Annual Report and Accounts 2010

Board of Directors

Abdel Salam El Anwar, *Chairman and CEO*
Simon Cooper, *Deputy Chairman*
Mounir El Zahid
Halla Sakr
Robert Gray
Mahmoud Abdallah
Ibrahim Fawzy
Samir Assaf

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HSBC Bank Egypt S.A.E.
306, Corniche El Nil, Maadi, Cairo, Egypt
Telephone: (202) 2529 8000 Facsimile : (202) 2529 8080
Web: www.hsbc.com.eg

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 2010.

Economic review and future outlook

Egypt's economic performance in 2010 proved to be resilient despite the impact of the global slowdown. Real GDP growth reached 5.2% in 2009/2010, compared to 4.7% in 2008/2009. Egypt's resistance to external shocks was partly due to the diversity of sectoral sources of growth, in addition to the timely intervention of countercyclical fiscal packages during 2008/2009 and 2009/2010. At the same time, monetary policy succeeded in bringing down domestic inflation rates without triggering negative effects on domestic economic activity. All of the afore-mentioned factors, coupled with strong domestic demand, helped Egypt combat the drawbacks of the global crisis.

Inflation subsided during 2010 recording 10.2% in December 2010 compared to 13.5% in December 2009 whilst the Central Bank of Egypt kept its overnight deposit and lending rates unchanged for the tenth time in a row. The overnight deposit and lending rates currently stand at 8.25% and 9.75% respectively. Balance of payments statistics for the first quarter of 2010/2011 show a slight surplus of US$14.7m in the overall balance compared to a surplus of US$249.7m in fourth quarter of 2009/2010, indicating an inflow of almost US$1 bn in the financial count counteracted by an outflow in both the current and capital accounts.

Egypt jumped 5 places in reforming business regulations – from 99 to 94 in 2010 according to the World Bank and IFC report. The improvement in Egypt's ranking was attributed to reforms making it easier to start a business mainly via the reduction of start-up costs and an increase in the efficiency of cross-border trade via the introduction of an electronic system for submitting export and import documents. Egypt ranked eighth out of 18 countries overall in the Middle East and North Africa region. Starting a business and trading across borders mark the highest improvement areas, while registering property remains a main weakness.

On 01 February 2011, Standard & Poor's downgraded its rating on Egypt following a week of protests which crippled the economy and ultimately led to the ouster of the president. The country's long-term foreign currency sovereign rating was lowered to BB from BB+ while the long term local currency rating was lowered to BB+ from BBB-.

It is still too early to assess the impact of these recent events on the Egyptian economy. The medium-term consequences of political change will depend on the constitutional restructures and early rebounds for relevant implementations, but for the short term it looks likely that economic performance will be affected. The weeks of political unrest have led to lost output which will not be recovered quickly given the extent strikes and civil protests in different sectors of the economy. This will put further pressure on the fiscal budget whereby growth in 2010/2011 is now likely to underperform earlier targets of 5.8% - 6% by at least 2 – 3 percentage points.

HSBC Bank Egypt at a Glance

Results for the Year Ending 31 December 2010

Despite the challenging environment, HSBC Bank Egypt posted satisfactory results in 2010 with total assets up 25% to reach EGP45bn at year-end. Customer deposits and loan portfolio increased by 26% and 21% respectively. Profits before tax decreased by 11% and net profit by 16%, to record EGP990m for the year ending December 2010 mainly attributable to Loan impairment charges.

The Board of Directors proposes a distribution to shareholders, by way of cash dividends, the sum of EGP667.5m, representing a coupon of EGP37.17 per share.

The Board of Directors also proposes a distribution of EGP95.4m (10% of net profits for 2010) to Bank staff as profit sharing. The balance of the remaining profits, amounting to EGP227.3m, will be transferred to support the Bank's reserves; distributed as EGP36.6m for General Banking Risks Reserve, EGP36.9m for Statutory Reserve and EGP153.8m for General Reserve.

Business and operational activities

Corporate and Investment Banking

HSBC Bank Egypt maintained its position as one of the market leaders in Corporate and Investment Banking and was recognised by the London based Emeafinance in their third annual African Banking Awards 2010 as Best Foreign Bank, Best Foreign Investment Bank and Best Brokerage House in Egypt.

2010 also witnessed restructuring of the corporate business across the whole Bank and to maintain its market share against competition, adopted a re-pricing strategy across all corporate lines of business. In addition, and to generate higher growth rates, the Bank established a dedicated Corporate Banking division with primary focus on the Middle Markets.

During 2010, Corporate Banking focused on high profile transactions, notably for the Egyptian Refining Company whereby the Bank acted as Pathfinder Bank, Mandated Lead Arranger and Swap Provider for US$2.3bn project finance in support of a refinery upgrade. The Bank also acted as Mandated Lead Arranger for Egyptian General Petroleum Corporation's US$2bn Syndicated Hydrocarbon Pre-export facility and arranged a 5 year facility for up to US$350m in favour of PICO, the largest private sector exploration and production company in Egypt, which is the largest pre-production reserve based lending facility to have been entered into by an independent Egyptian upstream company. The transaction reinforces HSBC Bank Egypt's position as one of the top financial institutions providing financing solutions for the upstream oil and gas industry in Egypt.

The Bank further enhanced its position among the SME segment, by launching its new proposition "Aamal", and the first dedicated web portal in Egypt "YallaBusiness" reinforcing the Bank's commitment to this segment.

Internet Business Banking continued its rapid growth reaching 3,800 users by year end.

Focusing on a growth strategy, HSBC Bank Egypt completed the Executive Training Program adding 40 employees to the corporate divisions in Cairo and Alexandria.

Despite challenging economic conditions, the Investment Banking division succeeded to engage in a number of landmark transactions including the Government of Egypt Sovereign Bond issue for US$1.5bn, acting as the Joint Lead Manager for the transaction. The Bank also acted as the Joint Book runner and the receiving Bank for Palm Hills for Development Rights issue and as the joint financial advisor and Lead Manager on the issuance of US$900m dual tranche bond for the New Urban Communities Authority.

Global Transaction Banking witnessed an active and successful 2010 whereby several new initiatives were introduced and awards achieved. Trade & Supply Chain introduced the "Win Trade" campaign attracting potential business with an expected volume of more than US$300m per annum. HSBC Bank Egypt Custody and Clearing also launched a new HSS product (CTLA–Receiving Bank) resulting in two successful transactions worth more than US$2.65m increasing our market share from 12 to 18% by year end. The Bank was awarded Best Domestic Cash Management Provider by Euromoney Customer Poll, and was rated No.1 Sub Custodian by Global Custodian and 2nd Best Trade Bank in Egypt for 2010 by Global Trade Review.

Personal Financial Services PFS

In spite of the ongoing challenges facing the global economy, HSBC Bank Egypt Personal Financial Services was able to maintain growth levels, reaching 100 branches and units by end of 2010.

With a strategic focus on High Net Worth customers, HSBC Bank Egypt achieved a 50% increase in the Premier customer base as compared to 2009. This was largely attributable to the introduction of the Premier salary based proposition through which potential wealth Premier customers enjoyed Premier benefits, in addition to newly introduced Platinum Debit Card.

Status was upgraded and rebranded to Advance with balance and income based schemes - a proposition designed as a feeder for the Premier segment, offering a wide range of benefits that have driven acquisition growth since its launch.

To stimulate liability growth, and remain competitive in aggressive market conditions, HSBC Bank Egypt launched several Saving Certificates in both USD and EGP. On the asset side, customer advances were enhanced through the introduction of new offerings for "Professionals Finance Scheme", and an enhanced scheme for home finance introduced after the demise of Mortgage loans, which entailed lengthy and complex procedures.

Customer Portfolio & Relationship Management were areas of focus to drive higher penetration of Credit & Debit cards and Internet Banking for both existing and New-to-Bank customers; this was reflected in improved penetration and cross sell levels by the end of 2010. The migration of all internet registered customers to e-statements, was another step towards better banking that was marked this year.

The Bank increased its competitive advantage through introducing HSBC Bank Egypt Cards with improved Credit Shield insurance supporting cardholders at all times. Additionally, the Bank intensified its customer communication through on-going communications including SMS services, newsletters, statement messages and others.

2010 witnessed a flourishing year for HSBC Bank Egypt PFS area, despite global and local economic and political conditions.

Treasury

Leveraging HSBC's extensive branch network, strong corporate banking presence, and access to top-of-the-line systems and products worldwide, Global Markets Egypt is one of the lead providers of treasury services in the country and a major player in the spot and forward onshore FX markets, being the counterparty of choice for most of the multinational companies operating locally as well as a large portion of the top tier local corporates. HSBC Bank Egypt Treasury, in its role as a primary dealer of government securities, is also one of the major local banks providing access to foreign institutions into the local debt and equity markets where Treasury provides very tight and competitive pricing to accommodate client requirements. The total bid and acceptance ratios in the local debt market issues was more than double the required amounts relative to the Bank's equity base, evidence of our leading role in this field. We also provide our clients with access to our world class research, regional or otherwise.

Report of the Directors (continued)

As the market matures, and local corporates grow larger and more sophisticated, their requirements as regards financial risk management have grown more complex. HSBC has conducted several seminars to train our client's on the more advanced notions of risk management and hedging. Over the past year, HSBC Bank Egypt has succeeded in becoming the FX and Interest Rate Risk management counterparty of choice for many of the top tier local corporates in the market. Increased client focus, improved understanding of our clients' requirements, as well as enhanced on-the-ground sales and structuring capabilities have seen HSBC cement its position as a serious provider of structured risk management solutions with the ability to compete and win deals against "best in class", both on and off-shore.

The Egyptian pound ended the year slightly weaker around 5.80 against the USD compared to 5.50 at the beginning of the year. Egyptian interest rates on Treasury Bills were slightly lower at 10 and 10.5% for the 6 month and 1 year bills against 10.5 and 11.5% respectively at the beginning of the year. This was in part due to large inflows of foreign funds into the local debt market.

Operational Developments

In line with a global focus on overcoming increased risk posed by information management, HSBC Bank Egypt has launched a plan to identify and mitigate Information Risk (IR) throughout the business, the main component of which is to oversee the establishment of comprehensive tools within each line of business to provide the necessary means to effectively and comprehensively manage and combat IR.

In reaffirming its commitment to manage financial plans, expenditures and Asset Management, the Planning and Finance Department has extended leveraging the shared services organization to the Security and Fraud Risk and Corporate Real Estate departments. Additionally, the department has centralised all third party agreements resulting in a clear cost allocation methodology and achieving a sustainable cost saving amounting to USD 2.47m in 2010.

Continuing with HSBC Bank Egypt strategy to achieve operational excellence, cost efficiency and to improve customer experience, several re-engineering projects have been initiated to automate critical workflows between branches and back-office operations. Additionally, the Bank Operations is working to align its transformation initiatives with a Group focus and Group best practices to leverage on the concept of Global connectivity.

In 2010, the Information Technology Department successfully completed the year with no serious incidents or any major downtime on critical systems. Several key projects were implemented, including SMS banking, Debit Cards and straight through processing for payments. Ever-greening of the Bank's infrastructure is an ongoing process, and necessary replacements of obsolete systems were on track in 2010. Communications linking branches was upgraded and made more resilient. The Bank's Disaster Recovery infrastructure was brought up to date. IT established a dedicated Quality department to monitor the quality of service provided by IT. A dedicated Systems Delivery Function was established to improve the focus on IT projects. The IT help desk addressed around 20,000 trouble tickets in 2010. SSO recoveries for IT were within 1% of actual expenditure and IT completed the year at 93% of approved budget. The first IT Super Stack in the Middle East was established by Egypt, ensuring enforcement of Group standards.

Housing for the Poor

In 2009 HSBC Bank Egypt extended valuable support to the Housing for the Poor initiative and to the Upgrading of Cairo's Informal Settlements initiatives. The 5-year engagement protocol signed between Cairo Governorate and HSBC Bank Egypt for the Upgrading of Informal Settlements project on 02 February 2009, staged the project into two phases.

The first phase addressed Dar El Salam informal area located to the rear of HSBC Bank Egypt New Head Office and featured the renovation of 4 schools enrolling 10,650 students; the rehabilitation and equipping of a medical centre (1,770 m2) including a maternity unit, 12 different specialized clinics, X-ray units, laboratories and physicians' dormitories. In addition, construction commenced on a sports centre (350 m2) and 4 open playgrounds (6,500 m2). HSBC Bank Egypt contributed to other local social initiatives with the Civil Society Organizations by equipping a recently constructed medical centre; assisting the aged and handicapped population to obtain national identity cards; partially financing the construction of a public toilet facility; and a medical scanning centre

Corporate Sustainability

In HSBC Bank Egypt we believe that education is one of the fundamental building blocks for the development of communities. For that purpose 2010 witnessed more focus on major sustainable educational projects in Egypt, to which the Bank directed almost three quarters of its community budget. The Bank honoured its commitment effecting its second installment for sponsoring a 160 seat lecture theatre at Nile University, its third installment for the endowed scholarship for talented students from Egypt's public schools to The American University in Cairo (AUC) Public School Scholarship Fund Programme, its second installment to Ahmed Bahaa El Din Cultural Centre in El Douer and its third installment to the 10 25-desk classrooms of the Grand Egyptian Museum. In addition, HBEG donated audiovisual equipment for the science laboratory to El Sherouk Academy, a leading institution, offering quality academic programmes, and extended its contribution to the Faculty of Law – Alexandria University in support of tuition fees for delinquent students. HBEG also supported the Breast Cancer Foundation of Egypt national awareness campaign and donated money for the research on Stem Cell Therapy for diabetes patients – Urology & Nephrology Centre, Mansoura University.

The Bank has identified a role to play in helping children with special needs overcome their disadvantage by developing their confidence and skills. With this belief, HBEG supplied The Egyptian Society for developing Skills of Children with Special Needs with a number of computers supporting their educational expansion initiative. In addition, the Bank supported The Right to Live Association by establishing a small classroom for youths and adults with mental disabilities who are capable of joining the educational program specially tailored by the Ministry of Education. Further support was given to 3 students enrolled by the Association, paying their annual tuition fees for the academic year 2009 – 2010.

Drawing on their own skills and experience, 43 HBEG volunteers were involved in JA More than Money, HSBC's global financial education programme teaching students enrolled in public schools and universities, how to earn, spend, share and save money and how to develop their potential careers.

Believing that the environment follows education as a fundamental building block for development of communities, HBEG contributed to the Environmental Activities Centre at a Family Park Project and supported Kafr Shukr Development Association's aggressive plans for environmental initiatives in an attempt to develop its local community and surrounding villages.

Demonstrating HSBC commitment to the environment and celebrating the World Environment Day, 31 HBEG Volunteers combined efforts with students from Abdel Samad Village Preparatory School in planting 76 trees around the village and distributed ECO bags to clients in an attempt to spread awareness encouraging them to reduce the usage of plastic and paper bags.

As a key local requirement and to satisfy national causes, HBEG equipped the Phoniatric Unit in Kasr El Einy Hospital, considered one of the main centres providing language, speech, and voice and swallowing rehabilitation for patients from all over Egypt, and provided the Pediatric Surgery Unit in Zagazig University Hospitals with a ventilator for the newly born. The hospital is considered to be one of the biggest hospitals in the Delta region serving 6 million patients from various governorates. The Bank also supported the daily open heart surgeries for children at Mansoura Peadiatric University Hospitals and donated money to provide for chemical and medical equipment for the Urology & Nephrology Centre, Mansoura University where clinical and academic activities have been remarkably growing since the Centre's official inauguration in 1983 witnessing a record in kidney transplantation.

Continuing with its community commitments, 23 HBEG volunteers distributed 1,050 20 kg boxes of Ramadan provisions on 3 consecutive days to some of the most needy villages in Egypt, another 20 distributed clothes to 1,032 orphans on Orphan's Day and Eid celebration including those with special needs and cancer patients. The exercise helped to put a smile on faces of the children reflecting the successful combined efforts with one of Egypt's most committed NGOs namely Dar El Orman Association.

Staff Training and Development

HSBC Bank Egypt sustained its commitment towards attracting a high caliber workforce and is today viewed as a leading financial services organization in the Egyptian Market.

The increase in numbers of staff in 2010 to 2,397 (from 2,118 in 2009) to cater for aggressive growth; necessitated providing extensive focus on training and developing staff members; in order to sustain our identity and ensure maintenance of the Bank's high standards of services extended to our customers, thus preserving our market image as an employer of choice.

In that respect, HSBC Bank Egypt staff members were provided with specially tailored programs in the form of classroom training, on-the-job training, front line accreditation and off-site courses.

Our local Learning and Development Department delivered and sponsored a total of 11,040 trainee days in 2010. In house courses were attended by 3,731 staff members and 224 staff members attended on-the-job training conducted by HSBC Bank Egypt Learning & Development Department.

Additionally, the Bank supported 14 staff members in acquiring their diplomas and certificates, 463 staff members in attending external courses held by the most reputable training institutions in Egypt, while 40 staff members have attended overseas courses in London, Abu Dhabi, Dubai, Hong Kong, Luxembourg, USA, India and Bahrain.

Board of Directors

In May 2010, Samir Assaf, Head of Global Markets, joined the Board of Directors

- In May 2010, Richard W L Groves retired from the Board of Directors
- In September 2010, Alexander C Hungate retired from the Board of Directors

Auditors' Report to the Shareholders

Report on the Financial Statements

We have audited the accompanying unconsolidated financial statements of HSBC Bank Egypt S.A.E which compromises the unconsolidated balance sheet as at 31 December 2010 and the unconsolidated statements of income, changes in equity and cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

These unconsolidated financial statements are the responsibility of Bank's management. Management is responsible for the preparation and fair presentation of these unconsolidated financial statements in accordance with Central Bank of Egypt's rules pertaining to the preparation and presentation of the financial statements and measurement and recognition basis approved by its Board of Directors on 16 December 2008 and in light of the prevailing Egyptian laws, management responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of unconsolidated financial statements that are free from material misstatement, whether due to fraud or error; management responsibility also includes selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these unconsolidated financial statements based on our audit. We conducted our audit in accordance with the Egyptian Standards on Auditing and in light of the prevailing Egyptian laws. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether or not the unconsolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the unconsolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the unconsolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the unconsolidated financial statements.

Opinion

In our opinion, the unconsolidated financial statements referred to above present fairly, in all material respects, the unconsolidated financial position of HSBC Bank Egypt S.A.E as of 31 December 2010, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with Central Bank of Egypt's rules, pertaining to the preparation and presentation of the financial statements and measurement and recognition basis approved by its Boards of Directors on 16 December 2008 and the Egyptian laws and regulations relating to the preparation of these unconsolidated financial statements

Explanatory paragraph

Without qualifying our opinion, we draw attention to Note (39) to the financial statements which describe the fact that no reasonable and reliable information is available to management as to enable them to disclose the impact of subsequent events on the values of some elements of the assets and liabilities and results of its operation in the subsequent financial periods, as those values and results could change substantially in subsequent periods should reasonable and relaible indicators and information are available to management as to enable them to identify and measure the extent and magnitude of these subsequent events on the values of those assets and liabilities elements.

Report on Legal and Other Regulatory Requirements

According to the information and explanations given to us during the financial year ended 31 December 2010 no contravention of the Central Bank, Banking and Monetary Institution law No.88 of 2003 and articles of incorporation were noted.

