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FINANCIAL SERVICES

M&A

Egypt



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Financial Services M&A

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MARKET AND POLICY CLIMATE

Market climate**How would you describe the current market climate for M&A activity in the financial services sector in your jurisdiction?**

Egypt has managed to attract more foreign direct investment (FDI) in multiple sectors, including primarily the financial services sector, thanks to the government's efforts in improving the business environment in the country over the past few years. This achievement is supported by a plethora of international recognition, as follows:

- Egypt was recognised as one of the top five destinations globally for greenfield FDI in 2016, where Cairo was also ranked among the top 10 cities hosting start-ups in the same year. In 2023, greenfield projects more than doubled in number, reaching 161.
- Egypt was also recognised as one of the top five countries with economies that account for 40 per cent of projects in Africa as per the United Nations Trade and Development (UNCTAD) World Investment Report 2023.
- Egypt replaced by South Africa, ranking the second destination by projects in the Middle East and North Africa region (MENA), experiencing a 60 per cent increase from 85 to 136 projects as per the FDI Report 2020.
- Egypt came on top of all ranked MENA countries by capital investment in 2020 by acquiring 12 per cent capital investment with a total value of US\$13.7 billion, where financial services were among the top five sectors in 2019.
- Net FDI in Egypt reached US\$46.1 billion in 2024, a significant leap compared to US\$10 billion in 2023, according to the Ministry of Investment and Foreign Trade.
- Egypt remains the second-largest recipient of FDI in Africa after South Africa, as per the FDI Report 2021.

Despite international and local crises faced by the country over the years (including political unrest, covid-19, the Russia–Ukraine war, the Palestine-Israel conflict, inflation and the threat of recession), the current market climate in the banking sector in Egypt can generally be described, as articulated by Bloomberg: 'a profit bonanza for Egyptian banks is ripening the industry for acquisitions. If only there were more willing sellers.'

Currently, there are around 38 banks operating in Egypt, including around 20 regional and international banks.

On 25 January 2022, the Central Bank of Egypt (CBE) announced the issuance of an all-new licence to Standard Chartered Bank to operate in Egypt, marking the first all-new licence to be issued by the CBE since the registration of Arab International Bank in Egypt on 5 June 2012. Since that date, it was not feasible for any new bank to operate in Egypt through an all-new licence, aside from the public entities and international banking institutions operating under a special international instrument (eg, International Monetary Fund (IMF), the World Bank Group and Agence Française de Développement (AFD)). Currently, the only practical way to operate in Egypt is to acquire an existing bank registered with the CBE. Over the past 10 years, a number of large acquisitions took place within the banking sector in Egypt, including the following major acquisitions:

- the completion of the legal merger of First Abu Dhabi Bank and Bank Audi Egypt in June 2022;
- the acquisition made by Bahrain's Arab Banking Corporation of BLOM Bank Egypt in January 2021; and
- the acquisition of Arab Investment Bank by both the Sovereign Fund of Egypt and EFG Hermes Holding S.A.E. in May 2021.

However, the international non-banking financial institutions do not face the same challenges and limitations, as they can still apply for new licences from the Financial Regulatory Authority (FRA) for the majority of non-banking financial activities. This indicates the fact that fintech has been one of the main sectors attracting FDI in Egypt over the past few years, becoming increasingly dominant within the Egyptian market.

In our opinion, the most notable players in the banking sector include:

- National Bank of Egypt and Banque Misr, at governmental level, both of which have been exerting major efforts to improve their services and gain more recognition in Egypt;
- Commercial International Bank and Arab African International Bank, at the local and regional level, both of which predominantly compete to attract corporate clients; and
- HSBC, a top-tier international bank in Egypt, which has the most advanced online banking services in the market.

The most notable players at the non-banking financial institutions level include, in our opinion, EFG Hermes, Beltone, HC Securities & Investment and CI Capital.

