EGYPT

A&T BANK

Economic Research

January 2017

Ayşe Özden
Manager
aozden@atbank.com.tr

Maral Haçikoğlu
Specialist
mhacikoglu@atbank.com.tr

EXECUTIVE SUMMARY

While economic growth remains fragile, gradual recovery is expected to continue with the economic reform program supported by the IMF

Egypt's medium-term growth is promising but growth will remain far below potential due to damaged tourism sector, low growth in both public and private consumption and modestly improving employment market, which will prevent quick recovery. The high unemployment, continuing fiscal deficit and elevated inflation are the main risks and the recovery process will be painful without structural reforms. However, fixed investment and oil&gas exports along with the new construction projects will continue to help country’s economic development in the coming period.

We give more attention to the Egypt’s economic reform program supported by the IMF, which will help to bring Egypt’s economy to its full potential. The IMF has approved a three-year, USD12bn loan in November 2016 to support the government’s home-grown comprehensive economic reform plan.

The banking sector of the Egypt will continue to be profitable despite economic and political upheavals

As of July 2016, the total assets of the Egypt’s banking sector rose by 12.2% in compared to the same month of the previous year and reached to USD325.4bn and client loans increased by 14.5% to USD105.7bn in the same period. On the funding side, client deposits grew by 5.8% in July 2016 in compared to the same month of the previous year and reached to USD240.7bn. In the same month, while loan to deposit ratio realized as 44%, loan to asset ratio stood at 32%.

As the Egyptian banks are well capitalized and have little exposure to foreign currency movements, the sector will continue to grow in the coming period but at a slower pace due to subdued economic activities, rising interest rates and a weaker currency. Despite challenging macroeconomic environment, profitability of the banking sector is expected to increase in the coming period as increasing interest rates and a reliance on Treasuries for fiscal deficits will provide a stable source of profitability for the Egyptian banks (government treasury bills account 43% of total banks assets).

The foreign trade between Egypt and Turkey is promising

Turkey exports to Egypt decreased by 12.5% to USD2.7bn in 2016 and imports rose by 18.7% to USD1.4bn in compared to 2015. The trade volume of Turkey to Egypt is standing at USD4.2bn in 2016, lower than trade volume of 2015, which amounted as USD4.3bn. Recently, Egypt and Turkey are trying to recover their deteriorated economic relationship. If the negotiation process continues, we expect improving trade volume in the coming period.

1- SWOT ANALYSIS

Strengths

- Growth potential in private sector.
- Continued reform efforts help the economic recovery.
- Egypt's Suez Canal forms a key part of global maritime trade routes.
- Low wages are advantages for foreign investors.
- No serious disputes with neighboring states, although its relationship with Iran is relatively tense.
- With a population of 84 million, Egypt is the largest market in the Arab world.
- There is a large pool of low skilled labor available, which is particularly beneficial for the construction sector.

Weaknesses

- Continuing tension between the military and Islamist group.
- High level of unemployment and poverty.
- Large fiscal deficit, high inflation.
- Security risks.
- High levels of red tape for the business activity.
- There is considerable domestic opposition to the government's relations with the US and Israel.
- Difficulties for foreign workers to obtain visas, which is detrimental to businesses requiring a highly skilled workforce.

Opportunities

- Fixed investment and net exports will be the main drivers of the economy.
- Strong potential in the construction sector.
- Relatively stable political environment.
- Egypt's position as an important regional air hub.
- Investment in education.
- Major player in the Arab-Israeli peace process.

Threats

- Militant attacks pose a downside risk to revenues come from the tourism sector.
- Sizable fiscal deficits will cause large borrowing requirement.
- Worsening corruption profile.
- Geopolitical and local tensions.
- Low growth in the public and private consumption and high unemployment could lead to political resistance to privatization plans.

2- RISK SUMMARY

POLITICAL RISK

We expect the military to remain the key player in government for the future, even as the country returns to democratic rule. The political risks in Egypt could rise in the coming period due to lack of political reforms and unstable security situation in Sinai and rumored disputes within the ruling elite. In addition, corruption and poverty could rise the protest against the government in the future.

ECONOMIC RISK

Egypt's medium-term growth is promising but growth will remain far below potential due to weaker tourism sector and lower than expected expansion in fixed investment. In addition, growth in consumption both in the public and private sector remained low and high unemployment could lead to political resistance to privatization plans. However, the long-term outlook is more positive as banking, housing and infrastructure sector provide significant growth opportunities. Over the longer term, we see significant potential for oil and gas exports as the Western Desert has shown the remarkable hydrocarbon potential. In addition, manufacturing sector export is also promising as the investment in the autos and food sectors especially with the devaluation in the Egyptian pound could boost competitiveness.

OPERATIONAL RISK

Strong trade union presence, security risks and inadequate education system are the main risks for the Egypt's operating environment. However, Egypt's rising incomes and urbanization rates, good international supply chain connections and trade infrastructure could encourage investment in the coming period. While the country has a good to the international financial markets, Egypt should develop its tax payment system and financial sector. In order to do this, reforms are underway for the financial system and the tax regime, which could improve the operating environment for businesses.

CORE VIEWS

- We expect moderate growth in 2017 and the growth will be driven by the fixed investment, while consumer and government spending could remain suppress by fuel subsidy reform.
- The fiscal and net export position will improve slowly due to fuel subsidy reform.
- Hikes to domestic energy prices could further pressure the inflationary outlook.
- Egypt's geopolitical importance will provide that an IMF agreement is in early-2017.
- A failure to secure external financing (whether through the IMF or bilateral aid) will raise the risks of a devaluation of the Egyptian pound.
- As the Egyptian economy needs more reforms to strengthen its fragile economy, the authorities should maintain the IMF supported economic reform program seriously.
- Structural weaknesses, such as modestly improving employment picture, could prevent more robust consumer spending in the near term period.

3- ECONOMIC OUTLOOK

Main Economic Indicators				
	2014	2015	2016f	2017f
Nominal GDP, USD bn	296,7	315,5	311,8	212,6
Real GDP growth, % y-o-y	2,2	4,2	3,8	4,0
Consumer price inflation, % y-o-y, ave	10,1	11,0	10,2	18,2
Budget balance, % of GDP	-12,1	-10,4	-11,2	-9,9
Current account balance, % of GDP	-0,8	-3,7	-5,8	-5,2

Source: IMF World Economic Outlook, October 2016, BMI

A&T Bank View: *We expect Egyptian economy to grow at a modest pace due to damaged tourism industry, low growth in both public and private consumption and modestly improving employment market, which will prevent quick recovery in the medium-term period. However, fixed investment and oil and gas exports along with the new construction projects will continue to help country's economic development in the coming period.*

