareholder's equity                | 1,966         | 1,912         | 2,095         | 9.6%          | 6.6%         |
| <b>Total Liabilities and Equity</b> | <b>20,410</b> | <b>22,430</b> | <b>24,666</b> | <b>10.0%</b>  | <b>20.9%</b> |

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## Net interest income remained flat yoy, while non interest income was up 35.5% yoy

The main weakness in Q3 09 was net interest income as a result of downward pressures on interest spreads. Thus, the net interest income figure remained flat yoy.

As for the non-interest income it increased sharply (+35.5% yoy) despite fees and commissions income remaining stagnant. This was mainly the result of an outstanding growth in trading and investment income (+152.6% yoy) on the back of a recovery in global markets.

## Additional provisioning reflecting a potential slight deterioration in asset quality

Provision for doubtful loans of USD 31.2 mn was released in Q3 09, compared with USD 13.3 mn in Q3 08. This surge in provisioning could reflect a potential deterioration in asset quality (to be determined by end of year 2009).

## Net profit to surpass our target for 2009, mainly driven by an outstanding trading and investment income growth along with a significant improvement in cost-efficiency levels

Net profit of USD 213 mn was declared for the first nine months of 2009, indicating an 18.8% yoy increase. In this context, Bank Audi grabbed the first position in this criterion.

This was mainly driven by the above-mentioned increase in trading and investment income along with a significant yoy drop in operating expenses (-6.3%). In fact, the cost-to-income ratio moved to 48.3% in Q3 09, down from 55% at the end of 2008, in line with the Bank's strategy to improve its cost-efficiency by tightening its costs.

## Conclusion

In response to Bank Audi's outperforming our expectations during the course of Q3 09, our fair value estimate for the bank's price is to be revised by year end to reflect the positive impact of strong balance sheet and net profit growth.

## Summary Income Statement

| <i>USD million</i>                                  | Q3 08      | Q3 09      | y-o-y %      |
|---|------------|------------|--------------|
| <b>Net interest income</b>                          | <b>311</b> | <b>311</b> | <b>0.2%</b>  |
| Net fees & commissions income                       | 108        | 107        | -0.9%        |
| Trading and investment income                       | 34         | 85         | 152.6%       |
| <b>Non-interest income</b>                          | <b>142</b> | <b>193</b> | <b>35.5%</b> |
| Other operating income                              | 31         | 34         | 9.8%         |
| <b>Operating income</b>                             | <b>484</b> | <b>537</b> | <b>10.9%</b> |
| Operating expenses                                  | (254)      | (238)      | -6.3%        |
| Depreciation and amortization                       | (18)       | (21)       | 18.5%        |
| Net provisions for credit losses                    | 2          | (20)       | -1091.4%     |
| Provision on impairment of financial instruments    | (1)        | 0          | -102.7%      |
| <b>Operating profit before taxes</b>                | <b>213</b> | <b>258</b> | <b>21.0%</b> |
| Share of profit of associates under equity method   | 0          | 1          | 48.7%        |
| Net gain (loss) on sale or disposal of other assets | 4          | 1          | -85.2%       |
| Income tax expense                                  | (38)       | (46)       | 21.1%        |
| <b>Net profit</b>                                   | <b>180</b> | <b>213</b> | <b>18.8%</b> |

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