The Bank maintains proper books of account, which include all that is required by law and by the statutes of the Bank; the unconsolidated financial statements are in agreement thereto.

The financial information included in the Board of Directors' report, is in agreement with the books of the Bank insofar as such information is recorded therein.

KPMG Hazem Hassan	**Ernst and Young**	8 February 2011
Hassan Basyoni	Nabil Istanbouli	
Cairo	Cairo	

Balance Sheet as at 31 December 2010

	Notes	2010 EGP(000)	2009 EGP (000) Restated
Assets			
Cash and balances with the CBE	(15)	**4,334,672**	3,930,794
Due from banks	(16)	**10,165,033**	6,796,902
Treasury bills	(17)	**6,985,999**	6,985,201
Loans and advances	(18)	**16,902,490**	13,981,028
Financial derivatives	(19)	**18,843**	17,647
Financial investments:			
Available for sale	(20)	**5,591,076**	3,484,638
Held-to-maturity	(20)	**55,000**	30,000
Investments in subsidiaries	(21)	**35,517**	35,517
Intangible assets	(22)	**2,385**	1,175
Other assets	(23)	**402,534**	251,499
Deferred tax assets	(30)	**23,449**	18,552
Investment property	(25)	**127,661**	41,009
Fixed assets	(24)	**467,659**	540,760
Total assets		**45,112,318**	36,114,722
Liabilities and Shareholders' equity			
Liabilities			
Due to banks	(26)	**908,040**	449,488
Customers' deposits	(27)	**39,754,474**	31,551,059
Financial derivatives	(19)	**18,102**	18,504
Other liabilities	(28)	**436,731**	311,900
Other provisions	(29)	**77,961**	72,040
Income tax		**160,735**	108,646
End of service compensation benefits	(31)	**149,641**	121,867
Total liabilities		**41,505,684**	32,633,504
Shareholders' equity			
Paid Up Capital	(32)	**1,508,500**	1,508,500
Additional Paid Up Capital	(32)	**2,078**	—
Reserves	(33)	**1,142,469**	796,259
Retained earnings	(33)	**953,587**	1,176,459
Total shareholders' equity		**3,606,634**	3,481,218
Total liabilities and shareholders' equity		**45,112,318**	36,114,722

The accompanying notes from (1) to (40) form an integral part of these financial statements and are to be read therewith.

Auditors' Report included.

Abdel Salam El Anwar, *Chairman and CEO*

Income Statement for the Financial Year Ended 31 December 2010

	Notes	**2010 EGP(000)**	2009 EGP(000) Restated
Income			
Interest from loan and similar income	*(6)*	**2,578,478**	2,338,638
Interest on deposits and similar expenses	*(6)*	**(1,224,156)**	(1,093,185)
Net interest income		**1,354,322**	1,245,453
Fees and commissions income	*(7)*	**480,346**	360,323
Fees and commissions expenses	*(7)*	**(29,616)**	(22,000)
Net fees and commission Income		**450,730**	338,323
Dividends income	*(8)*	**25,696**	23,571
Net trading income	*(9)*	**306,364**	256,264
Gain from sale of financial investments		**–**	11,589
Impairment (loss)	*(12)*	**(263,854)**	(43,298)
Administrative expenses	*(10)*	**(696,373)**	(540,844)
Other operating income	*(11)*	**54,978**	85,075
Profit before tax		**1,231,863**	1,376,133
Income tax expenses	*(13)*	**(241,697)**	(197,911)
Net profit for the year		**990,166**	1,178,222
Earnings per share			
Basic/EGP	*(14)*	**47.79**	58.96

The accompanying notes from (1) to (40) form an integral part of these financial statements and are to be read therewith.

Changes in Shareholders' Equity Statement for the Financial Year Ended 31 December 2010

	Note	*Paid up Capital*	*Additional Paid in Capital*	*Reserve*	*Retained Earning*	*Total*
		EGP(000)	EGP(000)	EGP(000)	EGP(000)	EGP(000)
Balance as at 31 December 2008 as previously issued		1,508,500	—	564,584	1,163,899	3,236,983
Net effect of investment reclassification		—	—	(25,230)	—	(25,230)
Special reserve (after taxes)		—	—	63,466	—	63,466
Balance as at 31 December 2008 after reclass		**1,508,500**	—	**602,820**	**1,163,899**	**3,275,219**
Dividends paid for year 2008		—	—	—	(932,391)	(932,391)
Transferred to legal reserves		—	—	58,195	(58,195)	—
Transferred to general reserves		—	—	173,313	(173,313)	—
Net change in AFS investment		—	—	(39,832)	—	(39,832)
Net income for year ended 31 December 2009		—	—	—	1,178,222	1,178,222
Transferred to general banking risk reserves		—	—	1,763	(1,763)	—
Balance as at 31 December 2009 (Restated)		**1,508,500**	**–**	**796,259**	**1,176,459**	**3,481,218**

Changes in Shareholders' Equity Statement for the Financial Year Ended 31 December 2010 (continued)

	Note	*Paid up Capital*	*Additional Paid in Capital*	*Reserve*	*Retained Earning*	*Total*
		EGP(000)	EGP(000)	EGP(000)	EGP(000)	EGP(000)
Balance as at 31 December 2009 as previously issued		**1,508,500**	**–**	**731,030**	**1,176,459**	**3415989**
Special reserve (after tax)	*(33)*	—	—	63,466	—	63,466
General banking risk reserves		—	—	1,763	—	1,763
Balance as at 31 December 2009 after reclass		**1,508,500**	**–**	**796,259**	**1,176,459**	**3,481,218**
Additional paid in capital	*(33)*	—	2,078	—	—	2,078
Dividends paid for year 2009	(33)	—	—	—	(941,215)	(941,215)
Transferred to legal reserves	*(33)*	—	—	58,823	(58,823)	—
Transferred to general reserves	*(33)*	—	—	176,421	(176,421)	—
Net change in AFS investment	*(33)*	—	—	74,387	—	74,387
Net income for year ended 31 December 2010		—	—	—	990,166	990,166
Transferred to general banking risk reserves	*(33)*	—	—	36,579	(36,579)	—
Balance as at 31 December 2010		**1,508,500**	**2,078**	**1,142,469**	**953,587**	**3,606,634**

The accompanying notes from (1) to (40) form an integral part of these financial statements and are to be read therewith.

Unconsolidated Profit of Appropriation Statement
For The Year Ended 31 December 2010

	Note	**2010 EGP(000)**	2009 EGP(000) Restated
Net profits for the year end		**990,166**	1,178,222
General banking risk reserve	*(33)*	**(36,579)**	(1,763)
Net profits available for appropriation		**953,587**	1,176,459
Appropriation			
Legal reserve	*(33)*	**36,930**	58,823
General reserve	*(33)*	**153,787**	176,421
Shareholders' dividends		**667,511**	823,569
Employees' profit share		**95,359**	117,646
		953,587	1,176,459

The accompanying notes from (1) to (40) form an integral part of these financial statements and are to be read therewith.

Cash Flow Statement for the Financial Year Ended 31 December 2010

	Note	2010 EGP(000)	2009 EGP(000) Restated
Cash flow from operating activities			
Net profit before income tax		**1,231,862**	1,376,133
Adjustments to reconcile net profit to net cash flows from operating activities			
Depreciation and amortisation		**64,382**	48,223
Impairment of assets		**276,186**	51,740
Other provisions		**16,945**	30,156
Increase in end of service compensation provision		**32,150**	27,673
Revaluation differences for provisions other than loans provision		**—**	(93)
Gain /(Losses) from sale of fixed assets		**48**	(547)
(Losses)/Gain from sale of assets reverted to the bank		**(3)**	131
Amortisation of unearned discount of bonds		**(913)**	(50)
Amortisation of bonds premium		**2,840**	555
Provisions no longer required		**(17,181)**	(87,170)
Gain from derivatives revaluation		**(12,055)**	(4,566)
Other provisions used		**(11,356)**	(9,967)
Operating income before changes in assets and liabilities from operating activities		**1,582,905**	1,432,218
Net decrease (increase) in assets and liabilities			
Due from banks		**(451,573)**	7,823,954
Treasury bills		**(721,501)**	(2,053,590)
Available for sale investments		**(3,185,316)**	(2,203,667)
Loans and advances to customers		**10,457**	(377,916)
Financial derivatives (net)		**(2,033,978)**	4,136
Other assets		**(126,710)**	50,257
Due to banks		**458,552**	(396,386)
Customers' deposits		**8,203,415**	2,315,936
Other liabilities		**125,636**	(50,672)
Income tax paid during the year		**(194,504)**	(234,443)
Net cash flows provided from operating activities		**3,667,383**	6,309,827

	Note	**2010 EGP EGP(000)**	2009 EGP EGP(000) Restated
Cash flow from investing activities			
Payments to purchases of fixed assets and branches improvement		**(89,782)**	(186,866)
Proceeds from sale of fixed assets		**(25,000)**	564
Proceeds from sale of assets reverted to the Bank		**140**	150
Payments for purchase of intangible assets		**(12,516)**	—
Payments for purchase of investment property		**248**	—
Purchase of financial investments held-to-maturity		**(1,603)**	(25,000)
Net cash flow (used in) investing activities		**(128,513)**	(211,152)
Cash flow from financing activities			
Dividends paid		**(941,215)**	(932,391)
Additional paid in Capital		**2,078**	—
Net cash flow (used in) financing activities		**(939,137)**	(932,391)
Net change in cash and cash equivalents during the year		**2,599,733**	5,166,284
Cash and cash equivalents at the beginning of the year		**7,799,481**	2,633,198
Cash and cash equivalents at year end		**10,399,214**	7,799,482
Cash and cash equivalents are represented in:			
Cash and balances with the CBE		**4,334,672**	3,930,794
Due from banks		**10,165,033**	6,796,903
Treasury bills		**6,985,999**	6,985,201
Balance with CBE within the limit of statutory reserve		**(3,874,813)**	(3,578,977)
Due from banks maturity more than 3 months from date of acquistion		**(369,463)**	(213,726)
Treasury bills maturity more than 3 months from date of acquisition		**(6,842,214)**	(6,120,713)
Cash and cash equivalents	*(35)*	**10,399,214**	7,799,482

The accompanying notes from (1) to (40) form an integral part of these financial statements and are to be read therewith.

Notes on the Accounts

1 Background

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, 100 branches and outlets in prominent cities in Egypt. The bank's shares have been delisted from the Egyptian stock Exchange on 31 December 2009.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a *Basis of preparation*

The Unconsolidated financial statements are prepared in accordance with Egyptian Accounting Standards issued 2006 and its amendments and in accordance with Central Bank of Egypt (CBE) instructions approved by its Board of Directors on 16 December 2008 in addition to the historical cost convention basis , modified by the revaluation of available for sale investments, and all financial derivatives contracts. The financial statements have been prepared until 31 December 2009 applying the CBE regulations prevailing until that date which differ in some aspects from the new EAS issued in 2006 and its related amendments. While preparing the financial statements for the year ended on 31 December 2010, the management changed some accounting policies, and measurement basis to be in conformity with the CBE requirements for the preparation and presentation of the banks' financial statements and measurement and recognition basis as issued by CBE's Board of Directors on 16 December 2008.

Changes applicable for the financial years starting on or after 1 January 2010:

The Bank's management applied CBE regulations to the financial statements preparation, presentation, measurement and recognition basis as well as the Egyptian Accounting Standards applicable to banking industry.

The comparative figures for the year ended 2009 have been amended to be in line with the new regulations and standards.

The following is a summary of significant changes in accounting policies and financial statements due to the application of these accounting adjustments:

- The change in the disclosure requirements for the risk management objectives, policies and procedures and the capital risk management and other notes to the financial statements.
- The bank defines the related parties in accordance with the amended requirements and added new disclosures to the related party transactions disclosure.
- Consolidate all entities controlled by the bank either directly or indirectly, irrespective of its activity. Previously, there were no consolidations for entities that do not work in banking or activity. For better understanding for the user of the bank's financial position, the matter necessitates reference to the consolidated financial statements
- The bank has reassessed the useful lives of the intangible assets, and no adjustments are needed.
- The bank has studied all tax differences resulting from the deferred tax liabilities and has recognised them retroactively. For deferred tax assets, they have been recognised to the extent that future economic benefits may arise from them.
- The bank has changed the method of measurement of impairment loss for loans, advances, and other debt instruments measured at the amortised cost. The bank formed collective impairment provisions for group of assets carrying similar credit risk and characteristic or individual provision instead of forming general provision for the loans and advances.
- Revisiting foreclosed assets obtained by the bank in settlement of some customers' debts classification to ensure the correctness of its classification under non-current assets held for sale under other assets caption. No reclassification has been made. The values of these assets are the same.

b *Subsidiaries*

- Subsidiaries are all companies (including special purpose entities) over which the Bank has owned directly or indirectly the power to govern the financial and operating policies, generally the Bank owns more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank has the ability to control the entity.
- The purchase method is used to account for the acquisition of subsidiaries by the Bank. The cost of an acquisition is measured as the fair value of the assets, and/or asset given and/or equity instruments issued and loans assumed at the date of exchange, plus costs directly attributable to the acquisition. Net assets including

2 Summary of significant accounting policies *(continued)*

contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the minority interest. The excess of acquisition cost over the Bank's share fair value in the net assets acquired is recorded as goodwill. If the acquisition cost is less than the fair value of the net assets, the difference is recognised directly in the income statement under the item "Other operating income/(expenses)".

— Accounting for subsidiaries in the separate financial statements is recorded by using cost method. According to this method, investments recorded at cost of acquisition including goodwill, if any, and deducting impairment losses. Dividends are recorded in the income statement when adoption of the distribution occurred and affirming the Bank's right in collecting them has been recognised.

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c *Segment reporting*

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is a segment which is engagged in providing products or services within a particular economic environment that are subject to risks and returns different from those of segments operating in other economic environments.

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d *Foreign currency transactions and balances*

The Bank keeps its accounting records in Egyptian pound. Foreign currency transactions are translated into Egyptian pound using the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities in foreign currencies are retranslated at the end of each year at the exchange rates then prevailing. Foreign exchange gains and losses resulting from settlement of such transactions and valuation differences are recognised in the income statement under the following items:

- Net trading income of the assets / liabilities held for trading.
- Owner's equity of the financial derivatives in the form of eligible coverage for cash flows or net investment.
- Other operating income (expenses) for the other items.

Changes in the fair value of monetary financial instruments in foreign currencies classified as investments available for sale (debt instruments) are classified as valuation differences resulting from changes in amortised cost of the instrument and differences resulting from changes in applicable exchange rates and differences resulting from changes in the instrument fair value. Valuation differences relating to changes in amortised cost are recognised in income statement under "Interest and similar income" while differences relating to changes in exchange rates are recognised under item "other operating income (expenses)". Differences resulting from changes in fair value are recognised under "fair value reserve – available for sale investments" in the equity caption. Valuation differences resulting from non-monetary items include profits and losses resulting from changes in fair value such as equity instruments held at fair value through profits and losses, while valuation differences resulting from equity instruments classified as financial investments available for sale are recognised as "fair value reserve- available for sale investments" under the equity caption.

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e *Financial assets*

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition

i *Financial assets at fair value through profit or loss:*

This category consists of financial assets held for trading and financial assets designated at fair value through profit or loss at inception.

— Financial assets are classified as held for trading if they are acquired or incurred principally for the purpose of selling in the near term or if it is part of financial instruments portfolio that are managed together and there is evidence resulting from recent actual transaction that profit can be recognised. Derivatives can be classified as held for trading unless they are identified as hedging instruments.

— Financials assets designated at fair value through profit or loss are recognised when:

- Doing so significantly reduces measurement inconstancies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for loans and advances to customers or banks and issued debt securities.
- Equity investments that are managed and evaluated at the fair value basis in accordance with a risk management or investment strategy and preparing reports to top management on that basis are classified as fair value through profit and loss.

2 Summary of significant accounting policies *(continued)*

- Financial instruments such as debt instrument which contain one or more embedded derivatives which may significantly affect the cash flows are classified at fair value through profit and loss.

— Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are recorded in the "net income from financial instruments classified at fair value through profit and loss"

— It is not permitted to reclassify any derivative out of the financial instrument valued at fair value through profit or loss category during it's holding year. Also, it is not permitted to reclassify any financial instrument valued at fair value through profit or loss category if it is initially recorded by the bank at fair value through profit or loss.

— In all cases the bank should not reclassify any financial instrument into financial instrument measured at fair value through profit and loss or to held for trading investments.

ii Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

— Those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, or those that the Bank, upon initial recognition, recorded at fair value through profit or loss

— Those that the bank upon initial recognition designates as available for sale.

— Those for which the Bank may not substantially recover initial investment, there of other than for credit deterioration.

iii Financial investments held to maturity:

Held to maturity financial investments are non-derivative assets which carry fixed or determinable payments and where the Bank has the intention and the ability to hold to maturity. Any sale of a significant amount, not close to the date of its maturity, would result in the reclassification of all held to maturity investments as available for sale except in the emergency cases.

iv Financial investments available for sale

Available for sale financial investments are non-derivatives financial assets that are intended to be held for unspecified period and may be sold to provide liquidity or due to changes in shares prices, foreign currency exchange, or change in interest rates.

The following applies to financial assets:

— Purchases or sales of financial assets at fair value through profit and loss, held to maturity financial investments, and available for sale financial investments are recognised at the trade date which is the date the Bank is committed to purchase or sell the financial asset.

— Financial assets that are not classified at fair value through profit and loss at initial recognition are recognised at fair value plus transaction cost, while the financial assets classified at fair value through profit and loss are initially recognised at fair value only and the transaction cost is recognised in the profit and loss under "net trading income"

— Financial assets are derecognised when the rights to receive cash flows have expired or when the Bank transfers all asset risks and rewards to another party, while a financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

— Available for sale financial investments and financial assets designated at fair value through profit and loss are subsequently measured at fair value. While loans and advances and held to maturity investments are measured subsequently at amortised cost.

— Gains and losses arising from changes in fair value of financial assets designated at fair value through profit and loss are recorded in income statement during the year in which it occurred, while gains and losses arising from changes in fair value of available for sale financial investments are recognised in "fair value reserve for available for sale investments" in equity until the financial asset is sold, or impaired, at which time, the cumulative gain or loss previously recognised in equity should be recognised in profit or loss.

— Interest income related to monetary assets classified as available for sale is recognised based on the amortised cost method in profit and loss. The foreign currency revaluation differences related to available for sale investments are recognised in the profit and loss. Dividends related to available for sale equity instruments are recognised in the profit and loss when they are declared.

— The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Bank establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants, if the Bank could not assess the value of the equity classified as available for sale, these instruments should be valued at cost and will be subject to impairment test.

— Debt instruments can be reclassified from the available for sale investments to “loans and receivables” or “financial assets held to maturity” using fair value when the bank has the intention and ability to hold the instrument on the future or till maturity. Any related profits or losses that have been previously recognised in equity are treated as follows:

i Financial assets with fixed or determinable payments and fixed maturity are valued at amortised cost, using the effective interest method. The difference between the amortised cost using the effective interest method and the repayment value is amortised using the effective interest rate method. In case of financial asset’s impairment any profits or losses previously recognised in equity is recognised in profit and loss.

ii Profits and losses related to the financial assets without fixed or determinable maturity are recorded in equity till selling or disposing of it. In case of impairment, profits and losses that have been previously recognised directly in equity is recognised in the profit and loss.

