

Flash Note

 25th of October
2010

Bank Audi Q3 '10 Results
Sector: Banking
Country: Lebanon

Assets and deposits growth moderates to 2% qoq in Q3 10

Over the first nine months of 2010, assets and deposits growth moderated to 6% and 5% respectively. Bank Audi's deposit base grew from USD 22,985 mn at the end of 2009 to USD 24,242 mn in Q3 10, while total assets reached USD 27,999 mn by the end of Q3 10, up from USD 26,486 mn at year-end 2009. Assets and deposits both grew by 2% qoq in Q3 10 relative to Q2 10, representing an increase of USD 678 mn and USD 460 mn, respectively.

Still strong lending activity over the first 9 months of 2010, with disparities in growth between quarters

The loan portfolio grew robustly over the first nine months of 2010, with loans and advances increasing by 21% since the beginning of 2010, to reach USD 8,169 mn by the end of September 2010, up from USD 6,747 mn at the end of 2009. A closer look at growth levels achieved sequentially between quarters, lending activity decelerated in Q2 2010 relative to Q1 10, as reflected by a growth of 3% in Q2 10 against 12% in Q1 2010 and regained momentum in Q3 10 with a 5% qoq growth. Within the context of a strong lending activity against a more moderate growth in deposits, the loans-to-deposits ratio, increased to 33.5% in Q3 10, up from 29.4% in Q4 09. Regarding primary liquidity, it stood at 49.7% of customers' deposits in Q3 10, relatively unchanged from Q2 10. Bank Audi held a net doubtful loans to gross loans ratio of 0.82% in Q3 10, reflecting high asset quality, while the coverage ratio dropped to 73.4%, below the 91.8% achieved in Q4 2009.

Net interest income up 16% yoy, driven by balance sheet growth and management's recent focus on preserving margins

Net interest income reached USD 361 mn for the first nine months of 2010, highlighting a robust 16% yoy increase on the back of continuous growth in earning assets and within the context of lower yet improving interest spreads. Bank Audi's interest margin has been rising steadily since the beginning of 2010, from 1.65% in Q1 10 to 1.89% in Q3 10, driven by management's focus to preserve margins in a low interest rate yielding environment. As for the breakdown in revenues, the contribution of net-interest income to total operating income stood at 55% for the first nine months of 2010 as compared to 58% for the same period of the previous year.

Non-interest income up 35% yoy driven by a surge of 55% yoy in trading and investment income

Non-interest income grew substantially to USD 260 mn (+35% yoy) in the first nine months of 2010. This revenue segment has been mainly driven by a strong lift in trading and investment income (+55% yoy), highlighting important gains on financial investments. On the other hand, net fees and commissions income, typically a more stable revenue stream, registered +19% growth yoy, totaling USD 128 mn for the first nine months of 2010. The breakdown of non-interest income between fees & commissions income and trading & investment income reveals a 50%-50% split in Q3 10.

Cost efficiency continues to improve in Q3 10 on a ytd basis

Benefiting from considerable growth in operating income, along with a focus on cost-control initiatives, Bank Audi's cost-to-income ratio fell from 48.3% in Q3 09 ytd to 47.1% in Q3 10 ytd (although up in the recent quarter on a yoy basis). Higher taxes yoy in Q3 10 (19.6% compared to 17.9% income tax as a % of profit before tax ytd) offset these improvements to the bottom line.

Bank Audi's bottom line up 19% yoy

Bank Audi generated USD 92 mn in net profits in Q3 10 and USD 253 mn for the first nine months of 2010, which represented 19.1% growth yoy, while return on average common equity reached 15.6%. The improvement in net profits ytd Q3 10 was driven by a considerable contribution of trading and investment income, coupled with growth in net interest income, and improvement in cost-efficiency levels. Bank Audi maintained a sound level of capitalization as reflected by a capital adequacy ratio of 11.9%, well above the 8.0% minimum requirement (as per Basel II).

Summary Balance Sheet

<i>USD million</i>	Q4 09	Q2 10	Q3 10	qoq %	ytd%
Cash and balances with BDL	4,117	3,905	4,299	10%	4%
Financial assets	9,647	10,784	10,521	-2%	9%
Due from banks	5,133	4,026	4,079	1%	-21%
Loans & advances	6,747	7,756	8,169	5%	21%
Other assets	843	850	931	10%	11%
Total assets	26,486	27,321	27,999	2%	6%
Due to banks and other financial institutions	603	604	635	5%	5%
Deposits	22,985	23,783	24,242	2%	5%
Other liabilities	705	681	763	12%	8%
Shareholders' equity	2,193	2,253	2,358	5%	8%
Total liabilities and shareholders' equity	26,486	27,321	27,999	2%	6%

Summary Income Statement

<i>USD million</i>	Q3 09 ytd	Q3 10 ytd	yoy%
Net interest income	311	361	16%
Net fees and commissions income	107	128	19%
Trading and investment income	85	131	55%
Non-interest income	192	260	35%
Other operating income	34	30	-10%
Operating income	537	651	21%
Operating expenses	(238)	(285)	19%
Depreciation and amortization	(21)	(22)	6%
Net provisions for credit losses	(20)	(30)	51%
Operating profit	258	314	22%
Share of profits of associates under equity method	1	1	67%
Net gain (loss) on sale or disposal of other assets	1	(0)	-131%
Income tax expense	(46)	(62)	34%
Net profit	213	253	19%

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