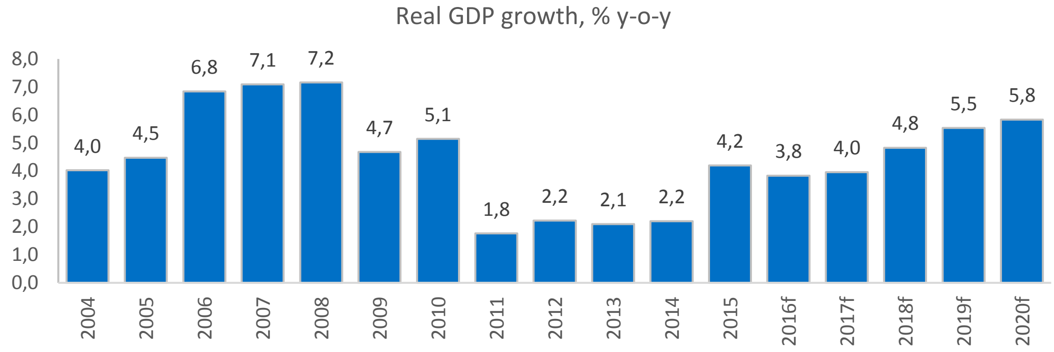
According to our core view, the key development challenges facing the government will be: reducing high inflation, bringing down youth unemployment, improving energy management, dealing with a structural fiscal deficit and solving public debt issues that have not been successfully managed despite an increase of the fiscal revenues from an extended tax base and subsidy reforms. Meanwhile, it is mandatory to ensure that subsidy reforms should not hurt the lower-income population and must ensure social justice in the country. Growth will be driven by the fixed investment and oil&gas exports in the coming period, however both public and private consumption will remain subdued due to fuel subsidy reform, rising inflation, the interest rates and the lackluster growth in the tourism sector.

We give more attention to the Egypt's economic reform program supported by the IMF, which will help to bring Egypt's economy to its full potential. The IMF has approved a three-year, USD12bn loan in November 2016 to support the government's home-grown comprehensive economic reform plan. Accordingly, the plan mainly includes;

- Flexible exchange rate regime to remove overvaluation, rebuild reserves, and provide buffers for external shocks,
- Monetary tightening to contain inflation,
- Fiscal consolidation to ensure medium-term public debt sustainability,
- Strengthening social safety nets and increasing pro-poor spending to offset impact of the reforms on the vulnerable,
- Structural reforms to promote inclusive growth, create jobs, increase and diversify exports, improve the business environment, and strengthen public finance management.

While political instability, regional security issues and the global economic slowdown have negatively affected the Egyptian economy, we expect the massive economic reform package will boost economic growth with improving the business climate over the long run period. Egypt's high fiscal deficit will decline in the coming period on the back of subsidy cuts and the USD12bn IMF loan deal. The recovery in tax revenues with the improvement of the economic condition will also improve the fiscal position.

According to the IMF's latest evaluation note, tax revenues is expected to increase by 2.5% of GDP and the before the end of March 2017, Egypt will introduce a simplified tax regime for small- and medium-sized enterprises, where smaller tax payers will pay a reduced flat rate on annual recorded turnover. The value-added tax (VAT), which was adopted in August 2016, will help strengthen budget revenues. To protect the most vulnerable segments of society, the new VAT includes exemptions for most staple foods consumed by the poor.



Source: IMF World Economic Outlook, October 2016

Our expectation for a decline in the fiscal deficit is partly predicated on a recovery in tax revenues with a gradual improvement in the real economy. Tax revenues and energy subsidy reforms will help to gradual recovery in the fiscal deficit. However, high inflation, depleted reserves and falling consumer confidence could prevent to do more subsidy cuts in the coming period.

In monetary policy side, we expect Egypt to continue rising interest rates in the coming period to control its high rates of inflation and support the currency. Controlling inflation remains a key challenge for the Central Bank of Egypt (CBE). The CBE devalued the local currency rate against the dollar with intending to provide the required climate for economic development, job creation, attracting foreign investment, and bolstering confidence in the banking system and its ability to finance major projects. At the same time raised its key interest rate by 550 basis points in 2016 to 14.75% to tackle rising inflation and ensure price stability. In addition, with considering fixed exchange rates negative effects to the economy, as external competitiveness was undermined, foreign reserves were depleted, and foreign exchange shortages negatively affected investment, CBE decided to liberalize its foreign exchange market as part of the IMF reform program. Maintaining a flexible exchange rate regime will help to improve Egypt's external competitiveness, support exports and tourism and attract foreign investment. This will also allow the CBE to rebuild its international reserves, according to IMF.

On a sectoral basis; Egypt has a strong potential in the construction sector; as power capacity, social housing projects, railway infrastructure and transport infrastructure projects are underway. Government support for public-private-partnerships is increasing and a greater number of foreign firms taking an interest in the market. However, deterioration in the security environment is the main risk for the sector, which could deter investors.

Previously one of the most popular regional tourism destinations, particularly amongst sun-seeking European holiday-makers, Egypt's tourism industry suffered from the high profile terrorist attacks on tourism destinations, political instability, the downing of a Russian civilian jet and subsequent suspension of flights last year. We expect gradual recovery in the sector as security concerns exist and following the bomb on the passenger plane in Egypt's Sinai Peninsula in October 2015, the U.K. and Russia, which together account for around 30% of tourist arrivals, still have travel restrictions on Sinai province, according to BMI. Despite continuing fragilities in the sector, tourism sector representatives in Egypt see gradual recovery in the tourism sector as they said the government has exerted the utmost effort to develop Luxor's infrastructure and touristic sites, in accordance with international standards.

FOREIGN TRADE OUTLOOK

A&T Bank View: *Net export will be the main driver of the uptick in Egyptian economic activity in the coming period as we see significant potential for oil and gas exports as the prospects for the Western Desert are particularly promising, given it has been underexplored and provides comparatively low-cost onshore development opportunities.*

Egypt trade policy mainly dependent on the mineral fuels, oils and distillation products while this products export share is 30.7% in total exports and 7.8% in total imports. If we look at the countries energy export outlook, we see some challenges, such as domestic consumption and a lack of investment in production with higher fuel costs can deteriorate the country's net energy export condition in the future. In the long-term period, we see Western Desert as an underexplored area for oil and gas exploration while this area has shown the significant hydrocarbon potential. Egypt is a net exporter of crude oil and a net refined products importer. Egypt imports some crude oil from Persian Gulf states with Kuwait and Iraq important suppliers. The largest exports country for Egyptian liquids is India, which takes high volumes of liquid petroleum gases. The falling oil production is the main risk for the country's net oil export in the coming period. For this reason, country should take more consideration to exploration of new oil and gas areas in the future.

