



## Middle East Rating & Investors Service

**Banking  
Analysis  
July 2006**

### ARAB AFRICAN INTERNATIONAL BANK (AAIB)

#### Rating (s)

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#### Operating Statistics

(US\$'000)	FYE 2005	FYE 2004	FYE 2003	FYE 2002	FYE 2001	FYE 2000
Net Income	53,441	28,329	13,240	9,475	10,168	16,617
ROAA (%)	2.11	1.94	1.23	0.93	1.01	1.72
ROE (%)	25.74	16.24	8.75	6.59	7.14	11.79
Net Interest Margin (%)	1.96	1.80	1.75	2.02	2.12	2.45
Net Spread (%)	1.50	1.32	1.14	1.49	1.31	1.33
Recurring Earning Power (%)	2.42	2.39	2.15	1.39	1.52	2.56
Cost to Income Ratio (%)	33.77	37.27	42.11	55.36	54.61	48.97

#### Balance Sheet Statistics

(US\$'000)	FYE 2005	FYE 2004	FYE 2003	FYE 2002	FYE 2001	FYE 2000
Total Assets	3,313,215	1,758,331	1,154,765	1,006,301	1,029,324	976,913
Total Capital	207,656	174,415	151,286	143,692	142,413	140,920
Net Loans (%) Customer Deposits	37.02	33.76	34.84	59.20	54.76	62.98
Customer Deposits (%) Total Deposits	76.58	87.74	78.57	58.23	64.34	66.26
Loan Loss Reserve (%) Gross Loans	8.10	8.27	19.21	17.09	16.20	14.23
Problem Loans (%) Gross Loans	10.39	7.49	22.99	21.87	--	--
Capital/Total Assets (%)	6.27	9.92	13.10	14.28	13.84	14.43
Capital (%) Net Loans	29.09	43.27	66.32	54.53	53.13	47.46

\* Financial Year Ends December 31

#### Credit Strengths

The main credit strengths for AAIB are as follows:

- Support from the two major shareholders, CBE & KIA, is expected in case of need.
- Increased market share powered by MAIB acquisition and organic growth.
- Qualified management with sound risk management initiatives.
- Conservative balance sheet.
- Ongoing Restructuring is key to maintaining franchise value.
- Highly Liquid Position based on interbank placements & money market operations.
- Opportunities exist in the retail market.

#### Credit Challenges

The main credit challenges for AAIB are as follows:

- Need to develop a written strategy and business plan.
- Reliance on asset liability management for income generation.
- Concentration risk is evident on both the liability side and the asset side of the balance sheet.
- Scarcer opportunities for good lending in the Egyptian market and intensifying competition.

## Strategy & Competitive Position

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### Support of the Two Main Shareholders Underline the Rating

Since its inception, AAIB has been and still is 49.36% owned by the Central Bank of Egypt (CBE) and 49.36% owned by the Kuwait Investment Authority (KIA). This “government” ownership profile gives the bank a special status being owned by its regulator, CBE<sup>1</sup>, and enjoying the support of two governments jointly. This support has been exemplified in many occasions, the most important of which was the injection of capital by the owners from US\$ 40.0 million to US\$ 400.0 million in the period from 1976-1986, a period where the bank was facing solvency problems. **MERIS** does not foresee that the two main shareholders, CBE and KIA<sup>2</sup>, will consider selling, wholly or partially, their stake in AAIB in the near future particularly with the bank's current attractive returns.

### Acquisition of Misr America International Bank

On May 23<sup>rd</sup>, 2005, AAIB acquired 100% of MAIB shares at US\$ 41.3 mn (EGP 239.5 mn). On August 24<sup>th</sup>, 2005, the extraordinary general assembly of MAIB approved the merger of MAIB into AAIB as of September 29<sup>th</sup>, 2005 under AAIB name. The move was planned to provide AAIB with rapid growth and higher market share in the Egyptian market through MAIB's outreach and customer base. Today, AAIB's total asset base as % of total banking sector assets has more than doubled, accounting for 2.7% of the banking sector assets<sup>3</sup> in Egypt as of FYE 2005 up from 1.2% as of FYE 2004. The acquisition is viewed positively as it helped strengthen AAIB's competitive position in the market, particularly with the influx of foreign banks in the market and the intensifying competition.

MAIB was on the agenda for sale based on the government's strategy of liquidating public sector ownership in joint venture banks. Consequently, the bank was being prepared for sale. The balance sheet, at the time of acquisition, was fairly conservative with a net loan portfolio of US\$ 55 mn accounting for 19% of the bank's balance sheet. Credit activity was fairly stagnant over the last few years and the bank was basically involved in restructuring its NPLs<sup>4</sup>. Liquid assets amounted to more than 50% of the balance sheet size and customer deposits to US\$ 221 mn.

The due diligence process for the acquisition was quite extensive and took a total time frame of 18 months. The major challenges for the merger were the IT and HR. The IT issues have been addressed and successful migration of MAIB data was achieved. MAIB employees have received a general orientation about AAIB followed by specific business area orientation. Approximately 70% of MAIB staff have been evaluated and fairly positioned within AAIB. However, **MERIS** expects that the integration of MAIB employees may take some time to address given cultural differences, processes differences and salary scale differences.

MAIB was established as an investment bank on September 4<sup>th</sup> 1977. It was one of the first foreign joint venture banks. The bank was co-founded by Bank of America, New York. At the time of acquisition, its shareholders were: Misr Insurance Company (50 %), Banque du Caire (32.8 %), Industrial Development Bank (17%) and S.A. Company for Investment – Luxembourg (0.2%). MAIB had a total of 9 branches in Egypt and 337 employees in total. It is a small-sized bank with total assets amounting to approximately US\$ 285.

### No Written Strategy or Business Plan

The yearly budget remains AAIB's main guiding document. Although it clearly outlines the bank's objectives over a one-year time frame, it does not describe where the bank wants to head in the future. We value the existence of a written strategy backed by a business plan, which can provide focus and direction over the next few years, particularly regarding the bank's core corporate business and its target retail market. Currently, the bank is considering hiring an external consultant to help in creating a strategy document to be translated into a business plan.

### Corporate Business Remains Core

AAIB maintains a solid franchise in servicing higher-end private sector companies. Its corporate clientele base is dominated by large well-reputable groups operating in the Egyptian market and the bank is becoming heavily involved in the larger syndication deals in the market; the latest of which was a US\$ 287 mn deal for OCI involving 16 banks where AAIB is the lead manager and global coordinator.

AAIB is continuing its efforts to strengthen its franchise in the corporate market; the bank's qualified calibre and a strict credit culture have been the road map for increasing its corporate business. The bank has embarked on a restructuring plan since 2003 that focused on entrenching a unified credit culture within the bank through reviewing policy manuals; creating a risk management department; streamlining operations between corporate marketing, risk management and credit administration; standardizing credit appraisal procedures through the use of a 10-category ORR system; and emphasizing the centralization of credit approvals. Training of the credit personnel remains to be core where new hires must receive the Introductory Credit Program, and other employees receive a Credit Course by Fitch Training. New sectors have been added to the bank's portfolio

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<sup>1</sup> Two other banks in Egypt enjoy this status, the Arab International Bank and more recently the United Bank.

<sup>2</sup> The two main shareholders must get each other's approval before any one of them is able to sell its shareholding according to the bank's articles of incorporation.

<sup>3</sup> 1% of the banking sector gross loan portfolio.

