

## FEDERAL RESERVE SYSTEM

National Bank of Egypt  
Cairo, Egypt

### Order Approving Establishment of a Branch

National Bank of Egypt (“Bank”), Cairo, Egypt, a foreign bank within the meaning of the International Banking Act (“IBA”), has applied under section 7(d) of the IBA (12 U.S.C. § 3105(d)) to establish a state-licensed branch in New York, New York. The Foreign Bank Supervision Enhancement Act of 1991, which amended the IBA, provides that a foreign bank must obtain the approval of the Board to establish a branch in the United States.

Notice of the application, affording interested persons an opportunity to comment, has been published in a newspaper of general circulation in New York, New York (*The New York Times*, December 4, 1998). The time for filing comments has expired, and the Board has considered the application and all comments received.

Bank, with total consolidated assets of approximately US \$19.6 billion, is the largest commercial bank in Egypt.<sup>1</sup> Founded in 1898 as a privately owned commercial bank with central bank responsibilities, Bank is now wholly owned by the Egyptian government and engages in a wide range of commercial banking activities, serving retail and corporate clients in the domestic and international markets. Bank has more than 340 domestic branches, a bank subsidiary in London, and a representative office in South Africa. Through 14 nonbank subsidiaries, Bank engages in trust, investment, housing development, manufacturing, and trade-related

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<sup>1</sup>Asset data are as of September 30, 1999.

activities in Egypt and abroad. Bank does not have any direct operations in the United States, but does own a nonvoting equity interest in Arab American Bank (“AAB”), New York, New York, a state-chartered consortium bank. Bank would purchase virtually all the assets and liabilities of AAB through the proposed New York branch and would offer services to clients based in the Middle East and to U.S. enterprises seeking to do business there. Bank would be a qualifying foreign banking organization within the meaning of Regulation K (12 C.F.R. 211.23(b)).

In order to approve an application by a foreign bank to establish a branch in the United States, the IBA and Regulation K require the Board to determine that the foreign bank applicant engages directly in the business of banking outside of the United States and has furnished to the Board the information it needs to assess the application adequately. The Board also shall take into account whether the foreign bank and any foreign bank parent is subject to comprehensive supervision or regulation on a consolidated basis by its home country supervisor (12 U.S.C. § 3105(d)(2); 12 C.F.R. 211.24).<sup>2</sup> The Board may also take into

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<sup>2</sup>In assessing this standard, the Board considers, among other factors, the extent to which the home country supervisors: (i) ensure that the bank has adequate procedures for monitoring and controlling its activities worldwide; (ii) obtain information on the condition of the bank and its subsidiaries and offices through regular examination reports, audit reports, or otherwise; (iii) obtain information on the dealings with and relationship between the bank and its affiliates, both foreign and domestic; (iv) receive from the bank financial reports that are consolidated on a worldwide basis or comparable information that permits analysis of the bank’s financial condition on a worldwide consolidated basis; (v) evaluate prudential standards, such as capital adequacy and risk asset exposure, on a worldwide basis. These are indicia of comprehensive, consolidated supervision. No single factor is essential, and other elements may inform the Board’s determination.

account additional standards as set forth in the IBA and Regulation K (12 U.S.C. § 3105(d)(3)-(4); 12 C.F.R. 211.24(c)(2)-(3)).

The IBA includes a limited exception to the general requirement relating to comprehensive, consolidated supervision (12 U.S.C. § 3105(d)(6)). This exception provides that, if the Board is unable to find that a foreign bank seeking to establish a branch, agency, or commercial lending company is subject to comprehensive supervision or regulation on a consolidated basis by the appropriate authorities in its home country, the Board may nevertheless approve an application by such foreign bank if: (i) the appropriate authorities in the home country of the foreign bank are actively working to establish arrangements for the consolidated supervision of such bank; and (ii) all other factors are consistent with approval (12 U.S.C. § 3105(d)(6)(A)). In deciding whether to exercise its discretion to approve an application under authority of this exception, the Board shall also consider whether the foreign bank has adopted and implements procedures to combat money laundering (12 U.S.C. § 3105(d)(6)(B)). The Board also may take into account whether the home country of the foreign bank is developing a legal regime to address money laundering or is participating in multilateral efforts to combat money laundering (12 U.S.C. § 3105(d)(6)(B)).