Egypt Foreign Trade Indicators

Indicator Name	2014	2015	2016	2017f
Goods and services exports, USDbn	43,8	44,3	35,2	37,8
Goods and services exports, USDbn, % y-o-y	-11,1	1,2	-20,5	7,3
Goods and services exports, % of GDP	14,7	14,0	11,3	17,8
Goods and services imports, USDbn	76,5	77,8	70,7	70,9
Goods and services imports, USD, % y-o-y	2,1	1,8	-9,1	0,2
Goods and services imports, % of GDP	25,8	24,7	22,7	33,3
Balance of trade in goods and services, USDbn	-32,7	-33,6	-35,5	-33,1
Balance of trade, USD, % y-o-y	27,6	2,6	5,9	-6,8
Balance of trade, % of GDP	-11,0	-10,6	-11,4	-15,6

Source: BMI

If we look at the country's general export and import trend, country's goods and services exports fell by 20.5% in 2016 in compared to previous year and stood at USD35.2bn. Main exported goods are mineral fuels, oils, distillation products (30.7%), electrical, electronic equipment (6.3%) and edible fruit, nuts, peel of citrus fruit (5.4%). Main export partners are EU (27.7%), Saudi Arabia (9.1%) and Turkey (5.8%).In import side, country's goods and services imports decreased by 9.1% and realized as USD70.7bn at the end of 2016. Main imported goods are machinery, nuclear reactors, boilers (12.5%) and vehicles other than railway, tramway (7.8%). Main import partners are EU (32.4%) China (13%) and USA (5.9%).

Import Partners	Value (Million Euro)	Share (%)
World	62,901	100,0
EU	20,390	32,4
China	8,196	13,0
USA	3,693	5,9
Turkey	2,835	4,5
Russia	2,766	4,4
Saudi Arabia	2,580	4,1
Brazil	2,276	3,6
South Korea	2,088	3,3
Ukraine	1,991	3,2
India	1,943	3,1

Export Partners	Value (Million Euro)	Share (%)
World	19,035	100,0
EU	5,265	27,7
Saudi Arabia	1,723	9,1
Turkey	1,100	5,8
UAE	977	5,1
USA	974	5,1
India	778	4,1
Libya	504	2,6
Jordan	494	2,6
Sudan	460	2,4
Canada	438	2,3

Source: European Commission

4- BANKING SECTOR OUTLOOK

A&T Bank View: *The rising interest rates and the subdued economic activity are the main risks for the banking sector, which would decelerate the lending growth. However, helped by the banks large holdings of government securities, profitability will remain relatively robust over the coming quarters.*

The sector's asset expanded 15.4% (in dollar terms) in 2015 to reach the USD317.6bn and client loans increased by 15% to USD100.5bn in 2015, in compared to 2014. On the funding side, client deposits, which have been a traditional major contributor of the sector's activity growth, grew by 12.2% in 2015 in compared to previous year and reached to USD244.6bn. As of July 2016, the total assets of the Egypt's banking sector rose by 12.2% in compared to the same month of the previous year and reached to USD325.4bn and client loans increased by 14.5% to USD105.7bn in the same period.

On the funding side, client deposits grew by 5.8% in July 2016 in compared to the same month of the previous year and reached to USD240.7bn. In the same month, while loan to deposit ratio realized as 44%, loan to asset ratio stood at 32%.

Commercial Banking Sector (as of July 2016)				
	Total Assets	Client Loans	Bond Portfolio	Other
July 2015, EGPbn	2.268	721,9	1.015,3	531,1
July 2016, EGPbn	2.892	938,9	1.299	654,3
% change y-o-y	27,5%	30,1%	27,9%	23,2%
July 2015, USDbn	290,0	92,3	129,8	67,9
July 2016, USDbn	325,4	105,7	146,1	73,6
% change y-o-y	12,2%	14,5%	12,6%	8,4%
	Liabilities and Capital	Capital	Client Deposits	Other
July 2015, EGPbn	2.268	141,2	1.779,5	348
July 2016, EGPbn	2.892	166	2.139	588
% change y-o-y	27,5%	17,5%	20,2%	69,0%
July 2015, USDbn	290,0	18,1	227,5	67,9
July 2016,USDbn	325,4	18,7	240,7	73,6
% change y-o-y	12,2%	3,4%	5,8%	8,4%

Key Ratios (as of July 2016)				
Loan/deposit ratio	Loan/asset ratio	Loan/GDP ratio	GDP Per Capita, USD	Client Deposits per capita, USD
44%	32%	34,3%	4.102	2.599

Source: CBE, BMI

According to latest data from the CBE, banking sector assets rose by 11.3% annually (in dollar terms) in the first eight months of 2016 and reached to USD329.3bn, above the five-year average of 4.3%. In part, this reflects an acceleration in loan growth, which increased by 8.2% in Q216, its fastest pace of growth since Q209. We expect asset and lending growth to continue, but at a slower pace, over the coming quarters, due to rising interest rates and a weaker currency.

According to the CBE, NPL ratio fell to 5.9% by the end of June, compared to 6.7% in March 2016 (which realized as 7.1% in 2015, 8.5% in 2014 and 9.3% in 2013). Banks operating in Egypt have allocated loan provisions to NPLs at a rate of about 99% of the total NPLs in June, almost the same as in March.

In addition, the CBE indicated that the private sector accounted for 70.6% of the total loans granted by banks to their customers at the end of June, compared to 74.9% at the end of March. While, FX loans accounted for 27.8% of the total stock of credit outstanding and FX deposits accounted for 21.2% of the total, devaluation in the currency will hit borrowers' repayment capacity with increasing the loan loss provisioning in 2017.

Egypt Commercial Banking Sector							
Indicator Name	2014	2015	2016f	2017f	2018f	2019f	2020f
Total assets, USDmn	275.198	317.551	191.308	207.433	221.729	233.498	244.318
Total assets, EGPmn	1.968.380	2.485.501	3.156.586	3.630.074	4.101.984	4.553.202	5.008.522
Total assets, % of GDP	93,7	102,3	106,6	100,4	93,7	89,4	85,6
Total assets, % y-o-y (EGP)	16,9	26,3	27,0	15,0	13,0	11,0	10,0
Client loans, EGPmn	624.961	786.655	1.054.118	1.159.529	1.263.887	1.364.998	1.460.548
Client loans, USDmn	87.375	100.504	63.886	66.259	68.318	70.000	71.246
Client loans, % of GDP	29,7	32,4	35,6	32,1	28,9	26,8	25,0
Client loans, % y-o-y (EGP)	14,4	25,9	34,0	10,0	9,0	8,0	7,0
Client deposits, EGPmn	1.559.764	1.914.552	2.297.462	2.711.006	3.117.656	3.522.952	3.945.706
Client deposits, USDmn	218.070	244.606	139.240	154.915	168.522	180.664	192.473
Client deposits, % of GDP	74,2	78,8	77,6	75,0	71,2	69,2	67,5
Client deposits, % y-o-y(EGP)	18,5	22,8	20,0	18,0	15,0	13,0	12,0
Loan/deposit ratio	40,1	41,1	45,9	42,8	40,5	38,8	37,0
Loan/asset ratio	31,8	31,7	33,4	31,9	30,8	30,0	29,2

Source: CBE, BMI

Return on average assets of banks operating in the Egyptian market stabilized at around 1.5% during June, unchanged from March. Return on average equity stood at 24.4%, while net interest margin remained at 4%. With regard to capital adequacy, the CBE revealed that the capital base to risk weighted assets declined to 13.8% in June from 14% in March. Tier 1 capital to risk-weighted assets also fell to 12% in June compared to 12.2% in March. Despite challenging macroeconomic environment, profitability of the banking is expected to increase in the coming period as increasing interest rates and a reliance on Treasuries for fiscal deficits will provide a relative stable source of profitability for the Egyptian banks (government treasury bills account 43% of total banks assets).