Additionally, several large M&A transactions occurred within the non-banking financial sector in Egypt, including, among others, the following major transactions:

- MNT-Halan, Egypt's leading and fastest-growing fintech ecosystem, which announced in February 2023 that Chimera Abu Dhabi has invested more than US\$200 million in equity in exchange for over 20 per cent of the company.
- Beltone Financial Holding, a large Cairo-listed investment company, which announced that it signed the final agreement to acquire 100 per cent of Cash Microfinance in September 2023.
- B-Investments Holdings, an Egypt-based private equity firm, which announced in February 2024 its acquisition of a majority stake in Orascom Financial Holding S.A.E., a financial services investment company.
- B2B e-commerce platform MaxAB and the Kenya-based Wasoko were announced in August 2024 to have completed Africa's largest-ever tech merger.
- In 2024, Ezdehar, a direct investment fund management company, acquired a minority stake in Yodawy, a medical technology company, through its Ezdehar Mid-Cap Fund II.
- United Arab Emirates' open finance platform Fintech Galaxy's acquisition of Underlie, an Egyptian open banking platform offering application programming interface to banks and businesses in December 2022 for an undisclosed amount.
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The recent conclusion by EFG Hermes of the sale of a 60 per cent stake in Auf Group to leading Emirati food company Agthia in November 2022.

- EFG Hermes' Tanmeyah, a microfinance services company, concluded full acquisition of Fatura Netherlands, a provider of B2B e-commerce marketplace and digital solutions, in June 2022. Since 2019, Fatura has expanded its operations across 22 of Egypt's provinces; Tanmeyah serves around 391,000 clients and runs a portfolio of more than US\$208 million.
- Vodafone Group plc's completion of the transfer of its 55 per cent shareholding in Vodafone Egypt to Vodacom Group Limited in December 2022, aiming to accelerate the growth in financial services and the Internet of Things.

Law stated - 20 February 2025

Government policy

How would you describe the general government policy towards regulating M&A activity in the financial services sector? How has this policy been implemented in practice?

It is important to differentiate, in general, between banking and non-banking financial services. In this regard, it is not permitted to carry out any banking activities in Egypt without being licensed by and registered with the CBE. This restriction covers any activities of receiving deposits, providing refinancing, loans, facilities and contributing to share capital in local companies, as well as any other activities that are considered a banking activity as per the banking custom, on a regular basis and as the main business activities of any person carrying out these activities. However, this restriction does not apply to public juristic persons that carry out any of the said banking activities within their scope of incorporation and international financial institutions that were empowered to do so in Egypt by virtue of any special law or international treaty (eg, IMF, World Bank Group and AFD).

Any person violating the aforementioned restriction shall be subject to imprisonment for a period of up to three years or a fine of not less than E£5,000 and not more than E£50,000.

The non-banking financial services cover mainly any activities related to the fields of:

- securities, namely capital markets;
- insurance, reinsurance or insurance brokerage activities;
- mortgage finance activities;
- financial leasing activities;
- securitisation and factoring activities; and
- microfinance.

Each of these fields is subject to special and intensive regulation, where FRA is empowered by law to regulate and supervise these fields such that no one can carry out any of these activities without obtaining the required licences, approval or authorisations from FRA.

In 2023, FRA issued a regulatory framework for the licensing of startups engaged in non-banking financial activities, whereby startups must, inter alia, be incorporated as

Egyptian joint-stock companies and have a minimum issued and paid-up capital of EG£15 million per activity.

The policies in both non-banking and banking financial services are very strict and implemented in practice.

Law stated - 20 February 2025

LEGAL AND REGULATORY FRAMEWORK

Legislation

What primary laws govern financial services M&A transactions in your jurisdiction?

The primary laws that govern banking and non-banking financial services include the following:

- Financial Regulatory Authority (FRA) Decree on the Conditions and Procedures Required for the Incorporation, Licensing and Approval of Financial Technology Institutions No. 58 of 2022;
- Fintech Law No. 5 of 2022;
- Banking Law No. 194 of 2020;
- Capital Market Law No. 95 of 1992;
- FRA's Decree on the Non-Banking Financial Services Regulations No. 53 of 2018;
- FRA's Decree No. 268 of 2023 on the rules and procedures for establishing and licensing fintech startups; and
- FRA's Decree No. 176 of 2018, adopting the Microfinance and Factoring Legal Framework.

