

Financial information for 1H14

Highlights

- **Net Profit increased to EGP1,108 million, up by 17% Year on Year (“YoY”)**
- **Total Assets increased to EGP91,856 million, up by 13% from December 2013**
- **Gross Loans improved 13% from December 2013 to EGP45,781 million**
- **Deposits grew by 13% from December 2013 to EGP76,265 million**
- **Total Shareholders' Equity increased to EGP10,781 million compared to EGP10,010 million December 2013**

QNB ALAHLI (QNB AA) delivered a solid performance in 2Q14 generating a consolidated quarterly Net Profit of EGP575 million, up by 8% from 1Q14, driven by growth across various revenue items combined with efficient expenses control and a contained cost of risk.

YTD QNB AA grew both Loans and Deposits by 13% as it expanded its market share in both the retail and corporate segments, leveraging its wide customer base and assisted by the expansion of its network that reached 173 branches at the end of 1H14.

The strong growth of earning assets more than offset the impact of declining rates and contributed to a 19% increase in the Net Interest Income over 1H13. With a 9% YOY growth in Fees & commissions, Consolidated net banking income reached EGP2,520 million, up 13% YOY, offsetting the absence of significant non-recurring revenues recognized in 1H 2013.

The quality of the QNB AA credit portfolio remained robust with the NPL ratio improving to 3.42%, down from 3.60% at the end of 2013 and alongside an improved coverage ratio at 125.6% up from 120.9% by Dec-13.

Disclaimer:

All figures and comments are made on a consolidated basis unless otherwise stated. In September 2012, QNB AA started consolidating the results of “QNB AA Factoring”. Results of “QNB AA Leasing” were consolidated starting December 2012. Moreover, results of “QNB AA Life Insurance” were consolidated starting January 2014.

1. Balance Sheet

1.1 Total Assets

QNB AA's total assets increased 13% to reach EGP91,856 million compared to EGP81,259 million in December 2013.

ROAA improved to 2.56% in June 2014 compared to 2.40% in December 2013.

1.2 Gross Loans

During 1H14, loans grew 13% to reach EGP45,781 million driven by growth in both the corporate and retail portfolios.

Amounts in EGP millions	June-14	Dec-13	YTD Growth
Corporate Loans	36,325	32,047	13%
Retail Loans	9,456	8,636	9%
Total Loans	45,781	40,683	13%
LCY Loans	32,727	29,391	11%
FCY Loans	13,054	11,292	16%

At the end of March 2014¹ loans market share on a standalone basis reached 7.69%, highlighting the improved competitiveness of QNB AA when compared to 7.65% in December 2013.

The quality of the portfolio remained strong during 2Q14 despite continued economic uncertainty. The NPL ratio reached 3.42% at the end of June 2014, marginally down from 3.60% at the end of 2013, comparatively low for the Egyptian Banking market.

Provisioning levels have been enhanced during 1H14, leading to a coverage ratio of 125.6% at the end of 1H14 compared to 120.9% at the end of 2013.

Amounts in EGP ² millions	June-14	Dec-13	YTD Growth
Non-performing loans	1,566	1,465	7%
Loans provision balance	1,967	1,772	11%
NPL Ratio	3.42%	3.60%	
Coverage ratio	125.6%	120.9%	

¹ Source: CBE latest released data

² including reserved interest

1.3 Deposits

QNB AA's deposits recorded growth of 13% from December 2013 to reach EGP76,265 million, driven equally from both the Corporate and Retail segments.

Amounts in EGP millions	June-14	Dec-13	YTD Growth
Corporate Deposits	42,809	37,890	13%
Retail Deposits	33,456	29,796	12%
Total Deposits	76,265	67,686	13%
LCY Deposits	59,230	52,056	14%
FCY Deposits	17,035	15,630	9%

At the end of March 2014¹ deposits market share on a standalone basis reached 5.24%, up from 5.14% in December 2013.

1.4 Liquidity Position

QNB AA's liquidity position remained stable at the end of 1H14 with a net loan/deposit ratio of 57% on the back of strong growth in both loans and deposits.

Loans / Deposits Ratio	June-14	Dec-13
Gross Loans / Deposit (LCY)	55%	56%
Gross Loans / Deposit (FCY)	77%	72%
Gross Loans / Deposit	60%	60%
Net Loans / Deposit	57%	57%

1.5 Capital Base and CAR

QNB AA, now 97.12% owned by the QNB Group, is the 2nd largest private bank in terms of market capitalisation with a market value of EGP15,627 million at end of June 2014.

The bank's capital base amounted to EGP10,781 million, which will continue to support its organic growth plans.

Basel II regulation CAR & Tier 1 ratios stood at 16.30% and 14.78% respectively, indicating a solid capital structure with a substantial capital buffer over the required regulatory minimums.

