

HSBC BANK EGYPT S.A.E.

## Annual Report and Accounts 2007

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### Board of Directors

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Abdel Salam El Anwar, *Chairman and CEO*

Youssef Nasr, *Deputy Chairman*

Mounir El Zahid

Halla Sakr

David Hodgkinson

Medhat Hassanein

John Coverdale

Robert Gray

Gamal Hamza

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HSBC Bank Egypt S.A.E.

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## Report of the Directors

*The Board of Directors has pleasure in presenting the Annual Report of HSBC Bank Egypt S.A.E. for the year ended 31 December 2007.*

### Economic review and future outlook

Once more, the Egyptian economy demonstrated significant progress during the year 2006/2007, with a 7.1% growth rate in real GDP generated mainly by reforms and solid macro-economic management. A dramatic 82% increase in Foreign Direct Investment pushed the external balance of payments to record highs. Out of the US\$11.1 billion Foreign Direct Investment figure, 47% was directed towards new projects and the expansion of existing ones. Net foreign reserves grew to US\$31.5 billion. The World Bank's annual "Doing Business 2008" report ranked Egypt top reformer in the world. Egypt's External ratings stood at Ba1, BB+ by Moody's and S&P respectively while Fitch affirmed long-term foreign currency rating at BB+ and revised outlook from stable to positive.

Tourism remains the highest revenue generating sector to the economy with a double digit growth of 11%. Egypt attracted a record of more than 9.8 million tourists. This pushed up air transport and necessitated Egypt Air to undertake massive upgrades in its operations and launch Egypt Air Express for domestic flights in June 2007.

The Suez Canal continued to be one of the fastest growing sectors in 2007. Its growth was fuelled by the increase in trade with China and the economic viability of transiting through Suez Canal due to the increased fuel prices. Suez Canal is the third largest revenue contributor to the Egyptian economy after Tourism and Expatriate Worker's Remittances.

Construction and real estate witnessed one of its busiest years. Gulf-based players entrance to invest in the sector resulted in a real estate boom. The sector's contribution to GDP was 8.3%, with a growth rate of 15.8% during the year 2006/2007.

Information Technology and Telecom sectors were under the spot light in 2007. The third mobile operator, Etisalat Egypt, began operations using 3G technology which is to become an industry standard. The coming year may witness private sector entrance into the fixed line business.

The hydrocarbon sector is undergoing major changes in its key policies whereby the government has initiated plans against the natural resource depletion of Egypt's petroleum for resources. There are serious initiatives for moving to other sources of energy such as nuclear and renewable.

The year was very good for the Cairo and Alexandria Stock Exchange with more private companies resorting to Initial Public Offerings as a financing option, with

total market capitalisation of US\$140 billion as of 31 December 2007.

Whilst a strong outlook for 2008 provides a promising setting for future implementation of the reform agenda, major challenges remain including the heavy budget deficit, subsidies, inflation and unemployment.

### HSBC Bank Egypt at a Glance

#### Results for the year ending 31 December 2007

Fuelled by sound economic fundamentals and sector growth in most industries, HSBC Bank Egypt performance progressed significantly during 2007 with total assets up 54.7% to EGP27.4 billion at year-end. Customer deposits and loan portfolio increased by 45.4% and 91.7% respectively. Net operating profit increased by 53.3% and net profit increased by 49.9% to EGP905 million.

The Board proposes to distribute to shareholders, by way of cash dividends, the sum of EGP632 million, representing a coupon of EGP49.5 per share. The Board also proposes to distribute EGP90 million (10% of the net profit for 2007) to staff as profit sharing. The remaining profit of EGP183 million will be transferred to support the reserves; EGP45 million for Statutory Reserve and EGP138 million for General Reserve.

### Business and operational activities

#### Corporate and Investment Banking

HSBC Bank Egypt continued to surface among the leading corporate banks in Egypt providing a full range of corporate banking services to a diverse client base. The globalisation of the activities of some top Egyptian companies has been growing during the past year, and we are uniquely placed to help them by offering global banking propositions and business introductions all over the world.

We continue to seek untapped opportunities to extend our franchise in Egypt. In 2007, steps have been taken to roll out a full-fledged Small and Medium Enterprise Division. This is one of our most significant growth opportunities in the near and long term, and we will support it with capital, staffing and technology. On line banking continued to grow rapidly whereby the number of HSBC Bank Egypt net users have grown to 475 active corporate customers. In 2007, the bank launched the Internet Trade Services and Cheque Outsourcing modules. The bank was again, nominated as 'Top Rated Custodian' by the 'Global Custodian' magazine. HSBC Bank Egypt was also awarded 'Deal of the Year' by 'The Banker' magazine for acting as Financial Advisor and Lead Arranger for the EGP750 million Securitisation Bond Issuance for Egyptian Arab Land Bank.

During 2007, the corporate banking scored record growth in terms of business volume, advances, deposits, profits as well as widening its customer base. The corporate banking has recorded year-end growth by 76%, 41%, and 43% for advances, deposits and profits respectively. This is in addition to adding more than 600 new relations in various sectors. The bank was also very active in a number of high profile project finance, syndicated facilities as well as investment banking milestone deals.

Finally, 2007 marked the graduation of the bank's renowned 'Executive Training Programme', our in-house nine-month accreditation Programme, whereby 38 new Corporate Banking Staff have been graduated to support the Corporate and Institutional Banking and Credit Risk Management.

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#### Personal Financial Services PFS

Personal Financial Services continued an aggressive strategy of pursuing growth, with the branch network almost doubling to 60 branches during the year and with an additional 20 in the pipeline. This was backed up by a significant growth in the Call Centre, the ATM network and a high customer impact upgrade to the internet banking platform.

During the year many products were introduced such as home loans, flexible loans on credit cards, loans against treasury bills. In addition refinements were made to existing products. Significant investment in the credit card product and in the global relaunch of the high-end *Premier* proposition provided a stable foundation to growth.

Wealth management saw tremendous growth, fuelled by record sales of investment products and record Bancassurance levels, along with the successful launch of non-life insurance products. HSBC Bank Egypt was also successful in launching its own Mutual Fund during the year, the first in-house fund within the Group in the Middle East.

The year also saw intensive focus on customer engagement and relationship building through the branch network and through marketing methods.

As a result, Personal Financial Services and Branches witnessed a strong growth in profitability despite significant investments made during the year. These investments are expected to provide further momentum to profitability in 2008 and beyond.

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#### Treasury

The Egyptian pound continued to strengthen against the US\$ ending the year around EGP5.51/US\$ down from EGP5.70/US\$ in Year 2006. The share of HSBC Bank Egypt in the primary market bidding was 22% and

around 10% of all accepted bids were awarded to the bank as opposed to 10% and 6% respectively the previous year. Foreign inflows remained strong in both the local equity and debt markets.

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#### Operational developments

2007 also witnessed favourable operational developments for the bank including the completion of an 11-month project 'Gold Suite', where Egypt was the pilot site in the Middle East, and one of the first in the Group to initiate and successfully launch this major technological upgrade. All customer channels were upgraded to the current evergreen version of Group systems, including Personal Internet Banking which was upgraded from the previous version (1.1) to the highest version (2G 2.2). HSBC Bank Egypt now has the advantage of using the latest Group systems in Core Banking, Sales Solutions, Staff Channels and Transaction Banking for both personal and corporate lines of business.

HSBC Signed a Memorandum of Understanding (MOU) with the Egyptian Government to establish HSBC's first ever Arabic speaking regional processing centre. The new regional centre will be strategically located on 3,000 metres of Egypt's technology park, the Smart Village. The regional project will include a Call Centre and Back Office Processing Centre, providing banking operation-related services for HSBC's clients in the Middle East. This centre will become operational in 2009.

The Network Service Centre has successfully been able to accommodate growth in the customer base, and branch expansions in addition to the launch of various retail and corporate products, with a corresponding increase in the number of banking transactions, with a minimal impact on overall profitability.

Additionally, other operational support units such as Property, Administration and Information Technology have all been restructured/bolstered to support the branch network expansion organic growth strategy. Moreover, all three functional units have performed as active players in the branch opening process, directly impacting on the efficiency and speed required to support HSBC Bank Egypt aspirations.