In 2024, the Egyptian government issued various regulations on fintech in the non-banking financial sector, regulating the licensing framework for such activities, enhancing financial inclusion and propelling the digital transformation of the financial sector within the country.

Law stated - 20 February 2025

Regulatory consents and filings

What regulatory consents, notifications and filings are required for a financial services M&A transaction? Should the parties anticipate any typical financial, social or other concessions?

For banking services

Prior approval is required from the Central Bank of Egypt (CBE) for holding more than 10 per cent in any bank registered in Egypt or holding any percentage that leads to the actual control of such a bank. This actual control covers the ability of a person (including the related parties

thereof) to appoint the majority of the company's board members, or to control in any way the decisions issued by its board of directors or general assembly.

In this regard, a pre-acquisition application is required to be submitted to the CBE at least 60 days prior to the acquisition. If the acquisition is based on an involuntary reason, such as inheritance, will, or due to a merger, acquisition or split-up, the application must be submitted at least 30 days as of the date on which the controlling party became aware of such acquisition.

The CBE is required by law to notify the person concerned with its decision within 60 days from the date on which all required documents are successfully submitted to the CBE.

Furthermore, any person holding between 5 and 10 per cent of the issued capital of any registered bank in Egypt or voting rights in such a bank shall notify the CBE of such ownership within 15 days as of the ownership date.

For non-banking financial services

No natural or juristic person (including its related parties) may acquire a non-banking financial institution representing 10 per cent or more of the size of its relevant market without obtaining the prior approval of FRA's board of directors, if the acquisition will result in any of the following:

- acquiring one-third of the relevant target company's capital or voting rights;
- acquiring half of the relevant target company's capital or voting rights;
- acquiring two-thirds of the relevant target company's capital or voting rights; and
- acquiring three-quarters of the relevant target company's capital or voting rights.

Furthermore, anyone who owns at least 10 per cent of the capital or voting rights of a non-banking financial institution is not allowed to increase this ownership by 5 per cent or more in the same non-banking financial institution, unless prior approval is obtained from FRA.

Other than the above, no person is generally allowed to acquire, directly or indirectly, more than one-third of the issued capital of any security brokerage company or managed investment fund that represents more than 10 per cent of the size of its relevant market or any percentage that leads to its 'actual control', except after obtaining FRA's prior approval.

The term 'actual control' covers any position, agreement or ownership of shares or stakes of any percentage that leads to controlling the appointment of the majority of the members of the board of directors or the decisions issued by it and from the general assembly of the company concerned.

Law stated - 20 February 2025

Ownership restrictions

Are there any restrictions on the types of entities and individuals that can wholly or partly own financial institutions in your jurisdiction?

For non-banking financial institutions, at least 25 per cent of the share capital of any non-banking financial services company shall be owned by another financial institution and 50 per cent of the said share capital shall be owned by any juristic person, of which 50 per cent shall increase to 75 per cent for mortgage financial services companies. This rule does not apply by law to the banks; however, in practice, the CBE takes into account the adequacy and relevant experience of the buyer who is willing to acquire a stake in banks in Egypt, especially for change of control.

Law stated - 20 February 2025

Directors and officers – restrictions

Are there any restrictions on who can be a director or officer of a financial institution in your jurisdiction?

There are no specific restrictions imposed by law on who can hold the position of the director of a bank in Egypt. However, before appointing the chairman of the board of directors, the board members or the directors of any bank in Egypt, the prior approval of the CBE's governor must be obtained. This approval takes into consideration the nominated director's relevant experience and qualifications.

For non-banking financial services, directors are in general required to have minimum relevant experience and qualifications, where their appointment is also subject to FRA's approval. However, the board of directors of companies operating in non-banking financial activities must include at least one female board member, unless otherwise determined by FRA. Furthermore, the board of directors of EGX listed companies must include a minimum of 25 per cent female representation, or at least two female board members.

Law stated - 20 February 2025

Directors and officers – liabilities and legal duties

What are the primary liabilities, legal duties and responsibilities of directors and officers in the context of financial services M&A transactions?

