

## INDUSTRIAL DEVELOPMENT BANK OF EGYPT (IDBE)

### Entity Rating

Category	Current	Previous	Contact	Phone
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*Announcement of the merger between IDBE and Egyptian Workers Bank is expected to affect the rating; the direction and extent of change in the rating will depend on the structure of the merger, government support, synergies, opportunities and challenges created by the merger.*

### Operating Statistics

(EGP mn)	FYE 2005	FYE 2004	FYE 2003	FYE 2002	FYE 2001	FYE 2000
Net Income	4	3	3	3	5	4
ROA (%)	0.16	0.12	0.12	0.16	0.21	0.19
ROE (%)	0.78	0.62	0.60	1.79	2.43	2.17
Net Interest Margin (%)	0.72	1.80	1.23	1.65	2.02	1.63
Net Spread (%)	-2.18	-0.85	-1.40	-0.82	-0.66	-1.11
Recurring Earning Power (%)	1.19	2.00	1.25	2.53	2.31	2.02
Cost to Income Ratio (%)	60.50	42.77	50.02	34.33	35.28	37.66

### Balance Sheet Statistics

(EGP mn)	FYE 2005	FYE 2004	FYE 2003	FYE 2002	FYE 2001	FYE 2000
Total Assets	2,520	2,467	2,613	2,186	2,174	2,197
Total Capital	507	503	500	194	190	189
Net Loans (%) Total Deposits	138.30	145.27	139.83	148.28	168.04	170.82
Loan Loss Reserve (%) Gross Loans	17.96	19.40	18.57	18.94	18.55	18.58
Customer Deposits (%) Total Deposits	47.61	36.90	13.29	17.24	29.53	35.14
Capital/Total Assets (%)	20.10	20.38	19.14	8.87	8.75	8.61
Capital (%) Net Loans	26.04	26.14	26.21	10.64	10.91	11.25

\* Financial Year Ends June 30

### Credit Strengths

The main credit strengths for IDBE are as follows:

- 100% government ownership since inception.
- Experienced top management attempting to restructure the bank.
- Potential in the industrial SME market.

### Credit Challenges

The main credit challenges for IDBE are as follows:

- Restructuring efforts are handicapped by lack of resources from the government.
- Poor asset quality despite top management efforts with NPLs presenting a burden on the bank's balance sheet.
- Potential merger with Egyptian Workers Bank.
- Pressured profitability reflecting negative spreads.
- Chronic short term funding base.
- Inadequate capital base for the level of risk the bank is assuming and for any growth potential.
- Staffing issues still need to be addressed.

## Strategy & Competitive Position

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### Government Ownership is a Key Underlying Factor

Since its inception, IDBE has been and still is wholly owned by the Government of Egypt, first through the Central Bank of Egypt and consequently through the Ministry of Finance. With this ownership structure, the bank has enjoyed a considerable level of support from the government which is a main rating driver for IDBE particularly in light of the bank's pressured financial performance. This support is exemplified by the injection of EGP 300 mn in capital increase by the Ministry of Finance<sup>1</sup> to allow IDBE to meet the EGP 500 mn minimum capital requirement stipulated by the new banking law (law 88 for the year 2003) in 2003.

The bank has been promised a cash injection, by its sole shareholder, during 2006 to help the bank in cleaning-up its balance sheet and make necessary provisioning. The bank, also, has readily access to three credit lines from the CBE totaling EGP 500 mn and has priority, empowered by CBE<sup>2</sup>, over all other banks operating in Egypt including other public sector banks<sup>3</sup> when it comes to redeeming assets or exercising mortgages.

### Merging IDBE and Egyptian Workers Bank

In April 2006, the CBE announced its intention to merge IDBE and the Egyptian Workers Bank (EWB) to form the "Industrial Development & Workers Bank". The announcement came after the failure of several attempts of EWB to raise its paid-up capital from the current EGP 50 mn to EGP 500 mn minimum capital requirement by the CBE according to the new Banking Law (law # 88 for 2003)<sup>4</sup>. The merger is currently awaiting the approval of the extraordinary general assembly of EWB, which is supposed to take place in June 2006<sup>5</sup>. Once the merger is approved by the BOD of both banks, IDBE will start putting down a plan for executing the merger, starting with a due diligence process. According to IDBE top management, the merger is expected to be finalized in 2006; however MERIS expects the process to be extended beyond the year 2006.

EWB is 58% owned by the Ministry of Manpower & Immigration and the General Union for Labor Syndicates; the Social Insurance & Pension Funds hold another 20%; Banque Misr & Banque du Caire own 10% and the remaining is held by individuals.

EWB is a small sized bank with a balance sheet size amounting to EGP 439 mn as of FYE 2005, the loan portfolio account for 95% of this figure (EGP 416 mn); total customer deposits amount to approximately EGP 390 mn (mainly retail deposits (workers deposits) and unions deposits). The bank has reported an EGP 2.0 mn as bottom line figure thus recording very modest returns for FYE 2005 amounting to 0.5% and 4% ROA and ROE respectively.

### Restructuring Efforts Progressing but Pace is Restricted by Budget Limitations

The bank focus is unchanged regarding strategic direction focusing on improving corporate image, developing customer relationship, upgrading operational and IT/MIS infrastructure, developing employee caliber and centralization of the bank's operations. Nevertheless, no business plan is in place yet to help set an outline of the time frame and budget needed to carry out the restructuring efforts particularly that the bank has budget limitations pending on the funds channeled from the government for restructuring purposes.