<sup>4</sup> NPLs amounted to US\$ 56 mn (net of interest in suspense and security in the form of cash, government bonds and acceptable bank guarantees) and were 73% provisioned for.

including shipping, real estate (residential), fertilizers and electricity and power. The bank also acted as the Lead Manager and Global Marketer of the largest three bond issues in Egypt for: Telecom Egypt, Egyptian Cement Company and Orascom Construction Industries.

The bank is also targeting to diversify its corporate-based revenues through increasing its array of services and introducing new products. The new services/products include investment banking, financial advisory services<sup>5</sup>, debt and equity underwriting, derivatives, custody & bookkeeping services, margin lending and structured finance.

**MERIS** believes that increasing competition in the market particularly with the influx of new foreign banks in the market will intensify competition in the corporate lending sector particularly for good lending opportunities and will force thinning spreads. However, AAIB may be able to maintain its competitive position through continued improvement in its level of service and introducing new sophisticated products relative to the market.

## **A Key Opportunity in Retail Banking**

**Acquiring Market.** AAIB has been a pioneer in the retail market in Egypt; first on the acquiring side where AAIB was the first to be granted a license in Egypt in 1980's. The bank maintains a market share of approximately 40% in the acquiring market (Banque Misr 46% and NBE 14%)<sup>6</sup>. Competition is intensifying in this line of business and will continue as new entrants will be granted the license, notably CIB. AAIB is taking steps to maintain its position in that market where the bank has increased the number of POS from 1,600 in 2002 to 2,500 in 2003 to 5,786 as of H1 2006 and is expected to reach 6,472 by end of 2006. The bank has upgraded its entire POS and enabled chip technology. The bank has also developed an international online payment gateway it calls "Click2Shop" as a step toward obtaining Secure Code and VbV certifications. Click2Shop enables any financial institution to accept card transactions against online purchases.

**Retail Market (including issuance market).** AAIB is tapping the retail market, recognizing the growth potential in that market sector. However, the bank is proceeding cautiously and to a certain extent at a slower pace relative to its peers in the market. More focus is paid to the liability side where the bank was able to increase its retail deposits from US\$ 131 mn in 2004 to US\$ 588 mn in 2005 displaying 350% growth rate through a variety of products including Green Pearl time deposits, Golden Savings accounts and Emerald CDs (3/5/8/10 years).

On the asset side, the bank has more than doubled its exposure to the retail market from US\$ 7mn in 2004 to US\$ 15 mn in Q1 2006 (70% credit cards and 30% auto loans). On the issuance side, the bank has expanded its range of products, which currently include 4U visa prepaid cards, ATM cash cards, credit cards (Visa and MasterCard), Proprietary Cards (pharma and e-pharma cards). The bank had a total of 19,749<sup>7</sup> credit cards issued by H1 2006 (approximately 1.0% market share). Notably, utilization rates currently stand at 22%, which is on the lower side of the market.

The bank is planning to continue investment in this line of business:

- Expanding its target market base beyond corporate employees to include wider demographic patterns;
- Expanding its branch network with segregation between corporate branches and retail branches. The bank currently has 11 corporate branches that also conduct retail activities and 14 retail branches.
- Expanding its delivery channels to include satellite branches;
- Expanding its ATM network totaling 52 in 2005; expected to increase by 30 during 2006;
- Outsourcing a call center from Raya Holding;
- Outsourcing credit card operations (NPC for acquiring, MSCC for issuance and CASHNET for ATMs);
- Contracting two Oracle modules relating to CRM; contracting a credit scoring system;
- IT upgrade and redesign;
- Upgrading and maintaining employees' caliber through regular training sessions.

Overall, AAIB's current retail strategy can be described as relatively conservative; the bank is targeting relatively lower risk clients. The bank will not make substantial investments to establish and operate fully fledged retail banking operations in-house, but is planning to continue outsourcing its needs with regards to retail operations, which proves to be a faster and cheaper way of increasing its presence in the retail market. Although the retail market in Egypt is still dominated by the three public sector banks (total of 917 branches), the retail market in Egypt has untapped potential, thus offering growth opportunities. Accordingly, AAIB's growing commitment to expand its retail operations and establish a retail franchise is viewed positively. However, the bank needs to grow both on the asset side and the liability side to be able to offer its customers a full range of products and services; and the relatively slower pace that the bank is assuming in this market may not be to the bank's advantage.

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<sup>5</sup> The bank provided advisory and consultancy services to the following deals: (1) sale of land in Sidi Abdel Rahman owned by Egyptian General Company for Tourism & Hotels; (2) sale of 100 % Stake in El Nasr General Contracting "Hassan Alamm" owned by National Construction and Development Company (3) sale of 70.5% stake in Misr Hotels Company owned by the Holding Company for Housing, Tourism, and Cinema.

<sup>6</sup> Based on sales value.

<sup>7</sup> Including 259 pharma cards (utilization rate is 41%).

## Ongoing Restructuring is Key to Maintaining Franchise Value

AAIB is continuing its restructuring efforts, which are geared towards strengthening its franchise value. There are three key areas covered by the restructuring:

**Business Systems & IT.** AAIB is planning to purchase a new core banking system to replace the current "in-house" developed system. Currently, the short listed vendors are providing a GAP analysis for AAIB management to make a final decision, expected during Q3 2006. The project is planned to take 18 months with a total budget of US\$ 5 mn. The bank has completed its data warehousing project, and has implemented a number of Oracle Financial Services Applications (OFSA) namely: Transfer Pricing, Performance Analyzer and Risk Manager, which resulted in improved reporting. The bank purchased and installed a central back up. The bank has also purchased CRM telemarketing and scripting but has not been implemented yet. The bank is also in the process of centralizing and upgrading its back-office operations. The project is focusing on four key areas: process, people, place and product, with the aim of reducing/simplifying processes, speeding delivery, cutting costs, reducing operational cycle, reducing the size of employees in back office operations, and emphasizing customer service.

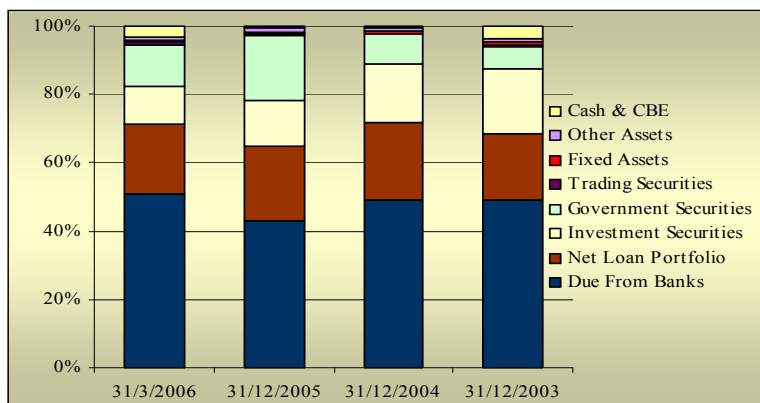
**Human Resources.** Human resources is a core area for AAIB. The bank has a good caliber, professional employee base that AAIB is keen to retain and upgrade. The bank is embarking on several projects simultaneously outsourcing the services of "Hay Consulting". A "Job Analysis" is currently being conducted for each job in the bank to clearly understand each function and consequently make appropriate decisions regarding training, development and caliber/function matching. This is in addition to re-visiting job descriptions for local branches and writing job descriptions for overseas branches; conducting a salary survey; and compiling an employees' manual for policies, procedures and forms to be a guiding document for new employees and developing new appraisal tools; Developing a new organizational structure to meet the bank growth needs and streamline the reporting hierarchy within the bank. AAIB is still embarking on its hiring policy of good caliber fresh graduates (125 new hires in 2005). Training is a key area for the bank particularly that the bank needs to develop its 2<sup>nd</sup> tier management internally, given the scarcity of appropriate caliber in the marketplace. Almost half of the bank's technical staff received training during 2005 (412 employees out of 789). A budget of US\$ 620,000 is set for training for 2006 versus a US\$ 500,000 budget set for 2005.