A Central Purchasing department was established for the bank whereby all procurement of goods and services were centralised in one area. Through the review of vendor relations, negotiations and effective reliance of Group agreements, a considerable cost savings of US\$ 2.4 million was achieved in 2007.

The strong brand gave confidence to customers, value to investors and comfort to colleagues which in return built brand integrity and maintained HSBC's Superbrand position in Egypt.

## Report of the Directors (continued)

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HSBC Bank Egypt continued to demonstrate commitment to the Egyptian community through supporting a remarkable number of community projects, including Educational, Cultural, Health Care and Social Projects. Additionally, a new initiative was undertaken towards our Corporate Social Responsibility, addressing one of the most pressing problems in Egypt, namely 'Housing for the Poor'. The Board has approved allocating a cumulative budget of EGP (100m - 120m) from the bank's net profit over the coming five years to support this important initiative.

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### Staff training and development

HSBC Bank Egypt sustained its commitment towards attracting a high calibre workforce and is today viewed as 'the best place to work' in the Financial Service sector.

The increase in number of staff in 2007 to 1,580 (from 1,239 in 2006) to cater for aggressive growth necessitated more focus on training and developing its staff members in order to sustain our identity and ensure high standard of services extended to our customers. This entailed several training events in Personal Financial Services, Corporate or Short and Medium Enterprises. Hence, HSBC Bank Egypt staff members were provided with specially tailored programmes in the form of classroom training, on-the-job training, front line accreditation and off-site courses.

Our local Learning and Development department delivered 4,855 trainee days in 2007. Spotlights were attended by 264 staff members, 173 staff members attended courses conducted locally by Group Training India trainers (Gold Suite), and 428 staff members attended in-house training conducted by local HSBC Bank Egypt Guest Speakers.

Additionally, HSBC Bank Egypt supported 50 staff members in acquiring their diplomas and certificates and 471 staff members in attending external courses held by the most reputable training institutions in Egypt. Also, 40 staff members attended overseas courses in UAE, USA, the UK, Luxemburg, and others.

### Board of Directors

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- In May 2007, Youssef Nasr, CEO of HSBC Bank Middle East Limited, was appointed Deputy Chairman of HSBC Bank Egypt replacing Niall Booker.
- Halla Sakr, Deputy Managing Director HSBC Bank Egypt, was also appointed as a Board Director effective 1 January 2007.
- In October 2007, Mohamed Gamal El Din Hamza, non-executive Director, retired from the Board of Directors.

HSBC BANK EGYPT S.A.E.

## Auditors' Report to the Shareholders

We have audited the accompanying balance sheet of HSBC Bank Egypt S.A.E. as of 31 December 2007 and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Egyptian Standards on Auditing and in the light of the prevailing Egyptian laws and regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. Our audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements' presentation. We have obtained all the information and explanations, which we deemed necessary for our audit. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above together with the notes attached thereto present fairly, in all material respects, the bank's financial position as of 31 December 2007 and the results of its operations and its cash flows for the financial year then ended, in accordance with the instructions of the preparation and presentation of financial statements for Egyptian banks issued by Central Bank of Egypt dated 27 June 2002, as well as with the relevant local laws and regulations comply with applicable Egyptian laws and regulations.

The bank keeps proper accounting records which include all that is required by the law and the bank's statutes, and the accompanying financial statements are in agreement therewith. Based on the information and explanations provided to us, it was not revealed to us that the bank had violated any of the provisions of the Central Bank of Egypt, Banking and Monetary system Law No 88 of 2003 during the financial year ended 31 December 2007.

The financial information included in the Report of the Directors prepared in conformity with Law No 159 of 1981 and its executive regulations are in agreement with the bank's accounting records within the limits that such information is recorded therein.

**KPMG Hazem Hassan**  
Hassan Basyouni  
Cairo

29 January 2008

**Ernst and Young**  
Nabil A Istanbuli  
Cairo

HSBC BANK EGYPT S.A.E.

**Balance Sheet as at 31 December 2007**

	<i>Notes</i>	<b>2007</b>	2006
		<b>EGP</b>	EGP
<b>Assets</b>			
Cash and due from the Central Bank of Egypt	4	1,936,797,778	966,618,885
Due from banks	5	10,552,277,773	5,374,175,431
Treasury bills	6	2,947,065,547	1,117,612,111
Central Bank of Egypt certificates of deposits	7	—	3,568,086,377
Investments available for sale	8	20,341,088	19,938,945
Loans and advances (net of provision)	9,10	10,083,837,609	5,261,525,412
Investments held to maturity	11	1,217,064,946	1,047,364,574
Investments in subsidiaries	12	15,916,810	15,916,810
Debit balances and other assets (net)	13	471,186,737	223,867,585
Fixed assets (net of accumulated depreciation)	14	199,112,775	143,533,625
Total assets		<u>27,443,601,063</u>	<u>17,738,639,755</u>
<b>Liabilities</b>			
Due to banks	15	2,469,544,186	191,216,187
Customers' deposits	16	22,114,834,435	15,207,936,890
Credit balances and other liabilities	17	354,697,991	302,756,541
Dividends payable		—	471,781,670
Other provisions	18	154,386,607	120,276,983
Total liabilities		<u>25,093,463,219</u>	<u>16,293,968,271</u>
<b>Shareholders' equity</b>			
Issued and paid up capital	19	1,072,500,072	1,072,500,072
Reserves	20	372,171,412	372,171,412
Total shareholders' equity		<u>1,444,671,484</u>	<u>1,444,671,484</u>
Net profit for the year		<u>905,466,360</u>	<u>—</u>
Total shareholders' equity and net profit for the year		<u>2,350,137,844</u>	<u>1,444,671,484</u>
Total liabilities, shareholders' equity and profit for the year		<u>27,443,601,063</u>	<u>17,738,639,755</u>
<b>Contingent liabilities and commitments</b>			
Bank's liabilities for letters of credit, letters of guarantee, acceptances and others	21	4,483,426,717	3,156,345,103

The accompanying notes from No 1 to No 34 are an integral part of these financial statements.  
Auditors' Report included.

Abdel Salam El Anwar, *Chairman and CEO*

HSBC BANK EGYPT S.A.E.

## Income Statement for the Financial Year Ended 31 December 2007

	<i>Notes</i>	<b>2007</b>	2006
		<b>EGP</b>	EGP
<b>Income</b>			
Interest income from loans and balances with banks		<b>1,316,297,778</b>	731,331,093
Discount and interest income from treasury bills and bonds		<b>374,596,435</b>	446,576,541
Interest expenses on deposits and borrowings		<b>(907,864,726)</b>	(635,181,924)
<b>Net interest income</b>		<b>783,029,487</b>	542,725,710
Fees and commissions income		<b>268,139,577</b>	181,380,286
Dividends		<b>21,124,675</b>	6,298,166
Gains from foreign currency transactions		<b>227,269,353</b>	137,941,196
Gains on sale of financial investments		<b>5,500,041</b>	4,586,929
Other operating income		<b>68,083,681</b>	22,240,290
<b>Net operating income</b>		<b>1,373,146,814</b>	895,172,577
Fees and commissions expenses		<b>(13,545,088)</b>	(7,420,993)
Provisions		<b>(75,554,982)</b>	(17,997,217)
Investments evaluation differences	22	<b>1,223,140</b>	(1,140,310)
General administrative expenses, depreciation and amortisation		<b>(343,876,946)</b>	(254,472,683)
Operating profit		<b>941,392,938</b>	614,141,374
Non-operating profit		<b>69,666</b>	328,442
Profit before income tax		<b>941,462,604</b>	614,469,816
Income tax expense	23	<b>(38,002,209)</b>	(10,844,096)
Deferred tax	24	<b>2,005,965</b>	493,064
<b>Net profit after income tax</b>		<b>905,466,360</b>	604,118,784
Earning per share	25	<b>63.83</b>	49.96

The accompanying notes from No 1 to No 34 are an integral part of these financial statements.

HSBC BANK EGYPT S.A.E.

