Analysis

MERIS
Middle East Rating & Investors Service

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Rating Table:

Category	Current Rating	Previous Rating
Entity Rating	A-	A-
Rating Outlook	Stable	Stable

Operating Statistics:

Figures in EGP mn	Jun 09	Jun 08	Jun 07	Jun 06	Jun 05
ROAA (%)	2.0	2.5	0.1	-2.2	0.8
ROE (%)	17.4	24.0	0.9	-24.4	7.5
Net spread (%)	4.1	3.8	4.0	3.2	3.5
Net interest margin (%)	3.2	2.9	2.9	2.4	2.8
Recurring earning power (%)	2.9	3.0	2.9	2.8	3.4
Cost to income ratio	36.2	31.2	33.9	30.2	23.5
Non-interest income (%) operating income	38.0	41.5	41.9	48.8	44.5

Balance Sheet Statistics:

Figures in EGP mn	Jun 09	Jun 08	Jun 07	Jun 06	Jun 05
Total assets	12,543	13,383	8,782	7,339	7,696
Total capital	1,441	1,255	865	649	807
Net loans (%) customer deposits	125.9	113.8	121.0	119.5	102.6
Customer deposits (%) of total deposits	83.7	72.3	97.8	91.3	93.9
Liquid assets (%) of total assets	23.0	34.2	33.6	32.6	40.6
Loan loss reserve (%) gross loans	0	0.003	3.7	7.2	4.7
Capital/total assets (%)	11.5	9.4	9.8	8.8	10.5

Export Development Bank of Egypt (EDBE)

Opportunities/Strengths

- The successful clean-up of the bank portfolio.
- Well designed, gradual growth strategy.
- Recruitment of qualified senior management.
- New organizational structure for enhancing the workforce productivity.
- More attention to training.

Risks/Weaknesses

- The IT development is still an issue for the bank.
- Lack of geographical diversification, and a sufficient branch network needed for forming a good retail depositor base.
- Human resource issues are still a challenge for the bank.
- Concentration risk is evident on both the asset and liability sides.
- The negative effect of the global financial crisis on the banking sector worldwide.

Rating History

EDBE was twice rated by MERIS, the first was in April 2005 while the renewal was in June 2007. Both ratings were A- with a stable outlook.

Summary Rating Rationale

MERIS suggests maintaining the same rating with the same outlook, as though there are really serious efforts for developing the bank, some of which include the successful clean-up of the loan portfolio, there are still some major drawbacks, the most important of which is the delay in the development of the IT, which is handicapping the excelling of the bank development. Implementing this step can improve the rating in case the bank keeps up its successful achievements.

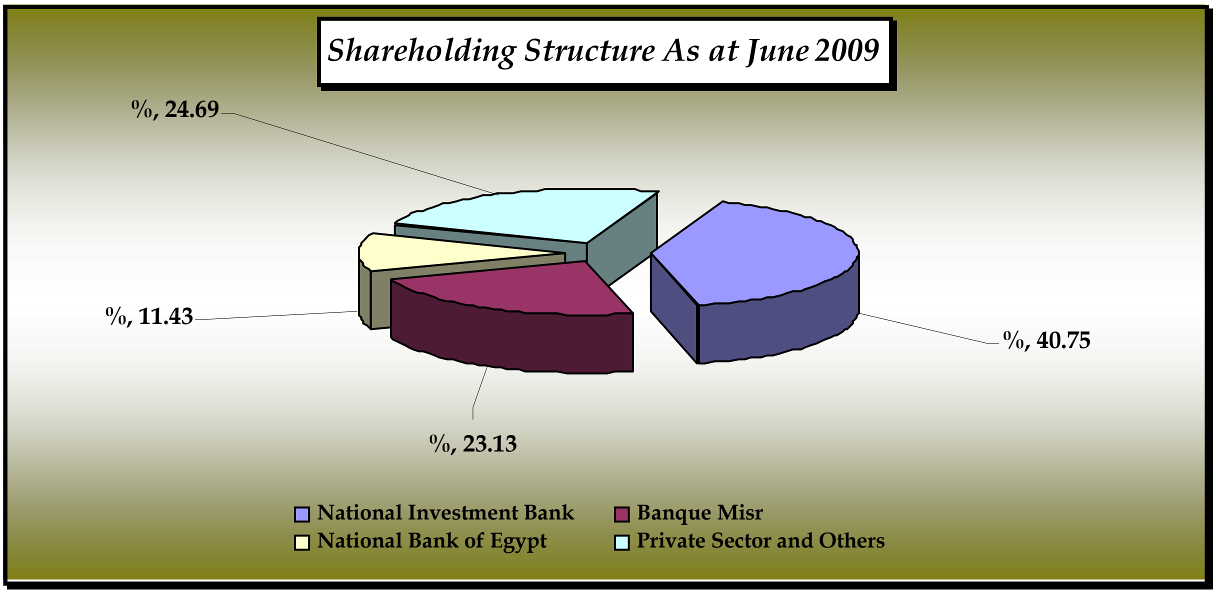
Institution Structure

In 1983, EDBE was founded by the National Investment Bank and the big four public sector banks, namely: National Bank of Egypt, Banque Misr, Banque du Caire, and Bank of Alexandria[1]. Since its inception in 1983, EDBE has been characterized by having a majority public sector ownership as according to its articles of incorporation (article # 6), public sector shareholding in the bank should not be less than 75% at any point in time while the remaining stake belongs to the private sector (please refer to Appendix IV). The bank paid-up capital is currently EGP 1.2 bn; support is expected to be extended to the bank in case of need, as EDBE is considered to be the government financing arm in promoting exports through its current 70% shareholding stake in the Export Guarantee Company[2], which is a separate entity managed by Ms. Ola Gad, one of the top management personnel in EDBE until recently.

With total assets of EGP 13.4 bn. as at June 2008, EDBE is accounting for almost 1.2% of the banking system assets amounting to EGP 1083 bn. as at June 2008. In the meantime, EDBE largest business line is corporate banking followed by treasury and financial markets, then comes the retail banking.

[1] During FYE 2005/2006, National Investment Bank (NIB) acquired Bank of Alexandria's (BoA) shareholding stake in EDBE. This move was part of the government's agenda to liquidate the investment portfolio of BoA before its privatization, which took place during 2006.

[2] The Co. was established in 1992 for the purpose of encouraging and developing the Egyptian exports with an authorized share capital of EGP 50 mn. while the issued and paid-up capital is EGP 10 mn. Its shareholders are: EDBE, National Investment Bank, Misr, El-Shark and Egyptian National Insurance Companies.



Key Issues

Upon the appointment of a new top management as at year 2006, there has been a series of developments taking place within the bank:

- Appointing new qualified 1st tier managers for heading the critical sectors in the bank like Retail Banking, Commercial Banking, Internal Audit, IT. In this respect, it is to be noted that the Deputy of the bank Managing Director, Ms. Ola Gad, left the bank for heading the Export Guarantee Company (EGCE), in which the bank raised its shareholding stake from 40% to 70%. This company has now become the arm of the Egyptian Government exports.
- Hiring Pro-Mark for assessing and re-structuring the bank organizational chart and KPMG for making a salary survey. Based on their work, the top management reduced the titles in the organizational chart, in order to facilitate the flow of work; thus, down from 450 managers and 100 juniors, the new chart comprises 14 executives, 36 middle management, 127 employees and 53 services while the remaining were relocated among the bank departments and branches. Moreover, there were big gradual salary increases enhanced by the new organizational chart, which allows for more salary adjustments through widening the gaps between the titles.
- Forming a new image for the bank coping with its target for attracting new deposits during the coming period through:
  - ☒ Hiring two reputable marketing and corporate identity advisors.
  - ☒ Re-designing and refurnishing the existing branches.
  - ☒ Opening new model multi-function branches in attractive locations, which will be small in size with less staff. It is expected that the bank branches will reach 16 up from around 10 by the end of this year.
- Upgrading the ATM systems in co-operation with NCR.

It is to be noted that the IT issue remains the main challenge for the bank in the meantime, as EDBE wasted a long time trying to apply the core banking system T24, which proved its failure upon implementation in the bank, as the bank IT authorities quoted that Temenos, the T24 vendor was not committed when it came to implementation; however, the bank will benefit from the hardware set by Temenos. The bank is now choosing between three core banking systems; a general manager committee will shortly be formed, so as to decide upon the suitable system, which is expected to start operating by year 2010.

