

## Flash Note

April 29, 2011

## Bank Audi Q1 - 2011 Results

Sector: Banking

Country: Lebanon

### Bank Audi net profits growth moderates to 13% yoy at USD 90 million in Q1 2011

Bank Audi reported Q1 2011 net profits of USD 90 million, which represents an increase of 13% from USD 80 million in Q1 10, following a growth of 31% yoy in Q4 10. Basic and diluted EPS was USD 0.24, up from USD 0.22 in the same period the previous year. Bottom line was driven by strong net interest income growth on the back of improving interest spreads and gains on financial investments although partially offset by higher impairment charges, operating expenses, and tax rate yoy.

### Summary Income Statement

*in USD millions*

	Q1 11a	Q4 10a	Q1 10a	qoq%	yoy%
<b>Net interest income</b>	<b>132.2</b>	<b>128.4</b>	<b>100.5</b>	<b>3%</b>	<b>32%</b>
Net fees and commissions income	44.6	45.0	41.5	-1%	7%
Trading and investment income	57.4	54.3	53.8	6%	7%
Other operating income	5.8	2.5	5.9	131%	-2%
<b>Non-interest income</b>	<b>107.8</b>	<b>101.8</b>	<b>101.3</b>	<b>6%</b>	<b>6%</b>
<b>Total operating income</b>	<b>240.0</b>	<b>230.3</b>	<b>201.8</b>	<b>4%</b>	<b>19%</b>
Operating expenses	(103.9)	(102.3)	(85.2)	2%	22%
Depreciation and amortization	(7.5)	(7.7)	(7.3)	-2%	2%
Net provisions for credit losses	(15.3)	(1.6)	(9.7)	861%	58%
<b>Operating profit</b>	<b>113.3</b>	<b>118.4</b>	<b>99.1</b>	<b>-4%</b>	<b>14%</b>
Share of profits of associates under equity method	0.5	1.0	0.2	-49%	137%
Net gain (loss) on sale or disposal of other assets	0.1	0.3	0.0	-75%	588%
Income tax expense	(23.4)	(20.8)	(19.1)	13%	22%
<b>Net profit</b>	<b>90.4</b>	<b>98.9</b>	<b>80.2</b>	<b>-9%</b>	<b>13%</b>
EPS to common basic	0.24	0.27	0.22	-10%	10%
EPS to common diluted	0.24	0.26	0.22	-8%	12%

Source: Bank Audi

### Strong growth in net interest income driven by healthier spreads on account of a continued focus on margin preservation

Net interest income reached USD 132 million in Q1 2011, growing by 32% yoy from 101 USD million in Q1 2010, as Bank Audi enjoyed a continued improvement in interest spreads and growth in its asset base. The improvement in spreads is the culmination of the Bank's margin preservation strategy adopted last year which resulted in a near 35 bps improvement from 1.65% in Q1 10 to virtually 2.00% in Q1 2011. Bank Audi has been lowering rates on deposits and finding higher yielding avenues for its investments in Lebanon and abroad, while still being unfavorably impacted by the negative carry on its liquidity in foreign currency.

### Non-interest income benefits from further gains on investments

Non-interest income grew 6% yoy to reach USD 108 million, as solid gains on investments of USD 38 million were partially offset by lower trading and other income, while net fee income climbed 7% yoy to USD 45 million. The ratio of non-interest income to total operating income dropped to 45% from 50% in Q1 2010 and we expect this trend to remain at these levels, roughly in line with the Bank's strategy of a 60/40 split between net interest income and non-interest income. The contribution of fees and commissions to non-interest income stood at 41% in Q1 2011, roughly unchanged from Q1 2010.

### Lower bank efficiencies moderate operating profits yoy although recently adopted cost containment measures is seeing improvement

Cost-to-income was 46.4% in Q1 2011 as compared to 45.8% in Q1 2010 although improved qoq from 47.8% in Q4 2010. A focus on bank efficiencies drove management to adopt a more revenue oriented expense policy regarding existing operations while temporarily halting costs attributed to its expansion strategy. As such, management is seeking to reinforce its position in 2011 while adopting a cautious wait and see approach before resuming its growth plans.