## Changes in Shareholders' Equity Statement for the Financial Year Ended 31 December 2007

	<i>Issued and paid up capital</i>	<i>Legal reserve</i>	<i>General reserve</i>	<i>Share premium</i>	<i>Retained earnings</i>	<i>Net profit</i>	<i>Total</i>
	EGP	EGP	EGP	EGP	EGP	EGP	EGP
Balance as at 31 December 2005	500,000,004	72,273,018	160,833,394	6,727,886	—	—	739,834,302
Capital increase	572,500,068	—	—	—	—	—	572,500,068
Transferred to reserves	—	30,205,939	102,131,175	—	(132,337,114)	—	—
Dividends paid	—	—	—	—	(471,781,670)	—	(471,781,670)
Net profit for 2006	—	—	—	—	604,118,784	—	604,118,784
Balance as at 31 December 2006	1,072,500,072	102,478,957	262,964,569	6,727,886	—	—	1,444,671,484
Net profit for 2006	—	—	—	—	—	905,466,360	905,466,360
<b>Balance as at 31 December 2007</b>	<b>1,072,500,072</b>	<b>102,478,957</b>	<b>262,964,569</b>	<b>6,727,886</b>	<b>—</b>	<b>905,466,360</b>	<b>2,350,137,844</b>

HSBC BANK EGYPT S.A.E.

## Appropriation Statement for the Financial Year Ended 31 December 2007

	2007 EGP	2006 EGP
Profits available for appropriation	905,466,360	604,118,784
Net profits available for appropriation	<u>905,466,360</u>	<u>604,118,784</u>
<b>Appropriations</b>		
Legal reserve	45,273,318	30,205,939
General reserve	137,637,435	102,131,175
Shareholders' dividends	632,008,971	420,431,573
Employees' profit share	90,546,636	51,350,097
	<u>905,466,360</u>	<u>604,118,784</u>

HSBC BANK EGYPT S.A.E.

## Cash Flow Statement for the Financial Year Ended 31 December 2007

	2007	2006
	EGP	EGP
<b>Cash flow from operating activities</b>		
Net profit before income tax	941,462,604	614,469,816
Adjustments to reconcile net income to net cash flow from operating activities		
Depreciation and amortisation	23,916,157	16,554,326
Provisions formed during the year	75,554,982	17,997,217
Revaluation difference of bonds in US dollars	(8,074,254)	(1,095,864)
Amortisation of unearned discount of bonds	(724,736)	(325,785)
Amortisation of bonds premium	1,074,191	1,538,966
Increase in end of service compensation provision	21,110,983	10,195,006
Gain from sale of fixed assets	(69,666)	(328,443)
Other investments evaluation differences	(1,223,140)	1,140,310
Revaluation differences for provisions other than loans provision	(20,637)	(3,132)
Provisions used other than loans provision	(214,260)	(6,951,520)
Provisions no longer required	(44,291,568)	(18,315,161)
Net operating profit before changes in assets and liabilities	<u>1,008,500,656</u>	<u>634,875,736</u>
<b>Net decrease/(increase) in assets</b>		
Deposits with banks	(5,195,996,060)	(1,477,397,213)
Treasury bills	(1,095,457,888)	158,545,778
Central Bank of Egypt certificates of deposits	3,568,086,377	(1,832,954,140)
Purchase of treasury bills with reselling clause	—	139,225,694
Investments available for sale	(357,143)	(18,523,428)
Loans to customers	(4,844,001,190)	(818,605,042)
Debit balances and other assets	(150,976,605)	(29,490,279)
<b>Net increase/(decrease) in liabilities</b>		
Due to banks	2,278,327,999	(519,220,697)
Customers' deposits	6,906,897,545	3,826,308,363
Credit balances and other liabilities	13,939,241	97,885,853
Net cash provided from operating activities	<u>2,488,962,932</u>	<u>160,650,625</u>

## HSBC BANK EGYPT S.A.E.

	2007 EGP	2006 EGP
<b>Cash flow from investing activities</b>		
Payments for purchase of investments held to maturity	(247,363,379)	(113,343,990)
Payments for purchase of investments in subsidiaries	—	(13,916,810)
Proceeds from sale/refund of investments held to maturity	85,409,000	186,160,678
Payments for purchase of fixed assets and establishing new branches	(169,910,757)	(79,647,560)
Proceeds from sale of fixed assets	101,849	330,940
	<hr/>	<hr/>
Net cash /(used in) investing activities	(331,763,287)	(20,416,742)
<b>Cash flow from financing activities</b>		
Capital increase	—	572,500,068
Dividends paid	(471,781,670)	(279,860,702)
	<hr/>	<hr/>
Net cash (used in)/provided from financing activities	(471,781,670)	292,639,366
	<hr/>	<hr/>
Net increase in cash and cash equivalents during the year	1,685,417,975	432,873,249
Cash and cash equivalents at the beginning of the year	1,314,740,976	881,867,727
	<hr/>	<hr/>
Cash and cash equivalents at year end	3,000,158,951	1,314,740,976
	<hr/>	<hr/>
<b>Cash and cash equivalents are represented in:</b>		
Cash and due from the Central Bank of Egypt	1,936,797,778	966,618,885
Due from banks	10,552,277,773	5,374,175,431
Treasury bills	2,947,065,547	1,117,612,111
Deposits with banks	(10,390,549,401)	(5,194,553,340)
Treasury bills due over three months	(2,045,432,746)	(949,112,111)
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Cash and cash equivalents at year end	3,000,158,951	1,314,740,976
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The accompanying notes from No 1 to No 34 are an integral part of these financial statements.

## Notes on the Accounts

### 1 Status and activities

HSBC Bank Egypt S.A.E, an Egyptian joint stock company, was established under the Investment Law in accordance with the Minister of Investment and International Cooperation's decree No 60 of 1982 published in the Egyptian Official Gazette on 17 May 1982. The bank started its banking activities on 5 December 1982. It provides a comprehensive range of banking and related financial services through its Head Office in Cairo, 63 branches and outlets in prominent cities in Egypt.

### 2 Significant accounting policies

#### a *Basis of preparing the financial statements*

The financial statements are prepared in accordance with the instructions of the preparation and presentation of financial statements for Egyptian banks issued by the Central Bank of Egypt dated 27 June 2002, as well as with the relevant local laws and regulations.

The bank also prepares consolidated financial statements which include the financial statements of the bank and its subsidiary.

#### b *Foreign currency translation*

The bank maintains its accounts in Egyptian pounds. Transactions in foreign currencies are translated into Egyptian pounds at the prevailing exchange rates at the dates of the transactions. At the date of the balance sheet, balances of monetary assets and liabilities denominated in foreign currencies are translated at the prevailing exchange rates at that date. Any gains or losses resulting from the translation are taken to the income statement under the caption of 'Gain/loss from foreign currency transactions'.

Forward contracts are evaluated at the date of the balance sheet at its fair value using the forward rates for the remaining periods until the maturity dates of these contracts. The evaluation differences are recorded in the income statement under the caption of 'Gain/loss from foreign currency transactions'.

Currency SWAP contracts are recorded on the date of commitment under the caption of 'Contingent liabilities and commitments'. The difference between equivalent amounts of both sides of the contract is recorded under the caption of 'Debit balances and other assets' or 'Credit balances and other liabilities' considering unrealised gain/loss on the date of commitment. The said difference is amortised over the term of the contract either by debiting or crediting 'Interest on loans and balances with banks' in the income statement. The gain/loss of the contract is recorded in the income statement under the caption of 'Gain/loss from foreign currency transactions'.

#### c *Revenue recognition*

Revenue is recognised on an accrual basis, except the recognition of interest on doubtful loans which ceases when the recovery of interest or principal is in doubt. Dividend income is recognised when the dividends are declared.

#### d *Treasury bills*

Treasury bills are recorded at their nominal value. Unearned discount is included under the caption of 'Credit balances and other liabilities'. Treasury bills are presented in the balance sheet net of the unearned discount.

#### e *Central Bank of Egypt certificates of deposits*

Central Bank of Egypt certificates of deposits are stated in the books at their nominal value and the related discount is included under the caption of 'Credit balances and other liabilities'. Central Bank of Egypt certificates of deposits are presented in the balance sheet net of the unearned discount.

#### f *Evaluation of investments available for sale*

Financial investments available for sale are evaluated at the lower of cost or fair value (taking into consideration foreign exchange differences). Resulting differences are taken to the income statement under the caption of 'Investments evaluation differences'. In the case of increase in the fair value, such increase shall be added to the same item within the limits of amounts charged to the income statement for previous financial periods.

