

**Flash Note**

January 20, 2012

**Bank Audi Q4/11 Results**
**Sector:** Banking

**Country:** Lebanon

**Bank Audi's net profits at USD 365.2 million in 2011, up 4% year on year and in line with our estimates**

Bank Audi's net profits totaled USD 94 million in Q4/11, down 5% from USD 98.9 million in Q4/10 although growing 4% YoY in 2011 to USD 365.2 million. Diluted EPS was USD 0.27 in Q4/11 compared to USD 0.26 in Q4/10, while diluted EPS in 2011 was up 7% YoY to USD 1.00 as compared to USD 0.94 in 2010.

In the context of a 21% increase in operating income and an improvement in cost-efficiencies, the 5% YoY decrease in the bottom line in Q4/11 can be attributed to i) significant increase in provisions (USD 39.1 million in Q4/11 vs. USD 1.8 million in Q4/10), and ii) higher taxes YoY. For the full 2011 year, net earnings grew by 4% as notably higher operating income and improved efficiencies were mostly offset by higher provisions YoY.

With net profits of USD 365.2 million in 2011 compared to our USD 364.8 million, and an asset base totaling USD 28,738 million at year-end 2011 compared to our USD 29,239 million, Bank Audi's results were largely in line with our expectations.

Bank Audi Q4/11 results vs. FFA Private Bank estimates

USD millions	FFA			FFA		
	Q4 10a	Q4 11e	Q4 11a	2010a	2011e	2011a
Assets	28,688	29,239	28,738	28,688	29,239	28,738
Deposits	24,848	25,373	24,798	24,848	25,373	24,798
Loans	8,548	8,683	8,594	8,548	8,683	8,594
Operating Income	230.3	252.9	280.1	881.5	977.8	1,005.1
Net Profits	98.9	91.7	94.0	352.2	364.8	365.2
EPS	0.26	0.24	0.27	0.94	0.97	1.00
BVPS	6.61	6.59	6.49	6.61	6.59	6.49

Source: Bank Audi and FFA Private Bank estimates

Summary Income Statement

USD millions	Q4 11	Q4 10	YoY %	2011	2010	YoY %
<b>Net interest income</b>	<b>142.8</b>	<b>121.5</b>	<b>18%</b>	<b>540.6</b>	<b>459.9</b>	<b>18%</b>
<i>As a % of total operating income</i>	<i>51.0%</i>	<i>52.7%</i>		<i>53.8%</i>	<i>52.2%</i>	
Fees and commission income	48.6	46.1	5%	184.2	174.5	6%
Trading and investment income	88.7	63.0	41%	280.3	247.4	13%
<b>Non-interest income</b>	<b>137.3</b>	<b>109.1</b>	<b>26%</b>	<b>464.5</b>	<b>422.0</b>	<b>10%</b>
<i>As a % of total operating income</i>	<i>49.0%</i>	<i>47.3%</i>		<i>46.2%</i>	<i>47.8%</i>	
<b>Total operating income</b>	<b>280.1</b>	<b>230.6</b>	<b>21%</b>	<b>1,005.1</b>	<b>881.8</b>	<b>14%</b>
Personnel expenses	-65.4	-66.6	-2%	-258.1	-234.2	10%
Non personnel expenses	-54.1	-43.2	25%	-197.2	-181.3	9%
<b>Total operating expenses</b>	<b>-119.5</b>	<b>-109.8</b>	<b>9%</b>	<b>-455.2</b>	<b>-415.5</b>	<b>10%</b>
<i>Cost-to-income</i>	<i>42.6%</i>	<i>47.6%</i>		<i>45.3%</i>	<i>47.1%</i>	
<b>Pre-provision profit before tax</b>	<b>160.7</b>	<b>120.8</b>	<b>33%</b>	<b>549.9</b>	<b>466.4</b>	<b>18%</b>
Provisions	-39.1	-1.8		-91.0	-32.1	
<i>Provisions as a % of pre-provision profit</i>	<i>24.3%</i>	<i>1.5%</i>		<i>16.5%</i>	<i>6.9%</i>	
<b>Profit before tax</b>	<b>121.6</b>	<b>119.0</b>	<b>2%</b>	<b>458.9</b>	<b>434.2</b>	<b>6%</b>
Income tax	-27.6	-20.1	37%	-93.7	-82.0	14%
<i>Income tax rate</i>	<i>22.7%</i>	<i>16.9%</i>		<i>20.4%</i>	<i>18.9%</i>	
<b>Net profits</b>	<b>94.0</b>	<b>98.9</b>	<b>-5%</b>	<b>365.2</b>	<b>352.2</b>	<b>4%</b>
Minority interest	-2.1	4.4	-147%	4.2	14.9	-72%
<b>Net profits (group share)</b>	<b>96.0</b>	<b>94.5</b>	<b>2%</b>	<b>361.0</b>	<b>337.4</b>	<b>7%</b>
EPS to common (basic)	0.27	0.27	0%	1.00	0.96	4%
<b>EPS to common (diluted)</b>	<b>0.27</b>	<b>0.26</b>	<b>2%</b>	<b>1.00</b>	<b>0.94</b>	<b>7%</b>

