

## Flash Note

April 17, 2012

## Bank Audi Q1/12 Results

Sector: Banking

Country: Lebanon

### Bank Audi's net profits at USD 94.5 million in Q1/12, up 4% year on year

Bank Audi's net profits amounted to USD 94.5 million in Q1/12 up 4% from USD 90.4 million in Q1/11 although below our USD 98.3 million estimate. Diluted EPS was USD 0.26 in Q1/12 compared to USD 0.24 in Q1/11, just above our USD 0.25 estimate.

The year on year increase in the bottom line in Q1/12 over Q1/11 can be attributed to i) 13% YoY increase in operating income to USD 271.8 million on the back of 11% growth in net interest income and 16% growth in non-interest income ii) significant improvement in cost efficiencies with a cost-to-income ratio at 42.8% in Q1/12 down from 46.2% in Q1/11. Higher provisions from cautious risk management continued to mostly offset bottom line gains as they increased to USD 31.2 million in Q1/12 from USD 15.3 million in Q1/11. Income tax rate was also higher YoY at 24.1% versus 20.6% for the corresponding period of previous year.

Net profits were USD 94.5 million in Q1/12 compared to our USD 98.3 million estimate, and the asset base totaled USD 28,662 million at the end of Q1/12 compared to our USD 29,109 million estimate, as highlighted in the table below:

Table 1: Bank Audi Q1/12 results vs. FFA Private Bank estimates

USD millions	Q1 12a	FFA Q1 12e	Q4 11a	Q1 11a
Assets	28,661.5	29,109.3	28,736.8	28,940.2
Deposits	24,388.4	25,177.4	24,797.7	24,890.9
Loans	8,865.8	8,791.7	8,594.3	8,662.2
Operating Income	271.8	264.1	280.1	240.0
Net Profits	94.5	98.3	94.0	90.4
Net Profits (Group Share)	93.4	95.4	96.0	88.1
EPS	0.26	0.25	0.27	0.24
BVPS	6.13	5.90	5.78	5.82

Source: Bank Audi and FFA Private Bank estimates

Table 2: Summary Income Statement

USD millions	Q1 12a	Q4 11a	Q1 11a	QoQ%	YoY%
<b>Net interest income</b>	<b>146.6</b>	<b>142.8</b>	<b>132.2</b>	<b>3%</b>	<b>11%</b>
<i>As a % of total operating income</i>	<i>54.0%</i>	<i>51.0%</i>	<i>55.1%</i>		
Fees and commission income	48.7	48.6	44.6	0%	9%
Trading and investment income	76.4	88.7	63.3	-14%	21%
<b>Non-interest income</b>	<b>125.1</b>	<b>137.3</b>	<b>107.8</b>	<b>-9%</b>	<b>16%</b>
<i>As a % of total operating income</i>	<i>46.0%</i>	<i>49.0%</i>	<i>44.9%</i>		
<b>Total operating income</b>	<b>271.8</b>	<b>280.1</b>	<b>240.0</b>	<b>-3%</b>	<b>13%</b>
Personnel expenses	(60.8)	(65.4)	(63.8)	-7%	-5%
Non personnel expenses	(55.4)	(54.1)	(47.1)	2%	18%
<b>Total operating expenses</b>	<b>(116.2)</b>	<b>(119.5)</b>	<b>(110.9)</b>	<b>-3%</b>	<b>5%</b>
<i>Cost-to-income</i>	<i>42.8%</i>	<i>42.6%</i>	<i>46.2%</i>		
<b>Pre-provision profit before tax</b>	<b>155.6</b>	<b>160.7</b>	<b>129.2</b>	<b>-3%</b>	<b>20%</b>
Provisions	(31.2)	(39.1)	(15.3)	-20%	103%
<i>Provisions as a % of pre-provision profit</i>	<i>20.0%</i>	<i>24.3%</i>	<i>11.9%</i>		
<b>Profit before tax</b>	<b>124.4</b>	<b>121.6</b>	<b>113.8</b>	<b>2%</b>	<b>9%</b>
Income tax	(29.9)	(27.6)	(23.4)	8%	28%
<i>Income tax rate</i>	<i>24.1%</i>	<i>22.7%</i>	<i>20.6%</i>		
<b>Net profits</b>	<b>94.5</b>	<b>94.0</b>	<b>90.4</b>	<b>1%</b>	<b>4%</b>
Minority interest	1.1	(2.1)	2.3	-152%	-53%
<b>Net profits (group share)</b>	<b>93.4</b>	<b>96.0</b>	<b>88.1</b>	<b>-3%</b>	<b>6%</b>
EPS to common (basic)	0.26	0.27	0.24	-4%	7%
<b>EPS to common (diluted)</b>	<b>0.26</b>	<b>0.27</b>	<b>0.24</b>	<b>-4%</b>	<b>7%</b>