Directors and officers are generally liable for complying with all governing laws and regulations applied to the specific activities of the entities where they are responsible for their actual management by having the power to take decisions. This includes, for example, submitting all required reports and obtaining all required approvals for M&A transactions.

This responsibility is deemed a public order provision that cannot be excluded between the acquisition parties, especially for any criminal risk that might be associated with the specific violation.

Law stated - 20 February 2025

Foreign investment

What foreign investment restrictions and other domestic regulatory issues arise for acquirers based outside your jurisdiction?

In general, there are no foreign ownership or investment restrictions applied to acquisitions within the financial services sector in Egypt. However, as a basic rule under Egyptian law, security clearance shall be obtained for any foreigner seeking to work or do business in Egypt. In practice, the regulatory requirements for obtaining security clearance are highly restrictive for certain countries (such as China, Russia, Ukraine, Nigeria, Israel, Iran, Belarus, Bangladesh, Iraq and Palestine), where security clearance is required to be obtained before authorising any acquisition.

Furthermore, obtaining approvals, licences and authorisations from both the CBE and FRA is subject to a number of elements, including national security and public interest; therefore, granting such approvals, licences and authorisations to the aforementioned nationalities may present a challenge.

Law stated - 20 February 2025

Competition law and merger control

What competition law and merger control issues arise in financial services M&A transactions in your jurisdiction?

In December 2022, the government approved the latest amendment to the Antitrust Law No. 3 of 2005, whereby the newly introduced pre-approval scheme replaces the post-notification requirement. The new pre-approval scheme requires that any transaction that constitutes economic concentration obtains the Egyptian Competition Authority's (ECA) pre-approval. Economic concentration is defined as any change of control or material influence as a result of a merger, acquisition or establishment of a joint venture, whereby the effective date of such merger control regime was only implemented as of June 2024. As part of the said regulatory framework, FRA's notification and pre-approval are required for any transaction that constitutes economic concentration whereby the concerned persons exercise one of the activities under FRA's supervision, noting that both FRA and ECA cooperate in such aspect, in accordance with certain prescribed timelines under the law before clearing an economic concentration.

Law stated - 20 February 2025

DEAL STRUCTURES AND STRATEGIC CONSIDERATIONS

Common structures

What structures are commonly used for financial services M&A transactions in your jurisdiction?

It is not yet practically possible to obtain a new bank registration licence in Egypt. Therefore, the only available option is shares acquisition. However, as highlighted above, Commercial International Bank, being an existing licensed bank, has managed to acquire the private retail banking portfolio of Citibank Egypt, also an existing licensed bank. With that being said, the acquisition of assets within the banking sector may be made only between two existing

banks registered at Central Bank of Egypt (CBE), as long as such assets are interlinked with banking services.

However, for non-banking financial services, investors prefer establishing a new company for the purpose of providing these services unless the relevant licence is not available for issuance by the Financial Regulatory Authority (FRA), such as the case of the brokerage services licence when it was suspended for a year from June 2020 to June 2021.

Law stated - 20 February 2025

Time frame

**What is the typical time frame for financial services M&A transactions?
What factors tend to affect the timing?**

M&A acquisition within the financial services sector is a time-consuming process involving a typical time frame of, in practice, at least six months, and during which a large number of documents are required to be submitted.

Law stated - 20 February 2025

Tax

What tax issues arise in financial services M&A transactions in your jurisdiction? To what extent do these typically drive structuring considerations?

As a general rule, Law No. 76 of 2017 applies to any M&A transactions, as follows:

- capital gains tax, at a rate of 22.5 per cent (the CG tax); and
- stamp duty, at a rate of 0.175 per cent, applicable to both the seller and purchaser.

The stamp duty rate can reach 0.3 per cent for both the seller and the purchaser in the event that the transaction involves the acquisition of 33 per cent or more of the capital or voting rights of a listed company, or in the event that the transaction involves a SWAP of 33 per cent of the assets value of a listed company against shares in another listed company. It is worth noting that the CG tax shall be based on the fair market value determined by an independent financial adviser. However, in the event of a cross-border transaction, a double taxation treaty (DTT) between Egypt and the other state may reduce the CG tax and the stamp duty rate. The CG tax, stamp duty and DTT are usually the primary tax concerns when considering the transaction's structure.