Source: Bank Audi

### Net interest income up 18% YoY in Q4/11 reflecting an improvement in spreads given tepid balance sheet growth

Net interest income totaled USD 142.8 million in Q4/11, up 18% from USD 121.5 million in Q4/10 which is attributed to an improvement in interest spreads amidst stagnation in balance sheet growth and weak lending activity pressuring interest earning assets. Interest margins improved 21bps YoY to 2.05% in 2011 benefiting from a reduction in cost of funds and slight improvement in asset yields, while the improvement QoQ was driven by higher asset yields. Statistics from the Association of Banks in Lebanon reveal that spreads in USD have picked up to 1.76% in November 2011 up from 1.67% at year-end 2010 and in September 2011 driven by a slight pickup in LIBOR rates and lending rates in USD and despite lower yields BDL deposits on Eurobonds. In 2011, net interest income amounted to USD 540.6 million representing a 18% growth rate compared to 2010.

### Non-interest income up 26% in Q4/11 mainly driven by solid fees & commissions and trading & investment income

Bank Audi witnessed a 26% increase in non-interest income YoY at USD 137.3 million in Q4/11 compared to USD 109.1 million in Q4/10, as trading and investment income of USD 88.7 million was met with growth in fees and commissions income of 5% to USD 48.6 million. In 2011, non-interest income was up 10% YoY to USD 464.5 million driven by a 13% increase in trading and investment income and a 6% increase in fees and commissions income. At these growth levels, and looking at the earnings mix for 2011, we note: i) the contribution of non-interest income to total operating income at 46% in 2011 slightly down from 48% in 2010 and ii) the contribution of fees and commissions to total operating income at 18% in 2011 slightly down from 20% for 2010.

### Higher provisions and income tax rate put a strain on earnings while bank efficiencies improved

Cost-efficiencies improved significantly in Q4/11 whereby the cost-to-income dropped to 42.6% in Q4/11 down from 47.6% in Q4/10, as a 21% increase in operating income surpassed 9% growth in operating expenses. Operating expenses were mainly driven by an increase in non personnel expenses (+25% YoY in Q4/11) as personnel expenses decreased by 2% over the same period. While bank efficiencies improved, the increased provisions as well as the higher tax rate have put a strain on earnings. Income tax rate stood at 22.7% in Q4/11, up from 16.9% in Q4/10. Provisions increased significantly in Q4/11 to USD 39.1 million compared to USD 1.8 million in Q4/10, as Bank Audi has been adopting strict precautionary measures in regional operations, particularly in Syria and Egypt as the profits of both entities (USD 42 million) were allocated to collective provisions.