Bank engages directly in the business of banking outside the United States through its banking operations in Egypt and elsewhere. Bank also has provided the Board with information necessary to assess the application through submissions that address the relevant issues.

With respect to supervision by Bank's home country authorities, the Board has considered the following information. The Central Bank of Egypt is the licensing, regulatory, and supervisory authority for all financial institutions in Egypt, including Bank. The Central Bank obtains information on the condition of Bank,

Bank's subsidiaries, and Bank's foreign operations through regular examinations, periodic financial reports, and follow-up consultations with Bank's management. The Central Bank performs comprehensive, mandatory on-site examinations of Bank every other year and targeted periodic examinations, as needed. In addition, Bank's consolidated financial statements are audited annually by two government-approved external auditors. These auditors conduct on-site examinations of Bank, as needed, and provide their findings to the Central Bank. The Central Bank examiners and Bank's external auditors review Bank's internal controls, financial condition, asset quality, compliance with law and regulation, and transactions with affiliates.<sup>3</sup> The Central Bank conducts follow-up meetings with Bank's management whenever weaknesses are noted. The Central Bank is also actively reviewing its processes with a view to enhancing the overall effectiveness of its supervisory program.

Off-site inspections consist of the Central Bank's review of periodic reports and other information received from Bank and from Bank's external auditors. These materials address various aspects of Bank's operations and are used by the Central Bank to monitor Bank's compliance, on a consolidated basis, with prudential limits on capital adequacy,<sup>4</sup> asset classification and provisioning, credit and foreign currency exposure, and liquidity, and with statutory reserve requirements.

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<sup>3</sup>Egyptian banking laws do not impose limits on transactions with affiliates but do limit a bank's exposure to single borrowers (or related groups of borrowers) to no more than 30 percent of the bank's capital base. The Central Bank scrutinizes all transactions between Bank and its affiliates that are on preferential terms.

<sup>4</sup>All banks operating in Egypt (other than branches of foreign banks) must maintain a capital to risk-weighted asset ratio of at least 8 percent, calculated on a consolidated basis.

The Central Bank supervises Bank's foreign offices and foreign banking subsidiaries principally through off-site surveillance. Bank employs locally based external auditors who are required to provide their reports to Bank's Egyptian-based external auditors and to the Central Bank. The Egyptian auditors are required to use those reports in assessing Bank's overall financial condition. In addition, the Central Bank exchanges information with host country regulators.

Bank monitors the operations of its domestic and overseas offices through a combination of annual on-site audits and a review of periodic reports submitted to Bank's head office. Bank's internal audit department reviews assets/liabilities, revenues/expenses, and off-balance-sheet activities; compliance with governing rules, regulations, and policies; and compliance with internal controls. Bank's internal audit findings are provided to the Central Bank and to Bank's external auditors.<sup>5</sup>

With regard to measures to prevent money laundering, although Egypt has not formally adopted the recommendations of the Financial Action Task Force ("FATF") regarding the prevention and detection of money laundering, the Egyptian Banking Association, in collaboration with the Central Bank, has issued rules for detecting and deterring money laundering operations that are generally consistent with the institution-specific recommendations of the FATF. These rules require the

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<sup>5</sup>In general, the Central Bank treats Bank's nonbank subsidiaries as investments. In evaluating these investments, the Central Bank considers whether they are properly valued, sufficiently reserved against, and consistent with a sensible investment policy. Bank monitors the operations of its nonbank subsidiaries through representation on each subsidiary's board of directors. The board representative provides Bank, Bank's external auditors, and the Central Bank with a comprehensive annual report prepared by the subsidiary's independent external auditor, highlighting any transactions between Bank and the subsidiary that are on preferential terms.

reporting of suspicious transactions to the Central Bank, require banks to ascertain the sources of funds for large transactions, and require customer identification on the opening of an account and profiling as part of the ongoing monitoring of accounts.