Though the HR issues have been improving (as detailed upwards) and more attention has been given to training, still the efficiency of the workforce has to be more enhanced; thus, in an attempt to curb the issue of public sector mentality, the Managing Director does not accept any renewals for people, who reached the age of retirement (60 years old); at the same time, he is keen upon hiring new staff and giving them the appropriate training, so as to form an updated identity for the bank.

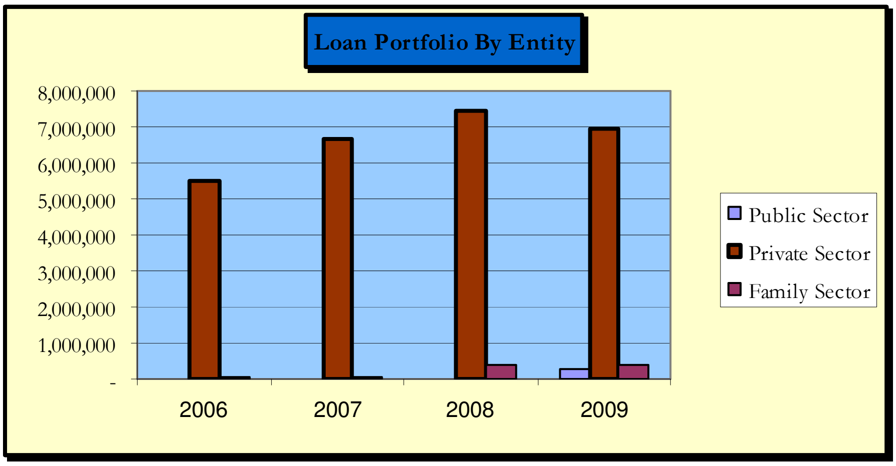
Analysis of Rating Considerations

Discussion of Qualitative Rating Drivers

Franchise Value

With total assets of **EGP 13.4 bn** as at June 2008**,** EDBE market share as at 30/6//2008 amounts to around 1.2% of the total banking assets[3] of EGP 1,083,311 million**, 0.8** % of total customer deposits of EGP 747,199 million and 1.7% of total loans and advances of EGP 401,425 million. The bank average recurring earning power increased from 3.4% as at June 2007 to 4.5% as at June 2008, which is higher than the industry norms amounting to around 3.7%. EDBE used to be one of Egypt export arms; however, in the meantime, it is playing this role through its large shareholding stake of 70% in the Export Guarantee Company; the bank is currently trying to build a new franchise in the market as a commercial bank, which is not favorably viewed by MERIS, as the competition is very high in this accord**.**

Market Share and Sustainability

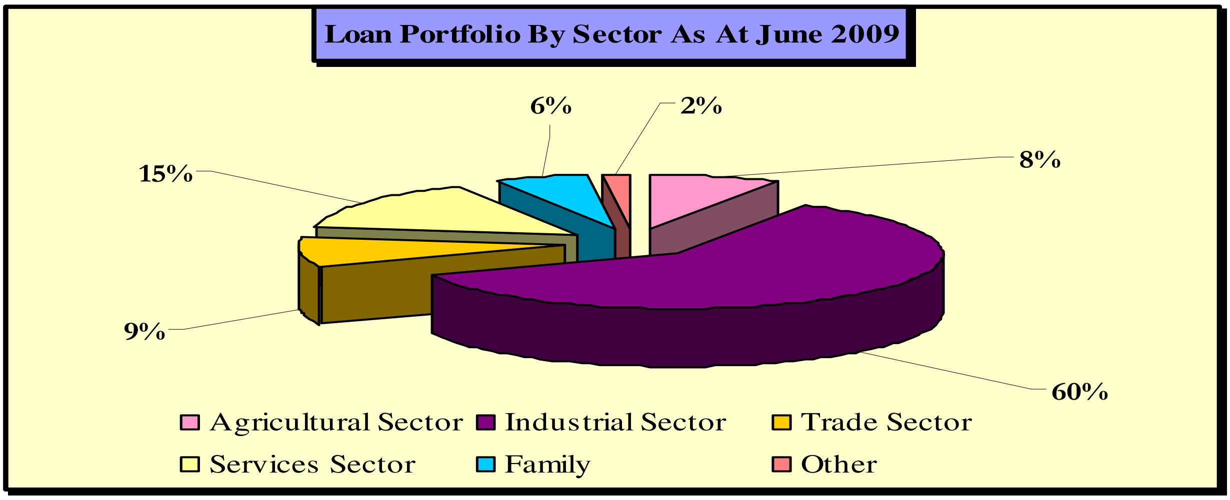


In the meantime, the bank is still relying on the corporate lending side which has been constituting its major lending exposure amounting to around 89.7 % of the gross loan portfolio as at June 2009 down from 95% as at June 2008 followed by far by the retail and consumer lending amounting to around 4.8 % of its loan portfolio as at June 2008 and June 2009 up from an average of 1% during June 2006

Source of the total banking assets, customer deposits and loans in Egypt is Moody's Banking System Profile on Egypt, November 2008.[3]

and 2007, as the bank is giving special attention to the retail sector, which has started by the appointment of a new head for the sector in November 2008, in addition to hiring marketing and corporate identity advisors to assist in building a new identity for the bank It is to be noted that the decrease in the corporate lending side as at June 09 was on the back of the increase in the public sector, which amounted to 3.8%. Though this rate is considered low, it still represents the highest public sector weight since June 06, which is mainly attributed to the efforts of the top management in attracting some public sector clients (LCs and LGs).

On the corporate lending side…………

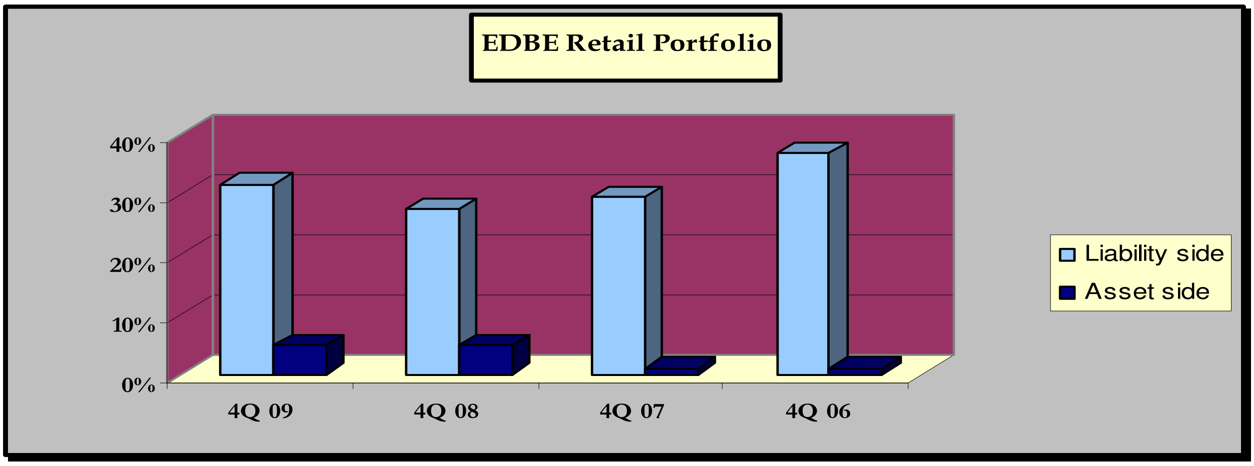


EDBE has been mainly concentrating on the industrial sector comprising around 60 % of the corporate portfolio as at June 2009 and an average of 64% throughout the period from June 2006 – June 2008. Following the appointment of a new head of sector in 2008, he started restructuring the department; thus by the beginning of January 2009, the Corporate Banking Dept. has been divided into various sectors including Textiles and Ready-made Garments, Consumer Durables and Communication, Construction and Building Material, Food, Beverage and Agriculture, and Fertilizer and Oil and Gas. Said divisions are formed, so as to enable the bank to fully monitor every sector, thus evaluating its performance and its growth potentials in the future. As the bank has succeeded in making a good portfolio in textiles, it will maintain said portfolio, in addition to tapping new markets in other promising segments, such as food and beverages, petrochemicals, and oil and gas, which the department is planning to concentrate on for the coming year.