In general, IDBE has focused in the year 2004/2005 on restructuring its credit risk management; the following are the main highlights of restructuring efforts:

- Hired an external consultant to help with the restructuring efforts of the new management through putting down a written strategy and business plan.
- A new organizational chart is currently being developed for the bank to reflect the bank strategic direction.
- The bank has signed a contract for supplying core banking system with a British company, hired a project officer and formed a steering committee for the overhaul of the bank IT&MIS system. The project is expected to take 12-18 months but no clear budget has been set for this purpose.
- The bank has reviewed over 60% of its internal policies and procedures.
- Centralizing credit approval in the head office; Formulation of a credit manual, including an internal risk rating system, with defined guidelines for credit approval and credit administration that is planned to be updated every two years; creation of a separate credit administration department;
- Working with non-performing clients to transform them into performing exposures; efforts in this regard included extending new facilities to float the client, changing management of the company, assigning IDBE employees to work with the management of troubled clients, rescheduling of exposure<sup>6</sup> (a total of EGP 800 mn has been rescheduled and another EGP 200 mn are expected to be rescheduled by 2007);

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<sup>1</sup> The capital increase took the form of EGP 300 mn in government bonds providing an 8% rate of return and maturing in 2013.

<sup>2</sup> Stipulated in the bank's articles of incorporation.

<sup>3</sup> EDBE is the only other bank in Egypt enjoying this priority

<sup>4</sup> A strategic investor from the Gulf area (Qatar & Bahrain) offered to buy EWB in March 2006.

<sup>5</sup> the extraordinary general assembly of EWB was delayed from May 2006 to June 2006 based on a request by the General Union for Labor Syndicates (shareholder in EWB) in order to give the Confederation time to study/evaluate the merger.

<sup>6</sup> 92% of rescheduled exposures have been performing in accordance with the rescheduling agreement.

- Creating new lending opportunities with institutions like Industries' Union, Credit Guarantee Company, IMC, DANIDA and Businessmen Associations.
- Increased corporate deposits by almost 40% and hired a new marketing manager for putting down a proper marketing plan aimed at doubling the bank's customer deposits over the next year. The bank is in the process of issuing five new savings accounts during 2006.
- Reducing the number of employees to 850 employees down from 937 employees (9% decrease); redistribution of staff within the bank where Cairo branch has witnessed a decrease in its staffing from 122 employees to 22 employees.
- Renovating Cairo Branch and upgraded three central branches (Borg El Arab, Quena and Alexandria) including hiring new better caliber branch managers;
- Closing down non-profitable branches like Aswan branch and targeting new branches in Mahla Kobra, Northern Sinai (Arish City), Shak el Thoaban, Industries' Union, and Commercial Chambers.
- The bank is a founder shareholder in the credit bureau company that is planned to be established in Egypt.

### ***Use of An External Consultant To Help in Restructuring Efforts***

With an EGP 53 mn budget approved in 2004 and supplied by the government (over 4 years) for the IDBE administrative restructuring, the bank has hired an external consultant, Business Information Technology (BIT), to provide consultancy and guidance for the bank in all major areas. BIT has finished last year the diagnostic phase and has prepared a form of action plan covering all areas of the bank including the physical environment, IT, MIS, customer relations data warehouse, budget performance planning, training, procedures and manuals, core banking and branch operations. The pace of implementation is slower than planned because of budget limitations, the need to attract appropriate caliber to execute implementation and lengthy decision making process being wholly owned by the government.

### ***Restructuring Efforts May Be Delayed Because of Staffing Issues***

IDBE has always been a public sector bank and as such is suffering from problems like inadequate employees' caliber, overstaffing, redundancy and a general resistance to change by the staff. The management has been trying to address these problems through hiring new employees, training existing employees, internally relocating resources, and adopting proper HRM techniques. In this regard, the bank was able to reduce the number of employees by 9% from 937 employees to 850 employees, relocate more than 100 employees, hire two new high caliber middle management in the credit department and in marketing department and conduct training particularly in the area of credit with the Egyptian Banking Institute, American University in Cairo and the Arab Academy for Banking & Financial Services. Although these efforts are viewed positively, MERIS has concerns to the extent to which IDBE can resolve its staffing issues; upgrading the bank's overall employees quality and changing the entrenched culture towards a more efficient and customer oriented culture is not an easy task and will require some time before any positive change can be visible. In addition, the bank's HR restructuring efforts are constrained by a limited budget; IDBE does not have the financial resources to implement a full fledged early retirement program to bring down the number of employees to a more appropriate level. The tight budget and being a government entity is limiting IDBE in offering competitive remuneration packages to attract high caliber middle management and in offering wider scale level of training<sup>7</sup> for employee development.

### ***Capitalizing on the Bank's Franchise to Tap the Industrial SME Market***

IDBE has been working in the industrial sector in Egypt since 1976; the bank has established a solid franchise as the "industrial development" bank. The bank has been dealing with small and medium enterprises since its inception within the context of fulfilling its role in developing industrial entities; Almost 85% of the bank's client base have exposures less than EGP 0.5 mn and 55% of the bank's loan portfolio is granted in the form of loans/facilities of size below EGP 10.0 mn. When the current management of the bank came on board, they identified the bank's potential in the industrial SME market particularly that IDBE can not target "big ticket" clients because of its level of capitalization.

The bank has instituted a separate SME department under the credit & marketing umbrella and has started to activate/sign several funding agreements targeting the Industrial SME including:

- An MOU was signed with the Industrial Modernization Center to start utilizing an idle Euro 60 mn in credit facilities secured by the EIB and targeting the SME market. In light of the signed MOU, the IMC will: (1) Identify SMEs eligible to receive IDBE financing schemes, (2) Explain the eligibility criteria of IDBE's credit lines to eligible applicants, (3) Issue recommendations for eligible projects to better meet IDBE's financing requirements and (4) assist enterprises in filling the application forms and preparing the necessary documentations in accordance with IDBE guidelines and policies.
- Signed an agreement with Alexandria Businessmen Association for providing short term financing for working capital purposes.
- Activating working relationship with the Credit Guarantee Company.

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<sup>7</sup> Training expenses for FYE 2005 amounted to EGP 0.296 mn accounting for 0.4% of operating income.

- The bank has signed funding agreements with several chambers belonging to the Industries' Union including Construction Materials Chamber, Chemical Materials Chamber, Cosmetic Materials Chamber, and Leather Chamber.
- Signed an agreement with DANIDA for providing Environmental Loans up to EGP 100,000.