#### g *Evaluation of investments held to maturity*

Bonds purchased at preliminary market are evaluated at the amortised cost representing the nominal value adjusted by any premium/discount which is amortised using the straight line method and the amortisation value is recorded in the income statement under the caption of 'Income from treasury bills and bonds'.

The same method is applied to the bonds purchased from the secondary market at a value higher or lower than the nominal value and the cost is reduced by the value of returns for the period preceding the purchasing date. The book

## 2 Significant accounting policies (continued)

value is to be amended with any impairment in the fair value compared with the book value of every bond and the impairment is to be charged to the income statement under the caption of 'Investments evaluation differences' provided that in the case of increase in the fair value, such increase shall be credited to the same item in the income statement within the limit of amounts charged to the income statement for previous financial periods.

The book value of the bonds in foreign currency is amended as per the result of evaluation according to the exchange rate prevailing on the date of evaluation and the evaluation differences are taken to the income statement under the caption of 'Gain/loss from foreign currency transactions'.

Mutual Fund Certificates that should be kept by the bank until their maturity date, considering that the bank is the establisher, are to be evaluated at cost. Any decline in the redeemable value compared with cost is to be charged to the income statement under the caption of 'Investments evaluation differences'. Any recovery of such decline shall be credited to the same item in the income statement within the limit of amounts charged to the income statement for previous financial periods.

### **h** *Financial investments in subsidiaries*

These investments are evaluated at cost. In the case of impairment in the fair value, the book value is reduced by the impaired value for each investment. Such decrease shall be charged to the income statement under the caption of 'Investments evaluation differences'. In the case of an increase in the fair value, such increase shall be added to the same item within the limits of amounts charged to the income statement for previous financial periods.

### **i** *Evaluation of assets reverted to the bank in settlement of some customers' debts*

These assets are stated in the balance sheet under the caption of 'Debit balances and other assets' on the basis of their reverted value. In the case where the fair value of these assets, at the balance sheet date, are below the value by which they were reverted to the bank, the difference is charged to the income statement. In the case of an increase in the fair value, such increase shall be credited to the income statement within the limits of amounts charged to the income statement in previous financial periods.

### **j** *Provisions for loans and provisions for contingent liabilities*

The bank established a provision for specific debts, in addition to a general provision for the other debts and contingent liabilities within a percentage ranging from 1 to 5% in line with Central Bank of Egypt new regulations issued on 6 June 2005 in respect of Obligor Risk Rating and Provisioning.

Non performing loans, which are deemed uncollectable, are written off against the provision. Collections from loans previously written off are added back to the provision.

### **k** *Contingent liabilities and commitments*

Contingent liabilities, commitments including commitments for financial derivatives are disclosed under the caption of 'Contingent liabilities and commitments' as they do not represent actual assets or liabilities at balance sheet date.

### **l** *Cash and cash equivalents*

For the purpose of preparing the cash flow statement, cash and cash equivalents include cash in hand, cash with the Central Bank of Egypt, current accounts with banks and treasury bills with a maturity of less than three months from the date of acquisition.

### **m** *Fixed assets and depreciation*

Fixed assets are stated at historical cost less accumulated depreciation. Depreciation is computed by the straight line method over the estimated useful life of each asset.

Fixed assets are depreciated according to the following:

Buildings	20	Years
Furniture and office equipment	10	Years
Communication equipment and computers	five	Years
Motor vehicles	five	Years
Fixtures	three	Years

Fixtures in the rented branches are depreciated over the shorter of the estimated useful life or the rental contract term.

## Notes on the Accounts (continued)

### 2 Significant accounting policies (continued)

#### n Employee benefits

##### i End of service compensation

HSBC Bank Egypt S.A.E. contributes to the social insurance scheme related to social insurance authority for the benefit of its employees according to the Social Insurance Law No 79 of 1975 and its amendments. The income statement is charged with these contributions on an accrual basis.

Based on the bank's internal regulations, employees are granted end of service compensation according to their periods of service. Provision is provided based on the present value in light of actuarial assumptions determined at balance sheet date.

##### ii Medical care programme

The amount of medical care liability is calculated according to the present value of these liabilities in light of the determined actuarial assumptions at the balance sheet date.

#### o Taxes

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except that which relates to items recognised directly in equity

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred tax resulting from temporary time differences between the carrying amounts of assets and liabilities is recognised according to the accounting and tax basis. The amount of deferred tax is determined based on the expected manner of realisation or settlement of assets and liabilities using tax rates prevailing at the balance sheet date.

A deferred tax asset is recognised only if future taxable profits are probable against which the asset can be utilised. Deferred tax assets are reduced if related tax benefits are not realisable in forthcoming years.

### 3 Financial instruments and risk management

#### a Financial instruments

The bank's financial instruments consist of financial assets and liabilities. Financial assets include cash, due from banks, investments and loans. Financial liabilities include customers' deposits and due to banks. Financial instruments also include the rights and obligations to others included in the contingent liabilities.

Note 2 includes the significant accounting policies applied to measure and recognise these financial instruments and the related revenues and expenses.

##### i Fair value of financial instruments

According to the evaluation basis of the bank's assets and liabilities stated in the notes to the financial statements, the fair value of the financial instruments does not materially differ from their book value on the balance sheet date. The fair value, on the balance sheet date, of the financial investments is indicated in Notes 8, 11 and 12.

##### ii Forward contracts

Pursuant to the instructions of the Central Bank of Egypt, the bank does not enter into forward contracts except to cover the requirements of foreign currencies or its customers to fulfill their obligations in foreign currencies resulting from their transactions. All contracts are short term contracts

#### b Risk management

##### i Interest rate risk

The values of some financial instruments fluctuate due to the changes in related interest rates. The bank follows some procedures to minimise the risk such as:

- Correlating between the interest on borrowing and lending.
- Determining the applied interest rates in consideration with the prevailing discounted rates on various currencies.

Note 28 represents the average interest rates applied by the bank during the year on financial assets and liabilities.

##### ii Credit risk

Loans to customers, financial investments in bonds, due from banks, rights and obligations from others are considered financial assets exposed to credit risk represented in the inability of those parties to settle part or whole of their indebtedness on the date of maturity. The bank minimises the effect of this risk through the following:

**3 Financial instruments and risk management (continued)**

- Preparing detailed credit studies about customers before granting the loan.
- Obtaining adequate guarantees to reduce the possibility of loss in case of a customer failure.
- Regular review and study of customers to evaluate their financial and credit position followed by an estimation of required provisions.
- Distribution of loans portfolio among various sectors to reduce the concentration of credit risk.

Note 30 shows the diversification of the loans portfolio among various sectors.

**iii Foreign currency risk**

The bank's activity involves dealing in many foreign currencies which exposes the bank to the risk of loss as a result of the fluctuation of exchange rates. In order to reduce this risk, the bank monitors the balancing of foreign currency positions according to the instructions issued from the Central Bank of Egypt. Major foreign currency positions at the date of the balance sheet are disclosed in Note 31.

**4 Cash and due from the Central Bank of Egypt**

	2007 EGP	2006 EGP
Cash in hand	237,794,597	174,743,990
Statutory reserve deposits with the Central Bank of Egypt	1,699,003,181	791,874,895
Total	<u>1,936,797,778</u>	<u>966,618,885</u>

**5 Due from banks**

	2007 EGP	2006 EGP
<b>a Central Bank of Egypt</b>		
Current accounts	2,757,250	2,854,000
Deposits	5,756,641,045	885,415,808
	<u>5,759,398,295</u>	<u>888,269,808</u>
<b>b Local banks</b>		
Current accounts	91,521,161	41,959,165
Deposits	220,580,000	436,000,000
	<u>312,101,161</u>	<u>477,959,165</u>
<b>c Foreign banks</b>		
Current accounts	67,449,962	134,808,926
Deposits	4,413,328,355	3,873,137,532
	<u>4,480,778,317</u>	<u>4,007,946,458</u>
Total	<u>10,552,277,773</u>	<u>5,374,175,431</u>

**Notes on the Accounts** (continued)**6 Treasury bills**

	2007 EGP	2006 EGP
<i>Treasury bills</i>		
Treasury bills with original maturity of 91 days	906,375,000	168,500,000
Treasury bills with original maturity of 182 days	718,400,000	229,975,000
Treasury bills with original maturity of 364 days	1,383,450,000	764,875,000
	<u>3,008,225,000</u>	<u>1,163,350,000</u>
Unearned discount	(61,159,453)	(45,737,889)
Treasury bills (net)	<u>2,947,065,547</u>	<u>1,117,612,111</u>