¹ Source: CBE latest released data

2. Income Statement

2.1 Robust growth over the year

in EGP million	YTD Consolidated*		YOY Growth	2Q14	2Q14/ 1Q14
	June-14	June-13			
Net interest income	1,711	1,438	19%	885	6%
Fees and commissions	520	477	9%	261	2%
Other operating income ① ②	289	322	(10%)	156	17%
Net banking income	2,520	2,238	13%	1,302	7%
Operating expenses ②	(732)	(692)	6%	(367)	0%
Gross operating income	1,788	1,546	16%	935	9%
Credit risk provisions	(202)	(187)	8%	(65)	(53%)
Other provisions ①	(23)	(50)	(54%)	(13)	28%
Total Cost of Risk	(225)	(238)	(5%)	(78)	(47%)
Net income before tax	1,563	1,308	19%	857	21%
Income tax charge	(455)	(359)	27%	(282)	63%
Net income	1,108	950	17%	575	8%
Cost / Income Ratio	29%	31%	-	28%	

*After the following adjustments from financial information published under Egyptian Accounting Standards ("EAS"):

① The net impact of the contingent liabilities provision and the other provisions – which is a part of the "Other operating income" according to the EAS was transferred into "Credit Risk Provisions and other provisions", as it fits better with the economic nature of these items.

② Intangible software expenses and building rental expenses have been restated from "Other operating income" to "Operating expenses" as they fit better with the economic nature of these items.

2.2 Net banking income

Net interest income grew 19% YoY, driven by an increase in interest earning assets.

The YTD NIM⁴ reached 4.59% at the end of June 2014, down from 4.86% at the end of December 2013 following the 50bps cut in the corridor rate by the CBE in Dec-13.

Net fees & commissions reached EGP520 million by the end of June 2014 up 9% compared to EGP477 million at the end of June 2013.

Other operating income reached EGP289 million, down 10% compared to 1H13, given a weaker impact of the capital and investment FX revaluation recognized at the beginning of 2013.

Net banking income for 1H14 stood at EGP2,520 million recording a 13% nominal YoY growth. The normalized growth, if adjusted for the impact of non-recurring items, would have been 20%.

⁴ Annualized NIM is calculated based on standalone basis

2.3 Operating expenses

Consolidated operating expenses reached EGP732 million by the end of 1H14, presenting an overall modest increase of 6% YoY despite the extension of the branch network highlighting the prudent cost management policies of QNB AA.

Given the strong revenue growth, the Cost-to-Income ratio improved by 200bps to 29% from 31% in 1H13.

2.4 Net Profit

QNB AA's Gross Operating Income reached EGP1,788 million by the end of 1H14, up 16% compared to the same period last year.

Net cost of risk was contained with a negative contribution to the Income Statement by EGP225 million compared to EGP238 million for 1H13, reflecting the continuing quality of the credit portfolio.

Income tax charge grew 27% YoY based on the natural growth of the taxable revenue and also the increase of the effective tax rate following recently declared amendments to the tax law.

In total, QNB AA recorded a net profit of EGP1,108 million, an increase of 17% YoY and 8% QoQ.

2.5 Conclusion

QNB AA delivered a very robust performance during 2Q14, combining asset growth, extension of its branch footprint and resilient profitability metrics.

3. About QNB AA

Established in April 1978, QNB AA is the second largest private bank in Egypt in terms of market capitalization. QNB Group acquired 97.12% of QNB AA which included the full stake of Société Générale – France amounting to 77.17% along with 19.95% acquired from other shareholders.

The bank currently employs 4,788 staff (vs. 4,473 in Dec 13) in two key businesses:

- Retail banking: the bank serves more than 720,000 active customers, providing them with a wide range of products.
- Corporate and investment banking: QNB AA provides services and tailor-made financial solutions to large, medium and small companies.

QNB AA is one of the main players in the Egyptian market supported by a wide coverage, of 173 branches, 358 ATMs and 10,049 deployed points of sales.

QNB AA is managing three successful funds: “**Themar Fund**”, which is our successful money market fund, “**Tadawol Equity Fund**” and also a balanced fund “**Tawazon Fund**”.

Over recent years, QNB AA has established several subsidiaries in Egypt:

- QNB AA Leasing Company “QNB AA Lease” (created in 1997). On 26th March 2013, QNB AA raised its stake in QNB AA Lease from 60% to 99.9% following the acquisition of a 40% stake from Société Générale.
- QNB AA Factoring Company set up in 2012 with QNB AA stake representing 99.9%.
- QNB AA Life Insurance Company set up in 2003. QNB AA increased its stake in the company from 25% to 99.9% at the beginning of January 2014.

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