Actively and efficiently targeting the SME market can present the bank with opportunities in utilizing its branch network (80% of the bank's activity is currently concentrated in Cairo and Alexandria branches), utilizing its large human capital base, improving its margins and in assuming reasonable growth rates.

However, IDBE does not currently have the appropriate systems, procedures and trained employees in place that will allow it to efficiently carry on financing for industrial SME. This has been an issue for the bank since it started targeting the industrial SME market. Part of the consultancy assignment by BIT is to provide IDBE with a tailored business plan for this particular market including training, MIS, and credit policies (credit investigation, credit approval and follow-up); Progress in this respect is slow and may not be in favor of the bank particularly that competition for that market is growing and has included banks like National Bank of Egypt, Commercial International Bank, Banque du Caire<sup>8</sup> and Export Development Bank of Egypt for example.

### **Substantial Non-Earning Assets From Exercising Legal Action Against Problematic Clients**

IDBE has hired an external legal consultant to assist the bank's in-house legal department in taking appropriate and timely action against its non-performing clientele. For FYE 2005, IDBE had recovered a total of EGP 137 mn; almost 30% or EGP 40 mn were asset recoveries. These assets acquired in settlement of debt are mostly machinery and equipment; the bank is maintaining these machinery and equipment and has taken steps to liquidate these assets including having a year-round equipment & machinery exhibition and offering these assets for leasing. However, it is expected that the bank may face some difficulty in liquidating this portfolio given the conditions in both the industrial sector on one hand and the bank's experience in this area on the other hand. Thus, IDBE will have to book these non-income generating assets on its balance sheet for a period of time.

### **Capital Base Does Not Provide Sufficient Room for Growth**

The capital increase that took place in 2003 by the Ministry of Finance took the form of government bonds maturing in 2013 and allowed the bank to meet the mandatory EGP 500 mn minimum capital requirement dictated by the new banking law (law # 88 for the year 2003). However, the capital base, post capital increase, is not adequate for the level of risk the bank is currently exposed to (70% of the bank's loan portfolio is classified) and is not sufficient to support its planned growth particularly in the industrial SME market. Internal capital growth is weak based on the bank's modest profitability levels triggered by high cost of funds.

Realizing this challenge, the top management of the bank is continuing its negotiations with its sole shareholder for a cash injection. The negotiations have started in 2004 but proved to be lengthy. MERIS expects this cash injection to materialize with or post the acquisition of Egyptian Workers Bank by IDBE.

## **Financial Fundamentals**

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### **Poor Asset Quality Drives the Rating**

IDBE's gross loan portfolio experienced a 1% decrease over FYE 2005 amounting to EGP 2.37 down from 2.89 bn as of FYE 2004. The loan portfolio is still the bank's largest asset where the net loan portfolio account for 77% of IDBE asset base<sup>9</sup>. The decrease in the loan portfolio has been the result of an EGP 55 mn write-offs during FYE 2005 as well as a decision by the bank's top management to terminate several client relationships; on the other hand the bank has extended EGP 168 mn in new lending during FYE 2005 whereas EGP 75 mn are pending approval during Q3 2006 (mostly classify as SME lending according to the bank's management).

The bank has completed the review of its loan portfolio that was started last year. According to this review, IDBE has recognized a higher level of NPL representing approximately 70% of the gross loan portfolio. The 30% performing exposure includes EGP 325 mn that are classified as substandard but have been actually performing for over a year now<sup>10</sup>. Approximately 50% of the bank's loan portfolio is concentrated with three economic sectors that experience difficulties namely, spinning and weaving, construction and tourism. With the recognition of this high level of NPLs, IDBE's top management has started a massive wave of rescheduling and settlement agreements. Up to the point of writing this report, the bank has completed the rescheduling of EGP 800 mn of its NPL exposure (approximately 50% of

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<sup>8</sup> Banque Misr after the merger between BdC and Banque Misr.

<sup>9</sup> For the aggregate balance sheet of banks operating in Egypt, this ratio is 40% as of February 2006.

<sup>10</sup> This includes the bank's largest exposure (a group of related companies) where IDBE led the rescheduling agreement for this group of companies with 6 banks; IDBE has appointed 11 of its employees across this group to help with its management.

total NPLs); 92% of these rescheduled exposures are currently performing in accordance with the terms of the rescheduling agreement. The bank expects to reschedule another EGP 200 mn during FYE 2006. Cash recoveries amounted to EGP 97 mn whereas asset recoveries amounted to EGP 40 mn.

Loan Loss Provisions (LLP) amount to EGP 426 mn as of FYE 2005 down from EGP 463 mn<sup>11</sup> as of FYE 2004 displaying an 8% decrease of the year basically from the EGP 55 mn in write-offs during FYE 2005. Coverage has seriously slipped down where NPL coverage currently stands at 26%. MERIS believes that this provisioning level is inadequate particularly that more than 70% of the bank's NPL exposure are classified as doubtful and bad debt exposures. Internally generating an appropriate level of provisioning is unlikely given the bank's current profitability levels; the bank is in need of fresh funds to clean up its loan portfolio and provide it with some momentum for growth and improving its asset quality. A cash injection<sup>12</sup> by its sole shareholder (MOF) has been suggested last year although the timing and exact size of such cash injection is not clear. The bank has been undergoing a lengthy process of negotiations with the government to determine the form, size and timing of this support. Nevertheless, we expect this cash injection to take place over FYE 2006 particularly that the size of funds that IDBE may require is relatively smaller compared to what other public sector banks has required from the government<sup>13</sup> and for IDBE to successfully acquire Egyptian Workers' Bank as has been announced in April 2006.

As of FYE 2005, more than 60% of the bank's exposure is of medium to long term nature, 97% denominated in domestic currency and 58% are extended against commercial mortgages.

The bank has been and still is unable to tap "big ticket" clients because of the bank's small size (single obligor limit of 30% of capital base or EGP 150 mn)<sup>14</sup>. In fact, 55% of the bank's exposure is of size less than EGP 10 mn. IDBE has been historically an active player in the "small ticket" client market, a fact that provided the bank with an edge in tapping the SME market as mentioned earlier.