If we look at the Egypt banking system structure, there are approximately 2.5 million small and medium enterprises (SME), representing 75% of the total employed workforce. Despite banking reforms, access to finance is still restricting the business environment for small and medium entrepreneurs. Banks have been suspicious of SME lending because low returns and the affiliated high risk. Almost 10% of Egyptians have an account at financial institutions, which represents a very low level of financial inclusion.

The government is planning to force banks to lend to SMEs over the coming months, which will harm the banking sector. The Egyptian government's aim is to increase bank lending to the SME sector to USD25bn by end-2020, equivalent to 26% of total banking sector loans. While this drive could have a positive impact on the economy (98% of Egyptian businesses are SMEs) it will force banks to lend to weaker borrowers to fulfil the lending quotas.

Indeed, the central bank set a 5% annual maximum lending rate for SME loans, well below the current yield on local treasury bonds which Egyptian banks have relied on for profitability given that they offer around 12% for two-year paper. As inflation is trading above 10%, in real terms this will be a net loss.

Financial Soundness Indicators	2015		2016	
	September	December	March	June
Capital Adequacy				
Capital Base / Risk weighted Assets	13,2	13,7	14,0	13,8
Tier 1 Capital / Risk-weighted Assets	11,3	11,7	12,2	12,0
Common Equity / Risk-weighted Assets	11,0	11,4	11,5	11,7
Leverage	5,2	5,4	5,2	5,1
Asset Quality				
NPL Ratio	7,2	6,8	6,7	5,9
Loan Provisions / Non-performing Loans	99,0	99,0	99,0	99,0
Loans to Private Sector / Loans to Customers	75,9	76,4	74,9	70,6
Earnings				
Return on Average Assets	1,3	1,3	1,5	1,5
Return on Average Equity	18,9	18,9	24,4	24,4
Net Interest Margin	3,7	3,7	4,0	4,0
Liquidity				
Average Liquidity Ratio:				
Local Currency	59,6	59,0	59,9	55,2
Foreign Currencies	48,9	50,2	53,0	60,5
Securities/ Assets	23,0	24,1	23,1	22,0
Deposits / Assets	76,7	77,1	74,7	74,7
Loans / Deposits:				
Total	42,0	41,5	42,6	44,5
Local Currency	35,2	35,5	36,9	39,5
Foreign Currencies	69,1	66,4	64,4	64,1

Source: CBE

SWOT – Banking Sector

Strengths

- The Commercial Banking sector is large in absolute terms and total assets, loans and deposits are set to grow at double-digit rates.
- Banks have low loan/deposit ratios.
- Most private sector banks are trying to improving infrastructure, developing a brand or introducing new products and services.
- Diminishing political risks could support the banking sector growth.
- Most Egyptian banks are well capitalized and their credit quality is still high in compared to regional standards.

Weaknesses

- Government's lack of implementing reform package and privatize the remaining State Owned Commercial Banks. There has been some progress in rationalizing the Commercial Banking sector.
- There are still dozens of small banks in what is an overly fragmented market.

- Significant investment by the government and State-Owned Commercial Banks in Joint Venture banks is a negative factor.
- Sizeable amounts of money are involved in inefficiently small institutions, often for political rather than commercial reasons.
- Banks have difficulty in finding attractive projects to finance.

Opportunities

- European banks have been curious to sell some of their local Egyptian subsidiaries as they shore up operations and focus on core markets. This could provide banks in the Gulf with some attractive investment opportunities.
- The recapitalization, privatization and reforming process will increase the attractiveness of the banking sector.
- The Egypt could develop the Islamic finance in the coming period.
- The construction and energy sectors are the main development areas, which could increase the lending growth.

Threats

- The ongoing political transition could pressure the asset quality.
- Poverty and low ability to saving could hinder banking sector development.
- Rising inflation, slowing economic growth and devaluation in the Egyptian pound will hit borrowers' repayment capacity.
- Government is planning to force banks to lend to SMEs over the coming months, which could put further pressure to the banking sector.

List of Banks Operating in Egypt

1-Ahli United Bank (Egypt)
2-Al-Watany Bank of Egypt
3- Arab African International Bank
4-Arab Bank
5- Arab Banking Corporation - Egypt
6-Audi Bank SAE
7- Bank of Alexandria
8-Bank of Nova Scotia
9-Banque du Caire
10-Banque Misr
11- Barclays Bank Egypt
12-Blom Bank Egypt
13-BNP Paribas
14- Citibank Egypt
15- Commercial International Bank (Egypt)
16-Credit Agricole Egypt
17-Egyptian Arab Land Bank
18-Egyptian Gulf Bank
19-Egyptian Saudi Finance Bank
20-Export Development Bank of Egypt
21-Faisal Islamic Bank of Egypt
22-Federal Arab Bank for Investment & Development
23-Housing and Development Bank
24-HSBC Bank Egypt SAE
25-Industrial Development & Workers Bank of Egypt
26-Mashreqbank
27-Misr Iran Development Bank
28-National Bank for Development
29-National Bank of Abu Dhabi
30-National Bank of Egypt
31-National Bank of Greece
32-National Bank of Oman
33-National Societe Generale Bank
34-Piraeus Bank - Egypt
35-Principal Bank for Development and Agricultural Credit
36-Societe Arabe Internationale de Banque
37-Suez Canal Bank
38-Union National Bank - Egypt
39-United Bank

Source: CBE, BMI

5- TURKEY & EGYPT ECONOMIC RELATIONS

Turkey exports to Egypt decreased by 12.5% to USD2.7bn in 2016 and imports rose by 18.7% to USD1.4bn in compared to 2015. The trade volume of Turkey to Egypt is standing at USD4.2bn in 2016, lower than trade volume of 2015, which amounted as USD4.3bn.

Egypt mainly imports mineral fuels, oils, distillation products, iron & steel and machinery, nuclear reactors & boilers from Turkey, while mainly exports plastics, cotton, articles of apparel, accessories and manmade staple fibres to Turkey.

Egypt-Turkey Foreign Trade Relationship				
Years	Export (USDmn)	Import (USDmn)	Trade Balance	Trade Volume
2010	2.251	926	1.324	3.177
2011	2.759	1.382	1.377	4.142
2012	3.679	1.342	2.337	5.021
2013	3.200	1.629	1.571	4.829
2014	3.298	1.434	1.863	4.732
2015	3.125	1.216	1.909	4.341
2016	2.733	1.443	1.290	4.177

Source: Turkstat

Turkey's Exports to Egypt by Products (USDmn)	2013	2014	2015	Share in Total Export
Mineral fuels, oils, distillation products	1.164	861	619	19,8%
Iron and steel	294	329	484	15,5%
Machinery, nuclear reactors, boilers	187	203	228	7,3%
Articles of iron or steel	121	124	152	4,9%
Vehicles other than railway, tramway	109	200	139	4,5%
Plastics and articles thereof	121	141	138	4,4%
Electrical, electronic equipment	103	117	110	3,5%
Carpets and other textile floor coverings	42	68	78	2,5%
Inorganic chemicals, precious metal compound, isotopes	67	88	77	2,5%
TOTAL	**3.200**	**3.298**	**3.125**	