Law stated - 20 February 2025

ESG and public relations

How do the parties address the wider public relations issues in financial services M&A transactions? Is environmental, social and governance (ESG) a significant factor?

Both CBE and FRA have been working on applying ESG standards in an effort to meet the international ESG standards. In 2021, the FRA has introduced mandatory disclosure obligations for all non-banking financial institutions and companies listed in the EGX, whereby the said companies are obligated to submit ESG reports and climate-related financial disclosures in their annual reports.

The CBE has also worked on multiple successful initiatives with the existing registered banks in Egypt, whereby these banks were required to comply with the terms of such initiatives. Therefore, the ESG standards should be taken into consideration for any M&A transaction within the financial services sector.

Such initiatives, as highlighted by the CBE aim to support Egypt's commitment to the UN Sustainable Development Goals and its Sustainable Development Strategy: Egypt Vision 2030.

Law stated - 20 February 2025

Political and policy risks

How do the parties address political and policy risks in financial services M&A transactions?

Parties usually address political and policy risks by agreeing on mutual collaboration in the event of such risk, with certain assumptions and remedies.

Law stated - 20 February 2025

Shareholder activism

How prevalent is shareholder activism in financial services M&A transactions in your jurisdiction?

Minor shareholders are protected by the relevant financial services laws and regulations against major shareholders where certain procedures are required to be followed strictly to avoid invalidating decisions taken that do not comply with such procedures. For example, the Capital Market Law and its Executive Regulation grant a tag-along right to minority shareholders in listed and delisted joint stock companies (JSCs) upon acquisition of 90 per cent or more of the share capital or voting rights of such JSCs.

Law stated - 20 February 2025

Third-party consents and notifications

What third-party consents and notifications are required for a financial services M&A transaction in your jurisdiction?

Third-party consents and notifications are required in certain cases, including, for example, in the event of a shareholders' agreement whereby the other shareholders have a right of first refusal or a pre-emption right (or both) over shares being sold.

As another example, in the event of a merger or change of the company's form, an extraordinary general shareholders' meeting shall be held to approve the said merger or change of the company's form.

Law stated - 20 February 2025

DUE DILIGENCE

Legal due diligence

What legal due diligence is required for financial services M&A transactions? What specialists are typically involved?

As a general rule under the Civil Code, the seller is not answerable for any defects of which the purchaser was aware at the time of the sale or any defects that could be discovered by the purchaser by examining the subject of the sale with the care of a reasonable person, unless the purchaser proves that the seller confirmed the absence of those defects.

There is no typical scope of due diligence in Egypt as it depends on the level to which the buyer is willing to conduct due diligence. However, conducting a full due diligence is usually recommended so as to remain in compliance with the aforementioned general rule. Specialist lawyers in banking and finance laws should typically be involved. According to the Circular dated 7 March 2016 amending the acquisition finance regulation, the CBE requires legal and financial due diligence for certain types of transaction.

Law stated - 20 February 2025

Other due diligence

What other material due diligence is required or advised for financial services M&A transactions?

Tax and financial advisers are usually required.

Law stated - 20 February 2025

Emerging technologies

Are there specific emerging technologies or practices that require additional diligence?

There is no additional due diligence required with regard to emerging technologies or practices in Egypt, such as cryptocurrencies, other than the standard due diligence, namely legal and financial due diligence.

Law stated - 20 February 2025

PRICING AND FINANCING

Pricing

How are targets priced in financial services M&A transactions? What factors typically affect valuation?

Valuation by a licensed valuator registered at the Central Bank of Egypt (CBE) or Financial Regulatory Authority (as the case may be) should be made.

Law stated - 20 February 2025

Purchase price adjustments

What purchase price adjustments are typical in financial services M&A transactions?

Purchase price adjustments are typically based on the fair market value.