Although IDBE is poised to have an important role in the industrial SME market capitalizing on its well established franchise in the industrial sector, the bank needs to set the operational infrastructure, lay down the appropriate IT & MIS infrastructure and target/train the appropriate caliber for successfully tapping and retaining this market.

### **Changes in the Structure of the Funding Base Doesn't Solve Chronic Tenor Mismatch**

The bank's management has continued its efforts to reduce dependency on interbank funding that currently account for 29% of total assets; Internbank placements has decreased to EGP 737 mn as of FYE 2005 down from EGP 835 mn as of FYE 2004 and 1,184 mn as of FYE 2003 i.e. 38% decline over a two-years period. The decrease in interbank funding has been replaced by an increase in the bank's customer deposits (time deposits) that have more than quadrupled over the same time span increasing from EGP 138 mn as of FYE 2003 to EGP 335 as of FYE 2004 to EGP 609 as of FYE 2005<sup>15</sup>; 65% of the time deposits are 3-6 months deposits<sup>16</sup> in line with the trend in the Egyptian banking sector where 33% of customer deposits have maturities less than 6 months. It is worth noting that 94% of IDBE time deposits are corporate deposits and only 6% are retail deposits; although this is consistent with the franchise of the bank in the Egyptian market being the "industrial development" bank, it sheds negative light on the stability of these deposits particularly that 84% of the time deposits are of size larger than EGP 10 mn and that the top 10 depositors account for more than 80% of total customer deposits with the top depositor (Industrial Modernization Program - IMP)<sup>17</sup> alone accounting for 55% of total customer deposits.

However, this change in the bank's funding base did not solve the bank chronic tenor mismatch. The situation improved but as of FYE 2005, almost 60% of the bank's assets are of long term nature<sup>18</sup> whereas 45% of its funding sources are of long term nature.

Although, the bank's liquidity indicators have slightly improved, it is still pressured. Liquid assets account for only 2% of total assets and the net loan portfolio stands at 291% and 138% of customer deposits and total deposits respectively as of FYE 2005 down from 394% and 145% ratios as of FYE 2004.

Bond issues amount to EGP 350 mn as of FYE 2005 representing two issuances; the first tranche of EGP 150 mn matured in December 2005 and the second tranche of EGP 200 mn maturing in July 2006. The bank was planning to issue EGP 175 mn in new bonds during 2005 but the idea was postponed for pricing reasons. Borrowings from funding institutions, both local and international, amounted to EGP 83.7 mn as of FYE 2005 and accounted for 3% of the bank's total funding base. Almost 80% of this figure is secured by the European Investment Bank (43%) and the National Investment Bank (37%).

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<sup>11</sup> LLP% of gross loan portfolio has decreased from 19% as of FYE 2004 to 18% as of FYE 2005.

<sup>12</sup> The negotiations revolved around EGP 250 mn.

<sup>13</sup> For example the GOE has channelled EGP 6.9 bn to pay off the npn performing exposure of public sector companies to BoA. Worth noting, total public sector debt currently with NBE, Banque Misr and BdC is EGP 19 bn.

<sup>14</sup> The CBE has put a limit on "single obligor" exposure amounting currently to 30% of the bank's capital base. CBE has issued regulations in February 2006 segmenting and redefining this limit to reach 20% of capital base for a single obligor exposure and 25% of capital base for a group of related borrowers to be gradually implemented till 2008.

<sup>15</sup> Time deposits account for 91% of total customer deposits as of FYE 2005.

<sup>16</sup> 98% of IDBE time deposits have maturities less than 6 months as of FYE 2005.

<sup>17</sup> The relationship with IMP as a depositor started after signing the MOU with the Industrial Modernization Center (IMC) governing the relationship between IDBE and IMC with regards to the SME market.

<sup>18</sup> 63% of IDBE Loan portfolio is of medium (1-5 years) & long term (over 5 years) nature as of FYE 2005.

The extent to which IDBE will be able to correct its funding base tenor mismatch is dependent on its asset & liability management, its ability to attract long term funding from international funding institutions and its ability to attract and maintain stable institution based deposits from a highly competitive banking environment emphasizing competitive pricing, better servicing and new products.

### **Pressured Profitability**

IDBE still displays very modest profitability indicators where ROA and ROE stood at 0.16% and 0.78% respectively for FYE 2005. In fact, the bank's NII has suffered a substantial (60%) decrease in 2005 stemming from a surge in interest expense (13% increase for FYE 2005); the decrease has resulted in magnifying the bank's negative net spread trend and in halving its NIM. Interbank funding account for 52% of the bank's interest expense and customer deposits account for 26%. The effect of this decrease has been partially deflected by an increase in other operating income, namely the sale of IDBE shareholding in Misr America International Bank that resulted in EGP 26.6 mn capital gain pushing the bank's bottom line to its historically maintained level.

Total non interest expense experienced a 20% increase pushing the bank's cost to income ratio to 61% for FYE 2005 up from 43% for FYE 2004. Personnel expenses represent 58% of non-interest expenses and basically account for the increase in the bank's costs.

Although the bank is in need to support its LLP, provisioning has witnessed a 47% decrease for FYE 2005 (from EGP 33 mn for FYE 2004 to EGP 17 mn for FYE 2005). The decrease has been basically triggered by a willingness to display historically maintained bottom line figures despite the decrease in the bank's operating income.

### **Weak Capitalization Relative to Asset Quality**

IDBE capitalization indicators showed no material change for FYE 2005, total capital stood at EGP 507 mn representing 20% of the asset base. The bank's economic capital shows a different story, the higher level of NPLs and the lower rate of provisioning provide the bank with a 26% NPL coverage which is quite low and puts the bank at risk of insolvency.

Again the cash injection expected from the Ministry of Finance is needed if the bank is to support its capital base, clean up its loan portfolio, improve its asset quality, complete its restructuring efforts and provide the bank with growth opportunities.