**Marketing & Communication.** The bank is continuing its efforts to create brand awareness and instill brand value through increasing delivery channels, where the number of local branches have been increased to 25 (14 retail branches and 11 corporate branches) and the physical layout of the branches is in the process of being standardized. ATMs increased from 21 in 2004 to 52 in 2005, and the bank became part of "123" network giving the bank's clientele access to more than 1,500 ATMs. This is in addition to establishing satellite branches; shifting the mindset of the bank to "Customer focused culture", accelerating new product development process; and introducing phone/mobile/internet banking. AAIB was awarded a prize for being a super brand and for excellence in branding by Superbrands Ltd.

## Financial Fundamentals

### Conservative Balance Sheet Albeit Substantial Growth in Assets Base

AAIB balance sheet grew by 88% during FYE 2005 with almost 18% of the growth attributed to the acquisition of MAIB. As of FYE 2005, total assets amounted to US\$ 3.3 bn (EGP 19.0 bn) accounting for 2.7% of the aggregate banking assets in Egypt.



The growth in the asset base did not have an effect on the asset composition of AAIB where liquid assets (government securities and interbank placements) accounted for 63% of total assets as of FYE 2005 up from 58% as of FYE 2004 (please refer to the section below).

The net loan portfolio stood at US\$ 714 mn as of FYE 2005; with a 77% growth rate (US\$ 311 mn increase)<sup>8</sup>, the loan portfolio has maintained its contribution to total assets at 22% as of FYE 2005 (23% as of FYE 2004). The bank's core business, corporate banking, still accounts for the lion's share or 89% of the bank's total exposure.<sup>9</sup>

MAIB acquisition and the organic changes in the portfolio have slightly changed the bank's total

<sup>8</sup> 16% of the increase in AAIB net loan portfolio is attributed to MAIB net loan portfolio amounting to US\$51.1 mn (fair value at the time of acquisition). The remaining balance of the increase is based on organic growth of the portfolio.

<sup>9</sup> 68% direct exposure (US\$ 822 mn) and 32% contingent exposure (US\$ 382 mn).

exposure composition. 90% of the total exposure as of FYE 2005 is with local branches (up from 80% as of FYE 2004). This shift has been basically the result of: MAIB portfolio, major write-offs at AAIB foreign branches<sup>10</sup> and the slow down in activity in the three foreign branches<sup>11</sup>.

Fully secured exposure constitutes 16% (US\$ 177 mn) of total exposure as of FYE 2005 down from 24% (US\$ 131 mn) as of FYE 2004. The bank still exhibits a concentration in the construction materials and contracting sectors accounting together for 25%<sup>12</sup> of the bank's exposure as of FYE 2005 up from 20% as of FYE 2004.

The top 10 clients concentration, based on single obligor concept, has slightly improved to account for 21% of the bank's total exposure as of FYE 2005 (this ratio has increased to 27% as of Q1 2006 on the account of four new relationships) down from 32% as of FYE 2003. The top clients concentration may be expected to rise in the future based on the fact that the bank is targeting "big -ticket" clients in the oil & gas, petroleum, shipping and real estate sectors. Another implication of this strategy is the fact that the bank may be part of more syndicated deals as the bank's current single obligor limit (US\$ 63 mn) may not be sufficient to meet the demand of clients in the above mentioned sectors. Currently, the bank is part of 8 syndicated deals (larger deals in the market) accounting for 14% of the bank's total exposure; AAIB is the lead manager in two of them<sup>13</sup>. In 2006/2007, the bank is expected to have a material exposure in the residential real estate sector where the bank is offering a financing scheme for a large residential project in a new residential community in Cairo<sup>14</sup>.

AAIB is heavily involved in trade finance<sup>15</sup> where 90% of the bank's direct exposure is of short term nature as of FYE 2004. This profile has changed where as of Q1 2006, 56% is of short term nature down from 81% as of FYE 2005. The shift is in line with the bank's increased involvement in syndicated deals as highlighted above; the shift in maturity of the bank's direct exposure was backed by an increase in the CDs base<sup>16</sup> (particularly 3 years CDs) as detailed below<sup>17</sup>.

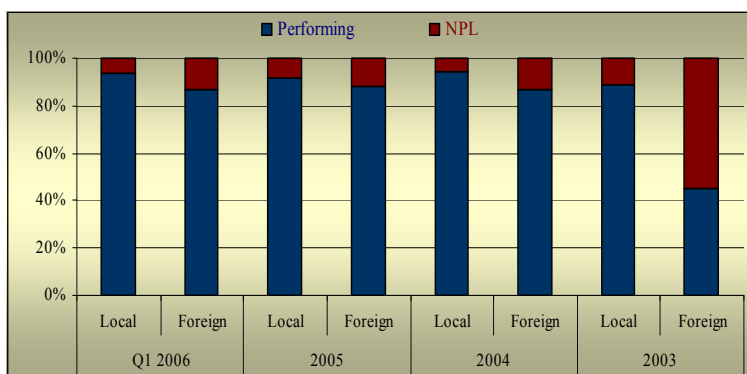
As for the exposure quality<sup>18</sup>, the quality of AAIB performing exposure (92% of total exposure) has improved where 70% is currently graded as ORR 1/2/3 (excellent/strong/good) up from 42% as of FYE 2003. The improvement was based on the application of the revised (local based) ORR approved by the bank's BOD on 28/12/2005.

As for the NPLs, the write-offs that took place in FYE 2004 decreased NPL % Gross Loan portfolio to 7.5% as of FYE 2004 down from 23% as of FYE 2003. The acquisition of MAIB exposure has increased this ratio to 10.4% as of FYE 2005, as 60% of MAIB direct exposure was classified at the time of acquisition.

The top 10 NPLs account for 47% and 5% of total NPLs and gross loan portfolio respectively. Total provisions amounted to US\$ 63 mn as of FYE 2005 up from US\$ 36 mn as of FYE 2004 where US\$ 40 mn in MAIB provisions were transferred to AAIB. Specific Provisions coverage has slipped from 97% as of FYE 2004 to 73% as of FYE 2005. Although this slip in coverage is not viewed favorably, MERIS believes that AAIB will be able to cover the provisioning deficiency (60% of the NPLs are classified as bad debt requiring 100% provisioning.<sup>19</sup>) pertaining mainly to MAIB acquired portfolio given the bank's upward profitability trend. LLPE has maintained its levels as % of operating income at 3% for FYE 2004 and 2005 (US\$ 1.9 mn and US\$ 2.6 mn respectively) but has increased to 15% for Q1 2006 (US\$ 4.8 mn).

As for the retail portfolio, it accounts for only 1% (US\$ 15 mn)<sup>20</sup> and pertains to credit cards, pharma cards and auto loans of the bank's local branches exposure<sup>21</sup> (70% cards and 30% auto loans) as of Q1 2006. NPLs in the retail portfolio amount to 14% as of Q1 2006<sup>22</sup> and are mostly pharma cards.

