

Flash Note

29 January 2010

Bank Audi Q4 '09 Results
Sector: Banking

Country: Lebanon

An impressive balance sheet growth fueled by an outstanding net addition in deposits, beating our estimates

Bank Audi's balance sheet demonstrated a robust growth in Q4 09 stemming from an impressive growth in its deposit base which reached USD 22,986 mn in FY 09, up 7.8% qoq and 32.6% yoy; noticeably above our initial expectations (+10.2%). As a result of this positive achievement, Bank Audi's asset base expanded by a strong USD 6,104 mn over the year (or 29.9% yoy) of which USD 1,823 mn were added during the 4th quarter. This robust performance during the last quarter of 2009 suggests that the Bank's asset base is to continue its growth in 2010, which would likely translate into further bottom line increases.

A healthy loan portfolio expansion for the year, yet slightly below our expectations

Despite a slower lending activity in Q4 09, as reflected by a modest 0.4% qoq increase (+USD 30 mn), the yearly growth in the loan portfolio remained healthy, as the net loan additions over the year stood at USD 618 mn (+10.1% yoy).

Modest loan book expansion during the last quarter of the year resulted in a slight deviation of our estimates compared to actual results (5% below our expectations).

As a result of an outstanding growth in deposits (+32.6% yoy) versus a moderate growth in loans (+10.1% yoy), the Bank saw its loans-to-deposits ratio gradually decrease from 35% in FY08 to 29% in FY09; while we initially anticipated the loans-to-deposits ratio to stand at 34% by the end of 2009. This deviation from our forecasts naturally stemmed from the Bank's easily surpassing our estimations in terms of customer deposits growth.

Robust expansion of the bank's core capital

Shareholders' equity growth of 11.1% pinpoints a strong capitalization comforted by a capital adequacy ratio of 11.5%, well above required levels.

Table 1: Summary Balance Sheet

<i>USD million</i>	Q4 08 actual	Q3 09 actual	Q4 09 actual	Q4 09 FFA Est.	Act. Vs FFA Est.	QoQ change	Ytd change
Cash & Balances with BDL	2,946	4,024	4,117	3,702	11.2%	2.3%	39.8%
Financial Assets	6,882	9,372	9,646	8,845	9.1%	2.9%	40.2%
Due from Banks	3,622	3,709	5,133	3,822	34.3%	38.4%	41.7%
Loans & advances	6,129	6,717	6,747	7,101	-5.0%	0.4%	10.1%
Other assets	806	843	847	924	-8.3%	0.4%	5.1%
Total Assets	20,385	24,666	26,489	24,393	8.6%	7.4%	29.9%
Due to banks and other financial institutions	464	447	602	561	7.3%	34.8%	29.8%
Deposits	17,337	21,332	22,986	20,864	10.2%	7.8%	32.6%
Other Liabilities	618	793	716	838	-14.5%	-9.7%	15.9%
Shareholder's Equity	1,966	2,095	2,185	2,130	2.6%	4.3%	11.1%
Total Liabilities and Shareholders' Equity	20,385	24,666	26,489	24,393	8.6%	7.4%	29.9%

Source: Bank Audi and FFA Private Bank estimates

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Net interest income slightly below expectations, but largely compensated by impressive surge in non-interest income

Bank Audi's net interest income amounted to USD 414 mn in 2009, down 2.1% yoy, below our estimate of USD 444 mn. Most likely resulting from narrowing spreads over the year, this slight retreat in the net interest income figure was largely compensated by a strong rise in non-interest income which increased 47.5% yoy. This outstanding performance exceeded our expectations by 36.7% resulting in USD 286 mn for the year. Taking a closer look, we note that this was the result of an impressive uptake in trading and investment income (+138.7% yoy). Similarly, fees and commissions income surged 13.4% yoy to reach USD 160 mn in FY 09, 18.6% above our expectations.

Credit provisioning in line with expectations

Provisions for credit loss expense are close to our expectations, standing at USD 24mn which would suggest no deterioration in asset quality and no material impact on profits.

Tremendous improvement in cost-efficiency level and net profit significantly better than initially anticipated

Despite an expansionary policy, Bank Audi succeeded in tightening its costs control policy. Total operating expenses slightly retreated yoy (-1.2%) to reach USD 334 mn for FY 09, right in line with our expectations. On the back of a fast pace in revenue growth coupled with costs remaining almost stable, the cost-to-income ratio decreased from 55% in FY 08 to below 49% in FY 09, suggesting a tremendous improvement in the Bank's cost efficiency levels.

Net profit of USD 289 mn was declared for 2009. This performance, 9.4% above our expectations, represents a 21.3% increase yoy. We believe such an achievement was due to several factors, mostly the impressive growth in non-interest income and a substantial rise in cost-efficiency levels coupled with a robust balance sheet growth (+29.9% yoy).

Conclusion

Bank Audi has undeniably established a leading position in terms of size, outperforming our forecasts on many levels. We believe this growth in its balance sheet will have an important impact on its coming years bottom line figures and an upward revision of our fair value estimate will be performed in the near future.

Table 2: Summary Income Statement

<i>USD million</i>	Q4 08 actual	Q4 09 actual	Q4 09 FFA Est.	Act. Vs FFA Est	YoY change
Net interest income	423	414	444	-6.8%	-2.1%
Net fees & commissions income	141	160	135	18.6%	13.4%
Trading and investment income	53	126	74	69.6%	138.7%
Non-interest income	194	286	209	36.7%	47.5%
Other operating income	44	42	46	-8.5%	-4.8%
Operating income	661	742	699	6.1%	12.2%
Operating expenses	-338	-334	-333	0.2%	-1.2%
Depreciation and amortization	-25	-28	-27	3.9%	11.2%
Net provisions for credit losses	-5	-24	-21	11.7%	380.0%
Provision on impairment of financial instruments	-9	-8	0	-	-11.1%
Operating profit before taxes	284	348	318	9.6%	22.5%
Share of profit of associates under equity method	2	1	3	-62.6%	-53.3%
Net gain (loss) on sale or disposal of other assets	-2	0	1	-126.0%	-86.5%
Income tax expense	-46	-60	-58	3.9%	29.1%
Net profit	238	289	264	9.4%	21.3%

Source: Bank Audi and FFA Private Bank estimates

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