

# Invest In Egypt

# Financial Services

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## Sector Overview

Egypt's financial services sector — one of the oldest and most-established in the Middle East — is also one of the best-developed in the region, thanks to an industrious private sector and key regulatory reforms. Today, the nation's banks, brokerages, investment banks and private equity houses are among the most vibrant in the MENA region, attracting heavy foreign investment from major local and international names while launching their own ambitious regional expansion plans.

Despite the recent wave of privatization sales, mergers, acquisitions and expansions, the sector still holds massive untapped potential in sectors ranging from retail and commercial banking to insurance, mortgage finance and advisory services.

In 2005, regulatory reforms addressed issues including capital adequacy requirements, the privatization of public-sector banks and the consolidation of small private institutions into more robust entities. Stringent minimum capital requirements streamlined a relatively crowded banking sector and brought the number of licensed banks operating in Egypt down from 57 in 2004 to the current 39 (2009-2010), leaving the growing sector on exceptionally solid ground.

The government is committed to privatization, with the Bank of Alexandria (BOA) being the first of the Big Four state banks to be auctioned. In late 2006, Italy's Sanpaolo IMI acquired 80% of BOA's shares for US\$ 1.6 billion — a record-breaking price that was six times the bank's book value.

Since 2003, the Egyptian Stock Exchange (EGX) has been among the best-performing in the world, closing up more than 100% in both 2003 and 2004. More than 429 companies covering some 22 sectors are listed on the EGX, a combination of depth and breadth that helped the bourse record double-digit gains in 2006. In 2007, Egypt ranked third with a gain of 51% for the year.

Within the coming year, the EGX is expected to relocate to Smart Village along with other financial institutions and major national and regional investment banks and private equity firms, creating the nation's first Financial Zone.

Investment banking, private equity and brokerage services have also roared to new life in Egypt, with several of the country's leading institutions now established as the dominant regional players or well on their way to becoming so.

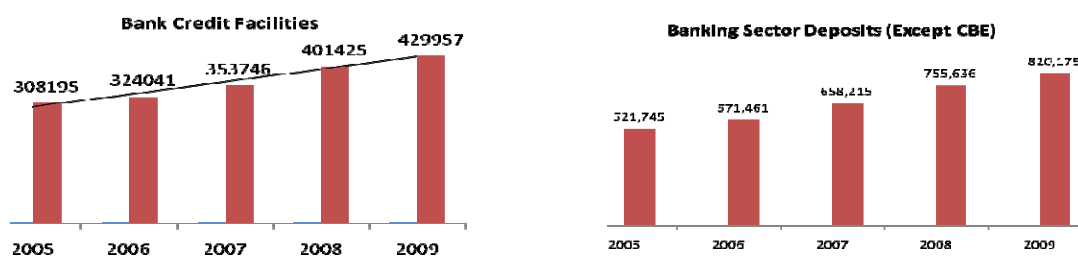
## Competitive Strengths and Capabilities

*Core Areas for Investment: Consumer and corporate banking, insurance, investment banking, private equity, advisory services, research services*

**A Pro-business Government and Regulatory Body.** An aggressive reform program has addressed the financial and administrative restructuring of state-owned banks, the problem of non-performing loans and the strengthening of the Central Bank of Egypt's regulatory and supervisory apparatuses. The CBE's stringent minimum capital requirements had reduced the number of banks operating in Egypt from 57 in 2004, to 39 by the end of 2009/2010, creating a healthier, more competitive market. The government is also actively reforming the insurance sector.

**A Robust Infrastructure.** Smart Village — the premiere technology park in the Middle East — will soon include a new financial-services district, which is to be home to the Egyptian Stock Exchange and other financial institutions and major national and regional investment banks and private equity firms.

**A Large and Growing Domestic Consumer Base.** The overwhelming majority of the nation's approximately 78 million people have yet to use consumer banking and insurance products. To improve bank usage, Egypt Post has partnered with industry players to offer financial services such as credit cards and e-payment at the thousands of post offices nationwide. The industry is also conducting awareness campaigns to educate people about credit and loan products. In addition, a growing economy and increasing per-capita income, combined with a construction boom in residential and leisure properties, are fueling a nascent mortgage industry.



Source: Central Bank of Egypt

## Sector Snapshots

### Insurance

New private-sector entrants, strong legislative change and an extensive public awareness campaign have set the stage for growth in the Egyptian insurance sector. There are now 29 insurance and reinsurance companies operating in Egypt, and recent regulatory changes allow foreign companies to wholly own Egyptian insurance companies without a local joint-venture partner.