The bank's investment portfolio (available for sale and held to maturity investments) accounted for 13% of total assets as of FYE 2005 (US\$ 443 mn) displaying a 48% growth over FYE 2004 balance. 61% are in international bonds (25% in Egypt Eurobonds and 36% in other international bonds<sup>23</sup>). AAIB has a strict and conservative investment policy based on pre-approved limits, authorizations and international and local ratings guidelines.



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<sup>10</sup> US\$ 19.1 mn have been charged-off during FYE 2004 and another US\$17.1 mn during FYE 2005.

<sup>11</sup> The bank is attempting to re-activate the two branches in UAE.

<sup>12</sup> 3 clients account for 55% of the construction materials sector and another 4 clients account for 75% of the contracting sector.

<sup>13</sup> AAIB (lead manager) is in the process of concluding another syndicated deal (US\$ 287 mn) to a leading Egyptian company in the construction sector with local and international banks.

<sup>14</sup> The effect of this involvement will be more on the retail side.

<sup>15</sup> 66% of the bank's off-balance sheet exposure as of FYE 2005 is related to trade finance.

<sup>16</sup> US\$ 493 mn as of FYE 2005 up from US\$ 173 mn as of FYE 2004.

<sup>17</sup> As of Q1 2006, the asset base is 81% (down from 82% as of FYE 2004) of short term nature, and the funding base is 86% (up from 72% as of FYE 2004) of short term nature. As for the currency matching of the balance sheet, 56% of the asset base is denominated in US\$ and 54% of the funding base is US\$ denominated as of Q1 2006

<sup>18</sup> 96% of the bank's NPL is related to direct or on-balance sheet exposure as of FYE 2005 and Q1 2006.

<sup>19</sup> According to CBE regulations, NPLs are classified according to a three-category classification: substandard (3-6 months overdue & requiring 20% provisioning); doubtful (6-12 months overdue & requiring 50% provisioning); bad debt (over 12 months overdue & requiring 100% provisioning);

<sup>20</sup> 45% of the cards portfolio is unsecured.

<sup>21</sup> Local branches exposure represents 90% of AAIB total exposure as of FYE 2005.

<sup>22</sup> NPLs amount to 29% of the unsecured portfolio, which represents 63% of the retail portfolio.

<sup>23</sup> Mostly corporate and bank bonds. Other sovereign bonds account for 5% of the total investment portfolio.

54% of the bank's balance sheet is US\$ denominated and 56% of its funding base is US\$ denominated.

### **Highly Liquid Position Based on Interbank Placements & Money Market Operations**

AAIB is maintaining a liquid position where net loans to customer deposits stood at 37% as of FYE 2005. Liquid assets accounted for 63% of total assets as of FYE 2005 up from 58% as of FYE 2004. This liquid position, which is currently characteristic to many banks operating in Egypt, is promoted by a predominantly short term funding base and the general slow down in corporate credit in the Egyptian banking industry at large<sup>24</sup>.

AAIB placements with other banks amounted to US\$ 1.4 bn or 43% of total assets growing by 66% over FYE 2004 balance. 68% of interbank placements are with foreign banks and 73% are US\$ denominated. The top 10 placements (excluding the US\$ placement with CBE, amounting to US\$ 114 mn or 8% of total bank placements as of FYE 2005, that basically represents FCY reserve requirements) are all with foreign banks and account for approximately 30% of total bank placements as of FYE 2005. Government securities increased from US\$ 156 mn as of FYE 2004 to US\$ 632 mn as of FYE 2005. This portfolio is 76% T-bills and 24% CBE Sukuk.

The trading portfolio increased from US\$ 2.3 mn as of FYE 2004 to US\$ 11.7 mn as of FYE 2005 assuming less than 1% of total assets. The portfolio is dominated (90%) by local shares in the financial services, construction and telecommunication sectors.

### **Material Growth in Customer Deposits & CDs but Still Dominated by Institutional Depositors**

Customer deposits account for 58% of total assets and CDs account for another 15% of total assets (3-years CDs represents 97% of total CDs balance) as of FYE 2005 displaying a 62% and 186% growth rates over FYE 2004 balance. The increase is attributed to the bank's relatively new products that were first introduced in 2004 and 2005 namely, Green Pearl Time Deposits<sup>25</sup>, Golden Savings Accounts<sup>26</sup>, Emerald CDs (3/5/8/10years Certificates of Deposits<sup>27</sup>).

67% of the bank's customer deposits base (excluding demand accounts) are with institutional depositors (corporates and government entities) and 76% of the CDs balance are with institutional depositors (corporates and government entities). The above-listed new products introduced by the bank attracted wholesale deposits at the expense of retail deposits that accounted for 33% and 24 % of customer deposits and CDs balance as of FYE 2005.

Concentration is still evident, although at a reduced level, where the top 8 depositors account for 31% of total customer deposits and CDs balance as of FYE 2005 down from 43% as of FYE 2004. The balance of the largest depositor, a government entity, has been reduced from 19% as of FYE 2004 to 15% as of FYE 2005.

AAIB placements with other banks increased from US\$ 167 mn as of FYE 2004 to US\$ 590 mn as of FYE 2005 accounting for 18% of the bank's total assets base. 72% of the balance is in the form of a time deposit from the CBE that is US\$ denominated. The increase in this line item was basically driven by profits on interest rate differentials.

### **Money Market & Interbank Operations Still Underline the Bank's Profitability**

AAIB bottom line witnessed 89% increased growing from US\$ 28 mn for FYE 2004 to US\$ 53 mn for FYE 2005, pushing ROAA and ROE to 2.1% and 25.7% for FYE 2005 from 1.9% and 16.2% for FYE 2004 respectively. NII grew by 89% increasing its contribution to NOI to 53% for FYE 2005 up from 47% for FYE 2004 and pushing net spread and NIM to 1.50% and 1.96% for FYE 2005 from 1.32% and 1.80% for FYE 2004. The growth in NII was basically driven by interest income from Treasury notes and interbank operations.

Non-interest income grew by 47% and accounted for 47% of operating income for FYE 2005 down from 53% for FYE 2004, as this line item was outgrown by NII. The main contributors to non-interest income are commissions & fees relating to loan portfolio, trade finance activity, acquiring services, consulting fees and custody services.

The LoB analysis (please refer to appendix II) reveals the fact that the investment LoB (includes treasury, interbank, corporate finance and custody services) contributed 54% of the bank's net operating income for FYE 2005 versus 40% for the corporate LoB and 6% for the retail LoB. Although **MERIS** views the growth in the bank's bottom line and the diversification in the non-interest income line item favorably, the bank needs to decrease dependency of its earnings on asset liability management.

Total non-interest expense grew by 51% during FYE 2005 due to the rise in personnel expenses (new hires, training), expansion of delivery channels by the bank and investments in IT; but cost to income ratio came down to 34% for FYE 2005 down from 37% for FYE 2004 and is comparable to peers.

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<sup>24</sup> The aggregate gross loan portfolio of the banking industry in Egypt has increased by 4% for FYE 2005.

<sup>25</sup> Euro and US\$ denominated deposits.

<sup>26</sup> EGP, US\$, Euro and GBP denominated accounts.

<sup>27</sup> Offering fixed and floating interest rates paid monthly, quarterly, semi-annually and annually.

