

**Flash Note**

 30<sup>th</sup> of July 2010

## Bank Audi Q2 '10 Results

Sector: Banking  
Country: Lebanon

### Moderate ytd and qoq growth in deposits, yet at a healthy pace

Over H1 10, deposits and assets growth was moderate yet maintained a healthy pace: Both figures witnessed a 3% ytd progression. While the bank's deposit base moved from USD 22,985 mn at the end of 2009 to USD 23,783 mn in Q2 10, assets reached USD 27,321 mn by the end of Q2 10, up from USD 26,486 mn at year-end 2009.

Q2 10 contribution to the first half of 2010 totaled USD 491 mn and USD 561 mn in assets and deposits respectively, equivalent to a growth rate of 2% over the quarter for both indicators.

### Strong pick up in lending activity in H1 10, mainly lifted by Q1 10

Contrasting with the moderate growth in deposits, the loan portfolio grew robustly over H1 2010. Loans and advances progressed by 15% since the beginning of 2010, to reach USD 7,756 mn by the end of June 2010, up from USD 6,747 mn at the end of 2009. Taking a closer look at the growth level over Q2 2010, it should be noted that lending activity decelerated in Q2 2010 relative to Q1 2010, as reflected by a growth of 3% over Q2 2010 against 12% over Q1 2010. In a context of a strong lending activity coupled with a moderate growth in deposits, the loans-to-deposits ratio, increased to 33% in Q2 10 up from 29% in Q4 09. As for the primary liquidity, it stood at 49.2% of customers' deposits in Q2 2010. With regard to the asset quality, it is worth noting that Bank Audi held a net doubtful loans to gross loans ratio of 0.79% in Q2 2010, reflecting a sound asset quality; while the coverage ratio on those loans stood at 74.1%.

### Healthy qoq and yoy growth in net interest income

Following an addition of USD 121 mn in the net interest income over Q2 2010, the figure rose to USD 229 mn for the first half of 2010, which highlights a robust progression of 12% qoq and 13% yoy on the back of wider spreads due to a lower cost of funds. Regarding the breakdown of revenues, it should be noted that the contribution of the net-interest income to the total operating income stood at 54% for the first half of 2010 as compared to 58% for the first half of 2009.

### Non-interest income up 42% yoy, and down 5% qoq

Non-interest income demonstrated a strong performance yoy (+41%), despite a 5% retreat over Q2 10 as compared to Q1 10. On a yearly basis, this revenue segment was mainly driven by a strong lift in the trading and investment income (+61%), highlighting an up-turn in global markets. Nonetheless, the USD 38 mn generated in trading and investment income over Q2 10, suggest a 16% drop as compared to the USD 46 mn generated over the first quarter of 2010.

### Cost-efficiency still on the rise

On the back of a considerable growth in operating income, along with a continuous focus on cost-control initiatives, Bank Audi's cost-to-income ratio felt from 49.1% in H1 09, to 46.7% in H1 10; evidencing a net improvement in cost-efficiency levels.

### Bank Audi's bottom line up 21% yoy

Bank Audi generated USD 81 mn in net profit over Q2 10 which lifted earnings to USD 161 mn for the first half of 2010 and represents a 21% growth yoy. The substantial yoy progression in net profit was mainly triggered by a healthy growth in net interest income coupled with a considerable surge in non-interest income and an improvement in the cost-efficiency level. Finally, it is important to mention that Bank Audi managed to further strengthen its capitalization level over Q2 10 as witnessed by the Basel II ratio standing at 11.8% in Q2 2009 as compared to 11.5% in Q1 2009.

### Summary Balance Sheet

USD million	Q4 09	Q1 10	Q2 10	ytd %	qoq %
Cash and balances with BDL	4,117	4,360	3,905	-5%	-10%
Financial assets	9,647	10,245	10,784	12%	5%
Due from banks	5,133	3,819	4,026	-22%	5%
Loans & advances	6,747	7,540	7,756	15%	3%
Other assets	843	866	850	1%	-2%
<b>Total assets</b>	<b>26,486</b>	<b>26,830</b>	<b>27,321</b>	<b>3%</b>	<b>2%</b>
Due to banks and other financial institutions	603	642	604	0%	-6%
Deposits	22,985	23,222	23,783	3%	2%
Other liabilities	705	721	681	-3%	-6%
Shareholders' equity	2,193	2,246	2,253	3%	0%
<b>Total liabilities and shareholders' equity</b>	<b>26,486</b>	<b>26,830</b>	<b>27,321</b>	<b>3%</b>	<b>2%</b>

### Summary Income Statement

USD million	H1 09	Q1 10	H1 10	qoq %	yoy %
<b>Net Interest Income</b>	<b>204</b>	<b>108</b>	<b>229</b>	<b>12%</b>	<b>13%</b>
Net Fees & Commissions Income	68	42	86	8%	27%
Trading and investment income	52	46	84	-16%	61%
<b>Non-interest income</b>	<b>120</b>	<b>87</b>	<b>171</b>	<b>-5%</b>	<b>42%</b>
Other operating income	26	6	22	172%	-15%
<b>Operating income</b>	<b>350</b>	<b>202</b>	<b>422</b>	<b>9%</b>	<b>21%</b>
Operating expenses	(158)	(85)	(183)	15%	15%
Depreciation and amortization	(14)	(7)	(15)	-2%	7%
Net provisions for credit losses	(16)	(10)	(22)	27%	36%
<b>Operating profit before taxes</b>	<b>161</b>	<b>99</b>	<b>202</b>	<b>4%</b>	<b>25%</b>
Share of profits of associates under equity method	0	0	1	65%	176%
Income tax expense	(29)	(19)	(41)	16%	42%
<b>Net profit</b>	<b>133</b>	<b>80</b>	<b>161</b>	<b>1%</b>	<b>21%</b>

#### 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 1 985 225

##### Sales and Trading, FFA Dubai Ltd (DIFC)

+971 4 3230300

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