— If the Bank changes its estimates regarding payments or proceeds, the book value of a financial asset (or group of financial assets) has to be adjusted to reflect the actual cash inflows and the change in this estimate through calculating the present value of estimated future cash flows using the effective interest rate for the financial instrument. This adjustment is recognised as either income or expense in the profit and loss.

— In all cases, if the bank re-classified financial assets in accordance with what is referred to above and the Bank subsequently increases its future cash proceeds estimates resulting from an increase in the recoverable amount from its cash receipts, this increase is recognised as an adjustment to the effective interest rate not as an adjustment in the book value of the asset at the date of change in estimate.

f *Netting between financial instruments*

Financial assets and liabilities are offset when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Treasury bills, Repos and reverse Repos agreements are netted on the balance sheet and disclosed under treasury bills.

g *Derivative financial instruments*

Derivatives are recognised at fair value at the date of the derivative contract, and are subsequently revaluated at fair value. Fair values are obtained from quoted market prices in active markets, or according to the recent market deals, or the revaluation methods as the discounted cash flow modules and the pricing lists modules, as appropriate. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

i *Derivatives that do not qualify for hedge accounting*

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the profit and loss under “net trading income”. However, gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with financial assets or liabilities are included in “net income from financial instruments at fair value through profit or loss”.

h *Interest income and expense*

Interest income and expense related to financial instruments except for held trading investments or recorded at fair value through profit and loss is recognised under “nterest and similar income” or “Interest and similar charges”.

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant year. The effective interest rate is the rate that discounts estimated future cash payments or receipts over the expected life of the financial instrument or, a shorter year when appropriate to reach the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties of the contract which is considered part of the effective interest rate, transaction costs include all other premiums or discounts.

When loans or debts are classified as non-performing or impaired, related interest income are not recognised but rather, are carried off balance sheet in statistical records and are recognised under revenues according to cash basis as per the following:

— When collected and after recovery of all arrears for retail loans, personal loans, small and medium business loans

2 Summary of significant accounting policies *(continued)*

mortgage loans for personal housing and small loans for businesses.

— For loans granted to corporate, interest income is recognised on cash basis after the Bank collects 25 % of the scheduling installments and after the installments continued to be regular for at least one year. Interest income will not be recognised as revenue until full payment of the loan balance before the rescheduling and client is considered to be performing.

i *Fees and commission income*

Fees and commissions related to loan and advances are recognised as income when the service is rendered. Fees and commission income related to non-performing or impaired loans or debts are suspended and are carried off balance sheet and are recognised under income according to the cash basis when interest income is recognised in accordance with note (2 –H) above. Fees and commissions which represent part of the financial asset effective rate is recognised as adjustment to the effective interest rate.

Commitment fees recognised as revenue when there is probability that this loan will be used by the customer, as commitment fees represent compensation for the continuing interference to own the financial asset. Subsequently its recognised as adjustments to the effective interest rate of the loan. If the commitment year passed without issuing the loan, commitment fees is recognised as income at the end of the commitment year.

Fees and commission related to equity debts measured by fair value is recognised as income at initial recognition. Fees and commission related to marketing of syndicated loan is recognised as income when the marketing is completed and the loan is fully used or the Bank kept its share of the syndicated loan using the effective interest rate as used by the other participants.

Commission and fees arising from negotiation, or participating in a negotiation in favor of a third party as in share acquisition arrangements or purchase of securities or purchase or sale of businesses are recognised as income when the transaction is completed, commissions and fees related to management advisory and other service are recognised as income based on the contract terms, usually on a time-appropriation basis. Asset management fees are recognised over the year in which the service is provided.

j *Dividend income*

Dividends are recognised in the profit and loss when the Bank's right to receive those dividends is established.

k *Impairment of financial assets*

i Financial assets at amortised cost:

At each balance sheet date, the Bank assesses whether there is objective evidence that any financial asset or group of financial assets has been impaired as a result of one or more events occurring since they were initially recognised (a "loss event") and whether that loss event has impacted the future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The bank considers the following indicators to determine the existence of substantive evidence for impairment losses:

— Great financial troubles facing the borrower or debtor.
— Breach of the loan agreement, e.g. default.
— Expected bankruptcy of borrower or subject to liquidation lawsuit or re-structuring the finance granted to it.
— Deterioration of competitive position of borrower.
— Granting privileges or assignments by the bank to the borrower, due to economic or legal reasons, which are not granted by the bank in the normal course of business.
— Impairment of guarantee.
— Deterioration of credit worthiness.

A substantive proof for impairment loss of the financial assets is the existence of clear information indicating a measurable decline in the expected future cash flows of such category since initial recognition though such decline is not identifiable for each individual asset.

The bank estimates the year between identifying the loss event and its occurrence ranges from three to twelve months.

The bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant taking into consideration the following:

— In case there is no objective evidence that an impairment loss has been incurred on a financial instrument considered individually, be it significant or not, the bank includes that financial asset in a group of financial

2 Summary of significant accounting policies *(continued)*

assets having similar characteristics in terms of credit risk and tests the whole group for impairment.

— An individual impairment test is made for a financial asset if there is objective evidence that this asset is impaired. If the impairment occurred, then this asset will be separated from group of financial assets that are collectively evaluated for impairment.

— If the result of the previous test did not recognise impairment loss, then this asset will be added to the group of financial assets that are collectively evaluated for impairment. Impairment loss is calculated by the difference between the carrying amount and the present value of estimated future recoverable cash flows, excluding future expected credit loss not charged yet, discounted at the financial assets' original effective interest rate. This impairment is booked in the income statement as "impairment loss" and the book value of the financial asset is reduced by the impairment amount using "impairment loss provision".

If there is evidence that loan or other receivables, or financial assets classified as held to maturity carry variable rate, the discount rate will be the contract effective interest rate when there is objective evidence that an impairment loss has been incurred. For practical purposes, the bank may measure the impairment loss using the fair value of the instrument through its market rate. For guaranteed financial assets present value for expected future cash flow has to be considered in addition to the proceeds from sale of guarantee after deducting selling cost.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics according to the Bank classification taking into consideration type of asset, industry, geographical location, collateral, past-dues and other relevant factors. Those characteristics are relevant to the estimation of future cash flows for those group of assets as they are indicators of the debtors' ability to pay all amounts due according to its contract terms for assets under study.

If historical impairment losses rates method is used for a group of financial assets that are collectively evaluated for impairment, future contractual cash flow will be used by the Bank in future and the historical loss for a group of assets with similar credit risk characteristics are considered. Historical impairment loss rates are adjusted to reflect the effects of current circumstances that did not affect the year in which the historical impairment loss rates is based and to remove the effects of circumstances in the historical year that do not currently exist.

The bank has to ensure that the estimates of changes in future cash flows for groups of assets are in consistence with changes in relative data from year to year, such as, changes in unemployment rates, real estate prices, settlement status, or other factors that may affect the probability and magnitude of losses. The Bank reviews the basis and methods of estimation regularly.

ii Available for sale investments:

At each balance sheet date, the Bank estimates if there is objective evidence that impairment loss for an asset or a group of assets classified as available-for-sale or held to maturity occurred. For listed equity instruments classified as available for sale investments, impairment is recognised if there is a significant or a prolonged decline in its price at the rate of acquisition.

The decline in value is considered significant for the equity instruments if it reaches 10% of the financial instrument's cost, and it is considered prolonged if it extends for a year of more than 9 months. When a decline in the fair value of an available for sale financial asset has been recognised directly in equity under fair value reserve and subsequent objective evidence of impairment emerges, the Bank recognizes the total accumulated loss previously recognised equity will be recognised in profit and loss. Impairment losses recognised on equity instruments on profit or loss are not subsequently reversed. Impairment losses recognised through profit or loss on debt instruments classified as available for sale are reversed through profit and loss if the price subsequently increased and this increase can be objectively related to an event occurring after the recognition of impairment loss in profit or loss.

l *Investment property*

Investment property represents land and buildings owned by the bank and used to earn rental income or increase capital. Investment property doesn't include properties used by the bank during its normal course of operation or foreclosed assets. The accounting policy for investment property is the same as for fixed assets.

m *Intangible assets*

i Software (computer programs)

The expenses, related to upgrading or maintenance of computer programmes, are to be recognised as expenses in income statement, when incurred. The expenses connected directly with specific software and which are subject to the Bank's control and expected to produce economic benefits exceeding their cost for more than one

2 Summary of significant accounting policies *(continued)*

year, are to be recognised as intangible asset. The direct expenses include staff cost of the team involved in software upgrading, in addition to a suitable portion of respective overhead expenses.

The expenses which lead to increase or expansion of computer software beyond their original specifications are recognised as an upgrading cost and are added to the original software cost. The computer software cost is recognised as an asset that is amortised over the expected life time not exceeding five years.

n *Fixed assets*

They represent land and buildings related to head office, branches and offices, and all fixed assets are reported at historical cost minus depreciation and impairment losses. The historical cost includes the charges directly related to acquisition of fixed assets items.

Subsequent costs are included in the asset's carry amount or are recognised as a separate asset, as appropriate, only when future economic benefits associated with the item are expected to benefit the Bank and the cost of the item can be measured reliably. Maintenance and repair expenses are charged to other operating expenses during the financial year in which they are incurred. Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	20 Years
Leasehold improvements	three years or lease duration if less
Furniture and safes	10 years
Typewriters calculators and air conditions	10 years
Motor vehicles	five years
Computers and core systems	five years
Fixtures and fittings	three years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The recoverable amount is the higher of the asset's fair value less costs to sell or value in use. Gains and losses on disposals are determined by comparing proceeds with asset carrying amount. These gain and losses are included in other operating income (expenses) in the profit and loss.

o *Impairment of non-financial assets*

Assets having no fixed useful life except for goodwill shall not be amortised, and their impairment shall be tested at least annually. The impairment of amortised assets is studied to determine if there are events or changes in the circumstances indicating that the book value may not be recoverable.

The impairment loss is recognised by the excess amount of book value over the realisable value.

The recoverable value represents net realisable value of the asset or the usage amount whichever is higher. For the purpose of estimating the impairment, the asset is grouped with the smallest cash generating unit. At each balance sheet date, non-financial assets with impairment has to be reviewed to determine if there is impairment reversal made to the profit and loss.

p *Leases*

The accounting treatment for the finance lease is in accordance with law 95 of 1995, if the contract entitles the lessee to purchase the asset at a specified date and amount and the contract term is more than 75% of the asset expected useful life, or the current value of the total lease payments represents at least 90% of the value of the asset then this lease is considered finance lease. Other than that the lease has to be considered operating lease.

a *Leasing*

Finance lease contracts recognise rent as expense in the year in which it occurred in profit and loss, including maintenance cost related to the leased assets.
If the bank decides to exercise the rights to purchase the leased assets, the cost of this right will be capitalised over the fixed asset and depreciated over the assets' expected remaining useful life in accordance with similar assets.

Operating lease payments less any discounts granted to lessee is recognised as expenses in the profit and loss using the straight line method over the contract term.

2 Summary of significant accounting policies *(continued)*

b *Leasing out*
Operating lease assets are accounted for at the fixed assets caption in the balance sheet and depreciated over the asset expected useful life using the same method applicable to similar assets.

The lease rent income less any discount granted to the lessee will be recognised in the profit and loss using the straight line method over the contract term.

q *Cash and cash equivalents*
For the purposes of the cash flows statement, cash and cash equivalents include balances due within three months from date of acquisition, cash and balances due from the Central Bank of Egypt other than the mandatory reserve, and current accounts with banks and treasury bills.

r *Other provisions*
Provisions for restructuring costs and legal claims are recognised when the Bank has a present legal or constructive obligation as a result of past events; it is more likely in addition to a reliable estimate for the amount that an outflow of resources will be required to settle these obligation.

Where there are a number of similar obligations, the likelihood that an outflow is required to settle an obligation is determine a taking into consideration the group of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any obligation in the group is minimal.

Provisions no longer required are reversed in other operating income (expense). Provisions are measured at the present value of the expected required expenditures to settle obligations after one year from financial statement date using the appropriate rate in accordance with the terms of settlement ignoring the tax effect which reflects the time value of money. If the settlement term is less than one year the provision is booked using the present value unless time consideration has a significant effect.

s *Financial guarantees contracts*
The financial guarantees contracts are contracts issued by the bank as security for loans or overdrafts due from its customers to other entities, which require the bank to make certain payments to compensate the beneficiary for a loss incurred due to default of the debtor on maturity date and in accordance with debt instrument conditions. These financial guarantees are given to the banks, corporations and other entities on behalf of the bank's customers. It's initially recognised at fair value including guarantee fees at the date of granting. Subsequently, the Bank’s obligation shall be measured by the value initially recognised less guarantee fees amortization which is recognised in the profit and loss on a straight-line basis over the higher of the guarantee life term or over the best payment estimates required to settle the financial obligation resulted from the financial guarantee at the balance sheet date. These estimates are mainly based on management experience with similar transactions and historical losses. Any increase in the obligations result from the financial guarantee, is recognised in “other operating income (expenses)” caption.

t *Employees benefits*

i *End of service benefits*
The bank contributes to the social insurance scheme related to the Social Insurance Authority for the benefit of its employees according to the social insurance law number 79 of 1975 and its amendments. The income statement is charged with these contributions on an accrual basis.

Based on the bank’s internal scheme, employees are granted end of service bonus according to the years of service. Provision is provided based on the present value in light of the actuarial assumptions determined at balance sheet date and is recognised in the consolidated profit or loss under the caption of “general and administrative expenses”. This provision is presented in the balance sheet under “other provisions” caption.

ii *Share based payments*
HSBC Holding plc grants shares to eligible employees under a share based payment scheme equity settled. HSBC Bank Egypt bears the cost of these shares which are amortised in the profit and loss on a straight line basis.

u *Income tax*
The income tax on the Bank’s income or loss at the end of the year includes both the current and deferred taxes. Income tax is recognised in the income statement except income taxes related to shareholders’ equity items that are recognised directly in the shareholders’ equity.

The income tax is calculated on the net taxable income, using the effective tax rate at the balance sheet date, in addition to prior year tax adjustments.

2 Summary of significant accounting policies *(continued)*

Deferred tax is recognised due to the temporary differences resulting from reporting the value of assets and liabilities in one year for tax purpose, and in another year for financial accounting purposes.
Deferred tax is determined based on the method used to realise or settle the current values of these assets and liabilities, using the tax rates prevailing at the balance sheet date.

The deferred tax assets shall be recognised if it is probable that sufficient taxable profits shall be realised in the future whereby the asset can be utilised and the value of deferred tax assets shall be reduced by the value of portion not yielding the expected tax benefit. However, in case tax benefit is highly expected, the deferred tax assets shall increase to the extent of previous reduction.

v *Capital*

i *Capital cost*
Issuance cost is directly related to issuing new shares or issuing shares related to acquisition or share options is charged to shareholders' equity of total proceeds net of tax.

ii *Profit Distribution*
Profit distribution is recognised when approved by the General Assembly. These distributions include shareholders' dividends and employee profit sharing as stipulated by the law and the Bank's Statutes.

w *Amanah activities*
The Bank practices the Amanah activities that result in ownerships or management of assets on behalf of individuals, trusts, and retirement benefit plans. These assets and related income are excluded from the Bank's financial statements, as they are assets not owned by the Bank.

x *Comparative figures*
The comparative figures are to be re-classified, when necessary, to be in conformity with the changes to presentation used in the current year.

3 Financial risk management

The bank, as a result of the activities it exercises, is exposed to various financial risks. Since the basis of financial activity is to accept risks; some risks or group of risks are analysed, evaluated and managed altogether. The Bank intends to strike a balance between the risk and return and to reduce the probable adverse effects on the Bank's financial performance.

The most important types of risks are credit risk, market risk, liquidity risk and other operating risks. The market risk comprises foreign currency exchange rates, interest rate risk and other pricing risks. The risk management policies have been laid down to determine and analyse the risks, set limits to the risk and control them through reliable methods and updated systems.

The bank regularly reviews the risk management policies and systems and amend them to reflect the changes in market, products and services and the best updated applications. Those risks are managed by risk department in the light of policies approved by the Board of Directors. The risk department determines, evaluates and covers the financial risks, in collaboration with the Bank's various operating units, and the Board of Directors provides written policies for management of risks as a whole, in addition to written policies covering specific risk areas, like credit risk, foreign exchange rate risk, interest rate risk, and using the financial derivative and non–derivative instruments. Moreover, the risk department is independently responsible for annual review of risk management and control environment.

a *Credit risk*
The Bank is exposed to the credit risk which it is the risk resulting from failure of one party to meet its contractual obligations towards the Bank. The credit risk is considered to be the most significant risks for the bank. The bank set specific procedures to manage that risk. The credit risk in the lending and investments activities which represents the Bank's assets contain debt instruments. The credit risk is also found in off balance sheet financial instruments, like loan commitment. The managing and monitoring process on credit risk is centralised at Credit Risk Management department that prepare reports to the Board of Directors and business Heads on regular basis.

i *Credit risk measurement*
Loans and advances to banks and customers
Loans to customers and banks, financial investments debt securities, current accounts and deposits at 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.

3 Financial risk management *(continued)*

The Bank minimises the effect of this risk by the following:

— Preparing detailed credit studies about customers and banks before dealing with them to assess and determine the rates of the credit risk rates related to it.

— Obtaining adequate guarantees to reduce the possibility of loss in case of a customer or Bank default.

— Monitoring and preparing regular studies on customers in order to evaluate their financial and credit position and estimate the required provisions for non-performing balances.

— Diversifying loans portfolio among various sectors to minimise the concentration of credit risk.

Note No. (A/8) shows the sector diversification of the loans and advances portfolio.

The Bank evaluates the customer risk using internal policies for the different customers' categories. These policies are updated taking into consideration financial analysis and statistical analysis for each customer category in addition to the personal judgment of the credit officer to reach the appropriate grading. The customers are classified into ten grading, which are divided into four ratings.

The following table shows the rating scale which reflects the range of expected defaults or payment delays, by which the credit centres may transfer from one rating to the other depending on the change in the expected degree of risk. The customer's rating and the rating process are reviewed when necessary. The Bank evaluates the rating process and their expectations regarding the customers' defaults.

Bank's internal ratings scale

Rating description	Rating
Performing loans	1-6
Regular watching	7
Watch list	8
Non-performing loans	9-10

The amount of default represent the outstanding balances at the time when a late settlement occurred for example the loans expected amount of default represent its book value. For commitments the default amount represents all actual withdrawals in addition to any withdrawals that occurred till the date of the late payment if any.

The expected losses or specific losses represent the Bank's loss expectation of when the settlement is due, which is loan loss percentage that differ according to the type of facility, the availability of guarantees and any other credit cover.

Debt instruments and treasury bills

The same methods used for credit customers are used for debt instruments and treasury bills. They represent better credit method and a readily available source to meet the funding requirements bills. The Bank uses external ratings such as Standard and Poor's, Mereis - Modes and Fitch rating to manage their credit risk.

ii *Limiting and preventing risks policies*

The Bank manages and controls credit concentrations at the borrowers' level, groups of borrowers level, industries level and countries level.