To promote transparency in the sector, the Capital Market Authority has begun licensing insurance-scoring companies, paving the way for companies to apply for an insurance rating based on its financial position with its creditors and debtors. Insurance and financial leasing companies will be able to make sound decisions about the clients they take on, while companies with strong ratings will be able to negotiate better premiums on their insurance.

The government has been active in restructuring state-owned insurance players for a competitive market, part of its ongoing business reform package. The government also recently approved amendments to the law on insurance supervision and control that will pave the way for a banking insurance marketing system, among other things. The sector is overseen by the Egyptian Insurance Supervisory Authority, which under the amended law, will have a stronger role regarding risk management and financial solvency.

Meanwhile, the People's Assembly has approved a draft law on mandatory insurance covering civil liability in automobile accidents that will bring millions of Egyptians into the insurance sector for the first time opening new frontiers for growth.

### Investment and Private Equity

Egyptian companies have earned a reputation of being investment powerhouses around the region. EFG-Hermes, the country's largest investment banking, brokerage and asset management firm, has established a regional presence in Dubai, Saudi Arabia and Qatar, among other countries, and has a strategic alliance

With Banque Audi, in which it has a substantial holding. Other significant players in the market include Beltone Financial, HC Securities, Prime Securities and HSBC Securities, a subsidiary of UK-based HSBC

In the rapidly growing field of private equity, Cairo-based Citadel Capital has emerged as the regional

leader with US\$ 8.3 billion in investments under control in sectors ranging from cement to retail and oil and gas. The Commercial International Bank (CIB), which is backed by investment from a consortium led by America's Ripplewood Holdings, has also established a new company specializing in investment banking and private-equity.

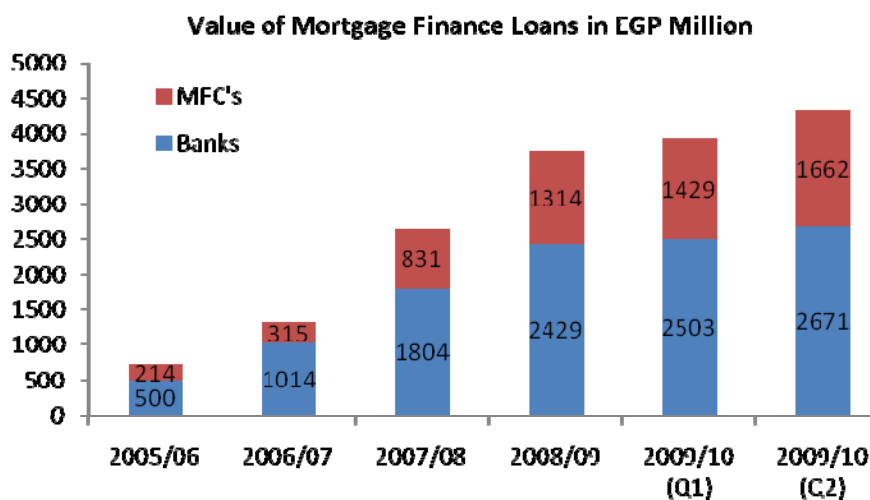
## Mortgage Finance

Egypt's relatively young mortgage industry is now in a rapid-growth phase, with more than EGP 2 billion in mortgages being taken out since the executive regulations governing the Mortgage Finance Law were made official in 2005.

Of the EGP 2 billion, 76% has been provided by banks backed by five mortgage finance companies including the Egyptian Mortgage Refinance Company (EMRC), a newly established government institution that will enable mortgage companies to offer more competitive terms.

A reduction of property registration fees (to a maximum of EGP 2,000) has taken place and will promote liquidity by encouraging registration, making more properties eligible for mortgage financing.

The mortgage market — as all others that rely on credit — can also now avail itself of the services of iScore, the newly established Egyptian credit bureau, when verifying the creditworthiness of clients. With the nation's boom in high-end residential and leisure properties, the mortgage subsector is on track to take off.