On the retail side… … … …

On the asset side, lending to the household sector comprises a minor exposure amounting to 6% as at 4Q 2009 with a trivial increase of 1% in comparison to 4Q 2008. During the previous two years, the household sector increased from an average of 1% as at June 2006 and 2007.

On the liability side, 31% of customer deposits as at June 2009 is coming from the household sector up from 27% as at June 2008, as the bank is trying to attract stable funding, so as to decrease the cost of funds. It is to be noted that widening the bank network with its new corporate identity will give a chance for attracting more deposits.



During the coming period, with the appointment of a new head of sector as at November 2008, the efforts of the chairman to market for the bank, in addition to the efforts of the hired marketing and corporate identity advisors, more deposits are expected to come; however, the IT system development is considered crucial, so as to achieve material improvement.

EDBE strategy is to expand on the liability portfolio side through:

- Increasing the bank branch network from 10 branches as at year 2008 to around 16 branches during this year paying special attention to furnish these branches with a new style reflecting a new image for bank, thus inducing an atmosphere similar to this of the top banks in the country.
- Upgrading the ATM system by using NCR expertise, as the current system was outdated.
- Offering full range of products and competing with other banks in the market based on service and product differentiation.
- Penetrating the POS machine service.
- Gradually centralizing all the functions in the branches.

Geographic Diversification

Limited Geographic Diversification

EDBE has been mainly concentrating on the Egyptian Market in its banking operations; with a GDP estimated at US$146 billion as at 2008, Egypt is considered a mid-sized economy. Most of the existing branches are concentrated in Greater Cairo besides 6th of October, 10th of Ramadan and Alexandria. The new branches will also be diversified between Cairo and Alexandria.

Earning Stability

Business Activity Weighted Towards Corporate Banking

EDBE derives most of its earnings from corporate banking operations. In the near future, the management is intending to concentrate on attracting more deposits, so as to be able to broaden their lending exposures. With regards to corporate lending, the bank is intending to tap new markets in promising segments, such as food and beverage, petrochemicals, and oil and gas, in addition to the existing segments, in which the bank is achieving success. Investment in interbanks is considered the second line of business, from which EDBE is deriving its earnings followed by retail business, which is considered really trivial in the meantime.

Earning Diversification

Not A mono-line
There is no single business line that accounts for 80% or more of net income; the bank provides a broad range of banking products and services for its clients. As such, EDBE is not a mono-line.

Risk Positioning

Corporate Governance and Management Structure

Improving in Comparison to the Past
EDBE has a public sector ownership profile, which should not be less than 75% at any point in time based on the bank articles of incorporation.

Moreover, the capabilities and expertise of the management team (on top of whom is Mr. Hisham Hassan, the Chairman, who has been fueling the development process of the bank since his appointment in 2006) have improved following the appointment of experienced bankers for heading some of the major sectors in the bank, such as the Corporate Banking, IT, Retail, etc.

The committees of the bank are frequent, so as to facilitate the flow of work.

In the meantime, EDBE has no related-party exposures on its books, as the bank is sticking to the CBE regulations in this regards.

Controls and Risk Management

Measures Underway to Improve Deficiencies

New risk policies have been initiated, especially regarding operational and market risks. Said policies are expected to be applied by FYE 2010, as the database required for accurate risk management needs a sophisticated core banking system, which is not there up till now.

Financial Reporting Transparency

Financial Disclosures Lagging Behind the Level of Disclosures in Mature Markets though Conforming with the Egyptian Market Standards.

EDBE financial statements are prepared in accordance with the Egyptian Accounting Standards and CBE requirements. The bank annual financial statements are made public 3 months post the year-end date; moreover, the bank quarterly publishes its financial positions. Financial disclosures lag behind the level of disclosures in mature markets, i.e. the disclosures lack important information on risk weighted assets, performance by business line, granularity of the loan portfolio, level of problem loans and their provision coverage.

Credit Risk Concentration

Some Credit Concentration Risk

As for the two measures used to calculate credit concentrations, EDBE displays the following:

First, with regards to single loan exposure, credit concentration risk is evident, as the bank top 10 loan exposures amount to 160% of tier1 capital with a highest single loan exposure of 26%, which is higher than the regulatory requirement of a maximum single loan exposure of 20% of Tier1.

Second, with regards to exposure to industry segments, the bank loan portfolio is not well diversified among various economic sectors, as there is a concentration in the industrial sector (around 65% of the gross loan portfolio); according to the management, this concentration profile matches the role of the bank in promoting exports.

Liquidity Management

An Increasing Core Deposit Base Though there is High Concentration

EDBE loan to deposit ratio was 124% as at June 2009, up from 113% as at June 2008, both of which are considered high. As at June 2009, liquid assets represent around 29% of the total assets (up from 21% as at June 2008), thus exceeding the sensitive funding by around 20 % (up from an excess of liquid assets over sensitive funding by only 4% as at June 2008), which is considered a positive sign. Customer deposits have historically proved to be stable representing an average of 45% of the funding base throughout the period from June 2006 until June 2008 with the private and retail sector representing around 60% of the customer deposit base as at June 2008 and beforehand; however, MERIS noticed that the public sector deposits have started to increase since June 2007 though it is still considered low. As at June 2009, customer deposits constitute around 52% of the total funding base.

MERIS has concerns regarding the concentration of the customer deposits, as the top 25 depositors represent 47% of customer deposits as at FYE 2008, which is quiet high.

Regulatory Environment

It is to be noted that both regulatory and operating environment have been quoted from Moody's Banking System Profile on Egypt published November 2008.

Notable progress has been made in the field of banking regulation and supervision over the past few years, and specifically following the introduction of the new Central Bank and Banking Sector Law in July 2003. The Banking Law has strengthened the CBE's capacity to regulate the banking sector and enforce prudential and regulatory requirements. Regulatory standards are converging to international best practice, while risk-based supervision is being implemented. However, the regulatory framework will take some time to mature, and will require the implementation of additional regulations – and specifically Basel II. Similarly, the CBE needs to lengthen its track record of successful enforcement of these (relatively new) regulations, especially under tougher market conditions.

Independence

The introduction of the new Central Bank and Banking Sector Law in July 2003 has strengthened the CBE's independence and its capacity to enforce prudential and regulatory requirements and lead the reform and privatization of the banking sector. Nonetheless, certain decisions of the CBE Board may be influenced by social considerations or government policy – under emergency laws, the President has the capacity to override any CBE decision under any circumstances. Similarly, potential conflicts of interest exist given the composition of the CBE's board, although no such incidents were noted.

Regulatory Standards

The Banking Law and subsequent CBE directives incorporate the requirements for licensing new banks and ensure that the regulators are aware of beneficial shareholders while a business plan is required as part of the bank licensing process. The Banking Law and CBE directives also incorporate other prudential requirements relating to asset quality and loan loss provisioning, liquidity and large and related-party exposures, which on paper are broadly in line with international norms. Below we set out some of the key bank regulations issued by the CBE:

- The minimum requirement for paid-up capital has been raised to EGP500 million for domestic banks and US$50 million for branches of foreign banks. Banks are also obliged to maintain a minimum ratio for capital base to risk-weighted assets of 10%.

- Banks must keep a cash reserve with the CBE equivalent to 14% of average 14-day local currency deposits and 10% of average quarterly foreign currency deposits. Banks can exclude from the denominator of the ratio for local currency any instruments with a maturity exceeding three years. Egyptian pound reserves are non-interest-earning, but foreign currency reserves earn interest.

- Banks must observe a liquidity ratio of 20% on the Egyptian pound portion of their liquid liabilities and 25% in respect of the foreign currency portion. Banks can include bonds issued by other banks registered with the CBE in the numerator of the ratio for local currency.

- Bank placements (excluding branches of foreign banks) with a single correspondent abroad should not exceed 10% of total placements with correspondents or US$3 million, whichever is larger, taking into account that total placements should not exceed 40% of the bank's capital base.