The Bank manages the credit risk it undertakes by placing limits on the amount of risk accepted in relation to single borrower, or groups of borrowers, and to the geographical and industry segments. Such risks are monitored on a regular basis and subject to an annual or more frequent review, when considered necessary.

The top management reviews on quarterly basis the sectorial and country credit concentration.
Exposure to credit risk is also managed through regular analysis of the existing and potential borrowers' ability to meet their obligations and through changing the lending limits where appropriate.

The following are other controls used by the bank to limit the credit risk.

Collaterals

The Bank uses different methods to limit its credit risk. One of these methods is accepting collaterals against loans and advances granted by the bank. The bank implements guidelines for collaterals to be accepted.

The major types of collateral against loans and advances are:

- Real estate mortgage
- Business assets mortgage such as machines and goods.
- Financial instruments mortgage such as debt and equity instruments.

The Bank is keen to obtain the appropriate guarantees against corporate entities of long term finance while individual credit facilities are generally unsecured.

3 Financial risk management *(continued)*

In addition, to minimise the credit loss the bank will seek additional collaterals from all counterparties as soon as impairment indicators are noticed for a loan or advance.
The Bank determine's types of collaterals it holds by its security for financial assets other than loans and advances according to the nature of the instrument, generally, debt securities and treasury bills are unsecured, except for asset-backed securities and similar instruments are secured by a financial instrument portfolio.

Derivatives
The Bank maintains strict control limits over amounts and terms for the net value of opened derivative positions i.e. the difference between purchase and sale contracts. In all cases, the amount subject to credit risk is limited to the current fair value of instruments from which the Bank can gain a benefit (i.e. assets that have positive fair value), which represent a small value of the contract, or the notional value. The Bank manages this credit risk which is considered part of the total customer limit with market changes risk all together. Generally, no collateral is obtained for credit risk related to these instruments, except for marginal deposits required by the bank from other parties.

Settlement risk arises when cash, equity instruments or other financial papers are used in the settlement process, or if there is expectation to receive cash, equity instruments or other financial papers. Daily settlement limits are established for each counterparty to cover the aggregate settlement risk arising from the daily Bank transactions.

Master netting arrangements
The Bank further restricts its exposure to credit losses by entering into master netting arrangements with counterparties of significant volume of transactions. Generally, no netting between assets and liabilities at the balance sheet date relating to the master netting arrangements, as aggregate settlements are made. However, the credit risk related to contracts in favor of the Bank is reduced by a master netting arrangement as netting will be made with the counterparty to settle all transactions. The value of the credit risk faced by the Bank changes substantially within a short year of time, as it is affected by each transaction occurins the arrangement.

Credit related commitments
The primary purpose of these commitments is to ensure that funds are available to customer when required. Guarantees and standby letters of credit are of the same credit risk as loans.

Documentary and commercial letters of credit, which are issued by the Bank on behalf of it's customers authorising a third party to draw within a certain limit in accordance to specific terms and conditions and guaranteed by the goods under shipment are of lower risk than a direct loan.

Credit related commitments represent the unused portion of credit limit of loans, guarantees or letters of credit. With respect to credit risk related to credit related commitments, the Bank is exposed to probable loss of amount equal to the total unused limit. However, the probable amount of loss is less than the unused limit commitments, as most of them represent commitments to customers maintaining certain credit standards. The Bank monitors the maturity term of the credit commitments because long-term commitments are of high credit risk than short-term commitments.

iii *Impairment and provisioning policies*
The internal rating systems described in Note (1-A) focus more on credit-quality at the inception of lending and investment activities. Otherwise, impairment provisions recognised at the balance sheet date for financial reporting purposes are losses that have been incurred and based on objective evidence of impairment as will be mentioned below. Due to the different methodologies applied, the amounts of incurred credit losses charged to the financial statements are usually lower than the expected amount determined from the expected loss models used.

The impairment provision appeared in the balance sheet at the end of the year is derived from the four internal rating grades. However, the majority of the impairment provision comes from the last two ratings. The table below shows the percentage of in-balance sheet items relating to loans and advances and the related impairment provision for each rating:

Bank's rating	**31 December 2010**		31 December 2009	
	Loans and advances	*Impairment provision*	*Loans and advances*	*Impairment provision*
Performing loans	**94.78%**	**13%**	94.13%	87%
Regular watching	**0.17%**	**—**	0.46%	—
Watch list	**0.05%**	**2%**	3.93%	2%
Non-performing loans	**5.00%**	**85%**	1.48%	11%
	100%	**100%**	100%	100%

3 Financial risk management *(continued)*

The Bank's internal rating assists management to determine whether objective evidence of impairment exists under EAS 26, based on the following criteria set out by the Bank:

- Payment delinquency of principal or interest.
- Breach of loan conditions
- Initiation of bankruptcy or entering a liquidation or finance restructures.
- Deterioration of the borrower's competitive position.
- For economical or legal reasons, the bank granted the borrower additional benefits that will not be done in normal circumstances.
- Deterioration in the value of collateral.
- Deterioration of customer credit status.

The Bank's policies require review of all financial assets (that exceed specific materiality) at least once a year or more when required, the impairment loss is determined on individual basis by determining case by case actual losses. These policies applied on all accounts have specific materiality on individual basis. Valuation usually includes the existing collateral, the related enforcements on these collaterals and the expected collections from those accounts.

Impairment loss provision is formed based on group of similar assets using the historical experience available, personal judgment and statistical methods.

iv *General module to measure banking general risk*

In addition to the four categories of credit rating indicated in note (A/1) the management makes more detailed groups in accordance with the CBE requirements,

Assets exposed to credit risk in these categories are classified according to detailed terms end conditions depending on information related to the customer, activities, financial position
and payment schedules.

The Bank calculates the provisions required for impairment of assets exposed to credit risk, including commitments relating to credit on the basis of rates determined by CBE. In case, the provision required for impairment losses as per CBE regulations exceeds the provision required for financial statements preparation purposes according to the Egyptian Accounting Standards, this increase shall be debited from the retained earnings to and credited to the "general banking risk reserve" under the equity caption. This reserve is regularly adjusted with this increase and decrease, to equal the amount of increase and decrease in the two provisions.

This reserve is not distributable. Note (33) shows the "general banking risk reserve" movement during the year.

v *Maximum limits for credit risk before collaterals*

	2010 EGP(000)	2009 EGP(000)
Balance sheet items exposed to credit risks		
Treasury bills	**6,985,999**	6,985,201
Loans and advances to customers:		
Retail loans:		
Overdrafts	**309,897**	230,353
Credit cards	**383,497**	319,077
Term loans	**1,619,990**	1,244,282
Mortgage loans	**12,665**	19,487
Corporate loans:		
Overdrafts	**1,364,549**	1,416,477
Direct loans	**6,797,844**	5,632,436
Syndicated loans	**6,907,074**	5,352,640
Financial derivative instruments	**18,843**	17,647
Financial investments:		
Debt instruments	**5,565,349**	3,458,907
Total	**29,965,707**	**24,676,507**

3 Financial risk management *(continued)*

	2010 EGP(000)	2009 EGP(000)
Off-balance sheet items exposed to credit risk		
Loan commitments and other irrevocable		
Commitments related to credit	**4,508,442**	2,246,044
Letters of credit	**981,202**	1,229,741
Letters of guarantee	**6,023,801**	16,837,138
Cash covers	**(455,607)**	(500,964)
Total	**11,057,838**	19,811,959

The above table represents the maximum limit for credit risk as of 31 December 2010 and 31 December 2009, without taking into considerations any collateral. For on-balance-sheet items, amounts stated depend on net carrying amounts shown in the balance sheet.

As shown in the preceding table, 58.05% of the total maximum limit exposed to credit risk resulted from loans and advances to customers against 57.60% as at 31 December 2009; while 18.57% represents investments in debt instruments against 14.02 % as at 31 December 2009.

The management is confident of its ability to maintain control on an ongoing basis and maintain the minimum credit risk resulting from loans and advances, and debt instruments as follows:

— 94.95% of the loans and advances portfolio is classified at the highest two ratings in the internal rating against 94.59% as at 31 December 2009
— 94.22% of the loans and advances portfolio have no past due or impairment indicators against 98.04% as at 31 December 2009
— Mortgage loans, which represent a significant part of the portfolio are covered by guarantees of total amount EGP26,544 thousands.
— Loans and advances that have been evaluated on an individual basis of total amount EGP878,478 thousands against EGP134,533 thousand as at31 December 2009.
— Investments in debt instruments and treasury bills contain more than 90.17% against 90.02% as at 31 December 2009 due from the Egyptian government.

vi *Loans and advances*

Loans and advances are summarised as follows:	**2010 EGP(000)** *Loans and advances to customers*	2009 EGP(000) *Loans and advances to customers*
Neither having past dues nor subject to impairment	**16,389,706**	13,936,474
Having past due but not subject to impairment	**127,332**	143,745
Subject to impairment	**878,478**	134,533
Total	**17,395,516**	14,214,752
Less:		
Unearned discount of discounted commercial papers	**(373)**	(301)
Interest in suspense	**(29,193)**	(27,141)
Impairment loss provision	**(463,460)**	(206,282)
Net	**16,902,490**	13,981,028

3 Financial risk management *(continued)*

During the year ended 31 December 2010, the Bank's total impairment loss for loans and advances amounted to EGP463,460 thousands against EGP206,282 thousands as at 31 December 2009 of which EGP356,473 thousands against EGP80,678 thousands as at 31 December 2009 representing impairment of individual loans and the remainder amounting to EGP106,987 thousands against EGP125,604 thousands as at 31 December 2009 representing impairment loss for the credit portfolio as a group.

Note (18) includes additional information regarding impairment loss on loans and advances to customers.

The Bank's portfolio increased by 22.38% during the year. The Bank concentrates on dealing with large institutions or banks or individuals of credit worthiness.

Loans and advances neither have past due nor subject to impairment. The credit quality of the loans and advances portfolio that neither have past due nor subject to impairment are determined by the internal rating of the bank.

Loans and advances neither having past due nor subject to impairment

31 December 2010

	Retail			
	Over-drafts	*Credit cards*	*Personal loans*	*Mortgage*
	EGP(000)	**EGP(000)**	**EGP(000)**	**EGP(000)**
Performing loans	**291,022**	**360,911**	**1,538,406**	**12,665**
Regular follow up	**—**	**—**	**—**	**—**
Watch list	**—**	**—**	**—**	**—**
Total	**291,022**	**360,911**	**1,538,406**	**12,665**

	Corporate			
	Over-drafts	*Direct loans*	*Syndicated loans*	*Total loans and advances to customers*
	EGP(000)	**EGP(000)**	**EGP(000)**	**EGP(000)**
Performing loans	**1,322,054**	**6,720,263**	**6,142,290**	**16,387,611**
Regular follow up	**582**	**782**	**—**	**1,364**
Watch list	**86**	**645**	**—**	**731**
Total	**1,322,722**	**6,721,690**	**6,142,290**	**16,389,706**

Guaranteed loans are not considered subject to impairment for the non-performing category after taking into consideration the collectability of the guarantees.

Notes on the Accounts (continued)

3 Financial risk management *(continued)*

31 December 2009

	Retail			
	Over-drafts	*Credit cards*	*Personal loans*	*Mortgage*
	EGP(000)	EGP(000)	EGP(000)	EGP(000)
Performing loans	223,067	296,090	1,177,954	15,587
Regular follow up	—	—	—	—
Watch list	—	—	—	—
Total	223,067	296,090	1,177,954	15,587

	Corporate			
	Over-drafts	*Direct loans*	*Syndicated loans*	*Total loans and advances to customers*
	EGP(000)	EGP(000)	EGP(000)	EGP(000)
Performing loans	1,365,940	5,440,107	4,861,059	13,379,804
Regular follow up	4,564	60,525	—	65,089
Watch list	—	—	491,581	491,581
Total	1,370,504	5,500,632	5,352,640	13,936,474

Loans and advances having past due and not subject to impairment

Loans and advances having past due until 90 days are not considered subject to impairment, unless there is information to the contrary. Loans and advances having past due and not subject to impairment are as follows:

3 Financial risk management *(continued)*

31 December 2010

	Retail				
	Over-drafts	*Credit cards*	*Personal loans*	*Mortgage*	*Total*
	EGP(000)	**EGP(000)**	**EGP(000)**	**EGP(000)**	**EGP(000)**
Past due up to 30 days	**14,732**	**12,884**	**22,771**	**—**	**50,387**
Past due 30 - 60 days	**1,558**	**4,052**	**11,515**	**—**	**17,125**
Past due 60 - 90 days	**1,081**	**2,477**	**7,574**	**—**	**11,132**
Total	**17,371**	**19,413**	**41,860**	**—**	**78,644**
Fair value of collateral				**26,544**	**26,544**

31 December 2010

	Corporate			
	Over-drafts	*Direct loans*	*Syndicated loans*	*Total*
	EGP(000)	**EGP(000)**	**EGP(000)**	**EGP(000)**
Past due up to 30 days	**—**	**29,130**	**—**	**29,130**
Past due 30 - 60 days	**—**	**19,558**	**—**	**19,558**
Total	**—**	**48,688**	**—**	**48,688**
Fair value of collateral		**1,139**		**1,139**

In the initial recording of loans and advances, the fair value of guarantees is assessed based on valuation methods commonly used for similar assets. In subsequent years, fair value is updated to reflect its market price or price of similar assets.

Notes on the Accounts (continued)

3 Financial risk management *(continued)*

31 December 2009

	Retail				
	Over-drafts	*Credit cards*	*Personal loans*	*Mortgage*	*Total*
	EGP(000)	EGP(000)	EGP(000)	EGP(000)	EGP(000)
Past due up to 30 days	6,982	12,339	21,039	—	40,360
Past due 30 - 60 days	15	4,361	9,160	—	13,536
Past due 60 - 90 days	120	2,804	6,101	3,900	12,925
Total	7,117	19,504	36,300	3,900	66,821
Fair value of collateral				23,921	23,921

31 December 2009

	Corporate			
	Over-drafts	*Direct loans*	*Syndicated loans*	*Total*
	EGP(000)	EGP(000)	EGP(000)	EGP(000)
Past due up to 30 days	—	9,624	—	9,624
Past due 30 - 60 days	—	11,774	—	11,774
Past due 60 - 90 days	—	55,527	—	55,527
Total	**—**	**76,925**	**—**	**76,925**
Fair value of collateral		**53,271**		**53,271**

Loans and advances subject to individual impairment
***Loans and advances to customers**

Loans and advances subject to individual impairment before taking into consideration cash flows from guarantees amounted to EGP878,478 thousands against EGP134,534 thousands as at 31 December 2009.

The breakdown of the total loans and advances subject to individual impairment including fair value of collateral obtained by the Bank are as follows:

3 Financial risk management *(continued)*

31 December 2010

Valuation	**Retail**			**Corporate**			
	Over drafts	*Credit cards*	*Personal Loans*	*Over drafts*	*Direct Loans*	*Syndicated Loans*	*Total*
	EGP(000)	**EGP(000)**	**EGP(000)**	**EGP(000)**	**EGP(000)**	**EGP(000)**	**EGP(000)**
Individual loans subject to impairment	**1,505**	**3,172**	**39,724**	**41,827**	**27,466**	**764,784**	**878,478**
Fair value of collateral				**32,056**	**2,529**		**34,585**

31 December 2009

Valuation	Retail			Corporate			
	Over drafts	*Credit cards*	*Personal Loans*	*Over drafts*	*Direct Loans*	*Syndicated Loans*	*Total*
	EGP(000)	EGP(000)	EGP(000)	EGP(000)	EGP(000)	EGP(000)	EGP(000)
Individual loans subject to impairment	169	3,483	30,030	45,973	54,879	—	134,534
Fair value of collateral				32,569	6,174		38,743

Re-structured loans and advances
Restructuring activities include renegotiating in terms of payments terms extension, restructure of mandatory management policies, and adjusting/postponing repayment terms. Renegotiating policies depend on indicators or standards in addition to the management personal judgment to show that regular payments are of high probability. These policies are subject to regular review. Long-term loans, especially loans to customers are usually subject to renegotiation.

Loans and advances to customers

	2010	2009
	EGP(000)	EGP(000)
Corporate		
Direct loans	**9,974**	38,845
Retail		
Personal loans	**1,421**	709
Total	**11,395**	39,554

3 Financial risk management *(continued)*

vii *Debt instruments and treasury bills*

The table below shows an analysis of debt instruments and treasury bills according to the rating agencies (Mereis– Modes, Standard & Poors, Fitch ratings) for the year ended at 31 December 2010.

	Treasury bills	*Investments securities*	*Total*
	EGP(000)	EGP(000)	EGP(000)
AAA	—	1,081,533	1,081,533
AA- to AA+	—	58,695	58,695
A- to A+	—	88,935	88,935
Less than A-	6,985,999	* 4,336,186	11,322,185
Total	**6,985,999**	**5,565,349**	**12,551,348**

* Include Egyptian government bonds amounted to EGP4,331,041 thousands.

viii *Concentration of risks of financial assets exposed to credit risk*

Geographical sectors

The following table represents a breakdown of the bank significant credit risk limits at their carrying amounts distributed by geographical sector as at 31 December 2010. The bank breakdown these risks according to the Bank customers geographical areas.

	Arab Republic of Egypt			
	Cairo	*Alexandria and Delta*	*Upper Egypt Sinai and Red Sea*	*Total*
	EGP(000)	EGP(000)	EGP(000)	EGP(000)
Treasury bills	6,985,999	—	—	6,985,999
Loans and advances to customers				
Retail:				
Over-drafts	244,625	43,661	21,611	309,897
Credit cards	383,497	—	—	383,497
Personal loans	1,396,743	84,910	138,337	1,619,990
Mortgage loans	8,622	3,541	502	12,665
Corporate:				
Over-drafts	1,157,646	201,975	4,928	1,364,549
Direct loans	5,859,184	487,187	451,473	6,797,844
Syndicated loans	6,605,074	158,700	143,300	6,907,074
Derivative financial instruments	18,843	—	—	18,843
Financial investment:				
Debt instruments	5,565,349	—	—	5,565,349
Other assets	292,645	4,881	4,452	301,978
Total as at 31 December 2010	**28,518,227**	**984,855**	**764,603**	**30,267,685**
Total as at 31 December 2009	23,183,694	903,758	774,277	24,861,729

3 Financial risk management *(continued)*

Business sectors

The following table represents breakdown of the most significant credit risk limits at their carrying amounts distributed according to the business of the Bank's customers:

	Agricultural sector	*Industrial sector*	*Commercial sector*	*Service sector*	*Governmental sector*	*Other activities*	*Individuals*	*Total*
	EGP(000)	EGP(000)	EGP(000)	EGP(000)	EGP(000)	EGP(000)	EGP(000)	EGP(000)
Treasury bills	—	—	—	—	6,985,999	—	—	6,985,999
Loans and advances to customers								
Retail:								
Over- drafts	—	—	—	—	—	—	309,897	309,897
Credit cards	—	—	—	—	—	—	383,497	383,497
Personal loans	—	—	—	—	—	—	1,619,990	1,619,990
Mortgage loans	—	—	—	—	—	—	12,665	12,665
Corporate:								
Over-drafts	—	569,750	280,595	262,416	11,150	240,638	—	1,364,549
Direct loans	—	3,226,983	1, 235,982	1,582,636	568,155	184,088	—	6,797,844
Syndicated loans	—	1,499,325	181,269	2,580,641	149,413	2,496,426	—	6,907,074
Derivative financial instruments	—	—	—	18,843	—	—	—	18,843
Financial investment:								
Debit instruments	—	—	—	1,234,308	4,331,041	—	—	5,565,349
Other assets	—	—	—	—	—	301,978	—	301,978
Total as at 31 December 2010	**—**	**5,296, 058**	**1 697 846**	**5,678,844**	**12, 045,758**	**3,223,130**	**2,326,049**	**30,267,685**
Total as at 31 December 2009	**16,970**	**5 021,411**	**1,299,599**	**4,636,986**	**9 ,652,967**	**2,420,597**	**1,813,199**	**24,861,729**

b *Market risk*

The Bank is exposed to market risks of the fair value or future cash flow fluctuation resulting from changes in market prices. Market risks arise from open market related to interest rate, currency, and equity products represented in each of which is exposed to general and specific market movements and changes in sensitivity levels of market rates or prices such as interest rates, foreign exchange rates and equity instrument prices. The Bank divides its exposure to market risk into trading and non-trading portfolios. Bank treasury is responsible for managing the market risks arising from trading and non-trading activities of which monitored by two separate teams. Regular reports are submitted to the Board of Directors and each business unit head.