Source: Trademap

Turkey's Imports From Egypt by Products (USDmn)	2013	2014	2015	Share in Total Import
Plastics and articles thereof	306	358	326	26,8%
Cotton	118	101	131	10,8%
Articles of apparel, accessories, not knit or crochet	114	109	112	9,2%
Manmade staple fibres	73	69	79	6,5%
Manmade filaments	61	79	79	6,5%
Inorganic chemicals, precious metal compound, isotopes	162	125	65	5,4%
Miscellaneous chemical products	74	72	52	4,3%
Iron and steel	108	63	32	2,6%
Copper and articles thereof	23	8	30	2,5%
TOTAL	**1.629**	**1.434**	**1.216**	

Source: Trademap

Turkish Firms Recent Activities In Egypt:

- **BIM:** The company has 140 stores in Egypt. The company plans to increase its stores in the North Africa.
- **Hayat Kimya:** It has invested in Egypt with hygiene products.
- **Eroglu Holding:** The company has a denim fabric factory, the name of the factory is DNM.
- **Elvan Gida:** The company has invested EUR30mn for the two factories in Egypt.

6- APPENDIX

EGYPT BANKS PROFILES:

(Source: BMI)

1- Bank of Alexandria

Strengths

- Access to the financial backing and know-how of Intesa Sanpaolo.
- Strong branch network across Europe.
- IFC backing enhances competitiveness and capital.
- Strong capital ratios.
- Net profit up 9.5% in 2014.

Weaknesses

- High level of NPLs.

Opportunities

- The bank's links with Intesa Sanpaolo should give it greater access than the Egyptian state-owned commercial banks to business from multinational corporations looking to build activities in Egypt.
- SMEs, microfinance and mortgage lending should all grow solidly with International Finance Corporation's backing.
- Recorded an increase in retail and corporate deposits in 2014.
- NPL ratio declined in 2014.
- Net income up by 12.5% in 2014.

Threats

- Weak economic recovery and political instability.
- Financial sector is struggling to encourage the country's citizens to open savings accounts.
- Admin expenses up by 7.4% in 2014.

<u>Overview</u>

Bank of Alexandria (also called 'AlexBank') was a state-owned bank, 80% of which was sold for USD1.6bn (EGP8.85bn) in December 2006 to Italy's Intesa Sanpaolo. Intesa is one of Europe's largest banking groups, with a market capitalization of EUR34.1bn at the start of February 2014. The bank's role in the national economy significantly expanded after privatization, and today it has 180 branches and over 5,000 employees serving more than 1.5 million customers in Egypt. In March 2009, the International Finance Corporation (IFC), the private finance wing of the World Bank Group, acquired a 9.75% stake in Bank of Alexandria for USD200mn, which was the IFC's second-largest ever equity investment. This left Intesa Sanpaolo with a 70.25% share and the Egyptian government with 20%.

Bank of Alexandria's management hoped the deal would boost the bank's competitiveness in long-term finance, including mortgage lending, a growing sector in Egypt after reform of the country's mortgage legislation. In January

2014, the IFC and AlexBank signed a trade finance agreement to help the bank's business clients in Egypt expand into new markets.

The bank partners with other banks and companies as part of the Euro-Mediterranean Partnership to finance trade between local and northern Mediterranean markets and boost exports. It has started to take a significant market share in the retail market, with competitive products such as loans to civil servants and the private sector, autos loans and mortgages. A sizeable portion of Bank of Alexandria's loan portfolio is extended to national and international companies, particularly those operating in the industrial sector. The bank also participates in syndicated loans, which helps to improve profits and risk management.

Like NBE and Banque du Caire, Bank of Alexandria is a significant participant in joint ventures in the commercial banking sector and elsewhere. At the end of 2012, Bank of Alexandria accounted for about 3% of the total assets of the Egyptian banking system. Intesa Sanpaolo felt the impact of the recession and credit crunch, with profit falling in Q309. The group increased provisioning at the expense of profitability to defend against NPLs, which have risen, but remain at a low level. Unlike some other Western European banks, it has ridden out the crisis well and should be in a position to benefit from restored growth.

Highlights

AlexBank reported net profit growth of 9.5% y-o-y to EGP724mn in 2014, despite the 5% increase in the enacted tax rate. Profit before tax reached EGP1.074mn during the same period, up by 16.3% on 2013. Net Income increased by 12.5% y-o-y to reach EGP2.689mn in 2014, backed by the solid growth of "core revenues" interest income and commissions. Net interest income raised by 11.2% (to reach EGP2.276mn), boosted by increased lending activity and liability management, while net fee and commission income grew noticeably by 19.7%, mainly due to expanded business volumes across all services.

Total administrative expenses increased by 7.4% (at EGP1.357mn) in 2014, as a combined result of personnel cost almost unchanged (+1.1%) and material growth of 23.6% in other administrative expenses, which include the extraordinary contributions to country's development programmes for about EGP33mn. The normalised growth of other administrative expenses, adjusted for the impact of these extraordinary items, would stay at 14.2%. Impairment losses on loans declined by 10% y-o-y, meanwhile, thanks to improvement in collection.

The bank maintained a tight monitoring on asset quality, reducing the NPL ratio by -1.2 percentage points and increasing the NPL coverage ratio by 5.7 percentage points. Loans to customers (net) increased by 7.2% y-o-y (at EGP21.065mn), mainly thanks to the contribution of retail banking, up 13.3%. The bank affirmed its leading position in retail loans with a market share of 8%. Customers' deposits grew by EGP2.668mn (+7.9% y-o-y) to reach EGP36.592mn, backed by the sound performance of retail (+6.8%), coupled with marked growth of corporate deposits (+14.2%).

The Loan/Deposit ratio reduced to 57.6%, compared to 59.4% at the end of 2014. By the end of the same period, AlexBank was in a comfortable liquidity position and displayed a Capital Ratio at 15.5%, which indicates a substantial capital buffer enabling to support its organic growth plans.