**7 Central Bank of Egypt certificates of deposits**

	2007 EGP	2006 EGP
Central Bank of Egypt certificates of deposits	—	3,667,000,000
Unearned discount	—	(98,913,623)
Central Bank of Egypt certificates of deposits (net)	<u>—</u>	<u>3,568,086,377</u>

**8 Investments available for sale**

	2007 EGP	2006 EGP
Investment in equity securities	<u>20,341,088</u>	<u>19,938,945</u>
Investments are unlisted in the capital markets		

**9 Loans and advances (net of provision)**

	2007 EGP	2006 EGP
Customers' loans	10,307,627,394	5,500,850,571
Bills discounted	91,912,252	79,942,941
	<u>10,399,539,646</u>	<u>5,580,793,512</u>
Unearned discount for discounted bills	276,030	340,110
Loans provisions	273,671,949	268,475,542
Interest in suspense	41,754,058	50,452,448
	<u>10,083,837,609</u>	<u>5,261,525,412</u>

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**10 Loans provisions (performing/non performing)**

	2007			2006		
	<i>Specific</i>	<i>General</i>	<i>Total</i>	<i>Specific</i>	<i>General</i>	<i>Total</i>
	EGP	EGP	EGP	EGP	EGP	EGP
Balance at the beginning of the year	196,260,137	72,215,405	268,475,542	195,590,397	74,827,393	270,417,790
Formed during the year	6,684,914	29,909,554	36,594,468			
Transferred from other provisions				22,045,882		22,045,882
Revaluation differences	(50,358)		(50,358)	(3,987)		(3,987)
	202,894,693	102,124,959	305,019,652	217,632,292	74,827,393	292,459,685
Used during the year	(12,602,201)		(12,602,201)	(5,668,982)		(5,668,982)
Provisions no longer required	(18,745,502)		(18,745,502)	(15,703,173)	(2611,988)	(18,315,161)
Balance at year end	171,546,990	102,124,959	273,671,949	196,260,137	72,215,405	268,475,542

**11 Investments held to maturity**

	2007 EGP	2006 EGP
<b>a Bonds</b>		
Government bonds	993,536,797	917,625,038
Banks' bonds	78,878,898	—
Corporate bonds	139,649,251	129,739,536
	<b>1,212,064,946</b>	<b>1,047,364,574</b>
<b>b Certificates of mutual fund established by the bank</b>		
HSBC Bank Egypt first mutual fund certificates (50,000 certificates at redeemable value of EGP100 per certificate)	5,000,000	—
	<b>5,000,000</b>	<b>—</b>
	<b>1,217,064,946</b>	<b>1,047,364,574</b>

Investments held to maturity are listed in the capital market and the market value amounted to EGP1,247,450,603 as at 31 December 2007 (EGP1,051,645,419 as at 31 December 2006).

**12 Investments in subsidiaries**

	2007		2006	
	<i>Amount</i>	<i>Equity participation (percent)</i>	<i>Amount</i>	<i>Equity participation (percent)</i>
	EGP		EGP	
HSBC Securities (Egypt) S.A.E.	15,916,810	98	15,916,810	98
	<b>15,916,810</b>		<b>15,916,810</b>	

Investments in subsidiaries are unlisted in the capital markets.

**Notes on the Accounts** (continued)**13 Debit balances and other assets (net)**

	2007 EGP	2006 EGP
Accrued revenues	258,662,072	86,579,661
Prepaid expenses	15,421,019	14,227,232
Advance payments for purchasing fixed assets	1,098,488	3,166,797
Assets reverted to the bank (after deducting revaluation difference amounted to EGP1,035,376)	7,871,848	4,148,651
Refundable deposits with others	1,224,589	1,204,404
Other debit balances	33,347,526	51,593,030
HSBC Investment Company Egypt (under liquidation)	3,750,000	3,750,000
Down payment for establishing new branches	149,811,195	59,427,928
	<b>471,186,737</b>	<b>224,097,703</b>
Provision for current accounts	—	(230,118)
Total	<b>471,186,737</b>	<b>223,867,585</b>

**14 Fixed assets (net of accumulated depreciation)**

	<i>Land</i>	<i>Buildings</i>	<i>Furniture and office equipment</i>	<i>computers</i>	<i>Vehicles</i>	<i>Fixtures</i>	<i>Total</i>
	EGP	EGP	EGP	EGP	EGP	EGP	EGP
<b>Cost</b>							
As at 1 January 2007	38,776,861	73,596,470	23,757,331	60,165,424	5,503,545	22,835,792	224,635,423
Additions during the year	138,150	32,062,172	7,886,957	18,788,929	3,535,870	17,115,412	79,527,490
Disposals during the year	—	—	(58,046)	(1,443,404)	(136,240)	(135,780)	(1,773,470)
<b>As at 31 December 2007</b>	<b>38,915,011</b>	<b>105,658,642</b>	<b>31,586,242</b>	<b>77,510,949</b>	<b>8,903,175</b>	<b>39,815,424</b>	<b>302,389,443</b>
<b>Accumulated depreciation</b>							
As at 1 January 2007	—	20,214,432	11,776,944	35,918,374	2,966,858	10,225,190	81,101,798
Depreciation for the year	—	4,387,317	2,271,196	8,321,764	1,379,255	7,556,625	23,916,157
Accumulated depreciation/disposals	—	—	(57,132)	(1,444,318)	(104,057)	(135,780)	(1,741,287)
<b>As at 31 December 2007</b>	<b>—</b>	<b>24,601,749</b>	<b>13,991,008</b>	<b>42,795,820</b>	<b>4,242,056</b>	<b>17,646,035</b>	<b>103,276,668</b>
<b>Net book value</b>							
<b>As at 31 December 2007</b>	<b>38,915,011</b>	<b>81,056,893</b>	<b>17,595,234</b>	<b>34,715,129</b>	<b>4,661,119</b>	<b>22,169,389</b>	<b>199,112,775</b>
As at 31 December 2006	38,776,861	53,382,038	11,980,387	24,247,050	2,536,686	12,610,603	143,533,625

At balance sheet date the fixed assets (after depreciation) include some assets amounting to EGP4,430,758 which have not yet been notarised under the name of the bank.

The legal notarisation of these assets is currently in process.

Land represents an amount of EGP400,290 and EGP284,611 for the land on which the Sixth of October City branch and Borg El Arab branch premises are respectively located. It also includes an amount of EGP2,934,337 and EGP1,126,573 being the cost of acquiring two pieces of land in Hurghada and Tenth of Ramadan City respectively and an amount of EGP34,169,200 representing the price of the land for the new Head Office.

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**15 Due to banks**

	2007 EGP	2006 EGP
<b>a Central Bank of Egypt</b>		
Current accounts	—	—
Deposits	<u>1,378,625,000</u>	<u>—</u>
	<u>1,378,625,000</u>	<u>—</u>
<b>b Local banks</b>		
Current accounts	—	6,627
Deposits	<u>30,000,000</u>	<u>—</u>
	<u>30,000,000</u>	<u>6,627</u>
<b>c Foreign banks</b>		
Current accounts	991,134,348	146,232,475
Deposits	<u>69,784,838</u>	<u>44,977,085</u>
	<u>1,060,919,186</u>	<u>191,209,560</u>
Total	<u><b>2,469,544,186</b></u>	<u><b>191,216,187</b></u>

**16 Customers' deposits**

	2007 EGP	2006 EGP
Demand deposits	6,905,815,134	3,950,635,941
Time and call deposits	6,737,549,290	4,583,271,061
Certificates of deposits and saving accounts	2,811,323,893	2,717,770,260
Saving deposits	4,976,123,313	3,392,063,406
Other deposits	<u>684,022,805</u>	<u>564,196,222</u>
Total	<u><b>22,114,834,435</b></u>	<u><b>15,207,936,890</b></u>

**17 Credit balances and other liabilities**

	2007 EGP	2006 EGP
Accrued interest payable	117,857,145	95,311,584
Unearned revenues	29,519,470	19,905,033
Accrued expenses	62,291,150	34,764,212
Creditors	13,650,651	65,786,508
Liabilities for the staff medical care*	33,000,000	33,000,000
Current tax expenses for the year	38,002,209	10,844,096
Other credit balances	<u>60,377,366</u>	<u>43,145,108</u>
Total	<u><b>354,697,991</b></u>	<u><b>302,756,541</b></u>

\*The balance represents the present value of the liabilities of employees' medical care installments determined by actuarial expert the interest rate used as a discount basis by the actuarial expert was 9% annually.

