

Cairo, November, 2018

Press Release: Housing and Development Bank (HDB)

MERIS (Middle East Rating & Investors Service) affirms the National Scale Rating (NSR) of an "A-" grade for Housing and Development Bank "HDB" for the entity, with a "Stable" Outlook

MERIS (Middle East Rating & Investors Service) affirms the national scale rating assigned to Housing and Development Bank (HDB) at **(A-)**, with a **"Stable"** Outlook. **MERIS** analysis was based on the audited financial statements for the period ending December 31st, 2017. The assigned Bank rating reflects the relative improvement in the operating environment for banks in Egypt, driven mainly by the country's improving macroeconomic performance and the government's on-going commitment to fiscal and economic reform. In addition, HDB has recently implemented the long-awaited new core banking system, which will provide the Bank with the needed resources and facilities to offer wide range of complex products and to serve a wider clientele base.

An **"A"** rated issuer or issue is considered **Above Average Creditworthiness** relative to other domestic issuers or issues. The (+/-) signs suggest a forecasted rating direction based on current information within each rating category.

In 2017, HDB loan portfolio reached EGP 13.4bn, up from EGP 10.5bn in 2016. The Bank's loans to deposit ratio stood at 43% as of December 2017. In terms of profitability, HDB experienced a notable growth in the bottom line, surging by 57% between 2016 and 2017, reaching EGP 1,076mn, compared to EGP 685mn in the previous year. **MERIS's** analysis is based on HDB's audited standalone financial statements for the period ending December 31st, 2017.

The rating grade is driven by HDB's key strengths, which are:

- Growth potential following the implementation of the long-awaited core banking system,
- Assignment of raffle draws of housing units and land plots by the ministry of housing, which supports the Bank's balance sheet,
- Improvement in liquidity and solvency ratios, thanks to the raffle draws down payments, as well as the increase in customer deposits,
- Reliance on stable core funding sources,
- Jump in profitability ratios driven by the higher exposure to T-Bills that yielded high returns, and
- Strong participation in the mortgage finance market in Egypt, in light of the CBE's mortgage finance initiative to support this sector.

At the same time, the rating grade takes into consideration the main challenges, including:

- The Bank's technological product offering, such as phone banking and internet banking is still underdeveloped, ,
- Human resource issues remain a challenge for HDB, although the Bank's management have been seriously working on addressing them,

- Despite the fact that there is a notable improvement in the internal communication between departments, there is still a need to further strengthen the Bank's institutional setup, and
- The need to attract long term funding to finance the Bank's long term loans.

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