Trading portfolios include transactions where the Bank deals direct with clients or with the market; Non-trading portfolios primarily arise from managing assets and liabilities interest rate relating to retail transactions. Non-trading portfolios also includes foreign exchange risk and equity instruments risks arising from the Bank's held-to-maturity and available-for-sale investments portfolios.

i *Market risk measurement techniques*

As part of market risk management the Bank undertakes various hedging strategies and enters into swaps to match the interest rate risk associated with the fixed-rate long-term loans if the fair value option has been applied. The major measurement techniques used to measure and control market risk are outlined below:

Value at Risk

The Bank applies a 'value at risk' methodology (VAR) for trading and non-trading portfolios to estimate the market risk of positions held and the maximum expected losses based on a number of assumptions for various changes in market conditions. The Board sets separate limits for the value of risk that may be accepted by the Bank for trading and non- trading portfolios and monitored by the ALCO.

Notes on the Accounts (continued)

3 Financial risk management *(continued)*

VAR is a statistical estimation of the expected losses is on the current portfolio from adverse market movements in which it represents the 'maximum' amount the Bank expects to loose using confidence level (98%). Therefore there is statistical probability of (2%) that actual losses could be greater than the VAR estimation. The VAR module assumes that the holding period is 10 days before closing the opening position. It also assumes that market movements during the holding period will be the same as 10-days before. The Bank's assessment of past movements is based on data for the past five hundred days. The Bank applies these historical changes in rates prices indicators….etc. directly to its current positions this approach is called historical simulation. Actual outcomes are monitored regularly to test the validity of the assumptions and factors used in the VAR calculation.

The use of this approach does not prevent losses from exceeding these limits if there are significant market movements.

As VAR is considered a primary part of the Bank's market risk control technique, VAR limits are established by the Board annually for all trading and non-trading transactions and allocated to business units. Actual values exposed to market risk are compared to the limits established by the bank and reviewed by the ALCO.

The average daily VAR for the Bank during the current year was EGP33,831 thousands against EGP28,125 thousands as at 31 December 2009.

The quality of the VAR module is continuously monitored through examining the VAR results for trading portfolio and results are reported to the Top Management and the Board of Directors.

Stress Testing

Stress testing provides an indicator of the expected losses that may arise from sharp adverse circumstances. Stress testing is designed to match business using standard analysis for specific scenarios. The stress testing is carried out by the Bank treasury. Stress testing includes risk factor stress testing where sharp movements are applied to each risk category and test emerging market stress, as emerging market portfolios are subject to sharp movements; and subject to special stress including possible stress events to specific positions or regions - for example the stress outcome to a region applying a free currency rate. The results of the stress testing are reviewed by Top Management and the Board of Directors.

ii *VAR summary*

According to risk type

	31 December 2010			31 December 2009		
	Average	*High*	*Low*	*Average*	*High*	*Low*
	EGP(000)	**EGP(000)**	**EGP(000)**	EGP(000)	EGP(000)	EGP(000)
Foreign exchange risk	**33,529**	**118,780**	**7,895**	27,909	125,072	5,654
Interest rate risk	**302**	**621**	**118**	216	349	19
Total VAR	**33,831**	**119,401**	**8,013**	28,125	125,421	5,673

Trading portfolio VAR by risk type

	31 December 2010			31 December 2009		
	Average	*High*	*Low*	*Average*	*High*	*Low*
	EGP(000)	**EGP(000)**	**EGP(000)**	EGP(000)	EGP(000)	EGP(000)
Foreign exchange risk	**33,529**	**118,780**	**7,895**	27,909	125,072	5,654
Interest rate risk	**41**	**84**	**16**	35	113	2
Total VAR	**33,570**	**118,864**	**7,911**	27,944	125,185	5,656

3 Financial risk management *(continued)*

Non-trading portfolio VAR by risk type

	31 December 2010			31 December 2009		
	Average	*High*	*Low*	*Average*	*High*	*Low*
	EGP(000)	**EGP(000)**	**EGP(000)**	EGP(000)	EGP(000)	EGP(000)
Interest rate risk	**294**	**575**	**135**	199	344	31
Total VAR	**294**	**575**	**135**	199	344	31

The increase in VAR especially the interest rate risk, is mainly associated with the increase in market interest rates volatility in the global financial markets.

The above three VAR results are calculated independently from the underlying positions and historical market movements. The aggregate of the trading and non-trading VAR results does not represent the Bank's VAR due to correlations of risk types and portfolio types and their effect.

iii *Foreign exchange volatility risk*
The Bank is exposed to foreign exchange volatility risk in terms of the financial position and cash flows. The Board of Directors set aggregate limits for foreign exchange for each position at the end of the day, and during the day which is controlled on timely basis. The following table summarises the Bank' exposure to foreign exchange volatility risk at the end of the financial year and includes the carrying amounts of the financial instruments in their currencies:

31 December 2010	**EGP**	**USD**	**Euro**	**GBP**	**Other**	**Equivalent EGP(000) Total**
Financial Asset						
Cash and balances with CBE	**(2,788,604)**	**(1,497,263)**	**(33,496)**	**(12,804)**	**(2,505)**	**(4,334,672)**
Due from Banks	**(6,019,846)**	**(1,195,677)**	**(2,033,183)**	**(849,505)**	**(66,822)**	**(10,165,033)**
Treasury bills	**(6,985,999)**	—	—	—	—	**(6,985,999)**
Loans and advances to customers	**(7,996,474)**	**(8,234,989)**	**(556,128)**	**(50,804)**	**(64,095)**	**(16,902,490)**
Derivative financial instruments	—	**(18,843)**	—	—	—	**(18,843)**
Financial investments						
Available for sale	**(4,384,414)**	**(1,206,662)**	—	—	—	**(5,591,076)**
Held to maturity	**(55,000)**	—	—	—	—	**(55,000)**
Other financial assets	**(987,545)**	**(67,560)**	**(2,212)**	**(427)**	**(1,461)**	**(1,059,205)**
Total financial assets	**(29,217,882)**	**(12,220,994)**	**(2,625,019)**	**(913,540)**	**(134,883)**	**(45,112,318)**
Financial liabilities						
Due to banks	**481,769**	**310,899**	**110,226**	**5,137**	**9**	**908,040**
Customer deposits	**24,343,782**	**11,908,676**	**2,529,174**	**907,669**	**65,173**	**39,754,474**
Financial derivatives	—	**18,102**	—	—	—	**18,102**
Other financial liabilities	**4,310,899**	**110,760**	**3,905**	**2,528**	**3,610**	**4,431,702**
Total financial liabilities	**29,136,450**	**12,348,437**	**2,643,305**	**915,334**	**68,792**	**45,112,318**
Net financial position balance sheet	**(81,432)**	**127,443**	**18,286**	**1,794**	**(66,091)**	—
Commitments related to credit	**5,973,161**	**3,034,281**	**721,485**	**40,122**	**1,288,789**	**11,057,838**

3 Financial risk management *(continued)*

31 December 2009

Total financial assets	(23,136,779)	(9,454,506)	(2,552,784)	(850,803)	(119,850)	(36,114,722)
Total financial liabilities	23,262,971	9,346,107	2,596,793	850,746	58,105	36,114,722
Net financial position balance sheet	126,192	(108,399)	44,009	(57)	(61,745)	—
Commitments related to credit	9,057,141	8,161,015	1,357,509	195,651	1,040,643	19,811,959

iv *Interest rate risk*
Cash flow interest rate risk is the risk of fluctuation in future cash flows of a financial instrument due to changes in market interest rates. Fair value interest rate risk is the risk whereby the value of a financial instrument fluctuates because of changes in market interest rates. The Bank is exposed to the effect of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but profit may decrease in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken and is monitored daily by Bank Treasury.

The table below summarises the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts categorised by the earlier of repricing or maturity dates.

31 December 2010

	Up to one month	*1-3 Months*	*3-12 Months*	*1-5 years*	*Over 5 years*	*Total*
	EGP(000)	**EGP(000)**	**EGP(000)**	**EGP(000)**	**EGP(000)**	**EGP(000)**
Financial Assets						
Cash and balances with CBE	**(2,903,120)**	**(1,431,552)**	—	—	—	**(4,334,672)**
Due from banks	**(9,697,474)**	**(459,359)**	**(8,200)**	—	—	**(10,165,033)**
Treasury bills	**(458,208)**	**(1,053,005)**	**(5,474,786)**	—	—	**(6,985,999)**
Loans and advances to customers	**(3,667,378)**	**(674,925)**	**(1,530,276)**	**(11,029,911)**	—	**(16,902,490)**
Derivative financial instruments	—	—	**(8,177)**	**(10,666)**	—	**(18,843)**
Financial investments						
Available for sale	**(11)**	**(115,340)**	**(1,500,727)**	**(3,379,474)**	**(595,524)**	**(5,591,076)**
Held to maturity	—	—	—	—	**(55,000)**	**(55,000)**
Other financial assets	—	**(353,068)**	**(353,068)**	**(353,069)**	—	**(1,059,205)**
Total financial assets	**(16,726,191)**	**(4,087,249)**	**(8,875,234)**	**(14,773,120)**	**(650,524)**	**(45,112,318)**

3 Financial risk management *(continued)*

	Up to one month	*1-3 Months*	*3-12 Months*	*1-5 years*	*Over 5 years*	*Total*
	EGP(000)	**EGP(000)**	**EGP(000)**	**EGP(000)**	**EGP(000)**	**EGP(000)**
Financial liabilities						
Due to banks	**908 040**	—	—	—	—	**908,040**
Customer deposits	**27,984,018**	**2,486,368**	**3,031,712**	**6,252,376**	—	**39,754,474**
Derivative financial instruments	—	—	**7,436**	**10,666**	—	**18,102**
Other financial liabilities	—	—	—	**4,431,702**	—	**4,431,702**
Total financial liabilities	**28,892,058**	**2,486,368**	**3,039,148**	**10,694,744**	—	**45,112,318**
Interest repricing gap	**12,165,867**	**(1,600,881)**	**(5,836,086)**	**(4,078,376)**	**(650,524)**	**—**

31 December 2009

	Up to one month	*1-3 Months*	*3-12 Months*	*1-5 years*	*Over 5 years*	*Total*
	EGP(000)	EGP(000)	EGP(000)	EGP(000)	EGP(000)	EGP(000)
Total financial assets	(12,399,426)	(4,395,059)	(5,859,368)	(12,582,751)	(878,118)	(36,114,722)
Total financial liabilities	23,307,130	2,774,033	1,681,702	4,243,563	4,108,294	36,114,722
Interest repricing gap	10,907,704	(1,621,026)	(4,177,666)	(8,339,188)	3,230,176	—

c *Liquidity risk*

Liquidity risk represents difficulty encountering the Bank in meeting its financial commitments when they fall due and replace funds when they are withdrawn. This may result in failure in fulfilling the Bank's obligation to repay to the depositors and fulfilling lending commitments.

Liquidity risk management process

The Bank's liquidity management process carried out by the Bank Treasury includes:

— Daily funding is managed by monitoring future cash flows to ensure that all requirements can be met when due.This includes availability of liquidity when due or borrowed by customers. To ensure that the Bank reaches its objective it maintains an active presence in global money markets.

— The Bank maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow

— Monitoring liquidity ratios are according to internal requirements and Central Bank of Egypt requirements.

— Managing loans concentration and dues.

For monitoring and reporting purposes, the Bank calculates the expected cash flow and liquidity on the next day, week and month basis.

The starting point to calculate these expectations is through analysing the financial liabilities dues and expected financial assets collections.

Credit risk department monitor's the mismatch between medium term assets, the level and nature of unused loans limits, overdraft utilisations, and the effect of contingent liabilities such as letters of guarantees and letters of credit.

Notes on the Accounts (continued)

3 Financial risk management *(continued)*

Non derivative cash flows

31 December 2010

Financial liabilities	*Up to one month*	*Over than 1 Month to 3 month*	*Over than 3 Months to 1 year*	*Over than 1 year to 5 years*	*More than 5 years*	*Total*
	EGP(000)	**EGP(000)**	**EGP(000)**	**EGP(000)**	**EGP(000)**	**EGP(000)**
Due to banks	**908,040**	**—**	**—**	**—**	**—**	**908,040**
Customers' deposits	**28,102,979**	**2,507,509**	**3,072,553**	**6,068,273**	**290,969**	**40,042,283**
Total of financial liabilities according to maturity date	**29,011,019**	**2,507,509**	**3,072,553**	**6,068,273**	**290,969**	**40,950,323**

Funding approach
Sources of liquidity are regularly reviewed by the bank treasury to maintain a wide diversification according to currency, geography, source, products and terms.

Off-balance sheet items according to the table below and note no (36).

31 December 2010

	Up to 1 year	*Over 1 year and less than 5 years*	*More than 5 years*	*Total*
	EGP(000)	**EGP(000)**	**EGP(000)**	**EGP(000)**
Letters of credit commitments	**981,202**	**—**	**—**	**981,202**
Loans commitments	**4,184,453**	**—**	**—**	**4,184,453**
Long commitments, bills on discount and other financial assets	**4,898,896**	**993,287**	**—**	**5,892,183**
Operating lease commitments	**8,422**	**5,635**	**1,760**	**15,817**
Total	**10,072,973**	**998,922**	**1,760**	**11,073,655**

31 December 2009

	Up to 1 year	*Over 1 year and less than 5 years*	*More than 5 years*	*Total*
	EGP(000)	EGP(000)	EGP(000)	EGP(000)
Letters of credit commitments	1,229,741	—	—	1,229,741
Loans commitments	2,016,565	—	—	2,016,565
Long commitments, bills on discount and other financial assets	16,033,365	532,288	—	16,565,653
Operating lease commitments	4,301	7,484	2,437	14,222
Total	**19,283,972**	**539,772**	**2,437**	**19,826,181**

3 Financial risk management *(continued)*

d *Fair value of financial assets and liabilities*

i *Financial instruments measured at fair value using a valuation method*.
The total amount of the change in estimated fair value using a valuation method during the year, amounted to EGP4,178 thousands against EGP373 thousands as at 31 December 2009.

ii *Financial instruments not measured at fair value*.
The table below summarises the carrying amounts and fair values for those financial assets and liabilities not presented on the Bank's balance sheet at their fair value.

	Carrying value Current year	*Fair value Current year*
	EGP(000)	EGP(000)
Financial assets		
Due from banks	10,165,033	10,165,033
Loans and advances to customers		
Retail	2,326,049	2,326,049
Corporate	15,069,467	15,069,467
Financial investments		
Equity instruments available for sale	25,727	25,727
Held to maturity	55,000	59,177
Financial liabilities		
Due to banks	908,040	908,040
Customer deposits		
Retail	21,280,758	21,280,758
Corporate	18,473,716	18,473,716

Due from banks
Fair value of placements and deposits bearing variable interest rate for one day is its current value. The expected fair value for deposits bearing variable interest is based on the discounted cash flow using rate of similar asset of similar credit risk and due dates.

Loans and advances to customers
Loans and advances are net of provisions for impairment losses. Fair value expected for loans and advances represents the discounted value of future cash flows expected to be collected and cash flows are discounted using the current market interest rate to determine the fair value.

Financial Investments
Financial investments shown in the above schedule includes only held to maturity assets investments; as available for sale investments are measured at fair value except for equity instruments for which the market value can't be reliably determined. Fair value of held-to-maturity investments is based on market prices or broker prices.

Fair value is estimated using quoted market prices for financial paper with similar credit maturity and yield characteristics where information is not available.

Due to banks and customers
The estimated fair value of deposits of indefinite maturity which includes interest-free deposits is the amount paid on call.

The estimated fair value of fixed interest-bearing deposits and other loans not traded in an active market is based on discounted cash flows using interest rates for new debts of similar maturity dates.

Notes on the Accounts (continued)

3 Financial risk management *(continued)*

e *Capital management*

The Bank's objectives behind managing capital include elements other than equity shown in the balance sheet and are represented in the following:

— Compliance with capital legal requirements in Egypt.
— Protecting the Bank's ability to continue and enabling it to generate profits for shareholders and other parties dealing with the Bank.
— Maintaining a strong capital base to enhance growth.

Capital adequacy and usage are reviewed on a daily basis according to Basel committee banks control instructions models and are are submitted to the Central Bank of Egypt on quarterly basis.

The Central Bank of Egypt requires the following from the Bank:

— Maintaining EGP 500 million as a minimum requirement for the issued and paid up capital.
— Maintaining a ratio between capital elements and asset and contingent liability elements weighted by risk weights at 10 % or more.

The numerator in capital adequacy comprises the following 2 tiers:

— Tier 1: It is the basic capital comprising of paid up capital (after deducting the carrying amount of the treasury stocks) retained earnings and reserves resulting from profit appropriations except the general reserve for banking risks less any goodwill previously recognised and any carried forward losses.
— Tier 2: It is the subordinate capital comprising of the equivalent of the general reserve according to CBE credit rating basis issued by the Central Bank of Egypt not exceeding 1.25% of total assets and contingent liabilities applying the risk weights subordinate loans/deposits of maturing over more than 5 years (20% amortisation of its value each year of the last five years of their maturity) and 45 % of the increase between the fair value and carrying amount for the available for sale investments, held to maturity investments and investments in subsidiaries.

On calculating the total numerator of capital adequacy it is to be considered that tier 2 should not be greater than tier 1 and subordinate loans (deposits) should not be greater than half of basic capital.

Assets are weighted by risk ranging from zero to 100 %. Classification is made according to the debit party for each asset to reflect the related credit risk taking into consideration cash guarantees. Same treatment is used for the off-balance sheet amounts after making relevant adjustments to reflect the contingent nature and the potential loss for these amounts.