- The maximum permitted exposure to a single borrower and related parties was reduced in February 2006 to 20% and 25%, respectively, from the previous 30%. Total exposures exceeding 10% of the bank's capital base should not exceed eight times its capital base.

- Instructions concerning asset classification and provisioning take into consideration the obligor risk rating (ORR) concept for loans granted to business organizations, grading the credit risk inherent to the customer into ten categories, and required provisioning (1% to 5% as general provision, and 20%, 50%, 100% as specified provision). The regulations allow some collateral to be taken under specific conditions and include standards for consumer and SME lending and provisioning. It is worth mentioning that the new banking law makes it easier for banks to seize collateral from defaulters; however, the improvement mainly relates to commercial real estate and shares, whereas foreclosing on personal real estate property remains difficult.

- A bank's long or short position in any one currency must not exceed 10% of its capital base. Also, the aggregate of foreign currency assets to liabilities (or vice versa) must not exceed 105%, while the surplus or deficit in all currencies must not exceed 20% of the capital base.
- The CBE's written consent is required to acquire a stake above 10% in a bank.
- A law passed in May 2002 gives the CBE powers to investigate the transactions of banks and other financial institutions in order to combat money laundering. Under Law No. 80 for 2002, banks and other financial institutions are obliged to report suspicious transactions, regardless of their size, to the Egyptian Financial Intelligence Unit.
- A regulation was issued in October 2007 regarding Real Estate Developer finance addressing comprehensive qualitative and quantitative processes for the extension of credit, including higher risk weights linked to the project leverage.

Overall, we believe that the regulations are consistently applied by all banks and closely monitored by the authorities, although we did note some outliers: (i) state-owned banks have not been classifying their public sector enterprise NPLs, based on the agreement reached with the government to eventually repay these (62% of the balance has already been repaid); (ii) single-borrower limits are sometimes violated, but according to CBE officials, any amounts over the limit are government-guaranteed; and (iii) exposures to Egyptian government securities (now rated Ba1 with a negative outlook by Moody's) are zero risk-weighted.

Supervision

The CBE has been upgrading its bank supervision capabilities in an effort to apply international best practice and shift to risk-based supervision. To this end, it signed a protocol with the European Central Bank and the central banks of France, Germany, Greece and Italy to provide a technical assistance programme, aimed at (1) conducting a diagnostic analysis and design an upgrading plan in line with international best practice, and (2) improving supervisory techniques. Having now completed this, negotiations are underway for the signing of a new three-year protocol with the ECB to assist with Basel II implementation; the project is due to be launched at the beginning of next year.

Tangible progress has been made with the CBE embarking on a recruitment programme to

the authorities are implementing a risk-based supervisory framework, where the risk profile of banks is assessed, before deciding on potential ad hoc review requirements or the frequency of on-site regulatory visits. The Banking Supervision department is adequately staffed, with examiners specialised in different areas (e.g. market risk, IT/MIS, credit risk), while for off-site supervision a relationship manager is appointed for each bank.

Enforcement and Maturity of Regulatory Framework

The authorities have so far demonstrated that they have the power and the means to successfully enforce the new regulations. However, the regulatory framework will take some time to mature, and will require the implementation of additional regulations – and specifically Basel II. Similarly, the CBE needs to lengthen its track record of successful enforcement of these (relatively new) regulations, especially under tougher market conditions.

Operating Environment

The Egyptian economy experienced an upturn starting in 2004. The government, led by Prime Minister Dr Ahmed Nazif since July 2004, is pursuing a reformist agenda and has restored some credibility and confidence in its economic policy. It has implemented a series of measures aimed at privatizing the Egyptian economy and improving the business environment, including lower tax rates, the revival of the privatization programs and some bold efforts at fiscal reform. These measures, combined with the CBE's own banking reform plan, as well as the country's robust external position, tourism growth and increased foreign investments, have created significant opportunities for the banking sector in the form of increased credit appetite and have led to a reversal of the downward trend in credit growth.
However, despite these recent improvements, Egypt has a low per-capita GDP, high unemployment, while soaring consumer price inflation – which exceeded 22% in August 2008 – has also heightened the fiscal risks. Egyptian banks have therefore been operating in a challenging environment, while their performance is being affected by government bureaucracy, weaknesses in the commercial banking law and foreclosure regulations, and potentially high levels of corruption (as indicated by the World Bank's Control and Corruption Index) compared to developed markets.

Economic Stability

Moderate economic volatility

Unlike most other Middle Eastern markets, Egypt displays only a moderate economic volatility, as measured by the standard deviation of its nominal local currency GDP growth rate in the past 20 years. Egypt's economic stability score is supported by its diversified economy, but is constrained by the macroeconomic challenges outlined above.

Integrity and Corruption

Weak governance standards, but improvements are evident within the banking industry

Moody's uses the World Bank's indicator on the Control of Corruption as a proxy measure for the level of corruption in a given economy. Based on this index, Egypt ranks in the last quartile globally, with a score of -0.41 versus a score of 2 or higher for the least corrupt countries. The low score may suggest that Egypt has weak regulations and policies in place to curtail corruption. However, over recent years – and as a result of the banking sector reform programme – we have witnessed improvements in the Egyptian banks' corporate governance processes and culture, including reductions in related-party transactions and improved transparency in dealings with third parties, although one should acknowledge that there is scope for further improvement.

Legal System

Historically Weak but Improving

Weak loan enforcement and collateral foreclosure practices and apparent inefficiencies in the judicial procedures have, in the past, hindered the effective resolutions of overdue exposures of

Egyptian banks after the loans become problematic. This issue was specifically evident among the state-owned banks, whose non-performing loans rose to above 30% in the early part of the decade; inefficiencies in the enforcement of contracts and insolvency proceedings significantly raised the magnitude of potential credit losses.

However, over the past three years, the authorities have been addressing this issue. The CBE has established the NPL Management Unit and banks were asked to establish similar units, while also launching a conciliation and arbitration mechanism. Through these mechanisms and through moral suasion, the effectiveness of the existing laws has improved, while the government has also been tackling the issues surrounding the existing real estate finance law. Specifically, the Mortgage Finance Authority was established as the regulatory body for enforcing the law, changes were made to the regulations in an effort to simplify processes (e.g. title deed procedures were simplified and associated costs significantly reduced), and foreclosure procedures were set in place, although these have yet to be tested on a broader scale.

Discussion of Quantitative Rating Drivers

Profitability

Decrease in Bottom Line Triggered by the Drop in Non-Interest Income Items and the High Admin. Expenses

Net profit recorded a drop of 19% as at June 09 in comparison to June 08, which can be mainly attributed to the decrease in trading income and fees and commissions because of the International economic crisis, which caused a huge loss in the valuation of trading investments, in addition to some shrinkage in the bank activities. On the other hand, there was a huge increase in the admin. expenses due to the development process taking place in the bank regarding human resource issues and labor cost.

As at June 2008, the net profit recorded a huge increase in comparison to June 2007 mainly due to the huge decrease in loan loss provisions by around 99.9%, as the portfolio clean-up process has been taking place; thus, there is no need for excessive provisioning though still the provision coverage for the gross loan portfolio stands at 81%. Though there was an increase in the net interest income by around 30% and non-interest income by around 37%, still the high bottom line achieved during June 2008 is attributed to the decrease in LLP.

The previous changes affected the profitability indicators as follows:

- Recurring earning power reached 3.1% up from 2.9% as at June 2007, which is slightly lower than the industry average of around 3.7%. As at June 09, said ratio dropped again to 2.9%
- Net interest margin amounted to 2.9% as at June 2008, which is in line with June 2007 increasing to 3.1% as at June 09.
- ROA increased to 2.3% (above peer average amounting to around 1.2%) up from 0.1% as at June 2007. As at June 09, said ratio slightly decreased to 2.0%.
- ROE tremendously increased to reach 22.6% (much more than peer average amounting to around 14%) up from 6.1% as at June 2007. As at June 09, it declined to 17.4%, which is still higher than the peer average.

It is to be noted that the major sources of income for EDBE are coming from core banking returns, such as return on loans, which is considered a positive sign. The following table represents the break-down for the Net Interest Income (NII) for EDBE.