## Appendix I

### Bank Profile

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#### Background

The Industrial Development Bank of Egypt was re-established as a joint stock company on 1/8/1976 according to decree of the Ministry of Finance No. 65 of the year 1975, as a restoration of the Industrial Bank which was first established in 1947. Since its inception, the bank has been and still is wholly owned by the Government of Egypt through the Ministry of Finance. As a specialized bank, IDBE's primary objective is the development and promotion of the industrial private sector, with special emphasis being placed on SMEs.

The purpose of the bank is "to bring an upswing (to) the Egyptian Industry, carry out all the relevant banking activities and render the banking services in the industrial and vocational production units. The (bank) may have an interest or take part in any manner with the organizations which exercise activities similar to the (bank)'s activities, or which may assist it in the achievement of its purpose in the Arab Republic of Egypt or abroad, or buy them and annex them to it.

#### Capital Structure

As of FYE 2005, the bank's authorized capital is EGP 1.0 bn and paid-up capital is EGP 500 mn. The bank's capital underwent the following changes:

- The bank was established in 1976 with paid-up capital amounting to EGP 10.0 million;
- First capital increase took place in 1991 and paid-up capital stood at EGP 146.2 million;
- Second capital increase took place in 2000 and paid-up capital stood at EGP 170 million;
- Third capital increase took place in 2003 and paid-up capital stood at EGP 498 million;
- In August 2004, the CBE approved the transfer of EGP 2.0 mn from the reserves account to the paid-up capital account to increase paid-up capital to EGP 500 mn.

#### Shareholding Structure:

The ownership profile of the bank as of May 2006 is as follows:

Shareholder (s)	Paid-up Capital (EGP mn)	% Ownership
Ministry of Finance (Government of Egypt)	500	100.0%
<b>Total</b>	<b>500</b>	<b>100.0%</b>

#### Branches

Currently, the bank has 14 operational branches besides the head office. 5 branches are operating in new industrial cities namely, Borg El Arab City, 10<sup>th</sup> of Ramadan City, 6<sup>th</sup> of October City, El Sadat city and El Salam City. The remaining branches are spread across the country in Cairo, Alexandria, Tanta, Sharkia, Port Said, Fayoum, Assyut, Suhag and Qena.

#### Employees

850 employees

#### Current BOD

The current BOD structure is as follows:

Name	
Mr. Shahin Serageldin	Chairman
Mr. Mohamed Shahbou	Vice Chairman
Mr. Hossam El Din Nasser	Vice Chairman
Mr. Galal Hafez Hossam El Din	Specialized Member
Dr. Moetassem Bellah Kaddah	Specialized Member
Mr. Ashraf Mostafa	Specialized Member
Mr. Mohamed Mostafa Gad	Executive Member
Dr. Mohamed Walid Gamal El Din	Specialized Member

## Top Management

The following represents highlights of the bank's top management track record:

Name		Experience
Mr. Shahin Sergaeldin	Chairman	Age 54. Appointed in September 2002. Previously Advisor to Al-Kharafi Group - Cairo (1997-2002), Chief General Manager at Delta International Bank - Cairo (1994-1997), General Manager at Arab African International Bank – New York (1991-1994), Director Dynamax Investment Company – Montreal (1989-1991), General Manager United Gulf Bank – Bahrain (1981-1989), Chase National Bank – Cairo (1974-1981).
Mr. Mohamed Shahbou	Vice-Chairman	Age 54. Appointed as Vice Chairman late 2002, prior to which was Advisor to The Chase Manhattan Bank, London, U.K.; General Manager - Foreign Department with Commercial International Bank, Cairo (97/00); Head Of Leasing with Al Bank Al Saudi Al Fransi H.O. in Riyadh, K.S.A (91/97); Manger-Credit with Burgan bank, Kuwait (89/90); Senior Manager with The Chase National Bank, Egypt (77/88); Bank Misr H.O. Correspondent Banking (75/77) .
Mr. Hossam Nasser	Vice-Chairman	Age 54. Appointed in September 2003. Previously; Board Member at Egyptian Arab Land Bank (2002-2003), General Representative of the Union of Arab & French Banks (1997-2002), Corporate Banking Group Head at the Arab African International Bank (1994-1997), Branch Manager of the Arab Bank PLC in Cairo (1992-1994), Director of Finance at the Investment & Securities Group in Cairo (1990-1992), Executive Manager at the National Bank of Kuwait (1986-1990), Senior Manager at the Chase National Bank of Egypt (1977-1986).
Mr. Mohamed Mostafa Gad	General Manager	Age 50. Joined IDBE early in 2003 as General Manager Treasury, Correspondent Banking and Central Operations. Previously, Chairman and CEO of the asset management arm of “Capexcorp” an Investment Banking group based in Cairo. For 17 years (1980-1997) Head of Treasury and Investments at the Egyptian American Bank (EAB) Cairo H.O.

**Appendix II**  
**National Scale Rating**

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

### Appendix III List of Abbreviations

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BdC	:	Banque du Caire
CBE	:	Central Bank of Egypt
CIB	:	Commercial International Bank
DANIDA	:	Danish International Development Agency
EIB	:	European Investment Bank
EWB	:	Egyptian Workers Bank
GOE	:	Government of Egypt
IDBE	:	Industrial Development Bank of Egypt
MOU	:	Memorandum of Understanding
NBE	:	National Bank of Egypt
SME	:	Small & Medium Enterprises