### Capitalization Decreasing but is Appropriate Given the Conservative Nature of the Balance Sheet

Total shareholders' equity % total assets has decreased from 9.9% as of FYE 2004 to 6.3% as of FYE 2005. The decrease has been driven by a growing balance sheet based on MAIB acquisition and organic growth. The conservative nature of the bank's balance sheet and its asset quality do not call for viewing this decrease unfavorably. Although this ratio is currently on the lower side when compared to its peers, the bank is committed to increasing its capital base as evidenced by higher internal capital growth rates. The bank is intending to apply capital allocation techniques in compliance with Basel II recommendations, but this will depend on the time frame for purchasing and implementing the new core banking system.

<b>Bank</b>	<b>Balance Sheet Size (EGP mn)</b>	<b>Shareholders' Equity/Total Assets (FYE 2005)</b>
Aggregate Banking Industry	24,682	3.46%
AAIB	19.0	6.27%
EAB	10.1	9.08%
NSGB	16.9	4.97%
CIB	30.4	8.97%
MIBank	16.2	7.44%

Source: Banks' Published Financial Statements

## Appendix I

### Bank Profile

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#### Background

Incorporated in 1964 as the first Arab multinational bank, the Arab African International Bank (AAIB) was established as a joint venture between the Egyptian General Institution for Banks in the United Arab Republic (replaced by the Central Bank of Egypt by virtue of Presidential Decree no. 1466 for the year 1994) and the Ministry of Finance and Industry of Kuwait, by virtue of the Presidential Decree no. 45 for the year 1964.

The bank was originally incorporated under the name “Arab African Bank”. However, by virtue of an extraordinary general shareholders’ resolution dated April 2, 1978, the bank’s name was changed to the “Arab African International Bank” to reflect the global or international nature of the bank’s activities.

The bank’s shares are listed on both the Cairo and Alexandria Stock Exchanges in the unofficial lists as of December 1999.

#### Capital Structure

The bank’s capital underwent the following changes:

- according to its articles of incorporation, the bank’s capital was initially set at £10,000,000 divided into 1,000,000 nominal shares;
- in 1974, an extraordinary general shareholders’ meeting resolution was passed to increase the bank’s capital to £20,000,000;
- on May 5, 1976, by virtue of an extraordinary general shareholders’ meeting resolution, the bank’s capital was converted to US\$ in the amount of US\$40,000,000 divided into 2,000,000 shares;
- on April 2, 1978, the bank’s capital was increased to US\$100,000,000 by virtue of an extraordinary general shareholders meeting resolution;
- on February 17, 1981, by virtue of an extraordinary general shareholders’ meeting resolution, the bank’s capital was increased from US\$100,000,000 to US\$125,000,000 divided into 6,250,000 ordinary shares;
- on February 26, 1983, by virtue of an extraordinary general shareholders’ meeting resolution, the bank’s capital was increased from US\$125,000,000 to US\$200,000,000 divided into 10,000,000 ordinary shares;
- on June 17, 1986, by virtue of an extraordinary general shareholders’ meeting resolution, the bank’s authorized capital was increased to US\$500,000,000 and the issued capital was set at US\$400,000,000 divided into 20,000,000 shares;
- on August 15, 1988 by virtue of an extraordinary general shareholders’ meeting resolution, the bank’s issued capital was *decreased* to US\$200,000,000;
- On October 25, 1990, by virtue of an extraordinary general shareholders’ meeting resolution, the bank’s issued capital was *decreased* to US\$100,000,000 divided into 20,000,000 shares.

Currently, the bank’s authorized capital is US\$ 500 mn and paid-up capital is US\$100 mn.

#### Shareholding Structure:

The ownership profile of the bank as of December 2005 is as follows:

Shareholder	# of Shares	% Ownership
Central Bank of Egypt	9,872,873	49.36%
State of Kuwait Ministry of Finance – Kuwaiti Investment Authority	9,872,873	49.36%
Rafedan Bank - Iraq	200,000	1.00%
Ministry of Finance - Jordan	20,000	0.10%
Central Bank of Algeria	12,500	0.06%
Guezira Bank - Jeddah	10,000	0.05%
Ministry of Finance - State of Qatar	5,000	0.03%
Others (322 Shareholders)	6,754	0.03%
<b>Total</b>	<b>20,000,000</b>	<b>100.00%</b>

#### Branches

The bank has 25 branches in Egypt, which are classified as 11 corporate branches and 14 retail branches in addition to three foreign branches (two branches in UAE in Dubai and Abu Dhabi and one branch in Lebanon)<sup>28</sup>.

#### Employees

AAIB has a total of 912 employees.

#### Current BOD

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<sup>28</sup> London branch was closed in 2000.

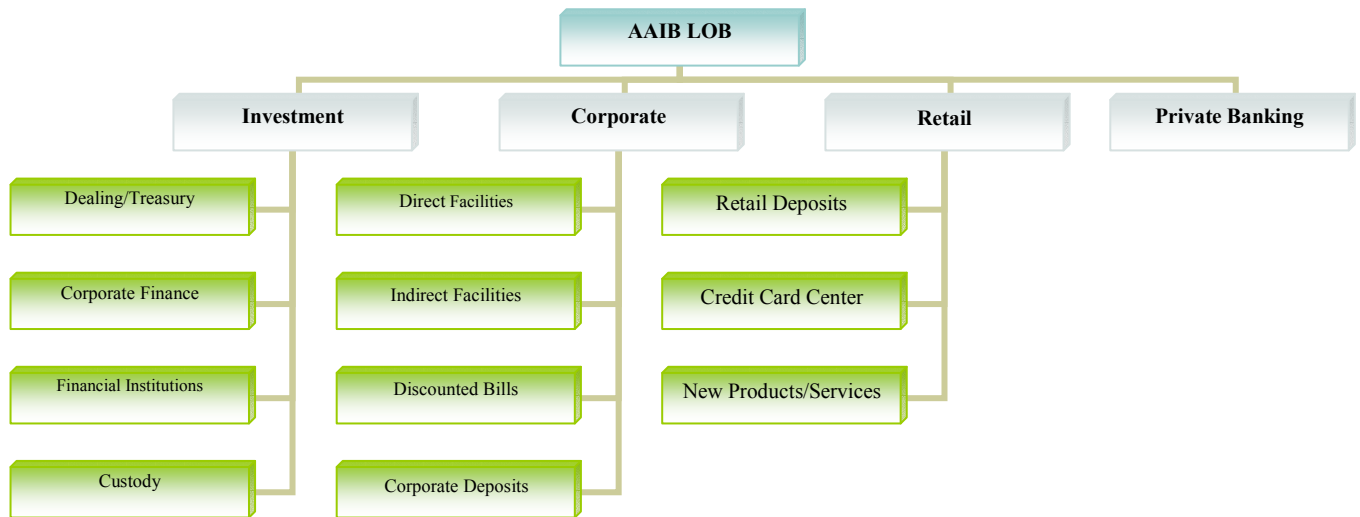
AAIB has the following BOD member structure:

<b>Name</b>	
Mr. Mahmoud A. Al Nouri*	Chairman
Mr. Hassan E. Abdalla	Vice Chairman & Managing Director
Mr. Gamal H. Mubarak	CBE Representative
Mr. Ali A. Khagah	KIA Representative
Mr. Ali H. Alsayegh	KIA Representative
Mr. Adel Mohamed El Roumy	KIA Representative
Mr. Mahmoud Abdel Aziz Mahmoud	CBE Representative
Dr. Hala Helmy El Said	CBE Representative