Law stated - 20 February 2025

Financing

How are acquisitions typically financed? Are there any notable regulatory issues affecting the choice of financing arrangements?

Acquisitions are usually funded by the buyers' own sources of finances; however, acquisition financing is also commonly used through banks and international financial institutions, noting that banks registered at the CBE may provide acquisition financing of only up to 50 per cent of the acquisition value unless prior approval is obtained from the CBE.

Law stated - 20 February 2025

DEAL TERMS

Representations and warranties

What representations and warranties are typically made by the target in financial services M&A transactions? Are any areas usually covered in greater detail than in general M&A transactions?

Representations and warranties are typically made, for example, with respect to the satisfaction of all authorisations to enter into the transaction; the transaction documents being binding, legal and valid towards the seller; non-conflict with any other documents; absence of encumbrances; and obligations not to dispose, sell or create any right over the target.

Law stated - 20 February 2025

Indemnities

What indemnities are typical for financial services M&A transactions? What are typical terms for indemnities?

Indemnities are typically made, for example, with respect to any matters that the buyer does not seek to assume or matters that pose unusual or unexpected risk, with certain limitations as required by law.

Law stated - 20 February 2025

Closing conditions

What closing conditions are common in financial services M&A transactions?

Closing conditions are determined on a case-by-case basis; however, in practice, closing conditions usually include, for example, regulatory approvals, payment, top management restructuring and execution of ancillary documents (if any).

Law stated - 20 February 2025

Interim operating covenants

What sector-specific interim operating covenants and other covenants are usually included to cover the period between signing and closing of a financial services M&A transaction?

Covenants are usually related to, among other things, conduct of business, authorisation, breach of representation and warranties, as well as no transfer or encumbrances.

Law stated - 20 February 2025

DISPUTES

Common claims and remedies

What issues commonly give rise to disputes in the course of financial services M&A transactions? What claims and remedies are available?

The most common issue with respect to financial services M&A transactions is primarily related to acquiring the necessary regulatory approvals and authorisations, where the parties may typically agree on a grace period to obtain the required approvals and authorisations. Otherwise, the agreement shall be terminated subject to certain provisions.

Law stated - 20 February 2025

Dispute resolution

How are disputes commonly resolved in financial services M&A transactions? Which courts are used to resolve these disputes and

what procedural issues should be borne in mind? Is alternative dispute resolution (ADR) commonly used?

Arbitration is the most common ADR in financial services M&A transactions. However, in a few cases, the parties may resort to the competent state court, namely, the Economic Court.

Law stated - 20 February 2025

UPDATE AND TRENDS

Trends, recent developments and outlook

What are the most noteworthy current trends and recent developments in financial services M&A in your jurisdiction? What developments are expected in the coming year?

The fintech sector has become increasingly dominant in the Egyptian financial services M&A market, as the most popular business models within the Egyptian jurisdiction are payment platforms and financing services. According to several recent reports, digital payment will be the dominant segment in Egypt's financial services M&A sector by 2025, as evidenced by the introduction of InstaPay and ApplePay in Egypt in 2024.

Furthermore, the Financial Regulatory Authority (FRA) has recently established a regulatory testing platform or sandbox allowing startups engaged in non-banking financial activities to test their fintech products in a live regulatory environment with real consumers for a period of time. This comes in preparation of providing them to clients, under the supervision and oversight of FRA, for the purpose of supporting and facilitating the entry of smart start-ups into the market.

In 2024, FRA approved Egypt's first Special Purpose Acquisition Company, which is defined as a company licensed solely to raise funds through an initial public offering for the purpose of acquiring or merging with an existing company within a two-year time frame from the date of its initial listing in the EGX, as per Decree No. 148 of 2024. The company, Catalyst Partners Middle East, was established to operate as a venture capital firm focusing on acquiring businesses in the non-banking financial services and fintech sectors.

It is also worth noting that as per Decree No. 184 of 2024, FRA has suspended the acceptance of applications for the establishment and approval of persons wishing to obtain a licence from FRA to engage in microfinance or consumer finance, until any further updates in this regard from FRA.

Law stated - 20 February 2025