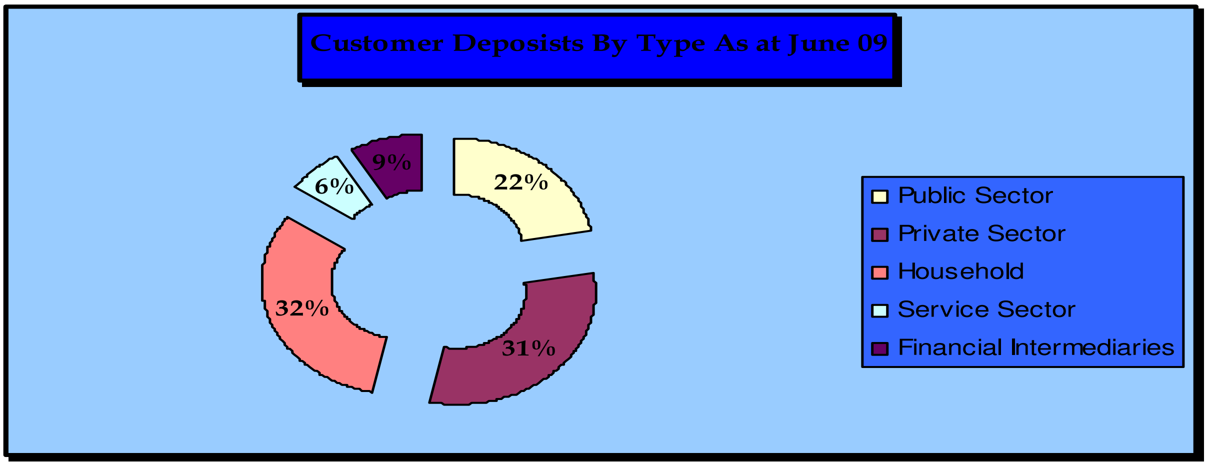
Item (EGP mn)	4Q 08	%	4Q 07	%	4Q 06	%
Interest Income						
Cash & Central Bank	95	11.4%	161	26.9%	181	35.8%
Available for sale investments		0.0%		0.0%		0.0%
Loans & advances to banks	262	31.3%	50	8.4%	36	7.2%
Loans & advances to customers	478	57.3%	**387**	64.7%	**289**	57.1%
Others		0.0%		0.0%		0.0%
Total Interest Income	**835**		**598**		**506**	
Interest Expenses						
Deposits from banks	81	14.3%	21	5.4%	5	1.6%
Customer accounts	397	70.0%	279	71.2%	254	74.2%
Debt securities in issue (bonds)		0.0%	4	0.9%	12	3.6%
Subordinated liabilities		0.0%		0.0%		0.0%
Others (medium term loan interest)	89	15.7%	88	22.4%	71	20.6%
Total Interest Expenses	**566**		**391**		**342**	
Net Interest Income	**268**		**207**		**164**	

Liquidity

Comfortable Liquidity & Funding Position

EDBE exhibits healthy levels of core liquidity on the back of the following:

- ✓ The stable funding represented in customer deposits and equity constitutes around 57% of the bank funding base as at June 2009 up from 55% as at June 2008. An average of 45% of the bank funding base comes from customer deposits throughout the period from June 2006 until June 2008. As at June 2009, customer deposits constitute around 52% of the total funding base.
- ✓ The consecutive increase in customer deposits by 47% and 23% as at June 2008 and 2007, which is mainly attributed to the increase in public sector and financial intermediaries, especially during June 07 due to the efforts of the top management in attracting new clients, especially through his connections with public sector companies; in addition to the efforts of the newly hired marketing companies; however, there was a slight decrease in the customer deposits by 3.6% as at June 2009 in comparison to June 2008 due to the effects of the economic crisis; however, it is not to be fully judged in the meantime, as the head of the retail sector-for instance- is still new, the IT development is delayed, and the efforts of the new hired marketing companies have not been achieved yet.



- ✓ Liquid assets amounted to 28.6% of total assets as at June 2009 up from 20.6% as at June 2008.
- ✓ The mix between the public, personal and corporate deposits is acceptable taking in consideration the nature of the bank

Customer Deposits by Type	30/6/2009	30/6/2008	30/6/2007	30/6/2006
Public Sector	22%	22%	18%	12%
Private Sector	31%	32%	30%	36%
Household	32%	27%	30%	37%
Service sector	6%	5%	9%	12%
Financial Intermediaries	9%	13%	13%	3%
Total	**100%**	**100%**	**100%**	**100%**

It is to be noted that **MERIS** views all the above factors as positive signs enhancing the bank liquidity, except for the increase in the public sector deposits and the financial intermediaries since June 07. However, the financial intermediaries the rate of increase in the financial intermediaries starts to slow down in June 09.

Capital Adequacy

Good Capitalization Indicators

EDBE is meeting the regulatory capital adequacy ratio (CAR) as required by the CBE. As at June 2009, the bank shareholders' equity to total assets amounted to 11.5%, which is considered good, up from 10.3% as at June 2008. Moreover, the aggressive provisioning policy pursued by the bank was reflected in a positive economic capital; there was a huge growth in EDBE internal capital reaching 35.9% as at June 2008 up from 8.2% as at June 2007, which is mainly attributed to the increase in net income during June 2008 as early mentioned. Due to the decrease in net income as at June 2009, said ratio dropped to 18.2%.

Efficiency

Good Efficiency Indicators Though the Bank Is Still Facing Some Challenges

With approximately 696 employees in the meantime down from 793 as at May 2007, the bank is still facing a workforce challenge, as the bank needs to develop the skills and mentality of some of its current workforce. According to the bank authorities, only 20% of the above mentioned workforce is efficient, which the top management is trying to overcome through not accepting any renewals post the age of 60, hiring new staff and giving them the appropriate training, so as to form an updated identity for the bank, in addition to giving attention to training the existing staff and relocating them if needed. In the meantime, the top management is not considering an early retirement scheme because the cost of such scheme far outweighs the cost of keeping less efficient people Based on the work done by specialized companies hired by the bank for restructuring the bank from the organizational and payroll points of view, the top management reduced the titles in the organizational chart, in order to facilitate the flow of work as early detailed under Key Issues. Moreover, there were big gradual salary increases enhanced by the new chart, which widens the gaps between the titles, thus allowing for more salary adjustments. Accordingly, cost to income ratio increased to reach 31.2% as at June 2008 up from 21.1% as at June 2007, which is mainly attributed to the increase in personnel expenses due to the previously mentioned salary increases, in addition to the increases in the bank G&A expenses due to the bank development plans.

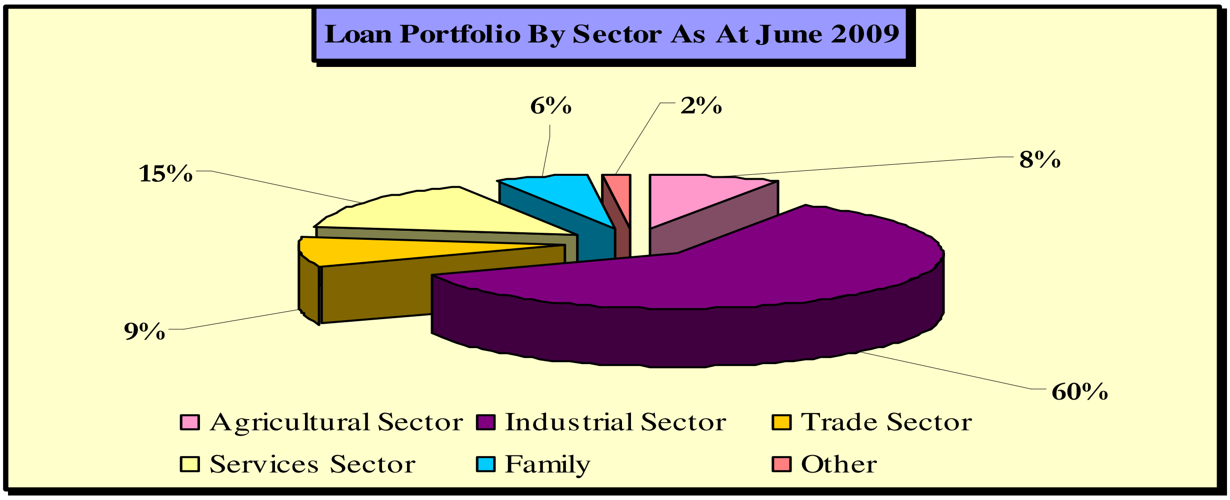
Asset Quality

The Bank Asset Quality is showing great improvement
On the asset side, the loans to customers represented the largest component of EDBE balance sheet throughout the period from June 2006 until June 2008 averaging around 56% of total assets during the last 2 years. Due to the nature of EDBE as an export bank, said policy will go on.