Source: Bank Audi

### Net interest income up 11% YoY in Q1/12 reflecting an improvement in spreads given tepid balance sheet growth

Bank Audi's net interest income totaled USD 146.6 million in Q1/12, up 11% from USD 132.2 million in Q1/11 stemming from an improvement in interest margins as earning assets growth stalled as highlighted by a flat asset base between Q1/11 and Q1/12 at roughly USD 29 billion. Interest margins have benefited from a strict control in the cost of funds along with an improvement in asset yields. It should be noted that Bank Audi Management has been adopting a margin preservation strategy in light of slower balance sheet growth targeting 2% in net interest margins. This target was achieved in Q4/11 as Bank Audi spreads totaled 2.08% for Q4/11 and 1.97% for the full year 2011.

### Non-interest income up 16% YoY in Q1/12 driven by trading and investment income

In Q1/12 Bank Audi saw a 16% increase in non-interest income YoY at USD 125.1 million compared to USD 107.8 million in Q1/11, as trading and investment income picked up 21% to USD 76.4 million along with a growth in fees and commissions income of 9% to USD 48.7 million. Fees and commissions momentum moderated on account of likely softer lending operations (as loans increased by 2% yoy in Q1/12 compared to 15% yoy in Q1/11) and trade finance from regional developments, while trading and investment income continued to be supported by active treasury and capital markets operations. Looking at the earnings mix for Q1/12, we note: i) the contribution of non-interest income to total operating income at 46% in Q1/12 slightly up from 45% in Q1/11 and ii) the contribution of fees and commissions to total operating income at 18% in Q1/12 slightly down from 19% for Q1/11.

### Provisions and taxes mostly offset bottom line gains in contrast to continued improvement in cost efficiencies

Cost-efficiencies improved significantly in Q1/12 as the cost-to-income dropped to 42.8% in Q1/12 down from 46.2% in Q1/11, as a 13% increase in operating income surpassed a 5% growth in operating expenses. Operating expenses were driven by an increase in non personnel expenses (+18% YoY in Q1/12) as personnel expenses decreased by 5% over the same period. While bank efficiencies improved, the increased provisions as well as the higher tax rate have mostly offset bottom line gains. Significantly higher provisions were allocated (USD 31.2 million in Q1/12 compared to USD 15.3 million in Q1/11) as Management has been adopting prudent provisioning measures given the regional turmoil. Income tax rate stood at 24.1% in Q1/12, up from 20.6% in Q1/11.