## Summary Balance Sheet

in USD millions

	Q1 11a	Q4 10a	Q1 10a	qoq%	yoy%
Cash and balances with BDL	5,060.7	4,434.2	4,359.8	14%	16%
Financial assets	10,334.3	10,583.1	10,245.1	-2%	1%
Due from banks	3,917.9	4,204.3	3,819.3	-7%	3%
Loans and advances	8,662.2	8,547.5	7,539.7	1%	15%
Other assets	965.1	918.9	866.0	5%	11%
<b>Total assets</b>	<b>28,940.2</b>	<b>28,688.0</b>	<b>26,829.9</b>	<b>1%</b>	<b>8%</b>
Due to banks and other financial institutions	826.4	691.9	641.6	19%	29%
Deposits	24,890.9	24,847.8	23,221.9	0%	7%
Other liabilities	826.9	727.9	720.7	14%	15%
Shareholders' equity	116.2	117.7	111.2	-1%	5%
Minority interest	2,279.7	2,302.7	2,134.5	-1%	7%
<b>Total liabilities and shareholders' equity</b>	<b>28,940.2</b>	<b>28,688.0</b>	<b>26,829.9</b>	<b>1%</b>	<b>8%</b>

Source: Bank Audi

### Assets and deposits up high single digits in 2010 although stagnate qoq

Total deposits grew 7% yoy to reach USD 24.9 billion, driving the asset base to USD 28.9 billion by the end of Q1 2011. Deposits were flat since year-end 2010 as Bank Audi maintained its focus on margins at the expense of volumes at a time the banking sector only saw a small 1% uptick in deposits into the end of March. Loans totaled USD 8.7 billion by the end of Q1 2011, representing growth of 15% yoy and only 1% qoq. Going forward we expect loan activity will moderate this year given: i) slowing economic growth from political uncertainties resulting in weak loan demand in Lebanon and in key markets, and ii) the Bank's cautious approach to lending in view of preserving asset quality. The loans-to-deposits ratio ended the quarter at nearly 35%, while primary liquidity was ample at around 50% of deposits, both relatively unchanged qoq. Should banking conditions remain the same, we expect the LDR ratio to remain at these levels given our belief that deposit and loan growth will be less dynamic than last year.

### No hit to loan quality although provisioning expands from management's conservative stance

Bank Audi's gross doubtful loans were 2.3% of gross loans at end Q1 11, relatively unchanged from Q4 10, while specific and collective provisions were increased, resulting in higher coverage ratios. Loan loss provisions were USD 18 million in the quarter, and up from USD 12 million in the same quarter the previous year, as Bank Audi saw its loan loss reserves reaching USD 175 million. Management has increased provisions in the quarter as a preventive measure given the developments seen in the region. *Should business conditions improve and management gains further confidence into adequate cushioning, earnings could see a favorable impact from the reversal of provisions by year-end.*

### Capitalization levels roughly unchanged in 2011 while profitability ratios trend positively

Our Dupont-derived equity to assets ratio is estimated at 8.3% in Q1 11 (vs. 8.4% in Q4 10) while the firm's capital adequacy ratio (Basel II) was approximately 11%. The TTM ROA was up slightly to 1.30% from 1.28% in Q4 10, while TTM ROE improved to 15.6% as compared to 15.3% in Q4 10. The TTM EPS was USD 0.96 in Q1 11.

### Board of directors approved 14% dividend hike on common shares and still see shares trading at more attractive valuation levels

Bank Audi saw its dividends increased earlier this month following shareholder approval at the general assembly to USD 0.40 from USD 0.35 previously. At current prices, the dividend yield is 5.9% on listed shares (5.3% on GDRs), while P/B is estimated at 1.04x on group share BVPS (1.15x on GDRs) and 1.15x on common adjusted BVPS (1.28x on GDRs). Bank Audi shares are currently trading at more attractive levels found at the lower range of their historical valuation.

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