**Notes on the Accounts** (continued)**18 Other provisions**

	<i>Provision for end of service compensation</i>	<i>Provision for contingent claims</i>	<i>Provision for contingent liabilities</i>	<i>Total</i>
<b>2007</b>	<b>2007 EGP</b>	<b>2007 EGP</b>	<b>2007 EGP</b>	<b>2007 EGP</b>
Balance as at the beginning of the year	53,952,166	54,028,656	12,296,161	120,276,983
Formed during the year	21,984,946	32,197,791	6,581,813	60,764,550
Provision evaluation difference	(344,124)	(20,637)	—	(364,761)
	<b>75,592,988</b>	<b>86,205,810</b>	<b>18,877,974</b>	<b>180,676,772</b>
Used during the year	(529,839)	(214,260)	—	(744,099)
Transferred to loans provision		(25,546,066)	—	(25,546,066)
Provision no longer required				
<b>Balance at year end</b>	<b>75,063,149</b>	<b>60,445,484</b>	<b>18,877,974</b>	<b>154,386,607</b>
	<i>Provision for end of service compensation</i>	<i>Provision for contingent claims</i>	<i>Provision for contingent liabilities</i>	<i>Total</i>
<b>2006</b>	<b>2006 EGP</b>	<b>2006 EGP</b>	<b>2006 EGP</b>	<b>2006 EGP</b>
Balance as at the beginning of the year	43,757,160	45,713,060	31,615,074	121,085,294
Formed during the year	11,581,140	15,270,248	2,726,969	29,578,357
Provision evaluation difference	(43,697)	(3,132)	—	(46,829)
	<b>55,294,603</b>	<b>60,980,176</b>	<b>34,342,043</b>	<b>150,616,822</b>
Used during the year	(1,342,437)	(6,951,520)	—	(8,293,957)
Transferred to loans provision	—	—	(22,045,882)	(22,045,882)
Provision no longer required	—	—	—	—
<b>Balance at year end</b>	<b>53,952,166</b>	<b>54,028,656</b>	<b>12,296,161</b>	<b>120,276,983</b>

**19 Capital****a** *Authorised capital*

The authorised capital amounted to EGP750,000,000.

By virtue of the Extraordinary General Assembly resolution passed on 12 March 2006, the authorised capital has been increased to EGP1,750,000,000.

**b** *Issued and paid up capital*

The issued and paid up capital amounted to EGP500,000,004 represented in 5,952,381 fully paid shares at par value of EGP84 each. The foreign shareholders own 94.53% of the capital, fully paid in US dollars at the prevailing rate on date of subscription.

By virtue of the Extraordinary General Assembly resolution passed on 12 March 2006, the issued and paid up capital has been increased to EGP572,500,068 by issuing 6,815,477 shares. The foreign shareholders own 94.53% of the capital, fully paid in US dollars at the prevailing rates on the subscription dates accordingly the issued and paid up capital has become EGP1,072,500,072 represented in 12,767,858 fully paid shares at par value of EGP84 each.

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**20 Reserves**

As an HSBC Bank Egypt statutory requirement, 5% of the net profit for the year is transferred to the legal reserve. This transfer ceases when the balance of the legal reserve reaches 20% of the paid up capital.

**21 Contingent liabilities and commitments**

	2007 EGP	2006 EGP
Letters of guarantee	2,871,740,522	2,040,459,434
Letters of credit (import and export)	1,519,642,291	1,289,880,595
Acceptances	2,877,16,917	198,696,092
Forward contracts	268,840,607	56,913,715
Option forward	—	16,967,112
Other contingent liabilities	28,981,411	17,766,411
Margin deposits	(493,495,031)	(464,338,256)
Total	<u>4,483,426,717</u>	<u>3,156,345,103</u>

**22 Investments evaluation differences**

	2007 EGP	2006 EGP
Investments available for sale	45,000	77,000
Investments held to maturity	1,178,140	(1,217,310)
	<u>1,223,140</u>	<u>(1,140,310)</u>

**23 Reconciliation of effective tax rate**

	2007 EGP	2006 EGP
Net income before income tax	941,462,604	614,469,816
Income tax using the domestic corporate tax rate (20%)	188,292,521	122,893,963
Non-deductible expenses	142,390	121,739
Tax exemptions	(155,026,086)	(111,970,652)
Effect of provisions	8,321,846	(171,993)
Interest in suspense	(1,739,678)	1,725,299
Depreciation	(1,988,784)	(1,754,260)
Total difference in income tax	<u>(150,290,312)</u>	<u>(112,049,867)</u>
Actual income tax according to return tax	<u>38,002,209</u>	<u>10,844,096</u>
Effective tax rate	<u>4.04%</u>	<u>1.76%</u>

**Notes on the Accounts** (continued)**24 Deferred tax assets (liabilities)**

Deferred tax assets or liabilities are attributable to the following:

*Deferred tax*

	<b>2007</b>	
	<i>Assets</i>	<i>Liabilities</i>
	EGP	EGP
Fixed assets	—	(1,977,939)
Investments evaluation differences	—	(244,628)
Other provisions	4,228,532	—
Total deferred tax asset/liability	4,228,532	(2,222,567)
Net deferred tax assets	2,005,965	—

**25 Earning per share**

	<b>2007</b>	2006
	EGP	EGP
Net profit for the year	<b>905,466,360</b>	604,118,784
Employees' profit share for the year	<b>(90,546,636)</b>	(51,350,097)
Shareholder's profit share for the year (suggested to be distributed)	<b>814,919,724</b>	552,768,687
Weighted average of shares	<b>12,767,858</b>	11,063,989
Earning per share	<b>63.83</b>	49.96

**26 Capital commitments***New branches and renovations*

The remaining cost for completing a land and fitting out for the new Head Office and new branches amounted to EGP36,456,562

**27 Maturity of assets and liabilities**

	<i>Maturity within</i>	<i>Maturity after</i>
	<i>one year</i>	<i>one year</i>
	EGP	EGP
<b>a Assets</b>		
Due from banks	10,552,277,773	—
Treasury bills	2,947,065,547	—
Investments available for sale	—	20,341,088
Loans and advances	4,207,925,714	6,191,613,932
Investments held to maturity	329,934,718	887,130,228
Investments in subsidiaries	—	15,916,810
Debit balances and other assets	468,413,292	2,773,445
Total	<b>18,505,617,044</b>	<b>7,117,775,503</b>
<b>b Liabilities</b>		
Amounts due to banks	2,469,544,186	—
Customers' deposits	18,949,769,490	3,165,064,945
Credit balances and other liabilities	354,697,991	—
Total	<b>21,774,011,667</b>	<b>3,165,064,945</b>

## 28 Applied interest rates

The average yields for assets and liabilities are 7.50% and 4.03% respectively.

## 29 Tax position

A summary of HSBC Bank Egypt S.A.E. tax position is as follows:

### a Corporate tax

- Years from the inception of activities until 1988  
These years were inspected and disputes were settled in the Internal Committee.
- Years from 1989 until 1990  
These years were inspected and there is a dispute between the bank and the Tax Authority. The Court of Appeal issued its decision to reduce the tax base.  
The Tax Authority had submitted an appeal to the decision.
- Years from 1991 until 2003  
These years were inspected and disputed points were discussed in the Internal Committee then disputed points were transferred to the Appeal Committee, and the Appeal Committee issued its decision agreeing with the decision of the Internal Committee for the years 1991 — 2001. Conciliation was made with the Investment Tax Authority, then this conciliation was referred to a Second Internal Committee for years 2002 — 2003 which issued a decision with a 5-year exemption for the purpose of capital increase.
- Year 2004 was inspected and disputed items were transferred to the Appeal Committee. The Appeal Committee supported the bank's assessment to deduct 5% of the treasury bills income which the tax authority did not approve. The 5% deduction and tax was fully settled for the year 2004.
- Years 2005 and 2006, have not yet been inspected.