Bank has implemented policies and procedures to ensure compliance with these rules. Bank's policies include "know your customer" procedures, large transaction reviews, and record-keeping requirements; specify internal lines for reporting suspicious transactions; and detail procedures for investigating suspicious transactions and reporting them to the Central Bank and law enforcement authorities. Bank's internal and external auditors monitor compliance with these policies and procedures, and provide their findings to Bank's board of directors and the Central Bank.

Based on all the facts of record, the Board has determined that Bank's home country authorities are actively working to establish arrangements for the consolidated supervision of Bank, and that considerations relating to the steps taken by Bank and its home country to combat money laundering are consistent with approval under this standard.

The Board has also taken into account the additional standards set forth in the IBA (12 U.S.C. § 3105(d)(3)-(4); 12 C.F.R. 211.24(c)(2)-(3)). The Central Bank has no objection to establishment of the proposed branch.

Bank must comply with the minimum capital standards of the Basel Capital Accord ("Accord"), as implemented by Egypt. Bank's capital is in excess of the minimum levels that would be required by the Accord and is considered equivalent to the capital that would be required of a U.S. banking organization. Managerial and other financial resources of Bank are also considered consistent with approval, and Bank appears to have the experience and capacity to support the

proposed branch. Bank has established controls and procedures for the proposed branch to ensure compliance with U.S. law, as well as controls and procedures for its worldwide operations generally.

With respect to access to information about Bank's operations, the Board has reviewed the restrictions on disclosure in relevant jurisdictions in which Bank operates and has communicated with relevant government authorities regarding access to information. Bank has committed to make available to the Board such information on the operations of Bank and any of its affiliates that the Board deems necessary to determine and enforce compliance with the IBA, the Bank Holding Company Act of 1956, as amended, and other applicable federal law. To the extent that the provision of such information to the Board may be prohibited by law, Bank has committed to cooperate with the Board to obtain any necessary consents or waivers that might be required from third parties for disclosure of such information. In addition, subject to certain conditions, the Central Bank may share information on Bank's operations with other supervisors, including the Board. In light of these commitments and other facts of record, and subject to the condition described below, the Board concludes that Bank has provided adequate assurances of access to any necessary information that the Board may request.

On the basis of all the facts of record, and subject to the commitments made by Bank, as well as the terms and conditions set forth in this order, the Board has determined that Bank's application to establish a branch should be, and hereby is, approved. Should any restrictions on access to information on the operations or activities of Bank and its affiliates subsequently interfere with the Board's ability to obtain information to determine and enforce compliance by Bank or its affiliates with applicable federal statutes, the Board may require termination of any of Bank's direct or indirect activities in the United States. Approval of this application also is

specifically conditioned on compliance by Bank with the commitments made in connection with this application and with the conditions in this order.<sup>6</sup> The commitments and conditions referred to above are conditions imposed in writing by the Board in connection with its decision and may be enforced in proceedings under 12 U.S.C. § 1818 against Bank and its affiliates.

By order of the Board of Governors,<sup>7</sup> effective March 20, 2000.

(Signed)

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Robert deV. Frierson  
Associate Secretary of the Board

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<sup>6</sup>The Board's authority to approve the establishment of the proposed branch parallels the continuing authority of the State of New York to license offices of a foreign bank. The Board's approval of this application does not supplant the authority of the State of New York and the New York State Banking Department ("Department") to license the proposed office of Bank in accordance with any terms or conditions that the Department may impose.

<sup>7</sup>Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Kelley, Meyer, and Gramlich.