## Industrial Development Bank of Egypt

	<u>30/6/2005</u>	<u>30/6/2004</u>	<u>30/6/2003</u>	<u>30/6/2002</u>	<u>30/6/2001</u>	<u>30/6/2000</u>
<b>Summary Balance Sheet (EGP mn)</b>						
Cash & Central Bank	38	17	30	50	21	18
Due from Banks	10	21	73	5	6	20
Government Securities	--	--	--	--	--	--
Trading Securities	0	0	1	1	7	7
Investment Securities	338	354	359	62	86	83
Other Liquid Assets	--	--	--	--	--	--
Gross Loans	2,371	2,385	2,344	2,247	2,143	2,065
Loan Loss Reserves (LLR)	(426)	(463)	(435)	(426)	(397)	(384)
Net Loans	1,945	1,922	1,909	1,822	1,745	1,681
Equity in Affiliates	17	18	6	6	--	--
Fixed Assets	9	3	3	5	5	4
Other Assets	164	131	232	235	303	385
Total Assets	2,520	2,467	2,613	2,186	2,174	2,197
Total Assets (USD mn)	434	398	448	471	468	638
Customer Deposits	670	488	181	212	307	346
Due to Banks	737	835	1,184	1,017	732	638
Borrowings	463	493	498	483	613	607
Other Liabilities	143	148	250	281	333	417
Total Liabilities	2,013	1,964	2,113	1,992	1,984	2,008
Subordinated Loan Capital	--	--	--	--	--	--
Minority Interest	--	--	--	--	--	--
Supplementary Capital	--	--	--	--	--	--
Shareholders' Equity	507	503	500	194	190	189
Total Capital Funds	507	503	500	194	190	189
Total Liabilities & Capital Funds	2,520	2,466	2,613	2,186	2,174	2,197
Derivatives – Notional Amount	--	--	--	--	--	--
Derivatives – Replacement Value	--	--	--	--	--	--
Risk Weighted Assets (RWA)	-	-	-	-	-	-
Contingent Liabilities	35	29	34	20	41	30
<b>Summary Income Statement (EGP mn)</b>						
Interest Income	183	195	189	196	208	202
Interest Expense	(163)	(145)	(158)	(159)	(164)	(167)
Net Interest Income	20	50	31	38	45	34
FX Income	1	5	2	(1)	(1)	1
Trading Income	--	--	--	--	--	--
Fees & Commissions	20	25	21	25	27	27
Other Operating Income	35	9	6	22	8	8
Total Non Interest Income	55	39	29	46	33	36
Operating Income	75	89	60	84	78	70
Personnel Expenses	(26)	--	--	--	(15)	(14)
Other Operating Expenses	(19)	(36)	(28)	(27)	(10)	(10)
Operating Funds Flow	31	53	32	58	53	46
Amortisation / Depreciation	(1)	(2)	(2)	(2)	(2)	(3)
Total Non Interest Expense	(46)	(38)	(30)	(29)	(28)	(26)
Preprovision Income (PPI)	30	51	30	55	51	44
Loan Loss Provisions Expenses (LLPE)	(17)	(33)	(15)	(40)	(27)	(34)
Non Operating Income	(1)	(6)	(10)	(8)	(18)	(0)
Pretax Income	12	12	5	7	6	10
Taxes	(8)	(9)	(2)	(4)	(1)	(6)
Net Income	4	3	3	3	5	4
Minority Interests	--	--	--	--	--	--
Net Income (Group share)	4	3	3	3	5	4
Dividends	--	--	(2)	(3)	(4)	(4)
Transfers to Capital Reserves	(4)	(3)	(1)	(1)	(1)	(0)
Other Adjustments	--	--	--	--	--	--

## Industrial Development Bank of Egypt

	<u>30/6/2005</u>	<u>30/6/2004</u>	<u>30/6/2003</u>	<u>30/6/2002</u>	<u>30/6/2001</u>	<u>30/6/2000</u>
<b>Summary Balance Sheet - Growth (%)</b>						
Cash & Central Bank	129.34	-43.45	-41.14	134.92	20.50	4.98
Due from Banks	-54.15	-71.19	1,289.07	-15.02	-68.12	38.21
Government Securities	--	--	--	--	--	--
Trading Securities	-64.32	-78.21	-33.40	-84.49	-0.99	-6.08
Investment Securities	-4.46	-1.41	480.35	-28.37	4.48	0.10
Other Liquid Assets	--	--	--	--	--	--
Gross Loans	-0.61	1.77	4.29	4.88	3.78	6.27
Loan Loss Reserves (LLR)	-8.02	6.37	2.24	7.07	3.61	5.08
Net Loans	1.18	0.73	4.77	4.38	3.82	6.55
Equity in Affiliates	-4.77	179.23	3.12	--	--	--
Fixed Assets	184.91	-6.68	-29.44	-2.82	22.51	-19.37
Other Assets	24.50	-43.43	-1.05	-22.53	-21.21	-8.77
Total Assets	2.18	-5.61	19.56	0.53	-1.03	3.35
Total Assets (USD)	8.95	-11.13	-4.82	0.74	-26.65	2.36
Customer Deposits	37.10	169.28	-14.38	-30.92	-11.31	23.32
Due to Banks	-11.75	-29.46	16.42	38.92	14.66	-20.59
Borrowings	-5.99	-0.99	3.09	-21.19	0.95	31.63
Other Liabilities	-2.92	-41.00	-10.82	-15.69	-20.18	3.53
Total Liabilities	2.51	-7.06	6.08	0.40	-1.19	3.08
Subordinated Loan Capital	--	--	--	--	--	--
Minority Interest	--	--	--	--	--	--
Supplementary Capital	--	--	--	--	--	--
Shareholders' Equity	0.79	0.48	158.05	1.84	0.66	6.33
Total Capital Funds	0.79	0.48	158.05	1.84	0.66	6.33
Total Liabilities & Capital Funds	2.16	-5.62	19.55	0.53	-1.03	3.35
Derivatives - Notional Amount	--	--	--	--	--	--
Derivatives - Replacement Value	--	--	--	--	--	--
Risk Weighted Assets (RWA)	--	--	--	--	--	--
Contingent Liabilities	23.62	-16.25	72.26	-51.56	35.92	-24.73
<b>Summary Income Statement - Growth (%)</b>						
Interest Income	-5.84	3.11	-3.77	-5.79	3.20	15.83
Interest Expense	12.74	-7.96	-0.64	-3.11	-2.24	17.36
Net Interest Income	-60.04	58.86	-16.93	-15.60	29.65	8.91
FX Income	-80.41	175.98	-358.68	-7.21	-217.47	-64.74
Trading Income	--	--	--	--	--	--
Fees & Commissions	-21.07	18.54	-16.50	-5.44	-0.26	3.38
Other Operating Income	279.13	50.45	-72.28	189.50	-9.36	-36.55
Total Non Interest Income	42.07	35.13	-37.83	39.02	-6.30	-12.73
Operating Income	-15.12	47.47	-28.47	7.79	11.35	-3.29
Personnel Expenses	--	--	--	--	7.07	8.44
Other Operating Expenses	-47.76	28.04	5.22	158.11	6.02	39.26
Operating Funds Flow	-41.89	64.40	-44.07	9.17	13.78	-11.85
Amortisation / Depreciation	-53.50	0.13	-7.48	4.29	-17.04	-13.39
Total Non Interest Expense	20.05	26.12	4.23	4.89	4.31	14.97
Provision Income (PPI)	-41.41	68.84	-45.56	9.37	15.61	-11.76
Loan Loss Provisions Expenses (LLPE)	-47.30	120.35	-62.71	50.63	-21.20	-14.27
Non Operating Income	-88.30	-38.74	21.90	-55.54	4,376.56	-72.90
Pretax Income	-1.62	123.38	-26.26	23.96	-39.37	9.84
Taxes	-11.79	275.12	-37.56	206.69	-77.79	-20.04
Net Income	27.47	3.58	-13.97	-24.79	12.59	122.11
Minority Interests	--	--	--	--	--	--
Net Income (Group share)	27.47	3.58	-13.97	-24.79	12.59	122.11