In terms of loan portfolio size, EDBE gross loan portfolio increased by 17.5% as at June 2008 reaching EGP 7.6 bn. up from EGP 6.5 bn. and EGP 5.4 bn as at June 2007 and 2006 respectively. As at June 09, the gross loan portfolio increased by around 3.7%.

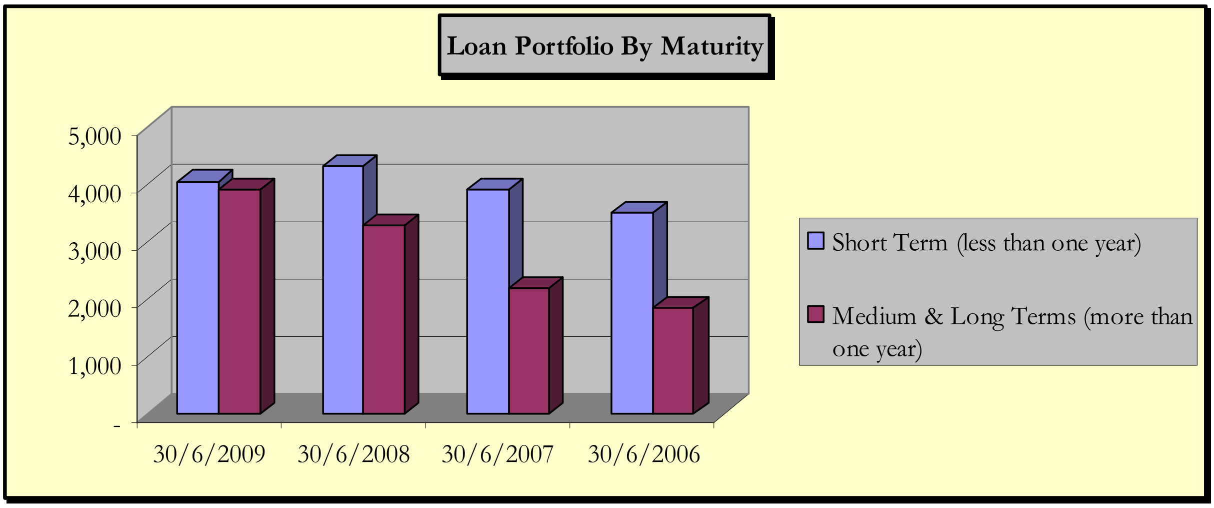
In terms of loan portfolio composition, the private sector represents the focus of EDBE lending; it contributes an average of 97.6% of the gross loan portfolio throughout the period from June 2006 until June 2008, which though dropping to 89.7% of the loan portfolio as at June 09, it is still high in comparison to the remaining sector. It is to be noted that there has been an increase in the family sector lending starting June 2008; said sector reached 4.8% of the gross loan portfolio during June 08 (maintained as at June 09) up from 0.9% of the gross loan portfolio as at June 2007 on the back of a trivial drop in the private sector lending, which reflects the bank attitude to attract more clients on the retail side once the new core banking system is in place, which is expected by year 2010. As at June 09, the public sector represents a % of 3.8 of the loan portfolio as early mentioned.

In terms of industry, the bank has been mainly concentrating on the industrial sector followed by the service sector. During the next stage, the bank is planning to keep up its franchise in the industrial sector; it will always try to tap new markets in various segments within the industrial sector, which are expected to be promising in the market; thus, EDBE is planning to maintain its good portfolio in textiles, in addition to tapping new markets in the food and beverages, petrochemicals, and oil and gas segments during the coming year.



In terms of currency, EDBE lending mixture is an average of 57:43% local is to foreign currency during the period under study.

In terms of maturity, EDBE loan portfolio maturity is reflected in the following graph throughout the period from June 2006 – June 2009:

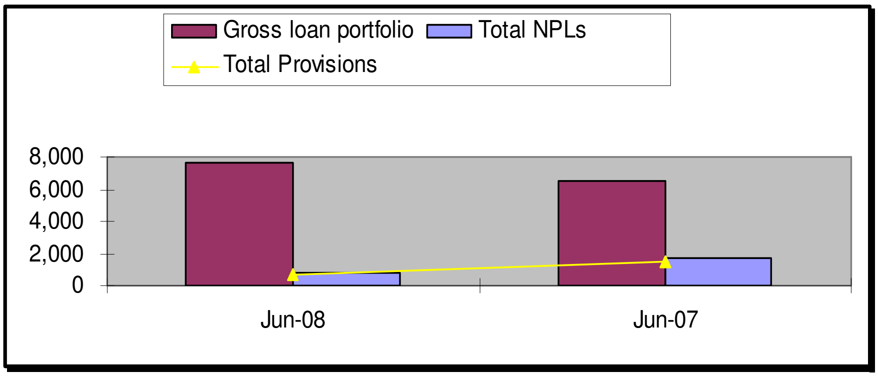


The graph reflects that during the period from June 2006 – June 2008, the short/medium & long term loan mix is almost stable in favor of the short term credit facilities though both the short and long term portfolio is increasing by time. As at June 2009, this mix changed, as the medium and long term loans increased by 19% against a drop of 6% in the short term loans, which was justified by the bank authorities as being for the sake of diversification of risk

In terms of pricing, as per the bank announced rates as at June 2009, EDBE applied average interest rates are broken down as follows:

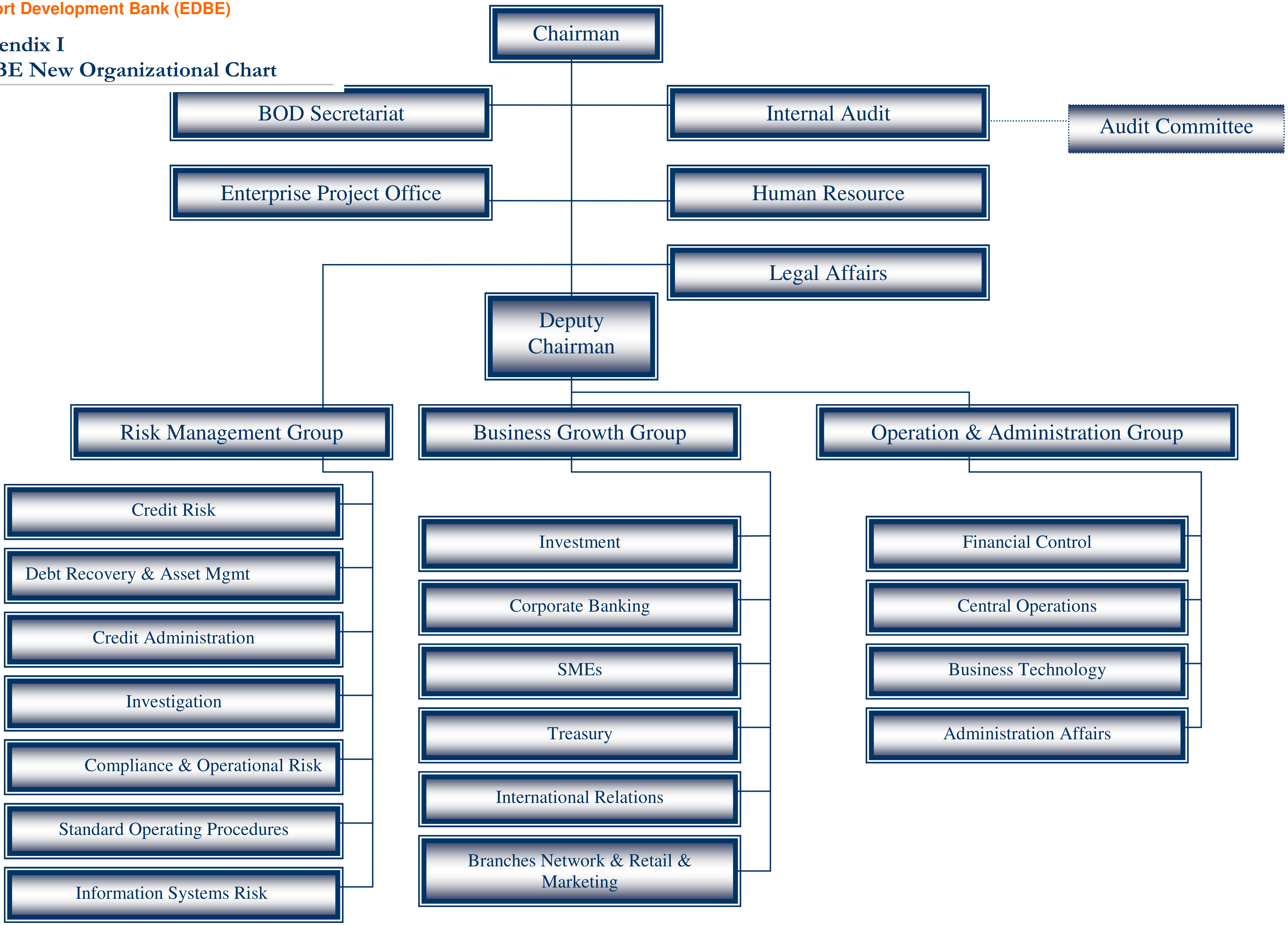
DESCRIPTION	2006	2007	2008	2009
LOANS				
Medium Term Loans	9.47%	8.03%	7.46%	8.41%
O/D's & discounted. bills	8.50%	11.52%	9.32%	8.60%
DEPOSITS				
Current Accounts	0.87%	1.62%	1.73%	1.93%
Time Deposits	4.76%	5.68%	5.73%	5.28%
Saving	6.22%	6.17%	6.16%	4.18%
Saving Certificates	11.58%	10.09%	9.70%	5.68%
Other Deposits	0.04%	0.52%	1.13%	0.86%