Source: Mortgage Finance Authority

Sector Drivers	Egypt's Value Proposition	Investor Benefits
<b>Labor Force</b>	Each year, 324.3 thousand Egyptians obtain university degrees. Of those, more than 22,000 students graduate with European language skills.	Large potential talent supply with the skill sets necessary to communicate with international clients and co-investors and to succeed in the financial services sector.
<b>Strong Demand</b>	Egypt has a population of nearly 78 million people and a booming Economy. Through innovative partnerships with Egypt Post, financial service providers can reach any consumer within range of a post office.	A technology-savvy consumer Base larger than the entire populations of many European countries is hungry for new financial products and services.
<b>Infrastructure</b>	World-class telecom, internet and real estate infrastructures. International ports, airports and highways. In-country rail system and globally ranked airports.	Excellent infrastructure to support business travel, international communications and research.
<b>Support Companies</b>	Egypt is home to a broad network of skilled service providers, including a world-class CIT industry, auditors, consultants and trainers.	Easy to find infrastructure support and training.

## The Bourse

Since 2003, the Egyptian Stock Exchange (EGX), more commonly known as the bourse, has been among the best-performing in the world, closing up more than 100% in both 2003 and 2004. The EGX is one of the deepest, most broad-based and most liquid in the Middle East and North Africa. In recognition of its regulatory soundness and sophistication, the EGX became the first Arab member of the World Federation of Exchanges in November 2005.

More than 429 companies covering some 22 sectors are listed on the EGX, a combination of depth and breadth that helped the bourse record double-digit gains in 2006 while some other Arab markets suffered significant losses. As regional markets rallied in 2007, Egypt reported an outstanding gain of 51% for the year.

Driving Egypt's performance: An influx of foreign investment that saw offshore investors account for 30-35% of daily turnover on the bourse as well as continued high-quality earnings growth. Foreign interest in the exchange is also obvious from the success of index products including the highly regarded Dow Jones CASE Titans 20 Index.

## Nilex — Egypt's 'Baby Bourse'

Small and medium-sized enterprises (SMEs) account for 70-80% of Egypt's GDP, but until recently they had little access to the investment needed to grow. Banks view SMEs as too high-risk for conventional loan products, while investors are typically in search of a high rate of return and a solid exit strategy — both tenuous prospects when dealing with smaller entities.

To inject much needed capital into this sector, in late 2007 Egypt launched the Nilex, the Middle East's first alternative small-business stock exchange. By mid-2008, the first companies had listed on the Nilex and in August 2008 the Nilex had its first landmark transaction when Tarek Nour Group sold 49% of its shares to Omnicom's DDB Europe for US\$ 70 million.

For investors, the Nilex offers investors a clear exit strategy, one as simple as selling off their shares. In keeping with the Capital Market Authority's (CMA) transparency requirements, Nilex companies must report quarterly, semi-annual and annual financials, as well as present financial statements for at least one fiscal year prior to their listing.

SMEs now have access to capital within a regulatory environment specifically designed to meet their needs, with less-stringent regulations and lower transaction fees than those of the EGX. To help SMEs — many of which are transitioning from family-run businesses to more formal corporate structures — prepare for listing and other bourse activities, the CMA requires all Nilex companies to have EGX-certified Nominated Advisors. At least 2 companies — including certified financial consultants, investment banks and private equity firms — have been approved as Nominated Advisors.

## Success Stories

### Bank of Alexandria

In less than four years, the Bank of Alexandria (BOA) went from being the smallest — and most problem-ridden — of the Big Four public-sector banks to the largest private-sector bank in the country. In October 2006, Italy's Sanpaolo IMI acquired 80% of BA's shares for US\$ 1.6 billion — a record-breaking price that was six times the bank's book value.

In September 2002, BOA was overstaffed; employing 8,800 people at 185 branches across the country; operations were largely run manually, with no ATM machines and only 50 computers in the entire branch network. Over the years, the bank had accumulated EGP 11 billion in public-sector non-performing loans.

In a significant EGP 1 billion restructuring, BOA streamlined its staff through early retirements to a manageable 5,600 employees. By the end of 2007, 150 branches were fully automated, with ATMs prominently available throughout the country, and staff completely computer literate. After negotiations with the government and debtor companies, BOA recovered EGP 6.9 billion in NPLs.

As a result, BOA has a 6.8% national market share across all segments, and 10% of the corporate sector in addition to a network of 188 branches serving some 1.5 million clients.

The restructured BOA made an attractive package on the auction block: in addition to Sanpaolo, other contenders included industry notables Arab Bank, Mashreq Bank, the Commercial International Bank, BNP Paribas and Greece's EFG Eurobank.