### b Salary tax

- Years from 1982 until 2003, these years were inspected and settled.
- Year 2004 was inspected and disputed items were transferred to the Internal Committee.
- Years 2005 and 2006, have not yet been inspected.

### c Stamp duty

- Years from 1982 until 2000  
These years were inspected and settled.
- Years from 2001 until 2006  
These years were inspected and the Internal Committees were cancelled for all branches and disputed items were transferred to the Appeal Committee.

## 30 Distribution of customers' loans and deposits

Customers' loans and customers' deposits are classified under various economic activity sectors as at 31 December 2007 as follows:

	<i>Agricultural sector</i>	<i>Industrial sector</i>	<i>Commercial sector</i>	<i>Service sector</i>	<i>Other sectors</i>	<i>Total</i>
	<b>EGP(000)</b>	<b>EGP(000)</b>	<b>EGP(000)</b>	<b>EGP(000)</b>	<b>EGP(000)</b>	<b>EGP(000)</b>
Loans and advances	<b>39,091</b>	<b>1,741,184</b>	<b>229,346</b>	<b>5,295,252</b>	<b>3,094,667</b>	<b>10,399,540</b>
Customers' deposits	<b>27,029</b>	<b>808,192</b>	<b>506,168</b>	<b>7,289,880</b>	<b>13,483,565</b>	<b>22,114,834</b>

## Notes on the Accounts (continued)

### 31 Significant currency positions

	2007 EGP(000)		2006 EGP(000)	
	<i>Surplus</i>	<i>Deficit</i>	<i>Surplus</i>	<i>Deficit</i>
EGP	—	27,771	—	26,389
USD	21,054	—	3,031	—
GBP	—	553	—	36
EUR	1,630	—	—	673

### 32 Related party transactions

In the ordinary course of business, the bank conducts transactions with certain shareholders and companies (HSBC Group) in which they have significant interest. Such transactions are conducted according to ordinary banking and commercial terms.

Nature of transaction	2007	2006
	EGP	EGP
<b>a Balance sheet</b>		
Due from banks	1,224,220,418	773,971,190
Investments in subsidiaries	15,916,810	15,916,810
Due to banks	803,919,483	180,509,832
Customers' deposits	20,109,035	46,185,583
<b>b Income statement</b>		
Cost of services rendered by the HSBC Group	63,657,268	32,634,268

On 17 September 2007 HSBC Bank Middle East Limited agreed with HSBC Bank Egypt to sell to HSBC Bank Egypt part of its loans portfolio amounting to US\$ 192,332,322 (EGP1,003,167,080). HSBC Bank Egypt purchased these loans based on nominal value with no recourse. According to the above mentioned agreement, interest will be split between both parties, based on the percentage of loans bought by HSBC Bank Egypt to total loan portfolio granted by HSBC Bank Middle East Limited. As of 31 December 2007, loan balance amounted to US\$ 181,914,422 (EGP1,003,167,080) that has been included under the caption of 'Loans and advances'. These loans will be subject to loans classification and provisioning rules as set out by the Central Bank of Egypt.

On 2 November 2007 HSBC Bank Middle East Limited agreed with HSBC Bank Egypt to sell to HSBC Bank Egypt its share of the syndicated loan managed by HSBC London which was granted to Dubai International Capital Company (limited liability company) for US\$ 50,000,000 (EGP275,725,000) that has been included under the caption of 'Loans and advances' will be subject to loans classification and provisioning rules as set out by the Central Bank of Egypt. As of 31 December 2007, loan balance amounted to US\$ 45,921,722 (EGP253,235,336).

HSBC BANK EGYPT S.A.E.

**33 Trust Activities**

Assets held on accounts or on behalf of other parties	<i>Total value</i>	<i>Related liabilities</i>
	<b>EGP(000)</b>	EGP(000)
Shares	<b>54,233,764</b>	231,589
Treasury bills and Central Bank of Egypt certificates of deposits	<b>7,456,575</b>	—
Bonds and investment certificates	<b>973,508</b>	—
Total	<b>62,663,847</b>	231,589

**34 Comparative figures**

Comparative figures have been reclassified to conform with the current year's classification. Profit for the year ended 31 December 2006 was distributed according to the resolution passed during the Annual General Meeting held on 27 March 2007.

## HSBC Bank Egypt Head Office and Branches

### *Head Office and Cairo Branch*

3 Aboul Feda Street, Zamalek,  
Cairo, Egypt.  
Tel: (202) 2735 9186 / 2735 9286  
Fax: (202) 2736 4010  
BIC EBBK EG CX

### *Gezira Sporting Club Branch*

Gezira Sporting Club, Sarayah El  
Gezira Street, Zamalek, Cairo,  
Egypt.  
Tel: (202) 2736 0863  
Fax: (202) 2736 0879

### *Mohandessin Branch*

8 Geziret El Arab Street,  
Mohandessin, Giza, Egypt.  
Tel: (202) 3337 0481  
Fax: (202) 3337 0813

### *Lebanon Street Branch*

25 Lebanon Street, Mohandessin,  
Giza, Egypt.  
Tel: (202) 3346 7090  
Fax: (202) 3346 7092

### *Gameet El Dewal Branch*

54 Gameet El Dewal Street,  
Mohandessin, Giza, Egypt.  
Tel: (202) 33748 6831  
Fax: (202) 33748 6878

### *Sphinx Branch*

1 Ahmed Orabi Street, Sphinx  
Square, Mohandessin, Giza, Egypt.  
Tel: (202) 33303 5725  
Fax: (202) 33303 5817

### *Dokki Branch*

80 Mosadak Street, Dokki, Giza, Egypt.  
Tel: (202) 3762 0589  
Fax: (202) 3762 0592

### *Messaha Branch*

10 A Hussein Wassef Street,  
Dokki, Giza, Egypt.  
Tel: (202) 33748 6537  
Fax: (202) 33748 6574

### *Down Town Branch*

13 Kasr El Nil Street, Down Town,  
Cairo, Egypt.  
Tel: (202) 2578 8324  
Fax: (202) 2578 8455

### *Maspiro Branch*

Radio & Television Building  
Corniche El Nil, Cairo, Egypt.  
Tel: (202) 2576 9415  
Fax : (202) 2576 9659

### *Nile City Branch*

Nile City Building, Corniche El  
Nil, Ramlet Beaulac North Tower,  
Retail No. 13 - Cairo, Egypt.  
Tel: (202) 2461 9701  
Fax: (202) 2461 9703

### *Sixth of October City Branch*

Block No 43A, Central Industrial  
Area, Bank's Area, Sixth of  
October City, Egypt.  
Tel: (202) 3832 7940  
Fax: (202) 3832 7941

### *Dandy Mall Branch*

28th Kilometre, Cairo/Alexandria  
Desert Road, Egypt.  
Tel: (202) 3539 0173  
Fax: (202) 3539 0174

### *Hyper One Market Branch*

Hyper One Market, El Shiekh  
Zayed City, Entrance 1.  
Tel: (202) 3850 9901  
Fax: (202) 3850 9903

### *Azhar Branch*

160 Gohar El Kaed Street, Cairo,  
Egypt.  
Tel: (202) 2589 0865  
Fax: (202) 2589 0857

### *Mokattam Branch*

3 El Nafoura Square, Mokattam,  
Cairo, Egypt.  
Tel: (202) 2667 9891  
Fax: (202) 2667 9894

### *Heliopolis Branch*

I Roxy Square, Heliopolis, Cairo,  
Egypt.  
Tel: (202) 2451 1480  
Fax: (202) 2258 3152

### *El Shams Club Branch*

15 Abdel Hamid Badawy Street,  
Heliopolis, Cairo, Egypt.  
Tel: (202) 2620 4988  
Fax: (202) 2620 4982

### *El Orouba Branch*

90 Beirut Street, Heliopolis, Cairo,  
Egypt.  
Tel: (202) 2415 3371  
Fax: (202) 2415 3321

### *Masaken Sheraton Branch*

3 Khalid Ibn El Walid Street,  
Masaken Sheraton Heliopolis,  
Cairo, Egypt.  
Tel: (202) 22666 426  
Fax: (202) 2480 2358