In terms of quality, the cleaning-up process of the loan portfolio has been successfully going on; the % of problem loans decreased by around 50% in June 2008 in comparison to June 2007 though there was around 17% growth in the gross loan portfolio in June 2008. Accordingly, the provision coverage for the gross loan portfolio went down from 35% to 26% to 11% respectively throughout the period from June 2006 until June 2008; thus, we do not perceive the lower provisioning as a threat to the bank asset quality. The provision coverage for the NPL portfolio went down from 86% as at June 2007 to 81% as at June 2008. Moreover, the forward looking asset quality indicators are improving, as the pre-provision income as a % of net loans amounted to 4.6% as at June 2008 up from 1.1% as at June 2007, in addition to equity as a % of net loans amounted to 20.3% as at June 2008 up from 17.6% as at June 2007.



Export Development Bank (EDBE)

Appendix I
EDBE New Organizational Chart



Appendix II
EDBE Current BOD

Name	Position
Mr. Hesham Ahmed Hassan	Chairman
Dr. Mohamed El Saeed El Dakak	Specialist Board Member
Dr. Samiha El Sayed Fawzi	Specialist Board Member
Mr. Ahmed El Sayyed	Board Member – Representing National Investment Bank
Mrs. Dalia Mostafa Kamel	Board Member – Representing National Investment Bank
Mr. Abdel Halim Mohamed Ibrahim	Board Member – Representing National Investment Bank
Mr. El Sayed Eid Rashwan	Board Member – Representing National Bank of Egypt
Dr. Susan Fouad Hamdi	Board Member – Representing Banque Misr
Mr. Effat Ishak Abdel Meseeh	Board Member – Representing Banque Misr
Dr. Samir Tanagho	Board Member – Representing Private Sector
Mr. Maged Fahmy Attia	Board Member – Group Head – Risk Management

Appendix III
MERIS National Scale Rating

Quality of credit	Long	Short	
Gilt edged	AAA		Investment Grade
Very high	AA+ AA AA-	Prime 1	
Upper-medium	A+ A A-	Prime 2	
Medium grade	BBB+ BBB BBB-	Prime 3	
Questionable	BB+ BB BB-		Speculative Grade
Poor quality	B+ B B-		
Very poor	CCC+ CCC CCC- CC C		

Appendix IV

Shareholding Structure

June 2009

Shareholders	%
National Investment Bank	*40.75*
Banque Misr	*23.13*
National Bank of Egypt	*11.43*
Private Sector and Others	*24.69*
Total	**100.00**
Paid-up Capital LE	**1,200,000,000.00**
Authorized Capital LE	**2,000,000,000.00**

Appendix V
Institution Annual Statistics

	30/6/2009	30/6/2008	30/6/2007	30/6/2006	30/6/2005
Summary Balance Sheet (EGP mn)					
Cash & Central Bank	838.6	327.2	183.4	189.7	357.9
Due from Banks	587.0	3,121.2	2,181.1	682.1	1,166.5
Government Securities	1,267.9	982.6	487.7	1,495.3	1,452.4
Trading Securities	193.3	141.5	97.6	26.2	144.0
Investment Securities	1,531.7	1,305.4	496.7	709.9	626.0
Other Liquid Assets	0.0	0.0	0.0	0.0	0.0
Gross Loans	7,965.7	7,603.4	6,471.5	5,356.8	4,725.9
Loan Loss Reserves (LLR)	-749.8	-841.1	-1,564.5	-1,401.6	-1,052.4
Net Loans	7,215.8	6,762.3	4,907.0	3,955.3	3,673.5
Equity in Affiliates	288.7	124.3	120.2	99.4	90.6
Fixed Assets	101.5	105.5	107.0	95.2	101.2
Other Assets	518.3	513.2	202.1	86.4	83.9
Total Assets	12,542.8	13,383.1	8,782.9	7,339.3	7,696.0
Customer Deposits	5,733.2	5,944.6	4,055.3	3,310.0	3,578.9
Due to Banks	1,118.8	2,275.0	89.3	314.3	231.2
Borrowings	4,101.4	3,591.8	3,533.1	2,889.0	2,845.8
Other Liabilities	148.6	316.4	240.6	177.5	233.5
Total Liabilities	11,102.0	12,127.9	7,918.3	6,690.7	6,889.3
Subordinated Loan Capital	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Supplementary Capital	0.0	0.0	0.0	0.0	0.0
Shareholders' Equity	1,440.9	1,255.3	864.6	648.6	806.6
Total Capital Funds	1,440.9	1,255.3	864.6	648.6	806.6
Total Liabilities & Capital Funds	12,542.9	13,383.1	8,782.9	7,339.3	7,695.9
Contingent Liabilities	2,588.1	2,539.6	1,376.5	1,028.1	1,371.1
Summary Income Statement (EGP mn)					
Interest Income	971.5	834.6	598.2	506.3	558.4
Interest Expense	-674.2	-566.5	-391.4	-341.9	-352.8
Net Interest Income	297.2	268.1	206.9	164.5	205.5
FX Income	0.0	0.0	13.4	11.6	11.8
Trading Income	6.8	41.2	11.3	28.2	7.8
Fees & Commissions	103.2	119.4	105.5	103.8	128.6
Other Operating Income	71.9	29.2	18.7	13.0	16.9
Total Non Interest Income	181.8	189.9	149.0	156.5	165.1
Operating Income	479.1	458.0	355.8	321.0	370.7
Personnel Expenses	0.0	0.0	-50.6	-57.0	-54.0
Other Operating Expenses (G&A)	-163.0	-132.9	-62.2	-31.7	-25.9
Operating Funds Flow	316.1	325.1	243.0	232.3	290.8
Amortisation / Depreciation	-10.6	-10.5	-7.7	-8.1	-7.3
Total Non Interest Expense	-173.6	-143.4	-120.5	-96.8	-87.2
Preprovision Income (PPI)	305.5	314.5	235.3	224.2	283.5
Loan Loss Provisions Expenses (LLPE)	0.0	0.0	-242.2	-387.9	-222.5
Non Operating Income	-41.9	15.7	14.4	5.7	-0.9
Pretax Income	263.5	330.2	7.5	-158.0	60.2
Taxes	-13.2	0.0	0.0	0.0	0.0
Net Income	250.3	330.2	7.5	-158.0	60.2
Minority Interests	0.0	0.0	0.0	0.0	0.0
Net Income (Group share)	250.3	330.2	7.5	-158.0	60.2