### Summary Balance Sheet

USD millions	Q4 11	Q3 11	Q4 10	QoQ %	YTD %
Cash and balances	5,773.4	5,245.7	4,434.2	10%	30%
Due from banks and other financial institutions	3,171.3	3,438.2	4,204.3	-8%	-25%
Financial assets	10,267.7	10,506.8	10,603.5	-2%	-3%
<b>Loans and advances</b>	<b>8,594.3</b>	<b>8,562.3</b>	<b>8,547.5</b>	<b>0%</b>	<b>1%</b>
Intangible assets and goodwill	182.4	200.6	200.8	-9%	-9%
Other assets	749.0	760.6	697.7	-2%	7%
<b>Total assets</b>	<b>28,738.0</b>	<b>28,714.3</b>	<b>28,688.0</b>	<b>0%</b>	<b>0%</b>
Due to Central Banks	88.5	89.5	88.5	-1%	0%
Due to banks and other financial institutions	668.4	618.0	603.4	8%	11%
<b>Deposits</b>	<b>24,797.7</b>	<b>24,877.0</b>	<b>24,847.8</b>	<b>0%</b>	<b>0%</b>
<i>Immediate liquidity to deposits</i>	<i>36.1%</i>	<i>34.9%</i>	<i>34.8%</i>		
<i>Loans- to- deposits</i>	<i>34.7%</i>	<i>34.4%</i>	<i>34.4%</i>		
Other liabilities	827.5	813.6	727.9	2%	14%
<b>Total liabilities</b>	<b>26,382.0</b>	<b>26,398.2</b>	<b>26,267.6</b>	<b>0%</b>	<b>0%</b>
Shareholders' equity	2,012.4	1,948.1	2,052.7	3%	-2%
Preferred shares	250.0	250.0	250.0	0%	0%
Minority interest	93.6	118.0	117.7	-21%	-20%
<b>Total shareholders' equity</b>	<b>2,356.0</b>	<b>2,316.1</b>	<b>2,420.4</b>	<b>2%</b>	<b>-3%</b>
<b>Total liabilities and shareholders' equity</b>	<b>28,738.0</b>	<b>28,714.3</b>	<b>28,688.0</b>	<b>0%</b>	<b>0%</b>
Book value per share	6.49	6.31	6.61	3%	-2%
Book value per share to common	5.77	5.59	5.89	3%	-2%
Tangible book value per share to common	5.25	5.01	5.31	5%	-1%

Source: Bank Audi

### Stagnation in consolidated balance sheet aggregates in 2011 while liquidity levels remained high

Despite softer macroeconomic conditions and slower capital inflows into Lebanon coupled with deposit outflows from Syrian operations, Bank Audi's consolidated deposits managed to remain flat in 2011 amounting to USD 24,798 million at year-end and accounting for 86% of the asset base. Consequently, assets didn't witness any major variation in 2011 and totaled USD 28,738 million

by the end of Q4/11. The loan portfolio edged upwards (+1%) to USD 8,594 million. At these growth levels, the loans-to-deposits ratio remained roughly stable at 34.7% at year-end 2011 a reflection of the Bank's comfortable liquidity buffers, whereas the immediate liquidity to deposits ratio slightly picked up in 2011 to 36.1% by year-end. It should be noted, that the balance sheet aggregates of the Syrian entity have shrunk amidst deposit outflows and reduction in the size of the loan portfolio facing growing political uncertainties. The loan book shrank to about USD 550 million from USD 645 million in Q3/11.

**Slight increase in NPLs levels and significantly higher provision levels facing developments in Syria and Egypt**

Deterioration in asset quality in the Syrian and the Egyptian entities (with NPLs at 5.4% and 3.2% respectively in Q4/11), drove Bank Audi's consolidated NPLs (DLs/Gross loans) to 2.9% in Q4/11 from 2.3%. The coverage of gross doubtful loans by specific loan loss provisions was 77.3% (104% when accounting for real guarantees). In terms of collective provisioning, it should be noted that management has been adopting a cautious approach by increasing preventive measures facing the events in Syria and Egypt, reaching USD 101 million in consolidated collective provisions with a sizeable share claimed by both entities.

**Capitalization levels and profitability ratios unchanged quarter on quarter**

Bank Audi's capital adequacy ratio (Basel II) was 11%, highlighting a comfortable capitalization level, and unchanged from Q3/11. The firm's equity to assets ratio was 8.2%, compared to 8.1% in Q3/11 and 8.4% in Q4/10. The TTM ROA was unchanged at 1.3% from Q3/11. The TTM EPS was USD 1.00 in Q4/11 unchanged QoQ, while book value per share is estimated at USD 6.49 (USD 5.77 to common). The current P/E is now 5.7x twelve-month reported EPS, while estimated P/B is 0.88x (P/B 0.99x to common). The dividend yield is now 7.0%.

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