### *El Obour Buildings Branch*

13 El Obour Buildings, Salah  
Salem Street, Cairo, Egypt.  
Tel: (202) 2403 1379  
Fax: (202) 2403 1408

### *Nasr City Branch*

29 El Batrawy Street, Nasr City,  
Cairo, Egypt.  
Tel: (202) 2401 7147  
Fax: (202) 2401 3562

### *Abou Dawoud El Zahry Branch*

62 Abou Dawoud El Zahry Street,  
Nasr City, Cairo, Egypt.  
Tel: (202) 2672 0522  
Fax: (202) 2672 0526

### *El Thawra Branch*

109 El Thawra Street, Heliopolis,  
Cairo, Egypt.  
Tel: (202) 2414 2157  
Fax: (202) 2417 4428

### *City Stars Branch*

Tower A2 City Stars project, Cairo,  
Egypt.  
Tel: (202) 2480 2356  
Fax: (202) 2480 2357

### *El Sherouk Branch*

El Sherouk Academy, El Sherouk  
Main Road,  
El Sherouk City, Cairo, Egypt.  
Tel: (202) 2688 0210  
Fax: (202) 2688 0220

### *El Tagamoo Branch*

106 Town Centre, off 90 Street,  
Beside GASCO (NATA), Tagamoo 5,  
Cairo, Egypt.  
Tel: (202) 2920 1716  
Fax: (202) 2920 0123

### *10th of Ramadan Branch*

Gawhara Village, 10th of Ramadan  
City, Gawhara Mall, Egypt.  
Tel : (2015) 386226  
Fax : (2015) 386310

### *Maadi Branch*

IB Road 256, New Maadi, Cairo,  
Egypt.  
Tel: (202) 2519 5459  
Fax: (202) 2519 5458

### *Maadi Sporting Club Branch*

Maadi sporting club, Demeshq St.  
- Maadi, Cairo, Egypt.  
Tel: (202) 2380 4729  
Fax: (202) 2380 4757

### *New Maadi Branch*

10/2 El Nasr Road, New Maadi,  
Cairo, Egypt.  
Tel: (202) 2754 4816  
Fax: (202) 2754 5521

### *Alexandria Branch*

47 Sultan Hussein Street,  
Alexandria, Egypt.  
Tel: (203) 487 2949  
Fax: (203) 487 2925

HSBC BANK EGYPT S.A.E.

*Semouha Branch*

Plot 74A Mohamed Ali Road,  
Fawzy Muaz Street.  
Semouha, Sidy Gaber, Alexandria,  
Egypt.  
Tel: (203) 421 0004  
Fax: (203) 421 0008

*Saraya Branch*

38 El Shaheed Abbas El Aasar  
Street, Sidi Beshr, Alexandria,  
Egypt.  
Tel: (203) 358 2202  
Fax: (203) 358 2339

*Sidi Gaber Branch*

103 Tanzeem Sidi Gaber Street,  
Alexandria, Egypt.  
Tel: (203) 523 2057  
Fax: (203) 523 3915

*Yacht Club Branch*

Kalaet Kaytbay Street, El  
Anfoushy, Alexandria, Egypt.  
Tel: (203) 483 0538  
Fax: (203) 483 0537

*Mirage Mall Branch*

Cairo Alexandria Desert Road  
entrance- International Garden,  
Egypt.  
Tel: (203) 381 5232 - 3810255  
Fax: (203) 380 2575

*Borg El Arab Branch*

Services Area, Fifth District, facing  
Police Station,  
Borg El Arab, Alexandria, Egypt.  
Tel: (203) 459 5470  
Fax: (203) 459 5473

*Mansoura Branch*

182 Tanzeem El Geish Street and  
El Seka El Hadid El Fransaway  
Street, Mansoura, Egypt.  
Tel: (2050) 230 8124  
Fax: (2050) 230 8122

*Sharm El Sheikh Branch*

Shamandoura Mall, Ne'ema Bay,  
Sharm El Sheikh, Egypt.  
Tel: (2069) 3600 615  
Fax: (2069) 3600 613

*Tirana Branch*

Ne ema Centre, Ne ema Bay,  
Sharm El Sheikh, Egypt.  
Tel: (2069) 360 1182  
Fax: (2069) 360 0613

*Sharm Azur Branch*

Peace Road, Criss Resort, Building  
No 8, Sharm El Sheikh, Egypt.  
Tel: (2069) 360 3790  
Fax: (2069) 360 3793

*Nabq Branch*

Oriental Resort Main Gate, Nabq  
Bay, Sharm El Sheikh, Egypt.  
Tel: (2069) 371 0072  
Fax: (2069) 371 0390

*Hurghada Branch*

Kotta's West Side Mall, Villages  
Road, Hurghada, Egypt.  
Tel: (2065) 3440 741  
Fax: (2065) 3440 742

*El Gouna Branch*

Abu Tig Marina, El Gouna,  
Hurghada, Egypt.  
Tel : (2065)354 9702  
Fax: (2065) 358 0570

*Marmara Branch*

Village Road, Club Marmara,  
Hurghada, Egypt.  
Tel : (2065) 346 5231  
Fax : (2065) 346 5232

*Makadi Branch*

Madinet Makadi, K 32 Safaga  
Road, Hurghada, Egypt.  
Tel : (2065) 359 0551  
Fax: (2065) 359 0552

*Hurghada Marina Branch*

Sakkala Square, New Marina,  
Hurghada, Egypt.  
Tel: (2065) 345 0113  
Fax: (2065) 345 0115

*Sheraton Road Branch*

Sheraton Road, Hurghada, Egypt.  
Tel: (2065) 345 0105  
Fax: (2065) 345 0110

*Luxor Branch*

Iberotel Hotel Luxor, Qenna,  
Egypt.  
Tel: (2095) 235 7993  
Fax:(2095) 235 7786

HSBC BANK EGYPT S.A.E.

## The HSBC Group: International Network (as at 3 March 2008)

Services are provided by around 10,000 offices in 83 countries and territories:

<b>Europe</b>	<i>Offices</i>		<i>Offices</i>
Armenia	8	Luxembourg	4
Belgium	3	Malta	48
Channel Islands	35	Monaco	2
Cyprus	2	Netherlands	1
Czech Republic	10	Poland	17
France	833	Russia	5
Germany	13	Slovakia	4
Greece	27	Spain	2
Hungary	11	Sweden	3
Ireland	12	Switzerland	18
Isle of Man	8	Turkey	242
Italy	4	United Kingdom	1,678
<b>Asia-Pacific</b>			
Australia	35	Macau Special Administrative Region	6
Bangladesh	9	Malaysia	48
Brunei Darussalam	12	Maldives	1
China	103	New Zealand	10
Cook Islands	1	Pakistan	9
Hong Kong Special Administrative Region	345	Philippines	28
India	70	Singapore	26
Indonesia	14	Sri Lanka	15
Japan	7	Taiwan	19
Kazakhstan	1	Thailand	1
Korea, Republic of	15	Vietnam	4
<b>Americas</b>			
Argentina	248	El Salvador	68
Bahamas	8	Honduras	84
Bermuda	16	Mexico	1,625
Brazil	1,722	Nicaragua	3
British Virgin Islands	3	Panama	83
Canada	313	Paraguay	6
Cayman Islands	15	Peru	11
Chile	2	United States of America	1,651
Colombia	35	Uruguay	5
Costa Rica	40	Venezuela	1
<b>Middle East and Africa</b>			
Algeria	1	Libya	2
Bahrain	6	Mauritius	12
Egypt	54	Oman	6
Iran	1	Palestinian Autonomous Area	1
Iraq	13	Qatar	6
Israel	4	Saudi Arabia	79
Jordan	3	South Africa	5
Kuwait	1	United Arab Emirates	18
Lebanon	6		

*Associated companies are included in the network of offices.*

HSBC BANK EGYPT S.A.E.

## The HSBC Group

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HSBC Bank Egypt S.A.E.'s ultimate parent company is HSBC Holdings plc. Headquartered in London, HSBC Holdings plc is one of the largest banking and financial services organisations in the world. The HSBC Group's international network comprises around 10,000 offices in 83 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa.

With listings on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by around 200,000 shareholders in over 100 countries and territories. The shares are traded on the New York Stock Exchange in the form of American Depositary Receipts.

Through an international network linked by advanced technology, HSBC provides a comprehensive range of financial services: Personal Financial Services (including consumer finance); Commercial Banking; Global Banking and Markets; and Private Banking.

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