The Bank complied with all internal requirements during the last years. The schedule below shows the calculation of capital adequacy ratio for the year:

	2010 EGP(000)	2009 EGP(000)
Capital		
Tier 1 (basic capital)		
Share capital (net of the treasury stocks)	**1,510,578**	1,508,500
General reserve	**750,336**	573,915
Legal reserve	**264,770**	205,947
Special reserve	**63,466**	63,466
Fair value reserve – available for sale	**—**	(55,560)
Other reserves	**6,728**	6,728
Total basic capital	**2,595,878**	2,302,996
Tier 2 (subordinated capital)		
Equivalent to general risk provision	**132,226**	190,479
45% of the increase in fair value than the book value for A.F.S	**10,350**	168
Total subordinated capital	**142,576**	190,647
Total capital	**2,738,454**	2,493,643

3 Financial risk management *(continued)*

	2010 EGP(000)	2009 EGP(000)
Assets and contingent liabilities risk weighted		
Assets on-balance sheet	**19,291,916**	16,202,043
Contingent liabilities	**2,516,911**	3,324,882
Total risk weighted assets and contingent liabilities	**21,808,827**	19,526,925
Capital adequacy ratio (%)	**12.56%**	12.77%

4 Significant accounting estimates and assumptions

The Bank makes subjective estimates and judgments that affect the reported amounts of assets and liabilities for the following financial year Consistent estimations and judgments are continually evaluated based on historical experience and other factors including the expectations of future events that are believed to be reasonable.

i *Impairment losses for loans and advances*
The Bank reviews the portfolio of loans and advances at least quarterly. The Bank uses discretionary judgment on determining whether it is necessary to record impairment loss in the income statement. The Bank has to identify if there is objective evidence indicating a decline in the expected future cash flows from loan portfolio before identifying any decline on individual basis. This evidence includes data indicating negative changes in a borrower's portfolio ability to repay to the Bank or local or economic circumstances related to default. On scheduling future cash flows the management uses the past experience to determine the credit impairment loss for assets when there is objective evidence of impairment similar to that of the portfolio in question. The methods and assumptions used in estimating both the amount and timing of the future cash flows are reviewed on a regular basis to minimise any discrepancy between the estimated loss and actual loss based on experience.

ii *Impairment of available for sale equity investments*
The Bank recognises impairment loss relating to available for sale equity investments when there is a significant or prolonged decline in the fair value below its cost. A judgment is required to determine that the decline is significant or prolonged. In making this judgment the Bank evaluates among other factors the volatility in share price. In addition, impairment loss is recognised when there is evidence of a deterioration in the investee financial position or operating /finance cash flow industry and sector performance technology changes.

iii *Fair value of derivatives*
Fair value of financial instruments not quoted in an active market is determined using valuation techniques. However these techniques (as models) are tested and reviewed yearly using qualified independently personnel other than those who prepared the techniques. All the models were prepared before and after using them to ensure that their results reflect accurate data and prices comparable to the market. These models uses the actual data to be practical, However some areas such as credit risk related to the Bank and counter party volatility and correlations requires management estimations. Changes in these estimated factors can affect the financial instrument's fair value disclosure. For example Management uses credit marginal less than 20 points of the estimated net fair value of derivatives amounted to EGP18,843 thousands in assets against EGP18,102 thousands in liabilities which represent its fair value as shown in (Note 19).

iv *Held-to-maturity investments*
Non-derivatives financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity. This classification requires high degree of judgment; in return the bank tests the intent and ability to hold such investments to maturity. If the bank fails to hold such investments till maturity except for certain circumstances (selling an insignificant amount of held-to-maturity investments near to maturity date) then all held to maturity investment portfolio should be reclassified as available for sale which will be measured at fair value instead of amortised cost. In addition the Bank should suspend classifying investments as held to maturity caption. If classification of investments as held to maturity is suspended the carrying amount shall increase by EGP4,178 thousand to reach its fair value by increasing the valuation reserve available for sale within the equity caption.

v *Income tax*
The Bank is subject to income tax which requires the use of estimates to calculate the income tax provision. There are a number of complicated processes and calculations to determine the final income tax. The Bank records a liability related to the tax inspection estimated results. When there is a difference between the final result of the actual tax inspection and the amounts previously recorded by the Bank such differences will be recorded in the year whereby differences are noted. Income tax and deferred tax will be recorder in that same year.

Notes on the Accounts (continued)

5 Segment analysis

a *By activity segment*

Activity segment include operations and assets used in providing banking services and managing related risks and yields which may differ from other activities. The segmentation analyses of operations according to the Banking activities are as follows:

- **Large enterprises medium and small**
  Activities include current accounts, deposits, overdrafts, loans, credit facilities and financial derivatives.

- **Investments**
  Include merging of companies, purchase of investments, financing company's restructure and financial instruments.

- **Individuals**
  Activities include current accounts, savings deposits, credit cards, personal loans and mortgage loans.

- **Other activities**
  Include other banking activities such as fund management.
  Inter-segment transactions occur at the normal course of business of the Bank. Assets and liabilities at the balance sheet include operating assets and liabilities.

31 December 2010

	Corporate	*Small and Medium enterprises*	*Global Markets*	*Personal Financial Services*	*Other activities*	*Total*
	EGP(000)	**EGP(000)**	**EGP(000)**	**EGP(000)**	**EGP(000)**	**EGP(000)**
Income and expenses according to the activity segment						
Income	**1,166,743**	**119,177**	**290,579**	**642,091**	**—**	**2,218,590**
Expenses	**(564,651)**	**(33,544)**	**(7,895)**	**(380,637)**	**—**	**(986,727)**
Segment result	**602,092**	**85,633**	**282,684**	**261,454**	**—**	**1,231,863**
Profit before tax	**602,092**	**85,633**	**282,684**	**261,454**	**—**	**1,231,863**
Tax	**(121,530)**	**(16,031)**	**(52,647)**	**(51,489)**	**—**	**(241,697)**
Segment profit for the year	**480,562**	**69,602**	**230,037**	**209,965**	**—**	**990,166**
Assets and liabilities according to activity segment						
Assets	**(23,658,062)**	**(546,220)**	**(12,409,721)**	**(1,941,381)**	**(6,556,934)**	**(45,112,318)**
Total assets	**(23,658,062)**	**(546,220)**	**(12,409,721)**	**(1,941,381)**	**(6,556,934)**	**(45,112,318)**
Liabilities	**16,070,167**	**2,160,641**	**1,067,388**	**21,604,664**	**4,209,458**	**45,112,318**
Total liabilities	**16,070 ,167**	**2,160,641**	**1,067,388**	**21,604,664**	**4,209,458**	**45,112,318**

5 Segment analysis *(continued)*

31 December 2009

	Corporate	*Small and Medium enterprises*	*Global Markets*	*Personal Financial Services*	*Other activities*	*Total*
	EGP(000)	EGP(000)	EGP(000)	EGP(000)	EGP(000)	EGP(000)
Income and expenses according to the activity segment						
Income	780,340	69,124	271,804	464,193	344,282	1,929,743
Expenses	(256,897)	(25,307)	(7,867)	(302,671)	(1,835)	(594,577)
Segment result	523,443	43,817	263,937	161,522	342,447	1,335,166
Profit before tax	523,443	43,817	263,937	161,522	342,447	1,335,166
Tax	(63,446)	(4,884)	(30,085)	(21,578)	(36,951)	(156,944)
Profit for the year	459,997	38,933	233,852	139,944	305,496	1,178,222
Assets and liabilities according to activity segment						
Assets	(13,268,459)	(307,182)	(19,550,092)	(2,770,293)	(218,696)	(36,114,722)
Total assets	(13,268,459)	(307,182)	(19,550,092)	(2,770,293)	(218,696)	(36,114,722)
Liabilities	14,596,066	1,965,237	807,806	15,423,449	3,322,164	36,114,722
Total liabilities	14,596,066	1,965,237	807,806	15,423,449	3,322,164	36,114,722

Notes on the Accounts (continued)

5 Segment analysis *(continued)*

b *Analysis according to the geographical segment*

31 December 2010

	Arab Republic of Egypt			
	Cairo	*Alexandria and Delta*	*Upper Egypt, Sinai and Red sea*	*Total*
	EGP(000)	**EGP(000)**	**EGP(000)**	**EGP(000)**
Income and expenses according to the geographical segment				
Income	**2,001,161**	**106,608**	**100,313**	**2,208,082**
Expenses	**(895,918)**	**(41,121)**	**(39,180)**	**(976,219)**
Profit before tax	**1,105,243**	**65,487**	**61,133**	**1,231,863**
Tax	**(241,697)**	**—**	**—**	**(241,697)**
Profit for the year	**863,546**	**65,487**	**61,133**	**990,166**
Assets and liabilities according to the geographical segment				
Assets	**(43,159,908)**	**(1,102,288)**	**(850,122)**	**(45,112,318)**
Total assets	**(43,159,908)**	**(1,102,288)**	**(850,122)**	**(45,112,318)**
Liabilities	**40,267,050**	**3,155,778**	**1,689,490**	**45,112,318**
Total liabilities	**40,267,050**	**3,155,778**	**1,689,490**	**45,112,318**

31 December 2009

	Arab Republic of Egypt			
	Cairo	*Alexandria and Delta*	*Upper Egypt, Sinai and Red sea*	*Total*
	EGP(000)	EGP(000)	EGP(000)	EGP(000)
Income and expenses according to the geographical segment				
Income	1,789,650	82,974	69,899	1,942,523
Expenses	(539,751)	(35,255)	(32,350)	(607,356)
Profit before tax	**1,249,899**	**47,719**	**37,549**	**1,335,167**
Tax	(156,945)	—	—	(156,945)
Profit for the year	1,092,954	47,719	37,549	1,178,222
Assets and liabilities according to the geographical segment				
Assets	(34,530,852)	(849,897)	(733,973)	(36,114,722)
Total assets	(34,530,852)	(849,897)	(733,973)	(36,114,722)
Liabilities	32,145,655	2,432,466	1,536,601	36,114,722
Total liabilities	32,145,655	2,432,466	1,536,601	36,114,722

6 Net interest income

	2010 EGP(000)	2009 EGP(000)
Interest from loans and similar income		
Loans and advances to customers	**1,106,783**	1,085,429
Treasury bills and treasury bonds	**683,525**	690,962
Deposits and current accounts	**385,337**	380,295
Investments in debt instruments available for sale	**402,833**	181,952
	2,578,478	2,338,638
Interest on deposits and similar expenses		
Deposits and current accounts		
Banks	**4,230**	4,710
Customers	**1,219,926**	1,088,475
Total	**1,224,156**	1,093,185
Net	**1,354,322**	1,245,453

7 Net fees and commission income

	2010 EGP(000)	2009 EGP(000)
Fees and commission income		
Fees and commissions related to credit	**423,804**	322,658
Custody fees	**46,297**	33,297
Other fees	**10,245**	4,368
	480,346	360,323
Fees and commission expenses		
Brokerage fees paid	**3,952**	564
Other fees paid	**25,664**	21,436
	29,616	22,000
Net	**450,730**	338,323

8 Dividends income

	2010 EGP(000)	2009 EGP(000)
Available for sale investments	**2,535**	2,209
Subsidiaries	**23,161**	21,362
	25,696	23,571

Notes on the Accounts (continued)

9 Net trading income

	2010 EGP(000)	2009 EGP(000)
Foreign exchange operations		
Forex profit	**283,321**	261,847
Debt instruments held for trading	**10,988**	4,566
Forward deals revaluation	**12,055**	(10,149)
	306,364	256,264

10 Administrative expenses

	2010 EGP(000)	2009 EGP(000)
Staff costs		
Wages and salaries	**299,685**	237,919
Social insurance	**10,711**	8,813
	310,396	246,732
Other administrative expenses	**385,977**	294,112
	696,373	540,844

11 Other operating income

	2010 EGP(000)	2009 EGP(000)
Profit from revaluation of monetary assets and liabilities determined in foreign currency other than those classified for trading or originally classified at fair value through profit and loss	**7,860**	7,765
Gain on sale of property and equipment	**(48)**	547
Operating lease	**43,868**	18,965
Other provision	**(12,096)**	48,573
Other	**15,394**	9,225
	54,978	85,075

12 Impairment losses

	2010 EGP(000)	2009 EGP(000)
Loans and advances to customers		
Impairment losses	**276,186**	51,739
Impairment recovery	**(12,332)**	(8,441)
	263,854	43,298

13 Income tax expenses

	2010 EGP(000)	2009 EGP(000)
Current taxes	**(246,593)**	(202,626)
Deferred tax (note 30)	**4,896**	4,715
	(241,697)	(197,911)

(Note 30) shows additional information about deferred income tax whereby income taxes differ when current applicable tax rates are used as follows:

	2010 EGP(000)	2009 EGP(000)
Profit before tax	**1,231, 863**	1,376,133
Tax rate	**20%**	20%
Income tax calculated on accounting profit	**246,373**	275,227
Add (Less)		
Non deductible expenses	**276**	144
Tax exemptions	**(24,255)**	(63,809)
Provisions	**23,990**	(4,459)
Interest in suspense	**410**	1,208
Depreciations	**(201)**	(5,685)
Total differences	**220**	(72,601)
Income tax according to the tax return	**246,593**	202,626
Effective tax rate	**20.02%**	14.72%

Taxation position

A summary of HSBC Bank Egypt 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 submitted an appeal to the decision.

— Years from 1991 until 2004
These years were inspected and disputes were settled in the Internal Committee and tax was fully settled for these years.

— 2005 until 2009
The Bank filed tax declaration for these years within the legal permitted period according to the Income Tax Law number 91 of 2005.The Bank started preparing for inspection for the years 2005 and 2006.

b *Salary tax*

— Years from 1982 until 2009, these years were inspected and were settled.

c *Stamp duty*

— Years from 1982 till 31 July 2006
These years were inspected and tax was fully settled

— Years from 1 August 2006 till 31 December 2008
These years were inspected and disputes are currently discussed in the Internal Committee.

— Year 2009
The inspection date will be determined

Notes on the Accounts (continued)

14 Earnings per share

Earnings per share is calculated by dividing profit related to the shareholders' by the ordinary shares weighted average issued during the year after excluding the average repurchased shares during the year and kept as treasury stocks.

	2010 EGP(000)	2009 EGP(000)
Net profit applicable to be distributed on the shareholders	**953,587**	1,176,459
Employees' profit share (10%)	**(95,359)**	(117,646)
	858,228	1,058,813
Common shares weighted average issued (1000 shares)	**17,958**	17,958
Earnings per share/ EGP	**47.79**	58.96

15 Cash and balances with the Central Bank of Egypt CBE

	2010 EGP(000)	2009 EGP(000)
Cash	**459,859**	351,816
Due from the CBE (within the required reserve percentage)	**3, 874,813**	3,578,978
	4,334,672	3,930,794
Interest free balances	**2,903,120**	2,536,733
Fixed interest rate balances	**1,431,552**	1,394,061
	4,334,672	3,930,794

16 Due from banks

	2010 EGP(000)	2009 EGP(000)
Current accounts	**133,387**	306,059
Deposits	**10,031,646**	6,490,843
	10,165,033	6,796,902
Due from CBE (other than the required reserve percentage)	**6 011 103**	3,352,743
Local banks	**46,778**	237,016
Foreign banks	**4,107,152**	3,207,143
	10,165,033	6,796,902
Interest free balances	**133,388**	306,059
Fixed interest rate balances	**10,031,645**	6,490,843
Current balances	**10,165,033**	6,796,902
	10,165,033	6,796,902

17 Treasury bills

	2010 EGP(000)	2009 EGP(000)
Treasury bills	**6,985,999**	6,985,201
Total	**6,985,999**	6,985,201
Treasury bills with original maturity of 91 days	**450**	880,950
Treasury bills with original maturity of 182 days	**259,750**	1,211,425
Treasury bills with original maturity of 273 days	**2,713,200**	2,074,220
Treasury bills with original maturity of 364 days	**4,323,750**	3,117,425
Unearned interest	**(311,151)**	(298,819)
Total	**6,985,999**	6,985,201

18 Loans and advances

	2010 EGP(000)	2009 EGP(000)
Retail:		
Overdrafts	**309,897**	230,353
Credit cards	**383,497**	319,077
Personal loans	**1,619,990**	1,244,282
Mortgage loans	**12,665**	19,487
Total (1)	**2,326,049**	1,813,199
Corporate loans including small loans:		
Overdrafts	**1,364,549**	1,416,477
Direct loans	**6,797,844**	5,632,436
Syndicated loans	**6,907,074**	5,352,640
Total (2)	**15,069,467**	12,401,553
Total loans and advance to customers (1+2)	**17,395,516**	14,214,752
Less: unearned discount for discounted bills	**(373)**	(301)
Less: provision for impairment losses	**(463,460)**	(206,282)
Less: interest in suspense	**(29,193)**	(27,141)
Net	**16,902,490**	13,981,028
Total distributed as follows:		
Current balances	**5,872,579**	3,678,348
Non-current balances	**11,029,911**	10,302,680
Total	**16,902,490**	13,981,028

The Bank accepted trading financial papers on 31 December 2010 of fair value amounted to EGP913,326 thousands as a commercial loan guarantee.

Notes on the Accounts (continued)

18 Loans and advances *(continued)*

Provision for impairment losses:

The Provision for impairment losses analysis for loans and advances to customers' are classified according to its type as follows:

31 December 2010

	Retail				
	Overdrafts	*Credit cards*	*Personal loans*	*Mortgage loans*	*Total*
	EGP(000)	**EGP(000)**	**EGP(000)**	**EGP(000)**	**EGP(000)**
Balance at the beginning of the year	**423**	**3,533**	**31,908**	**1,036**	**36,900**
Impairment losses	**1,537**	**405**	**10,942**	**—**	**12,884**
Amounts written off during the year	**—**	**(362)**	**(1,547)**	**—**	**(1,909)**
Recoveries during the year	**—**	**—**	**—**	**(1,036)**	**(1,036)**
Balance at year end	**1,960**	**3,576**	**41,303**	**—**	**46,839**

31 December 2010

	Corporate			
	Overdrafts	*Direct loans*	*Syndicated loans*	*Total*
	EGP(000)	**EGP(000)**	**EGP(000)**	**EGP(000)**
Balance at the beginning of the year	**27,748**	**103,350**	**38,284**	**169,382**
Impairment losses	**428**	**2,132**	**260,742**	**263,302**
Amounts written off during the year	**—**	**(10,798)**	**—**	**(10,798)**
Recoveries during the year	**—**	**(11,296)**	**—**	**(11,296)**
Provision forex revaluation differences	**—**	**6,031**	**—**	**6,031**
Balance at year end	**28,176**	**89,419**	**299,026**	**416,621**

18 Loans and advances *(continued)*

31 December 2009

	Retail				
	Overdrafts	*Credit cards*	*Personal loans*	*Mortgage*	*Total*
	EGP(000)	EGP(000)	EGP(000)	EGP(000)	EGP(000)
Balance at the beginning of the year	360	4,084	14,841	164	19,449
Impairment losses	63	907	17,067	872	18,909
Proceeds from the debts previously written off	—	—	893	—	893
Amounts written off during the year	—	(1,458)	—	—	(1,458)
Recoveries during the year	—	—	(893)	—	(893)
Balance at year end	423	3,533	31,908	1,036	36,900

31 December2009

	Corporate			
	Overdrafts	*Direct loans*	*Syndicated loans*	*Total*
	EGP(000)	EGP(000)	EGP(000)	EGP(000)
Balance at the beginning of the year	25,349	100,793	29,221	155,363
Impairment losses	2,399	21,368	9,063	32,830
Amounts written off during the year	—	(11,274)	—	(11,274)
Recoveries during the year	—	(7,548)	—	(7,548)
Provision forex revaluation difference	—	11	—	11
Balance at year end	27,748	103,350	38,284	169,382

19 Financial derivatives

Derivatives
The bank uses the following derivatives for hedging and non-hedging purposes:

— Currency forwards contracts represent commitments to purchase/sell foreign and local currency's including the incomplete portion of the immediate transactions. Credit risk is considered minimal is the Bank. Currency forward contracts represent future rate for future dates that are individually negotiable. Cash settlement in future dates is required. This settlement represents the difference between the contract rate and the actual current rate at the market. The settlement depends on the nominal value.