## Industrial Development Bank of Egypt

	30/6/2005	30/6/2004	30/6/2003	30/6/2002	30/6/2001	30/6/2000
<b>Balance Sheet - % of Total Assets</b>						
Cash & Central Bank	1.52	0.68	1.13	2.30	0.98	0.81
Due from Banks	0.38	0.86	2.81	0.24	0.29	0.89
Government Securities	--	--	--	--	--	--
Trading Securities	0.00	0.01	0.03	0.05	0.34	0.33
Investment Securities	13.42	14.35	13.74	2.83	3.97	3.76
Other Liquid Assets	--	--	--	--	--	--
Gross Loans	94.06	96.71	89.68	102.81	98.54	93.98
Loan Loss Reserves (LLR)	-16.89	-18.76	-16.65	-19.47	-18.28	-17.46
Net Loans	77.17	77.94	73.03	83.34	80.26	76.51
Equity in Affiliates	0.67	0.72	0.24	0.28	--	--
Fixed Assets	0.34	0.12	0.12	0.21	0.21	0.17
Other Assets	6.50	5.33	8.89	10.75	13.95	17.52
Customer Deposits	26.57	19.80	6.94	9.69	14.10	15.74
Due to Banks	29.24	33.85	45.29	46.51	33.66	29.05
Borrowings	18.38	19.98	19.05	22.09	28.18	27.63
Other Liabilities	5.69	5.99	9.57	12.84	15.30	18.97
Total Liabilities	79.87	79.62	80.85	91.13	91.25	91.39
Subordinated Loan Capital	--	--	--	--	--	--
Minority Interest	--	--	--	--	--	--
Supplementary Capital	--	--	--	--	--	--
Shareholders' Equity	20.10	20.38	19.14	8.87	8.75	8.61
Total Capital Funds	20.10	20.38	19.14	8.87	8.75	8.61
<b>Income Statement - % of Average Assets</b>						
Interest Income	7.35	7.67	7.87	9.00	9.53	9.34
Interest Expense	-6.56	-5.71	-6.57	-7.27	-7.49	-7.75
Net Interest Income	0.80	1.96	1.30	1.73	2.04	1.59
FX Income	0.04	0.20	0.08	-0.03	-0.03	0.03
Trading Income	--	--	--	--	--	--
Fees & Commissions	0.79	0.98	0.87	1.15	1.22	1.23
Other Operating Income	1.40	0.36	0.25	1.01	0.35	0.39
Total Non Interest Income	2.22	1.54	1.20	2.13	1.53	1.65
Operating Income	3.02	3.49	2.51	3.86	3.57	3.24
Personnel Expenses	-1.04	--	--	--	-0.69	-0.65
Other Operating Expenses	-0.75	-1.41	-1.17	-1.22	-0.47	-0.45
Operating Funds Flow	1.23	2.08	1.34	2.64	2.41	2.14
Amortisation / Depreciation	-0.04	-0.08	-0.09	-0.10	-0.10	-0.12
Total Non Interest Expense	-1.83	-1.49	-1.25	-1.32	-1.26	-1.22
Preprovision Income (PPI)	1.19	2.00	1.25	2.53	2.31	2.02
Loan Loss Provisions Expenses (LLPE)	-0.69	-1.29	-0.62	-1.83	-1.21	-1.56
Non Operating Income	-0.03	-0.24	-0.41	-0.37	-0.83	-0.02
Pretax Income	0.47	0.47	0.22	0.33	0.27	0.45
Taxes	-0.31	-0.35	-0.10	-0.17	-0.06	-0.26
Net Income	0.16	0.12	0.12	0.16	0.21	0.19
Minority Interests	--	--	--	--	--	--
Net Income (Group share)	0.16	0.12	0.12	0.16	0.21	0.19
<b>Income Statement - % of Operating Income</b>						
Interest Income	243.40	219.41	313.80	233.24	266.85	287.94
Interest Expense	-217.03	-163.40	-261.80	-188.47	-209.68	-238.83
Net Interest Income	26.37	56.01	51.99	44.77	57.17	49.10
FX Income	1.30	5.61	3.00	-0.83	-0.96	0.91
Trading Income	--	--	--	--	--	--
Fees & Commissions	26.05	28.01	34.85	29.85	34.03	38.00
Other Operating Income	46.29	10.36	10.16	26.21	9.76	11.99
Total Non Interest Income	73.63	43.99	48.01	55.23	42.83	50.90
Operating Income	100.00	100.00	100.00	100.00	100.00	100.00
Personnel Expenses	-34.33	--	--	--	-19.30	-20.07
Other Operating Expenses	-24.89	-40.43	-46.56	-31.66	-13.22	-13.89
Operating Funds Flow	40.79	59.57	53.44	68.34	67.48	66.05
Amortisation / Depreciation	-1.28	-2.34	-3.45	-2.67	-2.76	-3.70
Total Non Interest Expense	-60.50	-42.77	-50.02	-34.33	-35.28	-37.66
Preprovision Income (PPI)	39.50	57.23	49.98	65.67	64.72	62.34
Loan Loss Provisions Expenses (LLPE)	-22.95	-36.96	-24.73	-47.45	-33.95	-47.98
Non Operating Income	-0.94	-6.79	-16.35	-9.60	-23.27	-0.58
Pretax Income	15.62	13.48	8.90	8.63	7.50	13.78
Taxes	-10.38	-9.98	-3.93	-4.50	-1.58	-7.92
Net Income	5.24	3.49	4.97	4.13	5.92	5.86
Minority Interests	--	--	--	--	--	--
Net Income (Group share)	5.24	3.49	4.97	4.13	5.92	5.86