\* replaced Mr. Fahed El Rashed in 2005

**Appendix II**  
**AAIB Line of Business Structure**

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**Appendix III  
National Rating Scale**

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<u>Quality of credit</u>	<b>Long</b>	<b>Short</b>	
Gilt edged	AAA	Prime 1	<b>Investment Grade</b>
Very high	AA+		
	AA AA-		
Upper-medium	A+	Prime 2	
	A A-		
Medium grade	BBB+	Prime 3	
	BBB		
	BBB-		
Questionable	BB+	Not Prime	<b>Speculative Grade</b>
Poor quality	BB		
	BB-		
	B+		
Very poor	B		
	B-		
	CCC+		
	CCC		
	CCC-		
	CC		
	C		

## Appendix IV List of Abbreviations

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AAIB	:	Arab African International Bank
CBE	:	Central Bank of Egypt
CIB	:	Commercial International Bank
CMA	:	Capital Market Authority
EAB	:	Egyptian American Bank
KIA	:	Kuwait Investment Authority
LoB	:	Line of Business
MAIB	:	Misr America International Bank
MIBank	:	Misr International Bank
NBE	:	National Bank of Egypt
NPL	:	Non-performing loans
NSGB	:	National Societe Generale Bank
POS	:	Point of Sale
VbV	:	Verified by Visa

**Appendix IV**  
**Arab African International Bank**

	<u>31/12/2005</u>	<u>31/12/2004</u>	<u>31/12/2003</u>	<u>31/12/2002</u>	<u>31/12/2001</u>	<u>31/12/2000</u>
<b>Summary Balance Sheet (US\$ Thousands)</b>						
Cash & Central Bank	17,862	10,314	40,602	23,538	19,164	34,240
Due from Banks	1,428,578	858,417	563,685	481,563	568,524	500,581
Government Securities	631,564	155,927	71,412	21,080	28,019	--
Trading Securities	11,664	2,306	6,340	--	--	87,793
Investment Securities	443,109	300,201	220,031	193,998	125,636	28,793
Other Liquid Assets	--	--	--	--	--	--
Gross Loans	776,774	439,398	282,353	317,850	319,867	346,201
Loan Loss Reserves (LLR)	(62,940)	(36,327)	(54,238)	(54,335)	(51,808)	(49,250)
Net Loans	713,834	403,071	228,115	263,515	268,059	296,951
Equity in Affiliates	1,258	1,256	1,256	1,402	1,411	2,283
Fixed Assets	20,625	11,102	11,231	10,783	11,649	13,618
Other Assets	44,721	15,737	12,093	10,422	6,862	12,654
Total Assets	3,313,215	1,758,331	1,154,765	1,006,301	1,029,324	976,913
Total Assets (EGP mn)	19,009,242	10,813,735	7,136,870	4,661,186	4,786,440	3,368,666
Customer Deposits	1,928,111	1,193,766	654,680	445,092	489,492	471,523
Due to Banks	589,817	166,778	178,526	319,304	271,265	240,083
Borrowings	493,101	172,695	128,312	64,927	93,727	79,736
Other Liabilities	94,529	50,677	41,961	33,286	32,427	44,651
Total Liabilities	3,105,559	1,583,916	1,003,479	862,609	886,911	835,993
Subordinated Loan Capital	--	--	--	--	--	--
Minority Interest	--	--	--	--	--	--
Supplementary Capital	--	--	--	--	--	--
Shareholders' Equity	207,656	174,415	151,286	143,692	142,413	140,920
Total Capital Funds	207,656	174,415	151,286	143,692	142,413	140,920
Total Liabilities & Capital Funds	3,313,215	1,758,331	1,154,765	1,006,301	1,029,324	976,913
Derivatives - Notional Amount	182,606	157,728	111,142	221,666	113,849	53,329
Derivatives - Replacement Value	182,620	157,748	70,725	221,666	113,849	53,329
Risk Weighted Assets (RWA)	--	--	--	--	--	--
Contingent Liabilities	362,374	188,758	163,331	153,034	122,869	160,737
<b>Summary Income Statement (US\$ Thousand)</b>						
Interest Income	154,322	68,532	51,348	45,322	58,568	71,988
Interest Expense	(104,931)	(42,433)	(32,434)	(24,566)	(37,267)	(49,111)
Net Interest Income	49,391	26,099	18,914	20,756	21,301	22,877
FX Income	6,634	5,942	7,336	(1,178)	2,221	4,088
Trading Income	--	--	--	--	--	488
Fees & Commissions	30,532	18,750	11,916	9,917	7,169	11,985
Other Operating Income	6,077	4,775	1,994	2,184	2,874	9,163
Total Non Interest Income	43,243	29,467	21,246	10,923	12,264	25,724
Operating Income	92,634	55,566	40,160	31,679	33,565	48,601
Personnel Expenses	(14,623)	--	(8,489)	(8,545)	--	--
Other Operating Expenses	(14,088)	(19,141)	(6,878)	(7,563)	(15,707)	(21,305)
Operating Funds Flow	63,923	36,425	24,793	15,571	17,858	27,296
Amortisation / Depreciation	(2,568)	(1,569)	(1,543)	(1,429)	(2,622)	(2,497)
Total Non Interest Expense	(31,279)	(20,710)	(16,910)	(17,537)	(18,329)	(23,802)
Preprovision Income (PPI)	61,355	34,856	23,250	14,142	15,236	24,799
Loan Loss Provisions Expenses (LLPE)	(2,576)	(1,896)	(391)	(3,526)	(2,241)	(6,676)
Non Operating Income	(7,804)	(4,478)	(9,528)	(1,025)	(2,563)	(1,055)
Pretax Income	50,975	28,482	13,331	9,591	10,432	17,068
Taxes	2,466	(153)	(91)	(116)	(264)	(451)
Net Income	53,441	28,329	13,240	9,475	10,168	16,617
Minority Interests	--	--	--	--	--	--
Net Income (Group share)	53,441	28,329	13,240	9,475	10,168	16,617
Dividends	(20,000)	(5,000)	(9,000)	(8,196)	(8,675)	(14,175)
Transfers to Capital Reserves	(33,441)	(23,329)	(4,240)	(1,279)	(1,493)	(2,442)
Other Adjustments	--	--	--	--	--	--