— Currency and/or interest swap contracts represent the commitments to swap a group of cash flows to another. This contracts resulted in exchange of currencies or interest rates (for example fixed rate for floating rate) or both (ie cross-currency interest rate swaps). No exchange of principal takes place except for certain currency swaps. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfill their obligation. This risk is monitored on an ongoing basis by comparing it to current fair value and to a percentage of the contract notional amount. To control an existing credit risk the Bank assesses counterparties using the same techniques as for its lending activities.

19 Financial derivatives *(continued)*

— Option contracts in foreign currencies and/or interest rates represent contract agreements in which the buyer (issuer) give to seller (holder) a right not an obligation to buy (buy option) or to sell (sell option) at a certain date or within a certain period of time by certain amount denominated in foreign currency or a financial instrument with prior agreed price. The buyer receives in return a commission against the burden of risk he took Option contracts are either traded in the market or negotiable between the bank and one of its customers. The Bank. Is exposed to credit risk for the purchased options contracts only according to its book value which represents its fair value.

— The notional amounts of certain types of financial instrument is used as a basis for comparison purposes with financial instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows or the current fair value of the instruments and therefore does not indicate the Bank's exposure to credit or price risks.

The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in the market interest rates or foreign exchange rates related to them. The aggregate contractual or notional amount of the existing financial derivative instruments, the duration to which instruments are favorable or unfavorable, and the aggregate fair value of financial assets and liabilities derivatives can fluctuate significantly from time to time.

— The table below represent the fair value of financial derivatives existing at the balance sheet date.

31 December 2010

	Contract amount Asset	*Contract amount Liability*	*Assets*	*Liabilities*
	EGP(000)	**EGP(000)**	**EGP(000)**	**EGP(000)**
Derivatives held for trading				
Foreign currency derivatives				
Currency swap contracts	**6,989**	**(6,989)**	**345**	**(345)**
Currency forward contracts	**634,647**	**(226,085)**	**7,832**	**(7,091)**
Interest rate derivatives				
Interest rate swap contracts	**443,283**	**(443,283)**	**10,666**	**(10,666)**
Total assets (Liabilities) of derivatives held for trading			**18,843**	**(18,102)**

31 December 2009

	Contract amount Asset	*Contract amount Liability*	*Assets*	*Liabilities*
	EGP(000)	EGP(000)	EGP(000)	EGP(000)
Derivatives held for trading				
Foreign currency derivatives				
Currency swap contracts	—	(109,824)	—	(474)
Currency forward contracts	246,000	(246,000)	158	(541)
Interest rate derivatives				
Interest rate swap contracts	954,993	(954,993)	17,489	(17,489)
Total assets (Liabilities) of derivatives held for trading			17,647	(18,504)

20 Financial investments

	2010 EGP(000)	2009 EGP(000)
a ***Available for sale***		
Equity instruments unlisted (at cost)	**25,727**	25,730
Debt instruments listed (at FMV)**	**5,565,349**	3,458,908
Total available for sale investments (1)	**5,591,076**	3,484,638
b ***Held-to-maturity***		
Debt instruments unlisted *(Mutual fund)	**55,000**	30,000
Total held to maturity investments (2)	**55,000**	30,000
Total financial investments (1+2)	**5,646,076**	3,514,638
Current Balances	**5,565,349**	3,458,908
Non-Current Balances	**80,727**	55,730
	5,646,076	3,514,638
Fixed inerest debt instruments	**4,336,317**	2,484,227
Variable interest debt instruments	**1,284,032**	1,004,681
	5,620,349	3,488,908

* The redemption amount of the mutual funds certificates as at 31 December 2010 amounted to EGP59.17 thousands against EGP30,373 thousands as at 31 December 2009).

** Debt instruments at listed fair market value include local bonds amounted to EGP4,690,000 thousands in which bonds amounted to EGP264,747 thousands secured by the Egyptian Ministry of Finance.

	Available for sale EGP(000)	*Held to maturity* EGP(000)	*Total* EGP(000)
31 December 2010			
Balance at beginning of the year	**3,484,638**	**30,000**	**3,514,638**
Additions	**2,259,239**	**25,000**	**2,284,239**
Disposals (Sale / Redemption)	**(290,980)**	**—**	**(290,980)**
Monetary assets forex differences	**63,791**	**—**	**63,791**
Gain/(Loss) from change in FMV	**74,388**	**—**	**74,388**
Balance at year end	**5,591,076**	**55,000**	**5,646,076**
31 December 2009			
Balance at beginning of the year	1,321,307	5,000	1,326,307
Additions	2,359,549	25,000	2,384,549
Disposals (Sale / Redemption)	(163,411)	—	(163,411)
Monetary assets forex differences	7,025	—	7,025
Loss from change in FMV	(39,832)	—	(39,832)
Balance at year end	3,484,638	30,000	3,514,638

Notes on the Accounts (continued)

21 Investment in subsidiaries

The Bank's total investment in subsidiaries amounted to EGP35,517 thousands the Bank's equity in it's subsidiaries is as follows: (based on the last financial position for the company as at 30 September 2010)

	Company's country	*Company's assets*	*Company's liabilities (without equity)*	*Company's revenue*	*Company's profit*	*Percentage*
		EGP(000)	EGP(000)	EGP(000)	EGP(000)	
HSBC Securities (Egypt) S.A.E	Egypt	142,759	92,835	35,685	19,752	98%
Total		**142,759**	**92,835**	**35,685**	**19,752**	

22 Intangible assets

Balance at beginning of the current year	**2010** *Computer software*	2009 *Computer software*
	EGP(000)	EGP(000)
Cost	**2,180**	979
Amortisation	**(1,005)**	(637)
Net book value at beginning of the current year	**1,175**	342
Additions	**1,603**	1,201
Amortisation cost	**(393)**	(368)
Net book value as at 31 December 2010	**2,385**	1,175
Cost	**3,783**	2,180
Amortisation cost	**(1,398)**	(1,005)
Net book value as at 31 December 2010	**2,385**	1,175

23 Other assets

	2010 EGP(000)	2009 EGP(000)
Accrued revenues	**277,827**	166,914
Prepaid expenses	**16,849**	16,563
Advances to purchase fixed assets	**7,302**	1,745
Assets reverted to bank (after deducting the impairment)	**901**	1,268
Costs of establishing branches under construction	**53,977**	35 072
Others	**45,678**	29,937
Total	**402,534**	251,499

24 Fixed Assets

	Lands and Buildings	*Leasehold Improvement*	*Machines and Equipment*	*Others*	*Total*
	EGP(000)	EGP(000)	EGP(000)	EGP(000)	EGP(000)
Balance as at the beginning of the current year					
Cost	458,480	68,193	74,532	118,332	719,537
Accumulated depreciation	(42,314)	(42,056)	(21,818)	(72,589)	(178,777)
Net book value as at 1 January 2010	416,166	26,137	52,714	45,743	540,760
Additions	31,831	15,956	10,703	21,123	79,613
Disposals (net)	(93 ,838)	—	(1,746)	(327)	(95,911)
Depreciation for the year	(15,943)	(17,162)	(5,728)	(17,970)	(56,803)
Net book value as at					
31 December 2010	338,216	24,931	55,943	48,569	467,659
Balance as at current year end					
Cost	396,473	84,149	83,489	139,128	703,239
Accumulated depreciation	(58,257)	(59,218)	(27,546)	(90,559)	(235,580)
Net book value as at 31 December 2010	**338,216**	**24,931**	**55,943**	**48,569**	**467,659**

25 Investment Property

As per Central Bank of Egypt approval dated 9 June 2004 the Bank leased some of its head office floors which is located at Cornich El Nil Maadi.

	2010
	EGP(000)
Balance at beginning of the current year	
Cost	**43,222**
Accumulated depreciation	**(2,213)**
Net book value at beginning of the year	**41,009**
Additions	**93,838**
Depreciation	**(7,186)**
Net book value as at 31 December 2010	**127,661**
Balance at current year end Cost	**137,060**
Accumulated depreciation	**(9,399)**
Net book value as at 31 December 2010	**127,661**

Notes on the Accounts (continued)

26 Due to banks

	2010 EGP(000)	2009 EGP(000)
Current accounts	**905,946**	447,533
Deposits	**2,094**	1,955
	908,040	449,488
Local banks	**531**	1,008
Foreign banks	**907,509**	448,480
	908,040	449,488
Interest free balances	**905,946**	447,533
Fixed interest balances	**2,094**	1,955
	908,040	449,488
Current balances	**908,040**	449,488

27 Customers' deposits

	2010 EGP(000)	2009 EGP(000)
Demand deposits	**12,367,774**	9,787,108
Time and call deposits	**9,193,056**	8,476,550
Certificates of deposits	**7,742,108**	4,371,675
Saving deposits	**9,770,775**	8,153,027
Other deposits	**680,761**	762,699
	39,754,474	31,551,059
Corporate deposits	**18,473,716**	15,143,144
Individual deposits	**21,280,758**	16,407,915
	39,754,474	31,551,059
Interest free balances	**12,695,599**	8,436,450
Fixed interest balances	**27,058,875**	23,114,609
	39,754,474	31,551,059
Current balances	**33,502,098**	24,917,633
Non-current balances	**6,252,376**	6,633,426
	39,754,474	31,551,059

Customer deposits include deposits of EGP455,607 thousands as at 31 December 2010 against (EGP500,964 thousands as at 31December 2009) which represent collateral for irrecoverable export letters of credit. There is no major difference between its carrying value and fair value.

28 Other liabilities

	2010 EGP(000)	2009 EGP(000)
Accrued interest	**164,070**	123,967
Unearned revenue	**68,157**	57,371
Accrued expenses	**83,804**	51,794
Creditors	**46,925**	36,471
Other credit balances	**73,775**	42,297
Total	**436,731**	311,900

29 Other Provisions

	Provision for claims		*Provision for contingent liabilities*		*Total*	
	2010 EGP(000)	2009 EGP(000)	**2010 EGP(000)**	2009 EGP(000)	**2010 EGP(000)**	2009 EGP(000)
Balance at the beginning of the year	**41,951**	75,327	**30,089**	19,656	**72,040**	94,983
Formed during the year	**16,945**	19,723	**—**	10,433	**16,945**	30,156
Transferred from other credit balances	**781**	29,811	**—**	—	**781**	29,811
Impact of modified accounting policies (Loans provision)	**—**	4,222	**—**	—	**—**	4,222
Provision valuation difference	**24**	(1)	**—**	—	24	(1)
	59,701	129,082	**30,089**	30,089	**89,790**	159,171
Used during the year	**(6,980)**	(7,644)	**—**	—	**(6,980)**	(7,644)
Provisions no longer required	**—**	(78,730)	**(4,849)**	—	**(4,849)**	(78,730)
Transferred to credit balances	**—**	(757)	**—**	—	—	(757)
Balance at year end	**52,721**	41,951	**25,240**	30,089	**77,961**	72,040

Notes on the Accounts (continued)

30 Deferred tax

Deferred income taxes are calculated entirely on the differences of deferred tax in accordance with liabilities method using the effective tax rate of 20% for the current financial year.

Offset between deferred tax assets and deferred tax liabilities takes place if there is legal reason to set off current tax assets against current tax liabilities and also when the deferred income taxes belong to the same department of taxation.

Deferred tax assets and liabilities

The movement of deferred tax assets and liabilities is as follows:

	Deferred tax assets		Deferred tax liabilities	
	2010 EGP(000)	2009 EGP(000)	**2010 EGP(000)**	2009 EGP(000)
Fixed assets	**—**	—	**(7,180)**	(6,979)
Provisions(other than loans provision)	**30,627**	25,529	**—**	—
other items (Investment revaluation differences)	**2**	2	**—**	—
Total tax assets (liabilities)	**30,629**	25,531	**(7,180)**	(6,979)
Net tax assets (liabilities)	**23,449**	18,552		

Deferred tax assets and liabilities movements

	Deferred tax assets		Deferred tax liabilities	
	2010 EGP(000)	2009 EGP(000)	**2010** EGP(000)	2009 EGP(000)
Balance at beginning of year	**25,531**	19,679	**(6,979)**	(5,841)
Additions	**5,098**	5,852	**(201)**	(1,138)
Balance at year end	**30,629**	25,531	**(7,180)**	(6,979)

31 End of service compensation benefit

	2010 EGP(000)	2009 EGP(000)
Liability stated in balance sheet for:		
End of service benefits	**149,641**	121,867
Amounts recognised in income statement:		
End of service benefits	**32,150**	25,258

The principal actuarial assumptions used are as follows:
Rates of death/disability of the British table A49-52ULT
- Rate of salary increase Sx=S20 *(1.05) ^ (X-20)

32 Capital

	Number of shares (In million)	*Ordinary shares*	*Total*	*Issuance premium included in other reserve issuance premium*
		EGP(000)	EGP(000)	EGP(000)
Balance at beginning of the year	17,958,334	1,508,500	1,508,500	6,728
Balance at year end	17,958,334	1,508,500	1,508,500	6,728

a *Authorised capital*

The authorized capital amounted to EGP750,000,000. According to the Extraordinary General Assembly decision on 12 March 2006 the authorized capital has been increased to EGP1,750,000,000. According to the Extraordinary General Assembly decision on 30 November 2010 the authorized capital has been increased to EGP 5,000,000,000.

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 which was paid in US Dollars at the prevailing rates on the subscription dates.
- According to the Extraordinary General Assembly decision on 12 March 2006 the issued capital has been increased by EGP572,500,068 by issuing 6,815,477 shares. The foreign shareholders own 94.53% of the capital which was paid in US Dollars at the prevailing rates on the subscription dates. Accordingly the issued and paid up capital is EGP1,072,500,072 distributed in 12,767 858 fully paid shares at par value of EGP84 each.
- According to the Board of Directors decision on 30 October 2007 the issued capital has been increased by EGP435,999,984 by issuing 5,190,476 shares .The increase was fully paid of which foreign shareholders own 94.53% that was paid in US Dollars at the prevailing rates on the subscription dates and the increase is marked in the commercial register.
- Accordingly the issued and fully paid up capital is EGP1,508,500,056 represented in 17,958,334 fully paid shares at par value of EGP84 each.
- According to the Extraordinary General Assembly decision on 30 November 2010, the Bank agreed to increase the authorised capital from EGP1,750,000,000 to be EGP5,000,000,000 and the issued capital to be EGP2,078,500,116 by an increase of EGP570,000,060 by issuing 6,785,715 shares and an amount of EGP2,078,076 has been paid at the Balance Sheet date.

33 Reserves and retained earnings

	2010	2009
	EGP(000)	EGP(000)
Reserves		
General reserve	**750,336**	573,915
Special Reserve	**63,466**	63,466
Legal reserve	**264,770**	205,947
General banking risk reserve	**38,342**	1,763
Other reserves- issuance premium	**6,728**	6,728
Fair value reserve-investments available for sale	**18,827**	(55,560)
Total reserves at the year end	**1,142,469**	796,259

33 Reserves and retained earnings *(continued)*

Reserves movements during the year are as follows:

a *General reserve*

	2010 EGP(000)	2009 EGP(000)
Balance at the beginning of the year	**573,915**	400,602
Transferred from prior year profits	**176,421**	173,313
Balance at the year end	**750,336**	573,915

b *Legal reserve*

	2010 EGP(000)	2009 EGP(000)
Balance at the beginning of the year	**205,947**	147,752
Transferred from prior year profits	**58,823**	58,195
Balance at the year end	**264,770**	205,947

In accordance with local laws 5% of the net profit shall be transferred to un-distributable reserve until it reaches to 20% of the capital.

c *General banking risk reserve*

	2010 EGP(000)	2009 EGP(000)
Balance at the beginning of the year (restated)	**1,763**	—
Transferred to general banking reserve	**36,579**	1,763
Balance at the year end	**38,342**	1,763

In accordance with the Central Bank of Egypt instructions general banking risk reserve is formed to meet unexpected risks; and this reserve is un-distributable except after obtaining the approval of the Central Bank of Egypt.

d *Reserve for excess than par value — issuance premium*

	2010 EGP(000)	2009 EGP(000)
Balance at the beginning of the year	**6,728**	6,728
Balance at the year end	**6,728**	6,728

This reserve represents the difference between the value of shares acquired by the shareholders and employees during capital increase in years 1998 and 1999 (price per share was EGP168) and its par value (price per share EGP84) in addition to the gain resulted from sale of treasury shares in year 2000 after deducting the capital increase that occurred in year 2002.

33 Reserves and retained earnings *(continued)*

e *Fair value reserve available for sale investments*

	2010 EGP(000)	2009 EGP(000)
Balance at the beginning of the year	**(55,560)**	(15,728)
Net change in investments available for sale	**74,387**	(39,832)
Balance at the year end	**18,827**	(55,560)

This reserve represents the change in available for sale investments fair value.

f *Special reserve*

	2010 EGP(000)	2009 EGP(000)
Balance at the beginning of the year (adjusted)	**63 466**	63 466
Balance at the year end	**63 466**	63 466

In accordance with the Central Bank of Egypt instructions special reserve is formed to meet unexpected risks; and this reserve is un-distributable except after obtaining the approval of the Central Bank of Egypt.

g *Retained earning*

	2010 EGP(000)	2009 EGP(000)
Movement on retained earnings		
Balance at the beginning of the year (adjusted)	**1 176 459**	1 163 899
Net profit for year	**990 166**	1 178 222
Dividends for prior year	**(941 215)**	(932 391)
Transferred to legal reserve	**(58 823)**	(58 195)
Transferred to general banking risk reserve	**(36 579)**	(1 763)
Transferred to general reserve	**(176 421)**	(173 313)
Balance at the year end	**953 587**	1 176 459

34 Dividends

Payment of dividends is not registered unless being approved by the General Assembly. The Board of Directors proposes to the General Assembly – supposed to be held on 21 March 2011 – payment of EGP37.17 per share as cash dividends for year 2010 with a total amount of EGP667,511,275 (Year 2009 actual payment amounted to EGP45,86 per share with a total amount of EGP823,569,197).