Bank of Alexandria Stock Market Indicators

	2009	2010	2011	2012	2013	2014	2015	March-2016
Market Capitalisation EGP	11,352	11,352	11,352	11,352	11,352	11,352	11,352	11,352
Market Capitalisation USD	2,070	2,067	2,067	2,067	2,067	2,067	2,067	2,067
Share Price EGP	28,38	28,38	28,38	28,38	28,38	28,38	28,38	28,38
Share Price USD	5,17	5,17	5,17	5,17	5,17	5,17	5,17	5,17
Share Price USD, % change (eop)	-0,9	0,0	0,0	0,0	0,0	0,0	0,0	na
Change, year-to-date	na	na	na	na	na	na	na	na
Shares Outstanding (mn)	400	400	400	400	400	400	400	na

Bank of Alexandria Balance Sheet (EGPmn)								
	2008	2009	2010	2011	2012	2013	2014	2015
Total Assets	31,426	32,136	37,218	37,811	41,112	40,920	44,442	47,510
Loans & Mortgages	13,114	16,141	18,086	19,382	19,420	19,601	21,065	24,794
Total Deposits	25,288	25,091	27,614	30,781	33,467	33,924	36,592	37,566
Total Shareholders' Equity	2,328	2,873	3,679	3,709	4,291	4,54	4,685	5,483
Earnings per share (EGP)	1,02	1,18	1,48	0,75	1,41	1,65	1,81	3,48

Bank of Alexandria Balance Sheet (USDmn)								
	2008	2009	2010	2011	2012	2013	2014	2015
Total Assets	5,700	5,859	6,411	6,269	6,463	5,892	6,215	6,074
Loans & Mortgages	2,379	2,943	3,116	3,214	3,053	2,822	2,946	3,169
Total Deposits	4,587	4,575	4,757	5,104	5,261	4,884	5,117	4,802
Total Shareholders' Equity	422	524	634	615	675	654	655	701
Earnings per share (EGP)	0,19	0,21	0,26	0,13	0,23	0,24	0,26	0,45

Bank of Alexandria Key Ratios (%)								
	2008	2009	2010	2011	2012	2013	2014	2015
Return on Assets	1,2	1,7	1,9	0,9	1,6	1,6	1,7	3,0
Return on Equities	17,4	20,2	20,0	9,0	15,6	15,0	15,7	27,3
Loan Deposit Ratio	59,8	72,8	72,7	70,5	65,7	64,9	63,9	72,0
Loan Asset Ratio	48,1	56,8	53,9	57,4	53,5	53,8	52,6	56,9
Equity Asset Ratio	7,4	8,9	9,9	9,8	10,4	11,1	10,5	11,5
Total Risk Based Capital Ratio	na	na	14,3	16,4	14,4	15,4	15,5	13,7
Tier 1 Capital Ratio	na	na	na	na	na	na	na	na

2- Banque du Caire

Strengths

- Large market share with Banque Misr, second in size only to National Bank of Egypt.
- Recorded record profits in FY13.
- Total assets rose in FY13.

Weaknesses

- Financial sector is struggling to encourage the country's citizens to open savings accounts.
- History of high NPLs.

Opportunities

- Synergies with Banque Misr**.**
- Egypt's large population and relatively low level of banking penetration.
- Egypt's Banque du Caire is also establishing itself as a microfinance and SME specialist.
- Increase in both the loan and deposits portfolios in FY13.
- Steady expansion of ATM network.

Threats

- Political instability and economic weakness.
- Insecurity over the possibility of a future demerger between Banque Misr and Banque du Caire.

Overview

Banque du Caire was the third-largest state owned commercial bank in Egypt when it was merged into Banque Misr at the end of 2006. In 2008, the government aimed to sell Banque du Caire to the private sector, in what would have been the largest privatisation deal since the sale of Bank of Alexandria to Intesa Sanpaolo in 2006. However, the government cancelled the auction in June 2008, apparently because none of the five bidders (National Bank of Greece, Standard Chartered, Samba, Mashreqbank and a Jordanian/Saudi consortium) were prepared to pay the USD1.6bn the government wanted for a 67% stake.

Correct to the close of December 2014, Banque de Caire has 235 branches and 497 ATMs throughout Egypt, and serves around 3.8mn customers. The bank has made a concerted effort to expand and provide credit for significant infrastructure and energy projects. In December 2013, it provided a EGP1.6bn loan to the National Authority for Tunnels to renovate the fleet for the busy Cairo Metro line 1, the second such disbursement after a EGP590mn credit line to support development of the Cairo Metro line 3 in November 2010.

It is also expanding its retail operations, specializing in microfinancing, in which it had a 48% market share in 2012. According to The Banker magazine in June 2013, Banque de Caire was ranked the top bank in the Middle East and seventh worldwide in terms of return on capital (which reached 58.7% in 2012).

Highlights

For the second successive year, Banque du Caire achieved record profits amounting to EGP1.7bn in the fiscal year 2013 compared to EGP1.4bn in 2012 with a 22.48% increase equivalent to EGP0.3bn. Moreover, net profits after taxes reached EGP1.042bn achieving a return on equity of 31.96% which is considered optimal in the banking industry. Also, net interest income increased by EGP0.6bn in 2013 to reach EGP2.9bn against EGP2.3bn in the fiscal year 2012.

The bank saw an increase in assets by EGP9bn to reach EGP65bn in the fiscal year 2013 compared to EGP56bn in the fiscal year 2012. The return on assets reached 1.72% as the result of the bank's strategy of focusing solely on the most appropriate policies that achieve the best returns on assets. Meanwhile, the total loans portfolio/balances reached EGP25bn against EGP22bn in 2012 with a EGP3bn increase. With regards to the deposits portfolio, it grew by a 18% increase of EGP9bn to jump from EGP 49bn in 2012 to EGP58bn by the end of 2013 due to the launch of several new products including various types of certificates of deposit in local and foreign currency to satisfy the different needs of the diverse customer segments within the local market. Also, loans-to-deposits ratio reached almost 42.82% against 42.77% in the fiscal year 2012.

Moreover, total revenues from the core banking business represented interest income and fees and commissions reached EGP3.4bn compared to EGP2.7bn in 2012's through the increase of interest related to loans, treasury bills and bonds. The increased profits has been reflected in the increase of the return on the shareholders' equity that reached 31.96% compared to 27.50% during 2012, where the bank achieved a total gross profit of EGP1.7bn against EGP1.4bn 2012.

3- Banque Misr

Strengths

- Large market share, second only to National Bank of Egypt.
- High-performing money market funds.
- Strong growth in net profits in FY14.

Weaknesses

- Insecurity over possible future demerger with Banque du Caire.
- History of running up non-performing loans.
- High degree of sovereign risk.

Opportunities

- Investments abroad are growing.
- Deposits up 27% in FY14.
- Increasing Islamic banking footprint.
- Capital ratios continue to improve.
- Recorded a 12% growth in lending in FY14.
- Inking of a loan with the CDB in Feb. 2016.

Threats

- Political instability and fragile economic recovery.

Overview

Banque Misr provides corporate, retail and Islamic banking services, and is one of the largest banks in Egypt, with branches at home and abroad, plus a worldwide network of correspondents. At the end of the fiscal year 2013 (ending June 30 2013), the bank had a network of 478 branches across Egypt, five branches in UAE, and one in France, with 12,345 employees.

Banque Misr and Banque du Caire were the second- and third-largest state-owned commercial banks in Egypt when they were merged at the end of 2006. The merger was a part of the government's plan to streamline the commercial banking sector and improve its efficiency. Press reports in 2006 suggested that the combined entity arising from the merger of Banque Misr and Banque du Caire had total assets of about EGP160bn, making it about the same size as the National Bank of Egypt, the largest bank in the country.

The planned demerger and privatisation of Banque du Caire in mid-2008 came to nothing when the banks that showed interest were unwilling to meet the government's asking price. Since the global financial crisis, the privatisation has been postponed indefinitely.