### Citadel Capital

Citadel Capital is the leading private equity firm in the Middle East and North Africa, with around USD 8.3 billion in assets under control. Founded in 2004, the firm has already executed two of the region's most important financial transactions in recent memory, including the USD 1.4 billion sale of the Egyptian Fertilizers Company to a consortium of Gulf-led investors.

Citadel Capital has a preference for large-size transactions and typically commits 10-20% of the equity involved in any transaction alongside its co-investors, including some of the top names in the MENA region. The firm currently controls 14 platform companies in 12 industries ranging from cement and transportation to mining and the complete oil and gas value chain.

The firm's strategy is to harness opportunities created by the unique competitive advantages of the MENA region; Citadel Capital uses a range of investment strategies for its transactions, including buyouts, turnarounds, acquisitions and Greenfield investments. The firm's investment footprint currently covers 12 countries, from Egypt to Ethiopia, from Algeria to Pakistan. Headquartered in Cairo, Citadel Capital also has offices in Algiers and Dubai.

### EFG-Hermes

Headquartered in Cairo, EFG-Hermes is the leading investment bank in the Arab world. The firm specializes in investment banking, asset management, private equity, securities brokerage and research. With listings on both the London and Cairo stock exchanges, EFG-Hermes has been named Euromoney's top research house in the Middle East since the magazine began its annual Middle East research survey. In 2008 EFG-Hermes became the first investment bank in the Arab world to simultaneously close two large initial public offerings.

Through its offices in Egypt, the United Arab Emirates, Saudi Arabia, Qatar and Kuwait and with around 700 employees covering 18 nationalities, EFG-Hermes serves a considerable and diversified client base from the MENA region to Europe and the United States. Its clients include governments, corporations, financial institutions and high-net-worth individuals. The firm's brokerage division is the largest in Egypt, Kuwait and Dubai and is the largest non-bank broker in Saudi Arabia.

M&A Activity in the Banking Sector	
Buyer/Investor	Acquired
National Bank of Kuwait	Al-Watany Bank (2007)
Abu Dhabi Islamic Bank & Emirates International for Investment	National Development Bank (2007)
San Paolo IMI	Bank of Alexandria (2006)
Ahli United Bank of Bahrain & Consortium	Delta International Bank (2006)
Union National Bank	Alexandria Commercial & Maritime Bank (2006)
Banque Audi	Cairo Far East Bank (2006)
Credit Agricole & Mansour Maghrabi Investment & Development	Egyptian American Bank (2006)
Blom Bank	Misr Romanian Bank (2005)
National Societe Generale Bank	Misr International Bank (2005)
Arab International Bank	Suez Canal Bank (2005)
Societe Arabe Internationale de Banque	Port Said National Development Bank (2005)
Piraeus	Egyptian Commercial Bank (2005)
Arab African International Bank	Misr American International Bank (2005)
Societe Generale	National Societe Generale Bank (2005)

Source: Cairo and Alexandria stock Exchange

## Leading Financial Services Firms Operating in Egypt

AIG Egypt - [www.aigegypt.com](http://www.aigegypt.com)

Ahli United Bank - [www.ahliunited.com](http://www.ahliunited.com)

Allianz - [www.allianz.com](http://www.allianz.com)

Bank of Alexandria - [www.alexbank.com](http://www.alexbank.com)

Banque Audi - [www.banqueaudi.com](http://www.banqueaudi.com)

Banque du Caire - [www.bdc.com.eg](http://www.bdc.com.eg)

Citadel Capital - [www.citadelcapital.com](http://www.citadelcapital.com)

Commercial International Bank (Egypt) (CIB) - [www.cibeg.com](http://www.cibeg.com)

Crédit Agricole Egypt - [www.eab-online.com](http://www.eab-online.com)

EFG-Hermes - [www.efg-hermes.com](http://www.efg-hermes.com)

Egyptian Gulf Bank - [www.egbbank.com.eg](http://www.egbbank.com.eg)

Egyptian Kuwaiti Holding - [www.ekholding.com](http://www.ekholding.com)

Faisal Islamic Bank of Egypt - [www.faisalbank.com.eg](http://www.faisalbank.com.eg)

Mohandes Insurance - [www.mohandes-ins.com](http://www.mohandes-ins.com)

National Bank for Development - [www.nbdegypt.com](http://www.nbdegypt.com)

National Société Générale Bank (NSGB) - [www.nsgb.com.eg](http://www.nsgb.com.eg)

Union National Bank - [www.unb.co.ae](http://www.unb.co.ae)