Export Development Bank (EDBE)

	30/6/2009	30/6/2008	30/6/2007	30/6/2006	30/6/2005
Summary Balance Sheet - Growth (%)					
Cash & Central Bank	156.3	78.4	-3.3	-47.0	-37.6
Due from Banks	-81.2	43.1	219.8	-41.5	-4.8
Government Securities	29.0	101.5	-67.4	3.0	2.7
Trading Securities	36.6	45.0	273.0	-81.8	2.4
Investment Securities	17.3	162.8	-30.0	13.4	50.8
Other Liquid Assets	--	--	--	--	--
Gross Loans	4.8	17.5	20.8	13.3	-12.0
Loan Loss Reserves (LLR)	-10.9	-46.2	11.6	33.2	12.3
Net Loans	6.7	37.8	24.1	7.7	-17.1
Equity in Affiliates	132.2	3.4	21.0	9.7	16.7
Fixed Assets	-3.8	-1.4	12.4	-5.9	-3.5
Other Assets	1.0	153.9	134.1	2.9	-9.7
Total Assets	-6.3	52.4	19.7	-4.6	-9.2
Customer Deposits	-3.6	46.6	22.5	-7.5	-19.0
Due to Banks	-50.8	2,448.5	-71.6	35.9	-39.2
Borrowings	14.2	1.7	22.3	1.5	7.1
Other Liabilities	-53.0	31.5	35.6	-24.0	4.4
Total Liabilities	-8.5	53.2	18.3	-2.9	-10.3
Subordinated Loan Capital	--	--	--	--	--
Minority Interest	--	--	--	--	--
Supplementary Capital	--	--	--	--	--
Shareholders' Equity	14.8	45.2	33.3	-19.6	1.2
Total Capital Funds	14.8	45.2	33.3	-19.6	1.2
Total Liabilities & Capital Funds	-6.3	52.4	19.7	-4.6	-9.2
Contingent Liabilities	1.9	84.5	33.9	-25.0	4.1
Summary Income Statement - Growth (%)					
Interest Income	16.4	39.5	18.2	-9.3	-1.3
Interest Expense	19.0	44.7	14.5	-3.1	-12.1
Net Interest Income	10.9	29.6	25.8	-20.0	24.8
FX Income	--	--	15.8	-2.0	-63.2
Trading Income	-83.5	263.9	-59.8	259.3	36.8
Fees & Commissions	-13.6	13.2	1.7	-19.3	-20.6
Other Operating Income	146.1	56.0	44.1	-23.3	51.1
Total Non Interest Income	-4.2	27.5	-4.8	-5.2	-21.8
Operating Income	4.6	28.7	10.9	-13.4	-1.4
Personnel Expenses	--	--	-11.1	5.5	-13.2
Other Operating Expenses	22.6	113.8	96.1	22.5	73.6
Operating Funds Flow	-2.8	33.7	4.6	-20.1	-2.6
Amortisation / Depreciation	0.8	36.3	-4.7	10.8	-23.1
Total Non Interest Expense	21.0	19.0	24.5	11.0	0.6
Preprovision Income (PPI)	-2.9	33.7	5.0	-20.9	-2.0
Loan Loss Provisions Expenses (LLPE)	--	--	-37.6	74.4	-4.0
Non Operating Income	-367.1	8.8	153.2	-767.4	-151.5
Pretax Income	-20.2	4,288.4	-104.8	-362.6	1.8
Taxes	--	--	--	--	--
Net Income	-24.20	4,288.43	-104.76	-362.55	29.11
Minority Interests	--	--	--	--	--
Net Income (Group share)	-24.20	4,288.43	-104.76	-362.55	29.11

Export Development Bank (EDBE)

	30/6/2009	30/6/2008	30/6/2007	30/6/2006	30/6/2005
Profitability Indicators					
Return on Average Assets (%)	2.0	2.5	0.1	-2.2	0.8
Return on Shareholder's Equity - period end (%)	17.4	26.3	0.9	-24.4	7.5
Recurring Earning Power 1	2.9	3.0	2.9	2.8	3.4
PPI (%) Avg Total Capital Funds	26.5	33.0	28.2	31.0	35.4
Interest Expense (%) Interest Income	69.4	67.9	65.4	67.5	63.2
Int. Income (%) Avg Int. Earning Assets 2	10.4	9.1	8.3	7.2	7.7
Int. Exp. (%) Avg Int. Bearing Liabilities 3	6.3	5.3	4.4	4.1	4.2
Net Spread (%) 4	4.1	3.8	4.0	3.2	3.5
Net Interest Margin (%) 5	3.2	2.9	2.9	2.4	2.8
Non-Interest Income (%) Oper. income	38.0	41.5	41.9	48.8	44.5
Income Tax (%) Pre-tax Income	5.0	--	--	--	--
Efficiency Indicators					
Non Interest Expense (%) Avg Assets	1.6	1.4	1.5	1.2	1.1
Cost to Income Ratio (%) 6	36.2	31.3	33.9	30.2	23.5
Personnel Expenses (%) Avg Assets	--	--	0.6	0.7	0.7
Personnel Expenses (%) Operating Income	--	--	14.2	17.7	14.6
Personnel Expenses (%) Non Interest Expense	--	--	42.0	58.9	61.9
Liquidity Indicators					
Net Loans (%) Customer Deposits+CD's	85.0	84.0	84.7	83.0	78.0
Net Loans (%) Customer Deposits	125.9	113.8	121.0	119.5	102.6
Net Loans (%) Total Deposits 7	105.3	82.3	118.4	109.1	96.4
Average Net Loans (%) Av. Cust. Deposits	123.8	115.8	112.4	108.6	108.4
Average Net Loans (%) Average Assets	56.8	51.7	52.1	53.0	54.1
Liquid Assets 8 (%) Total Assets	23.0	34.2	33.6	32.6	40.6
Customer Deposits (%) Total Deposits	83.7	72.3	97.8	91.3	93.9
Cust. Deposits / Shareholders Equity (Times)	4.0	4.7	4.7	5.1	4.4
Due from Banks (%) Due to Banks	52.5	137.2	2,443.2	217.0	504.4
Liquid Assets 8 (%) Total Deposits	42.1	55.6	71.2	66.0	81.9
Loan Portfolio Quality Indicators					
Problem Loans (%) Gross Loans	--	--	--	--	--
Problem Loans (%) (Shareh. Equity + LLR)	--	--	--	--	--
(Problem Loans - LLR) (%) Shareholdes Equity	-52.0	-67.0	-181.0	-216.1	-130.5
Loan Loss Reserve (%) Gross Loans	9.4	11.1	24.2	26.2	22.3
LLPE (%) Preprovision Income	--	--	102.9	173.0	78.5
LLP (%) (Loan Loss Reserve - LLP)	--	--	18.3	38.3	26.8
LLPE (%) Gross Loans	--	--	3.7	7.2	4.7
Preprovision Income (%) Net Loans	4.2	4.7	4.8	5.7	7.7
Shareholders' Equity (%) Net Loans	20.0	18.6	17.6	16.4	22.0
Loans to Related Cos. (%) Gross Loans	--	--	--	--	--
Capitalization Indicators					
Tier 1 ratio (%)	--	--	--	--	--
Shareholders' Equity (%) Total Assets	11.5	9.4	9.8	8.8	10.5
Shareh' Equity (%) T. Assets + Cont Liab.	9.5	7.9	8.5	7.8	8.9
Total Capital funds (%) Total Assets	11.5	9.4	9.8	8.8	10.5
Total Capital (%) T. Assets + Cont. Liab.	9.5	7.9	8.5	7.8	8.9
Shareholders' Equity (%) Total Capital funds	100.0	100.0	100.0	100.0	100.0
Contingent Liabilities (%) Total Assets	20.6	19.0	15.7	14.0	17.8
"Free" Capital 9 (%) Sharehoders' Equity	72.9	81.7	73.7	70.0	76.2
Dividend Payout (%) 10	--	--	--	--	64.8
Internal Capital Growth (%) 11	19.9	38.2	1.2	-19.6	2.7