In July 2009, the bank said it expected EGP5.5bn of debts from state companies to be repaid, cutting its stock of bad loans. Previously, Banque Misr was 'virtually bankrupt', vice-chair Mohamed Ozalp said. The repayment was part of the government's efforts to clean up state banks and enable the bank to improve its provisioning. The lender's management was able to settle debts of its portfolio as well as the portfolio it acquired from the Banque de Caire during the period from January 2003 until the end of June 2011, which was worth EGP53.2bn. The total of receivables reached EGP27.7bn, with a payment rate of up to 87% of the value to be paid according to the rescheduling agreements.

Banque Misr holds equities in 222 projects in various fields serving the Egyptian economy. These include 12 joint venture banks, 35 industrial projects, 23 tourism projects, 27 housing projects, 35 agricultural and food projects, 30 financial projects, 24 servicing projects, 16 IT and communications projects and 15 Bahgat Group projects. The bank has also established two of the largest investment funds in the country.

Highlights

Financial indicators have shown noticeable stability and growth in Banque Misr's performance in FY14. The bank's volume of businesses has witnessed a rapid increase that reflected in the performance of main activities as well as the business results during the fiscal year 2014. Banque Misr's financial status surged to EGP274bn on June 30 2014, marking a 26% y-o-y growth from EGP218bn in 2013. Customer deposits also surged by EGP51bn approximately (27%) to EGP240bn from June-end of 2014, in contrast to EGP189bn from June-end of 2013.

Net loans and advances to banks and customers as of June 30 2014 have reached around EGP55bn, representing a 12% growth from EGP49bn last year. With regard to investments, the bank has maintained developing its portfolio of financial investments whether through presenting new contributions or increasing share of investments in a number of companies. As of June 30 2014, Banque Misr's direct investments in 173 companies have recorded

EGP10.5bn, compared to EGP8.7bn a year earlier. Banque Misr allocated EGP493mn of FY14 expenses to employees medical and retirement system. Banque Misr's retail portfolio as of June 30 2014 surged by 31% (EGP1.7bn) to EGP7.2bn, from EGP5.5bn, as of June 30 2014.

In February 2016, Banque Misr signed a USD100mn loan with the China Development Bank (CDB). The five-year loan deal offers a two-year grace period, as the payment will start as of the third year. The loan will contribute to boosting Banque Misr's dollar resources as well as financing strategic projects in Egypt. This deal signals the keenness of the Chinese bank, which has a representation office in Cairo, to boost cooperation with Egyptian banks in all the fields. The China Development Bank provides an opportunity to developing countries, including Egypt, to diversify their resources of financing and expertise to be benefited from in the small and medium sized (SME) projects.

Banque Misr Balance Sheet (EGPmn)							
	2008	2009	2010	2011	2012	2013	2014
Total Assets	153,857	153,504	178,932	177,450	187,843	218,161	274,364
Loans & Mortgages	40,612	45,864	41,443	45,352	43,459	48,733	53,603
Total Deposits	117,569	131,732	144,483	154,475	162,524	188,834	240,204
Total Shareholders' Equity	5,461	6,955	6,920	7,122	12,300	14,475	20,078
Earnings per share (EGP)	0,18	0,19	0,66	0,49	0,63	0,51	1,10

Banque Misr Balance Sheet (USDmn)							
	2008	2009	2010	2011	2012	2013	2014
Total Assets	28,857	27,443	31,419	29,739	31,008	31,080	38,364
Loans & Mortgages	7,617	8,200	7,277	7,600	7,174	6,943	7,495
Total Deposits	22,051	23,551	25,370	25,888	26,829	26,902	33,587
Total Shareholders' Equity	1,024	1,243	1,215	1,194	2,030	2,062	2,808
Earnings per share (USD)	0,03	0,03	0,12	0,08	0,10	0,08	0,16

Banque Misr Key Ratios (%)							
	2008	2009	2010	2011	2012	2013	2014
Return on Assets	0,1	0,1	0,3	0,3	0,4	0,6	1,0
Return on Equities	2,9	2,7	7,3	7,3	7,3	8,7	14,6
Loan Deposit Ratio	49,4	48,0	45,1	35,7	31,9	30,3	26
Loan Asset Ratio	37,7	41,2	36,4	31,1	27,6	26,2	22,8
Equity Asset Ratio	3,5	4,5	3,9	4,0	6,5	6,6	7,3
Total Risk Based Capital Ratio	na	12,9	13,3	13,0	17,1	13,5	13,1
Tier 1 Capital Ratio	na	na	na	na	na	na	na

4- Egyptian Arab Land Bnak

Strengths

- Although smaller than the main state-owned commercial banks, EALB has demonstrated an ability to survive challenging economic and financial conditions.
- Diversification and experience in Jordan.
- Recently settled non-performing loans worth EGP200mn.

Weaknesses

- Like the other Egyptian banks, EALB lacks the ability to realize economies of scale.
- Financial sector is struggling to encourage the country's citizens to open savings accounts.

Opportunities

- EALB will benefit from any substantial improvement in business conditions in Egypt's real estate sector.
- Set to market real estate assets abroad.

Threats

- Political instability could harm growth potential.

Overview

Egyptian Arab Land Bank (EALB) is the result of the 1999 merger between Egyptian Real Estate Bank and Arab Land Bank. The former was established in 1880 and became the largest state-owned Egyptian commercial bank, specializing in real estate lending. The latter was set up to promote real estate lending in Palestine and Jordan from the late 1940s. EALB is one of the largest commercial banks in Egypt and Jordan, with its principal activities in real estate and commercial banking. As of 2014, the bank had 43 branches spread across Egypt, Jordan, and Palestine along with a network of correspondents around the world. As of the same date the bank's assets totalled EGP14bn (USD2.6bn).

In January 2010 EALB opened its second branch in Jordan, in the southern port town Aqaba, which is a major and growing economic center in the country. Aqaba and the surrounding region have received billions of dollars of investment, encouraged by the Aqaba Special Economic Zone that offers an array of benefits to businesses. The branch is at a hospital and is intended to mainly serve staff, patients and visitors.

The bank's geographical diversification and its experience in Jordan, which has a more liberal and developed economy than Egypt, may stand it in good stead domestically, although it is not one of the biggest players. In 2010, Daily News Egypt reported that EALB was in the process of restructuring with an eye to a possible merger with Egypt's Housing and Development Bank (HDB) in the future, though this has not materialized yet.

Highlights

EALB financial data is not currently available in English. Abdel Megeed Mohey El-Din, vice president of EALB, was reported in local press as saying that EALB had made settlement agreements for non-performing loans in the tourism sector worth EGP200mn between July and September 2013. He added that EALB's total NPL portfolio stood at EGP6bn. The industry has been badly affected by recent political turmoil, with a knock on affect on EALB's balance sheet.

In December 2014 it was announced ALB was in talks with five major UAE and Saudi Arabia-based firms to market its real estate assets abroad, reports Amwal Al Ghad, citing EALB Deputy Chairman Adnan El-Sharkawy. The bank will choose three firms among the five for a bid to select the firm that will market EALB's assets in exchange for a commission.