## Arab African International Bank

	<u>31/12/2005</u>	<u>31/12/2004</u>	<u>31/12/2003</u>	<u>31/12/2002</u>	<u>31/12/2001</u>	<u>31/12/2000</u>
<b>Summary Balance Sheet - Growth (%)</b>						
Cash & Central Bank	73.18	-74.60	72.50	22.82	-44.03	318.17
Due from Banks	66.42	52.29	17.05	-15.30	13.57	17.68
Government Securities	305.04	118.35	238.77	-24.77	--	--
Trading Securities	405.81	-63.63	--	--	--	-10.29
Investment Securities	47.60	36.44	13.42	54.41	336.34	-18.38
Other Liquid Assets	--	--	--	--	--	--
Gross Loans	76.78	55.62	-11.17	-0.63	-7.61	-0.35
Loan Loss Reserves (LLR)	73.26	-33.02	-0.18	4.88	5.19	17.78
Net Loans	77.10	76.70	-13.43	-1.70	-9.73	-2.83
Equity in Affiliates	0.16	0.00	-10.41	-0.64	-38.20	-89.43
Fixed Assets	85.78	-1.15	4.15	-7.43	-14.46	-0.15
Other Assets	184.18	30.13	16.03	51.88	-45.77	-74.39
Total Assets	88.43	52.27	14.75	-2.24	5.36	2.08
Total Assets (USD)	75.79	51.52	53.11	-2.62	42.09	3.14
Customer Deposits	61.52	82.34	47.09	-9.07	3.81	-6.37
Due to Banks	253.65	-6.58	-44.09	17.71	12.99	51.55
Borrowings	185.53	34.59	97.63	-30.73	17.55	-8.61
Other Liabilities	86.53	20.77	26.06	2.65	-27.38	-35.52
Total Liabilities	96.07	57.84	16.33	-2.74	6.09	2.14
Subordinated Loan Capital	--	--	--	--	--	--
Minority Interest	--	--	--	--	--	--
Supplementary Capital	--	--	--	--	--	--
Shareholders' Equity	19.06	15.29	5.28	0.90	1.06	1.76
Total Capital Funds	19.06	15.29	5.28	0.90	1.06	1.76
Total Liabilities & Capital Funds	88.43	52.27	14.75	-2.24	5.36	2.08
Derivatives - Notional Amount	15.77	41.92	-49.86	94.70	113.48	67.91
Derivatives - Replacement Value	15.77	123.04	-68.09	94.70	113.48	67.91
Risk Weighted Assets (RWA)	--	--	--	--	--	--
Contingent Liabilities	91.98	15.57	6.73	24.55	-23.56	-38.85
<b>Summary Income Statement - Growth (%)</b>						
Interest Income	125.18	33.47	13.30	-22.62	-18.64	3.61
Interest Expense	147.29	30.83	32.03	-34.08	-24.12	12.51
Net Interest Income	89.24	37.99	-8.87	-2.56	-6.89	-11.43
FX Income	11.65	-19.00	-722.75	-153.04	-45.67	0.07
Trading Income	--	--	--	--	--	160.96
Fees & Commissions	62.84	57.35	20.16	38.33	-40.18	-5.52
Other Operating Income	27.27	139.47	-8.70	-24.01	-68.63	-77.15
Total Non Interest Income	46.75	38.69	94.51	-10.93	-52.32	-54.92
Operating Income	66.71	38.36	26.77	-5.62	-30.94	-41.37
Personnel Expenses	--	--	-0.66	--	--	--
Other Operating Expenses	-26.40	178.29	-9.06	-51.85	-26.28	9.93
Operating Funds Flow	75.49	46.92	59.23	-12.81	-34.58	-57.03
Amortisation / Depreciation	63.67	1.69	7.98	-45.50	5.01	-19.27
Total Non Interest Expense	51.03	22.47	-3.58	-4.32	-22.99	5.91
Preprovision Income (PPI)	76.02	49.92	64.40	-7.18	-38.56	-58.96
Loan Loss Provisions Expenses (LLPE)	35.86	384.91	-88.91	57.34	-66.43	-57.82
Non Operating Income	74.27	-53.00	829.82	-60.02	142.99	-89.03
Pretax Income	78.97	113.65	38.99	-8.06	-38.88	-51.21
Taxes	-1,711.76	68.13	-21.55	-56.06	-41.46	48.36
Net Income	88.64	113.96	39.73	-6.82	-38.81	-52.08
Minority Interests	--	--	--	--	--	--
Net Income (Group share)	88.64	113.96	39.73	-6.82	-38.81	-52.08

## Arab African International Bank

	31/12/2005	31/12/2004	31/12/2003	31/12/2002	31/12/2001	31/12/2000
<b>Balance Sheet - % of Total Assets</b>						
Cash & Central Bank	0.54	0.59	3.52	2.34	1.86	3.50
Due from Banks	43.12	48.82	48.81	47.85	55.23	51.24
Government Securities	19.06	8.87	6.18	2.09	2.72	--
Trading Securities	0.35	0.13	0.55	--	--	8.99
Investment Securities	13.37	17.07	19.05	19.28	12.21	2.95
Other Liquid Assets	--	--	--	--	--	--
Gross Loans	23.44	24.99	24.45	31.59	31.08	35.44
Loan Loss Reserves (LLR)	-1.90	-2.07	-4.70	-5.40	-5.03	-5.04
Net Loans	21.55	22.92	19.75	26.19	26.04	30.40
Equity in Affiliates	0.04	0.07	0.11	0.14	0.14	0.23
Fixed Assets	0.62	0.63	0.97	1.07	1.13	1.39
Other Assets	1.35	0.89	1.05	1.04	0.67	1.30
Customer Deposits	58.19	67.89	56.69	44.23	47.55	48.27
Due to Banks	17.80	9.49	15.46	31.73	26.35	24.58
Borrowings	14.88	9.82	11.11	6.45	9.11	8.16
Other Liabilities	2.85	2.88	3.63	3.31	3.15	4.57
Total Liabilities	93.73	90.08	86.90	85.72	86.16	85.57
Subordinated Loan Capital	--	--	--	--	--	--
Minority Interest	--	--	--	--	--	--
Supplementary Capital	--	--	--	--	--	--
Shareholders' Equity	6.27	9.92	13.10	14.28	13.84	14.43
Total Capital Funds	6.27	9.92	13.10	14.28	13.84	14.43
<b>Income Statement - % of Average Assets</b>						
Interest Income	6.09	4.71	4.75	4.45	5.84	7.44
Interest Expense	-4.14	-2.91	-3.00	-2.41	-3.72	-5.08
Net Interest Income	1.95	1.79	1.75	2.04	2.12	2.37
FX Income	0.26	0.41	0.68	-0.12	0.22	0.42
Trading Income	--	--	--	--	--	0.05
Fees & Commissions	1.20	1.29	1.10	0.97	0.71	1.24
Other Operating Income	0.24	0.33	0.18	0.21	0.29	0.95
Total Non Interest Income	1.71	2.02	1.97	1.07	1.22	2.66
Operating Income	3.65	3.81	3.72	3.11	3.35	5.03
Personnel Expenses	-0.58	--	-0.79	-0.84	--	--
Other Operating Expenses	-0.56	-1.31	-0.64	-0.74	-1.57	-2.20
Operating Funds Flow	2.52	2.50	2.29	1.53	1.78	2.82
Amortisation / Depreciation	-0.10	-0.11	-0.14	-0.14	-0.26	-0.26
Total Non Interest Expense	-1.23	-1.42	-1.56	-1.72	-1.83	-2.46
Preprovision Income (PPI)	2.42	2.39	2.15	1.39	1.52	2.56
Loan Loss Provisions Expenses (LLPE)	-0.10	-0.13	-0.04	-0.35	-0.22	-0.69
Non Operating Income	-0.31	-0.31	-0.88	-0.10	-0.26	-0.11
Pretax Income	2.01	1.96	1.23	0.94	1.04	1.77
Taxes	0.10	-0.01	-0.01	-0.01	-0.03	-0.05
Net Income	2.11	1.94	1.23	0.93	1.01	1.72
Minority Interests	--	--	--	--	--	--
Net Income (Group share)	2.11	1.94	1.23	0.93	1.01	1.72
<b>Income Statement - % of Operating Income</b>						
Interest Income	166.59	123.33	127.86	143.07	174.49	148.12
Interest Expense	-113.27	-76.37	-80.76	-77.55	-111.03	-101.05
Net Interest Income	53.32	46.97	47.10	65.52	63.46	47.07
FX Income	7.16	10.69	18.27	-3.72	6.62	8.41
Trading Income	--	--	--	--	--	1.00
Fees & Commissions	32.96	33.74	29.67	31.30	21.36	24.66
Other Operating Income	6.56	8.59	4.97	6.89	8.56	18.85
Total Non Interest Income	46.68	53.03	52.90	34.48	36.54	52.93
Operating Income	100.00	100.00	100.00	100.00	100.00	100.00
Personnel Expenses	-15.79	--	-21.14	-26.97	--	--
Other Operating Expenses	-15.21	-34.45	-17.13	-23.87	-46.80	-43.84
Operating Funds Flow	69.01	65.55	61.74	49.15	53.20	56.16
Amortisation / Depreciation	-2.77	-2.82	-3.84	-4.51	-7.81	-5.14
Total Non Interest Expense	-33.77	-37.27	-42.11	-55.36	-54.61	-48.97
Preprovision Income (PPI)	66.23	62.73	57.89	44.64	45.39	51.03
Loan Loss Provisions Expenses (LLPE)	-2.78	-3.41	-0.97	-11.13	-6.68	-13.74
Non Operating Income	-8.42	-8.06	-23.72	-3.23	-7.63	-2.17
Pretax Income	55.03	51.26	33.20	30.28	31.08	35.12
Taxes	2.66	-0.28	-0.23	-0.37	-0.79	-0.93
Net Income	57.69	50.98	32.97	29.91	30.29	34.19
Minority Interests	--	--	--	--	--	--
Net Income (Group share)	57.69	50.98	32.97	29.91	30.29	34.19