## Industrial Development Bank of Egypt

	30/6/2005	30/6/2004	30/6/2003	30/6/2002	30/6/2001	30/6/2000
<b>Profitability Indicators</b>						
Return on Average Assets (%)	0.16	0.12	0.12	0.16	0.21	0.19
Return on Shareholder's Equity - period end (%)	0.78	0.62	0.60	1.79	2.43	2.17
Recurring Earning Power 1	1.19	2.00	1.25	2.53	2.31	2.02
PPI (%) Avg Total Capital Funds	5.90	10.13	8.67	28.76	26.63	23.82
Interest Expense (%) Interest Income	89.17	74.47	83.43	80.81	78.58	82.95
Interest Income (%) Avg Interest Earning Assets 2	6.69	7.03	7.42	8.61	9.43	9.56
Interest Expense (%) Avg Interest Bearing Liabilities 3	8.87	7.88	8.82	9.43	10.10	10.68
Net Spread (%) 4	-2.18	-0.85	-1.40	-0.82	-0.66	-1.11
Net Interest Margin (%) 5	0.72	1.80	1.23	1.65	2.02	1.63
Non-Interest Income (%) Operating income	73.63	43.99	48.01	55.23	42.83	50.90
Income Tax (%) Pre-tax Income	66.43	74.09	44.12	52.10	21.06	57.49
<b>Efficiency Indicators</b>						
Non Interest Expense (%) Avg Assets	1.83	1.49	1.25	1.32	1.26	1.22
Cost to Income Ratio (%) 6	60.50	42.77	50.02	34.33	35.28	37.66
Personnel Expenses (%) Avg Assets	1.04	--	--	--	0.69	0.65
Personnel Expenses (%) Operating Income	34.33	--	--	--	19.30	20.07
Personnel Expenses (%) Non Interest Expense	56.74	--	--	--	54.70	53.29
<b>Liquidity Indicators</b>						
Net Loans (%) Customer Deposits	290.50	393.64	1,052.37	860.00	569.10	486.14
Net Loans (%) Total Deposits 7	138.30	145.27	139.83	148.28	168.04	170.82
Average Net Loans (%) Average Customer Deposits	334.00	572.02	948.73	687.95	525.13	520.41
Average Net Loans (%) Average Assets	77.55	75.42	77.73	81.81	78.38	75.39
Liquid Assets 8 (%) Total Assets	1.91	1.54	3.97	2.59	1.61	2.03
Customer Deposits (%) Total Deposits	47.61	36.90	13.29	17.24	29.53	35.14
Customer Deposits / Shareholders' Equity (Times)	1.32	0.97	0.36	1.09	1.61	1.83
Due from Banks (%) Due to Banks	1.32	2.53	6.20	0.52	0.85	3.06
<b>Loan Portfolio Quality Indicators</b>						
Problem Loans (%) Gross Loans	--	--	--	--	--	--
Problem Loans (%) (Shareholders' Equity + LLR)	--	--	--	--	--	--
(Problem Loans - LLR) (%) Shareholders' Equity	-84.04	-92.08	-86.98	-219.55	-208.83	-202.88
Loan Loss Reserve (%) Gross Loans	17.96	19.40	18.57	18.94	18.55	18.58
Loan Loss Provision Expenses (%) Preprovision Income	58.09	64.58	49.48	72.25	52.46	76.97
LLP (%) (Loan Loss Reserve - LLP)	4.23	7.63	3.54	10.35	7.14	9.61
Loan Loss Provision Expenses (%) Gross Loans	0.73	1.38	0.64	1.78	1.24	1.63
Preprovision Income (%) Net Loans	1.53	2.64	1.58	3.03	2.89	2.60
Shareholders' Equity (%) Net Loans	26.04	26.14	26.21	10.64	10.91	11.25
Loans to Related Cos. (%) Gross Loans	--	--	--	--	--	--
<b>Capitalization Indicators</b>						
Tier 1 ratio (%)	--	--	--	--	--	--
Shareholders' Equity (%) Total Assets	20.10	20.38	19.14	8.87	8.75	8.61
Shareholders' Equity (%) T. Assets + Contingent	19.82	20.14	18.89	8.79	8.59	8.49
Total Capital funds (%) Total Assets	20.10	20.38	19.14	8.87	8.75	8.61
Total Capital (%) T. Assets + Contingent Liabilities	19.82	20.14	18.89	8.79	8.59	8.49
Shareholders' Equity (%) Total Capital funds	100.00	100.00	100.00	100.00	100.00	100.00
Contingent Liabilities (%) Total Assets	1.40	1.16	1.31	0.91	1.88	1.37
"Free" Capital 9 (%) Shareholders' Equity	95.00	95.90	98.10	94.50	97.55	97.99
Dividend Payout (%) 10	--	--	70.40	75.48	81.10	91.31
Internal Capital Growth (%) 11	0.79	0.62	0.46	0.45	0.46	0.20

### Notes:

1. Recurring Earning Power = Preprovision Income (%) Average Total Assets
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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