5- National Bank of Egypt

Strengths

- Largest bank in Egypt.
- Impressive global footprint.
- Impressive reductions in NPLs.
- Total assets amount to 25.1% of the domestic banking system.

Weaknesses

- Still holds a relatively high NPL ratio.
- Financial sector is struggling to encourage the country's citizens to open savings accounts.

Opportunities

- 24.7% rise in profits in FY14.
- Total loan portfolio increased in FY14.

- Expanding SME lending footprint.
- Potential merger bid for CIB.

Threats

- Political instability could impact economic recovery.

Overview

National Bank of Egypt (NBE) is a public sector bank that is the oldest and largest commercial bank in the country. Prior to the establishment of the Central Bank of Egypt in 1961, NBE acted as the country's central bank. It was the last of Egypt's public banks to bring in management from the private sector and has historically been burdened by bureaucracy and political commitments. However, following an overhaul it is now considerably stronger.

NBE has an extensive network of 338 branches and offices nationwide. To this may be added NBE's effective international presence through the National Bank of Egypt, New York and Shanghai branches (in USA and China); National Bank of Egypt (UK) Limited; National Bank of Egypt (Khartoum), Sudan; and NBE (DIFC) Limited, plus representative offices in Johannesburg, South Africa; Dubai, UAE; and Addis Ababa, Ethiopia. This is in addition to a vast correspondence network around the globe, (America, Australia, Canada, Europe, MENA, Africa, the Gulf Area). By the end of June 2013, NBE held equity participation in 190 projects covering all the fields of economic activity with total capital of EGP49bn. The Bank's holdings amounted to EGP13.9bn, representing 28% of such projects' total capital.

In line with NBE's support to small- and medium-sized enterprises (SMEs), the total SME loan portfolio reached EGP9.4bn, growing 44% y-o-y. Total finance injected to SMEs amounted to EGP4.6bn during FY13, whether in the form of extending loans to new customers or scaling up finance to existing ones. NBE also re-loaned EGP1.3bn from the Social Fund for Development (SFD) to its customers, commanding the biggest market share. NBE's efforts in this respect culminated in winning the Gold Medal Award for Best SME Banking Reputation in the Middle East from Radar Global. Developing its services and products to provide customers with distinctive services, NBE increased the number of ATMs 1,535 nationwide, with a growth rate of 23% y-o-y; thus NBE commands round one third of the market. POS network expanded to reach 9,169 machines, raising transition volume to EGP2.1bn.

NBE is engaged in a number of development programmes with international institutions, as well as an upgrading and restructuring strategic plan in cooperation with McKinsey & Company. Other development projects are being implemented in collaboration with ING BearingPoint and the European Investment Bank (EIB). Areas to be developed include risk management, human resources IT, OPS/MIS, management and organization, retail, corporate finance and private equity.

In August 2009, the bank said its management shake-up had considerably strengthened its position. Approximately 140 senior and 1,500 junior managers were brought in from April 2008 and several large investments were offloaded just before the economic crisis began, including stakes in Emirati telecoms firm Etisalat and an Egyptian construction firm. Like many public sector banks in North Africa, NBE has traditionally had a relatively high NPL ratio, partly due to its role as a public lender without the bottom line pressures of private banks, though it has improved this considerably in recent years. In February 2016, NBE's investment arm expressed an interest in acquiring CI Capital, a subsidiary of Commercial International Bank (CIB), which had already accepted a EGP1bn (USD128mn) bid from Orascom Telecom and Technology (OTMT). NBE's expression of interest could threaten OTMT's plans to merge CI Capital with Beltone Financial, which it bought in November 2015 for almost EGP650mn.

Highlights

During the FY14, NBE managed to achieve positive performance indicators. Total financial position in June 2014 recorded EGP456.5bn, growing 24.7% y-o-y. Accordingly, NBE's total assets accounted for 25.1% of the total banking system assets. Total deposits reached EGP393.3bn, with a growth rate of 25.8% y-o-y, accounting for 27.5% of the total banking system deposits. Such leap was driven by the introduction of a diversified package of saving pools in local and foreign currencies at competitively lucrative rates. The total retail loan portfolio of the bank reached EGP26.2bn as at the end of June 2014, growing 17.6% y-o-y. NBE had also assumed an active role in funding key strategic economic sectors including oil, power, electricity, gas, telecommunications, air transportation, tourism and contracting. Total large corporate loan portfolio surged 3% to reach EGP85bn as at June 2014.

In line with NBE's support to small and medium sized enterprises (SMEs), the total SME loan portfolio reached EGP13.5bn, growing 36% y-o-y via extending finance to more than 37,000 SME customers. Total finance injected to SMEs amounted to EGP6bn. During FY14 whether in the form of extending loans to new customers or scaling up finance to existing ones. NBE also re-lent an amount of EGP1.3bn from the Social Fund for Development (SFD) to its customers. The number of agreements made with the SFD since its establishment in 1992 amounted to 95, totaling EGP8.3bn. Total loans have risen 8.6% to reach EGP124.6bn accounting for 21.2% of total banking system loans. NBE, hence, commands 25.4% of the banking market growth. Accordingly, net loans reached EGP116.3bn, growing 9% y-o-y. All such efforts resulted in achieving profit (before income taxes) of EGP8.5bn, increasing 18.3% y-o-y. Net profits rose 23.2% to record EGP3.7bn. In light of the above, NBE's long-term obligations rating was upgraded by S&P to B- from CCC+ with a stable outlook in November, 2013.

National Bank of Egypt Balance Sheet (EGPmn)

	2008	2009	2010	2011	2012	2013	2014
Total Assets	224,819	259,077	298,637	306,409	321,460	366,593	456,520
Loans & Mortgages	74,892	75,127	81,600	84,938	95,262	106,786	116,349
Total Deposits	173,683	218,889	244,728	261,090	278,807	312,714	393,252
Total Shareholders' Equity	7,504	8,739	12,350	14,070	13,654	17,950	25,232
Earnings per share (EGP)	na	na	na	0,88	na	na	na

National Bank of Egypt Balance Sheet (USDmn)

	2008	2009	2010	2011	2012	2013	2014
Total Assets	42,166	46,318	52,439	51,351	53,065	52,226	63,835
Loans & Mortgages	14,046	13,431	14,328	14,235	15,726	15,213	16,269
Total Deposits	32,575	39,133	42,972	43,756	46,024	44,550	54,988
Total Shareholders' Equity	1,407	1,562	2,169	2,358	2,254	2,557	3,528
Earnings per share (USD)	na	na	na	0,15	na	na	na

National Bank of Egypt Key Ratios (%)

	2008	2009	2010	2011	2012	2013	2014
Return on Assets	na	0,4	0,7	0,7	0,9	0,9	0,9
Return on Equities	na	11,1	19,0	16,0	20,3	19,2	17,4
Loan Deposit Ratio	54,1	43,2	41,2	35,4	na	36,2	31,4
Loan Asset Ratio	41,8	36,5	33,8	30,2	na	30,9	27,0
Equity Asset Ratio	3,3	3,4	4,1	4,6	4,2	4,9	5,5
Total Risk Based Capital Ratio	na	na	na	10,8	na	9,2	na