## Arab African International Bank

	<u>31/12/2005</u>	<u>31/12/2004</u>	<u>31/12/2003</u>	<u>31/12/2002</u>	<u>31/12/2001</u>	<u>31/12/2000</u>
<b>Profitability Indicators</b>						
Return on Average Assets (%)	2.11	1.94	1.23	0.93	1.01	1.72
Return on Shareholder's Equity - period end (%)	25.74	16.24	8.75	6.59	7.14	11.79
Recurring Earning Power 1	2.42	2.39	2.15	1.39	1.52	2.56
PPI (%) Avg Total Capital Funds	32.12	21.40	15.76	9.89	10.75	17.75
Interest Expense (%) Interest Income	67.99	61.92	63.17	54.20	63.63	68.22
Interest Income (%) Avg Interest Earning Assets 2	6.11	4.73	4.76	4.41	5.84	7.70
Interest Expense (%) Avg Interest Bearing Liabilities 3	4.62	3.40	3.62	2.92	4.53	6.38
Net Spread (%) 4	1.50	1.32	1.14	1.49	1.31	1.33
Net Interest Margin (%) 5	1.96	1.80	1.75	2.02	2.12	2.45
Non-Interest Income (%) Operating income	46.68	53.03	52.90	34.48	36.54	52.93
Income Tax (%) Pre-tax Income	-4.84	0.54	0.68	1.21	2.53	2.64
<b>Efficiency Indicators</b>						
Non Interest Expense (%) Avg Assets	1.23	1.42	1.56	1.72	1.83	2.46
Cost to Income Ratio (%) 6	33.77	37.27	42.11	55.36	54.61	48.97
Personnel Expenses (%) Avg Assets	0.58	--	0.79	0.84	--	--
Personnel Expenses (%) Operating Income	15.79	--	21.14	26.97	--	--
Personnel Expenses (%) Non Interest Expense	46.75	--	50.20	48.73	--	--
<b>Liquidity Indicators</b>						
Net Loans (%) Customer Deposits	37.02	33.76	34.84	59.20	54.76	62.98
Net Loans (%) Total Deposits 7	28.35	29.63	27.38	34.47	35.24	41.73
Average Net Loans (%) Average Customer Deposits	35.78	34.15	44.70	56.88	58.79	61.79
Average Net Loans (%) Average Assets	22.02	21.67	22.75	26.11	28.16	31.16
Liquid Assets 8 (%) Total Assets	63.07	58.41	59.06	52.29	59.82	63.73
Customer Deposits (%) Total Deposits	76.58	87.74	78.57	58.23	64.34	66.26
Customer Deposits / Shareholders' Equity (Times)	9.29	6.84	4.33	3.10	3.44	3.35
Due from Banks (%) Due to Banks	242.21	514.71	315.74	150.82	209.58	208.50
<b>Loan Portfolio Quality Indicators</b>						
Problem Loans (%) Gross Loans	10.39	7.49	22.99	21.87	--	--
Problem Loans (%) (Shareholders' Equity + LLR)	29.82	15.61	31.58	35.11	--	--
(Problem Loans - LLR) (%) Shareholders' Equity	8.55	-1.96	7.05	10.57	-36.38	-34.95
Loan Loss Reserve (%) Gross Loans	8.10	8.27	19.21	17.09	16.20	14.23
Loan Loss Provision Expenses (%) Preprovision	4.20	5.44	1.68	24.93	14.71	26.92
LLP (%) (Loan Loss Reserve - LLP)	4.27	5.51	0.73	6.94	4.52	15.68
Loan Loss Provision Expenses (%) Gross Loans	0.33	0.43	0.14	1.11	0.70	1.93
Preprovision Income (%) Net Loans	8.60	8.65	10.19	5.37	5.68	8.35
Shareholders' Equity (%) Net Loans	29.09	43.27	66.32	54.53	53.13	47.46
Loans to Related Cos. (%) Gross Loans	--	--	--	--	--	--
<b>Capitalization Indicators</b>						
Tier 1 ratio (%)	--	--	--	--	--	--
Shareholders' Equity (%) Total Assets	6.27	9.92	13.10	14.28	13.84	14.43
Shareholders' Equity (%) T. Assets + Contingent	5.65	8.96	11.48	12.39	12.36	12.39
Total Capital funds (%) Total Assets	6.27	9.92	13.10	14.28	13.84	14.43
Total Capital (%) T. Assets + Contingent Liabilities	5.65	8.96	11.48	12.39	12.36	12.39
Shareholders' Equity (%) Total Capital funds	100.00	100.00	100.00	100.00	100.00	100.00
Contingent Liabilities (%) Total Assets	10.94	10.74	14.14	15.21	11.94	16.45
"Free" Capital 9 (%) Shareholders' Equity	89.46	92.91	91.75	91.52	90.83	88.72
Dividend Payout (%) 10	37.42	17.65	67.97	86.50	85.31	85.30
Internal Capital Growth (%) 11	19.17	15.42	2.95	0.90	1.06	1.76

### Notes:

1. Recurring Earning Power = Preprovision Income (%) Average Total Asset
2. Interest Earning Assets = Due from Banks + Government Securities + Trading Securities + Investment Securities + Gross Loans
3. Interest Bearing Liabilities = Customer Deposits + Due to Banks + Borrowings + Subordinated Debt Capital
4. Net spread = Interest Income (%) Avg Earning Assets - Interest Expense (%) Avg Interest Bearing Liabilities
5. Net interest margin = Net Interest Income (%) Average Earning Assets
6. Cost to Income Ratio = Total non interest expense (%) Operating income
7. Total deposits = Customer deposits + Due to banks
8. Liquid Assets = Cash & Central Bank + Due from Banks + Government Securities + Trading Securities + Other Liquid Assets
9. Free Capital = Shareholders' Equity - Fixed Assets - Equity in Affiliates
10. Dividend Payout = Dividends (%) Net Income
11. Internal Capital Growth = Current period's Net income - Current period's Dividends (%) Last period's Shareholders' Equity

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