Table 3: Summary Balance Sheet

USD millions	Q1 12a	Q4 11a	Q1 11a	QoQ%	YoY%
Cash and balances	5,883.8	5,773.4	5,060.7	2%	16%
Due from banks and other financial institutions	2,906.9	3,171.9	3,917.9	-8%	-26%
Financial assets	10,049.1	10,280.6	10,334.3	-2%	-3%
<b>Loans and advances</b>	<b>8,865.8</b>	<b>8,594.3</b>	<b>8,662.2</b>	<b>3%</b>	<b>2%</b>
Intangible assets and goodwill	184.7	182.4	200.1	1%	-8%
Other assets	771.3	734.3	765.0	5%	1%
<b>Total assets</b>	<b>28,661.5</b>	<b>28,736.8</b>	<b>28,940.2</b>	<b>0%</b>	<b>-1%</b>
Due to Central Banks	267.4	88.5	89.5	202%	199%
Due to banks and other financial institutions	798.3	668.4	736.9	19%	8%
<b>Deposits</b>	<b>24,388.4</b>	<b>24,797.7</b>	<b>24,890.9</b>	<b>-2%</b>	<b>-2%</b>
<i>Immediate liquidity to deposits</i>	<i>36.0%</i>	<i>36.1%</i>	<i>36.1%</i>		0%
<i>Loans- to- deposits</i>	<i>36.4%</i>	<i>34.7%</i>	<i>34.8%</i>		4%
Other liabilities	732.2	825.3	826.9	-11%	-11%
<b>Total liabilities</b>	<b>26,186.3</b>	<b>26,379.8</b>	<b>26,544.2</b>	<b>-1%</b>	<b>-1%</b>
Shareholders' equity	2,141.6	2,013.3	2,029.7	6%	6%
Preferred shares	250.0	250.0	250.0	0%	0%
Minority interest	83.6	93.6	116.2	-11%	-28%
<b>Total shareholders' equity</b>	<b>2,475.2</b>	<b>2,357.0</b>	<b>2,396.0</b>	<b>5%</b>	<b>3%</b>
<b>Total liabilities and shareholders' equity</b>	<b>28,661.5</b>	<b>28,736.8</b>	<b>28,940.2</b>	<b>0%</b>	<b>-1%</b>
Book value per share	6.84	6.49	6.54	5%	5%
Book value per share to common	6.13	5.78	5.82	6%	5%
Tangible book value per share to common	5.60	5.25	5.25	7%	7%

Source: Bank Audi

### Slight contraction in deposits (-2%) on account of strict cost of fund control and Syrian operations, while loans edged up 3%

Bank Audi's consolidated assets managed to remain flat in Q1/12 to USD 28,661 million at the end of the quarter while deposits witnessed a slight contraction (-2%) to USD 24,388 million as the Syrian entity saw further deposit outflows and Bank Audi maintained its strict control of the cost of funds in light of its margin preservation strategy. The loan portfolio edged up 3% in Q1/12

to USD 8,866 million. The loans-to-deposits ratio picked up to 36.4% at the end of Q1/12 from 34.7% at year-end 2011, while the immediate liquidity to deposits ratio remained stable at 36%.

**Lower NPLs and growing provisions, a testament to asset quality preservation amidst a challenging operating environment**

Bank Audi's consolidated NPLs (doubtful to gross loans) stood at 2.7% by the end of Q1/12 down from 2.9% in Q4/11, highlighting an improved asset quality. The coverage of gross doubtful loans by specific loan loss provisions was 82% higher than 77% in Q4/11 as Management has been adopting a cautious approach by increasing preventive provisioning measures given regional developments. The consolidated collective provisions reached USD 117 million and comprised the majority of the USD 31.2 million in bad assets charges in Q1/12.

**Capitalization levels improved as profitability ratios were roughly unchanged**

Bank Audi's capital adequacy ratio (Basel III) was 10.7%, highlighting a comfortable capitalization level as the firm's equity to assets ratio improved to 8.6% from 8.2% in Q4/11. The TTM ROA was roughly unchanged at 1.3% from Q4/11. The TTM EPS was USD 1.02 in Q1/12 slightly up from 1.00 in Q4/11, while book value per share is estimated at USD 6.84 (USD 6.13 to common). The current P/E is now 5.9x, while estimated P/B is 0.87x (P/B 0.97x to common). The dividend yield is now 6.7%.

**Recent news include the replacement of a board member and the payment of common share dividends**

Bank Audi named Mr. Youssef A. Nasr as a new member of the Board of Directors following the resignation of Dr. Georges A. Gedeon. Bank Audi will pay dividends starting April 12<sup>th</sup>, 2012 to the holders of shares at the April 5<sup>th</sup> record date, with common shareholders receiving LBP 603 per share (USD 0.40 gross or USD 0.38 net of 5% withholding tax) and preferred shareholders receiving USD 0.775 per share on the D Series and USD 6 per share on the E Series.

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