In addition to cash dividends, the Board of Directors proposes payment of EGP95,358,743 as staff profit sharing as per the Bank's statutes. (Year 2009 staff profit sharing amounted to EGP117,645,957)

Notes on the Accounts (continued)

35 Cash and cash equivalents

For the purpose of preparing the statement of cash flow, the cash and cash equivalent includes the following balance of maturity dates within less than three months from the date of acquisition

	2010 EGP(000)	2009 EGP(000)
Cash and due from CBE (note 15)	**459,859**	351,817
Due from banks (note 16)	**9,795,570**	6,583,177
Treasury bills (note 17)	**143,785**	864,488
	10,399,214	7,799,482

36 Commitment and contingent liabilities

a *Legal claims*
There are lawsuits filed against the Bank as at 31 December 2010 and provision amounted to EGP1,483 thousand has been formed for these lawsuits.

b *Capital Commitment*
The Bank's total capital commitments related to building and completing new branches amounted to EGP12,174 thousand which has not been finished as at 31 December 2010. The Bank paid EGP8,485 thousands as at 31 December 2010.

The management is confident that net profit will be recognised and will be used to pay these commitments.

c *Commitments for loans, guarantees and facilities*
Bank commitments for loans guarantees and facilities are represented as follows :

	2010 EGP(000)	2009 EGP(000)
Acceptances	**275,224**	199,029
Letters of guarantee (*)	**6,023,801**	16, 837,138
Letters of credit (import and export)	**981,202**	1,229,741
Other contingent liabilities	**48,765**	30,450
Commitments for loans	**4,184,453**	2,016,565
Cash margin	**(455,607)**	(500,964)
Total	**11,057,838**	19,811,959

(*) The letters of guarantee outstanding balance as at 31 December 2010 includes an amount of EGP2,030,233 thousands which represents the value of issued letters of guarantee backed by counter guarantees from other HSBC Group members against EGP13,055,459 thousands as at 31 December 2009.

d *Commitments for operating lease contracts*
The total minimum lease payments for irrevocable operating leases are as follows:

	2010 EGP(000)	2009 EGP(000)
Less than one year	**8,422**	4,301
More than one year and less than five years	**5,635**	7,483
More than five years	**1,760**	2,438
	15,817	14,222

37 Related party transactions

HSBC Bank Egypt is a 94.53% owned subsidiary of HSBC Holdings BV, while HSBC Holdings plc is the ultimate parent company. The remaining percentage (5.47%) is owned by other shareholders.

Number of banking transactions with related parties has been conducted in the normal course of the business including loans deposits and foreign currency swaps. There is no related party transaction with the parent company other than the payment of dividends for ordinary shares.

Related parties transactions and balances at the end of the financial year are as follows:

a *Loans and advances to related parties*

	Top management members	*Subsidiaries*	*Top management*
	EGP(000)	EGP(000)	EGP(000)
Loans and advances to customers			
Existing loans at the beginning of the year	43	—	99
Loans issued during the year	14	1,600	—
Loans redeemed during the year	(41)	—	(56)
Existing loans at year end	16	1,600	43
Interest on loans	—	604	—

— No provisions required for loans given to related parties.
— Loans granted to the Top management members represent credit cards amounted to EGP16 thousands

b *Deposits from related parties*

	Top management member		*Subsidiaries*	
	2010 EGP(000)	2009 EGP(000)	**2010 EGP(000)**	2009 EGP(000)
Due to customers				
Deposits at the beginning of the financial year	**16,102**	6,948	**59,490**	42,885
Deposits received during the financial year	**14,551**	13,582	**624**	16,781
Deposits redeemed during the financial year	**(15,366)**	(4,428)	**(18,511)**	(175)
Deposits at end financial year	15,287	16,102	**41,603**	59,491
The cost of deposits and similar costs	**229**	412	**1,034**	1,040

The preceding deposits are of no guarantee they carry fixed interest rate and are recoverable on call

Notes on the Accounts (continued)

37 Related party transactions *(continued)*

c *Other related party transactions*

	Top management members		*Subsidiaries*	
	2010 EGP(000)	2009 EGP(000)	**2010 EGP(000)**	2009 EGP(000)
Fees and commissions income	—	—	**1,676**	1,007

The cost of services by HSBC Group as at 31 December 2010 amounted to EGP112,393 thousands against (EGP84,194 thousands as at 31 December 2009).

	HSBC group and top management Members		*Subsidiaries*	
	2010 EGP(000)	2009 EGP(000)	**2010 EGP(000)**	2009 EGP(000)
Due from banks	**50,001**	864,124	**—**	—
Investments held to maturity	**55,000**	30,000	**—**	—
Due to banks	**462,508**	324,220	—	—
Investments in subsidiaries	—	—	**35,517**	35,517

On 17 September 2007 HSBC Bank Middle East agreed with HSBC Bank Egypt and HSBC Bahrain dated on 2 November 2007 to sell to HSBC Egypt part of it's loans portfolio. 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. These loans are subject to loans classification and provisioning rules as set out by the Central Bank of Egypt, the balance as at 31 December 2010 amounted to USD98,495 thousand equivalent to EGP571,751 thousands and has been added to customers loans.

d *Board of directors and top management benefits*

	2010 EGP(000)	2009 EGP(000)
Salaries and short-term benefits	**6,481**	5,344
End of service benefits	**1,949**	1,552
Shares granted under the privileges of employees and in accordance with the regulations of the head office of (HSBC) Group United Kingdom	**5,020**	2,698

38 Mutual funds

HSBC Second Mutual fund (Estikrar)

The mutual fund is an activity authorised for the bank by virtue of the Capital Market Law No.95/1992 and its Executive Regulations. The fund is managed by Hermes for asset management .The certificates of the fund reached 1,000,000 certificates with an amount of EGP100,000,000 of which 50,000 certificates (with nominal value of EGP5,000,000) were allocated to the bank to undertake the fund's activity.

The Bank holds as at 31 December 2010 a number of 50,000 certificates of total amount of EGP 5,000,000 and with a redeemable value amounted to EGP5,035,660 against EGP4,595,500 as at 31 December 2009.

The redeemable value of the certificate at the balance sheet date amounted to EGP100.71 against EGP91.91 as at 31 December 2009 and the outstanding of the fund certificates at that date reached EGP1,501,544 against EGP1,579,284 certificate as at 31 December 2009.

38 Mutual funds *(continued)*

According to the fund's management contract and its prospectus HSBC Bank Egypt shall obtain fees and commission for supervision on the fund and other managerial services rendered by the bank. Total commission amounted to EGP2,159 thousands as at 31 December 2010 against EGP2,487 thousands as at 31 December 2009 under the item of fees and commissions income caption in the income statement.

HSBC first Mutual fund (daily)

The mutual fund is an activity authorised for the Bank by virtue of The Capital Market Law No.95/1992 and its Executive Regulations. The fund is managed by Hermes for Managing Mutual Funds .The certificates of the fund reached 1,000, 000 certificates with an amount of EGP100,000,000 of which 50,000 certificates (with nominal value of EGP5,000,000) were allocated to the Bank to undertake the funds's activity.

The Bank holds as at 31 December 2010 a number of 477,824 certificates amounted to EGP49,999,557 with a redeemable value amounted to EGP54,141,511 against 244,760 certificates amounted to EGP24,999,737 with redeemable value amounted to EGP25,777,492 as at 31 December 2009.

The redeemable value of the certificate amounted to EGP113.31 against EGP105.32 as at 31 December 2009.

The outstanding certificates at that date reached 19,377,718 certificates against 10,150,342 certificates as at 31 December 2009

According to the fund's management contract and its prospectus HSBC Bank Egypt shall obtain fee and commission for supervision on the fund and other managerial services rendered by the Bank. Total commissions amounted to EGP7,881 thousands for the year ended 31 December 2010 against EGP1,730 thousands for the year ended 31 December 2009 under the item of fees and commissions income caption in the income statement.

39 Subsequent events

Some substantial events took place in the Arab Republic of Egypt that generally impacted its economic sectors, which probably may lead to a tangible decline in the economic activities in the future. These subsequent events in return may substantially impact on some elements of the assets and liabilities and its redeemable values and results of its operation in future financial.

For the purpose of disclosure, it's quite difficult at this point in time to quantify the impact on the assets and liabilities listed in the current duration of financial statements of the Bank, as the impact of these subsequent events depend on the expected extent and duration of these events. The Banks management have classified impact of subsequent events on some of its assets and liabilities are as follows:

- These events are classified as being high by the bank operation risk policy as its related to political and sabotage events.
- Blocking of customers' deposits of total amount EGP18,573,067 on 15 February 2011.
- The fair value of local available for sale investments on 15 February 2011 amounted to EGP4,588,116,177 in comparison to EGP4,689,999,703 on 31 December 2010.

The management of the Bank states that these subsequent events reflection on loans and advances will vary from one industry to the other, pharmaceutical and food industries are expected not to be highly impacted, industries significantly related to foreign exchange and other sectors as tourism, construction and real estate are expected to have a slowdown in their activities, taking into consideration that in case of political stability, these industries will recover swiftly.

Notes on the Accounts (continued)

40 Comparative figures

Some comparative figures have been restated in order to be in conformity with the current financial figures.

The following are the restated items

	Classification	*Balance before adjustment*	*Increase*	*Decrease*	*Balance After Adjustment*
		EGP(000)	EGP(000)	EGP(000)	EGP(000)
First: Balance as at the beginning					
Cash and balances with the CBE	Asset	2,536,734	1,394,060	—	3,930,794
Due from banks	Asset	8,190,962	—	(1,394,060)	6,796,902
Loans and advances	Asset	13,909,497	71,531	—	13,981,028
Fixed assets	Asset	582,944	—	(42,184)	540,760
Investment property	Asset	—	41,009	—	41,009
Intangible assets	Asset	—	1,175	—	1,175
Other liabilities	Liability	(420,546)	—	108,646	(311,900)
Other provisions	Liability	(187,605)	—	115,565	(72,040)
End of Service compensation benefits	Liability	—	(121,867)	—	(121,867)
Income tax	Liability	—	(108,646)	—	(108,646)
Reserve					
General banking risk reserve	Owner's Equity	—	(1,763)	—	(1,763)
special Reserve	Owner's Equity	—	(63,466)	—	(63,466)
Total			**1,212,033**	**(1,212,033)**	
Second: Income Statement items					
Net trading income	Revenue	264,822	(8,558)	—	256,264
Other operating income	Revenue	27,944	57,131	—	85,075
Impairment(loss)		3,512	(46,810)	—	(43,298)
Total			**1,763**	**—**	

HSBC Bank Egypt Head Office and Branches

Head Office & Corniche El Maadi Branch
306 Corniche El Nil, Maadi, Cairo, Egypt.
Tel: (202) 2529 8000 / 2529 8570
Fax: (202) 2529 8080
BIC EBBK EGCX

Cairo Branch
3 Aboul Feda Street, Zamalek, Cairo, Egypt.
Tel: (202) 2739 6001
Fax: (202) 2735 9497

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 0756
Fax: (202) 3337 0813

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

Gameat El Doual Branch
54 Gameet El Doual Street, Mohandessin,
Giza, Egypt.
Tel: (202) 3748 6831
Fax: (202) 3748 6878

Shooting Club Branch
40 Kambiz Street, Giza, Egypt.
Tel: (202) 3760 7936
Fax: (202) 3760 8298

Sphinx Branch
1 Ahmed Orabi Street, Mohandessin,
Giza, Egypt.
Tel: (202) 3303 5842
Fax: (202) 3303 5817

Dokki Branch
80 Mosadak Street, Dokki, Giza, Egypt.
Tel: (202) 3762 0589
Fax: (202) 3762 0568

Vinni Branch
8 El Sad El Aaly Street, Dokki, Giza, Egypt.
Tel: (202) 3749 6336
Fax: (202) 3749 6329

Messaha Branch
10A Hussein Wassef Street, Messaha, Dokki,
Giza, Egypt.
Tel: (202) 3748 6512
Fax: (202) 3748 6574

Giza Residence Branch
44/46 Giza Street, Giza, Egypt.
Tel: (202) 37486092

Agouza Branch
128 Nile Street, Agouza, Giza, Egypt.
Tel: (202) 3761 8126
Fax: (202) 3761 8154

Down Town Branch
13 Kasr El Nil Street, Down Town, Cairo, Egypt.
Tel: (202) 2578 8819
Fax: (202) 2578 8455

Kasr El Nil Branch
41 Kasr El Nil Street, Mostafa Kamel Square,
Down Town, Cairo, Egypt.
Tel: (202) 2393 0571
Fax: (202) 2393 0872

Kasr El Aini Branch
93 El Kasr El Eini Street Cairo, Egypt.
Tel: (202) 2792 6447

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

Nile City Branch
Nile City Tower, Corniche El Nil, Ramlet Beaulac
Cairo, Egypt.
Tel: (202) 2461 9701
Fax: (202) 2461 9703

Shoubra Branch
71 Shoubra Street, Shoubra,
Cairo, Egypt.
Tel: (202) 2431 5271
Fax: (202) 2431 6026

Azhar Branch
160 Gohar El Kaed Street, Darrasah, Cairo, Egypt.
Tel: (202) 2589 0724
Fax: (202) 2589 0857

Manial Branch
67 Abdel Aziz Al Seoud Street, Manial ,Cairo, Egypt.
Tel: (202) 2361 1151
Fax:(202) 2361 1158

Haram Branch
179 Haram Street, Haram, Giza, Egypt.
Tel: (202) 3981 6875
Fax:(202) 3743 1514

Sixth of October City Branch
Block No 43A, Industrial Area, Sixth of October City,
Egypt.
Tel: (202) 3832 7938
Fax: (202) 3834 6900

Raya Branch
Raya Building, Sixth of October City, Egypt.
Tel: (202) 3835 3968
Fax: (202) 3835 3969

Hyper One Branch
Hyper One Market, El Shiekh Zayed City, Egypt.
Tel: (202) 3850 7990
Fax: (202) 3850 799

Dandy Mall Branch
28th Km, Cairo/Alexandria Desert Road,
Dandy Mall Egypt.
Tel: (202) 3539 0174
Fax: (202) 3539 0173

HSBC Bank Egypt Head Office and Branches (continued)

Smart Village Branch
Building 122B, Smart Village
28th Km Cairo/ Alexandria Desert Road, Egypt.
Tel: (202) 3537 0602
Fax: (202) 3537 0606

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

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

El Orouba Branch
90 Beirut Street, Heliopolis, Cairo, Egypt.
Tel: (202) 2415 3371
Fax: (202) 2415 3378

Hegaz Branch
70 El Hegaz Street, Heliopolis, Cairo, Egypt.
Tel: (202) 2241 7372
Fax: (202) 2241 7232

Safir Branch
1 El Sheikh Hassouna El Nawawi Street, Heliopolis,
Cairo, Egypt.
Tel: (202) 2418 9938
Fax: (202) 2418 9943

El Shams Club Branch
15 Abdel Hamid Badawy Street, Heliopolis,
Cairo, Egypt.
Tel: (202) 2622 0828
Fax: (202) 2620 4982

Masaken Sheraton Branch
3 Khaled Ibn El Walid Street, Masaken Sheraton,
Heliopolis, Cairo, Egypt.
Tel: (202) 2266 6426
Fax: (202) 2266 6430

Korba Branch
4 Ibrahim Street, El Korba Square, Heliopolis,
Cairo, Egypt.
Tel: (202) 2291 1609
Fax: (202) 2291 1618

Baghdad Premier Centre
10 Baghdad Street, El Korba, Cairo, Egypt.
Tel: (202) 2418 9948
Fax:(202) 2418 9953

El Thawra Branch
109 El Thawra Street,Ard El Golf, Nasr City,
Cairo, Egypt.
Tel: (202) 2414 2157
Fax: (202) 2417 4428

City Stars Branch
Tower A2 City Stars, Omar Ibn El Khattab Street,
Heliopolis,Cairo, Egypt.
Tel: (202) 2480 2356
Fax: (202) 2480 2358

City Lights Branch
1 Makram Ebeid, City Lights Building ,Nasr City
Cairo, Egypt.
Tel: (202) 2671 8883

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

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

Zomor Branch
64 Ahmed El Zomor Street ,Ext. Zaker Hussein,
Nasr City, Cairo, Egypt.
Tel: (202) 22713063
Fax: (202) 2401 3562

Abbaseya Branch
95 El Abbasseya Street, Abbasseya, Waily Station,
Cairo, Egypt.
Tel: (202) 2684 4859
Fax: (202) 2684 4838

Maadi Branch
1B Road 256, Maadi, Cairo, Egypt.
Tel: (202) 2519 5459
Fax: (202) 2519 5458

Maadi Club Branch
Maadi Club, Maadi ,Egypt.
Tel: (202) 2380 4729
Fax: (202) 2380 4775

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

Katameya Heights Branch
Katameya Heights, Fifth District, New Cairo, Egypt.
Tel: (202) 2984 0998
Fax: (202) 2759 3887

El Tagamoo Branch
106 Town Centre Mall, Tagamoo 5, Cairo, Egypt.
Tel: (202) 2920 1716
Fax: (202) 2920 0123

El Sherouk Branch
El Sherouk Academy, Suez/Ismailia Road, El Sherouk
City, Cairo, Egypt.
Tel: (202) 2688 0210
Fax: (202) 2688 0220

Obbour City Branch
3 City Club Fence,Obbour City, Egypt.
Tel: (202) 4610 4196
Fax: (202) 4610 4362

Tenth of Ramadan Branch
Gawhara Village, Gawhara Mall, Behind El Rowad
Club, 10th Ramadan City, Egypt.
Tel : (2015) 386 317
Fax : (2015) 386 310

Sokhna Branch
1st Industrial Park, El Ein El Sokhna, Suez, Egypt.
Tel: (062) 339 2035
Fax:(062) 339 2038

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

Semouha Branch
Azhar El Saraya Buildings, Semouha,
Alexandria, Egypt.
Tel: (203) 421 0002
Fax: (203) 421 0008

Saraya Branch
Borg El Delta,Corniche El Saraya, Sidi Beshr,
Alexandria, Egypt.
Tel: (203) 358 2202
Fax: (203) 358 2339

Sidi Gaber Branch
Panorama El Sharq Tower, 103 Sidi Gaber Street,
Sidi Gaber, Alexandria, Egypt.
Tel: (203) 523 2057
Fax: (203) 523 3915

Yacht Club Branch
Kalaet Kaytbay Street, El Anfoushy, Alexandria, Egypt.
Tel: (203) 483 0506
Fax: (203) 483 0537

Mirage Mall Branch
International Garden, Alexandria / Cairo Desert Road
entrance, Alexandria, Egypt.
Tel: (203) 381 5232
Fax: (203) 380 2575

Glym Branch
556 Horreya Road, Glym, Alexandria, Egypt.
Tel: (203) 583 6711
Fax: (203) 584 5562

Kafr Abdou Branch
38 Int of Ahmed Abdel Aziz St. with Abdel Kader Ragab
Kafr Abdou-Roushdy- Alexandria, Egypt.
Tel: (203) 541 4138 / (203) 541 4139
Fax: (203) 252 97923

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

Hacienda Branch
(operates during summer only)
Hacienda White Mall, Alexandria Marsa Matrouh Road,
138th Km, Sidi Abdel Rahman, Northern Coast.
Alexandria, Egypt.
Tel: (2046) 922 4319
Fax: (2046) 922 4323

Mansoura Branch
182 Geish Street, El Mansoura, Dakhahleya, Egypt.
Tel: (2050) 230 8124
Fax: (2050) 230 8122

Tanta Branch
32 Saeed Street, Tanta, Egypt.
Tel: (2040) 3291378
Fax: (2040) 25297917

Port Said Branch
27 El Gomhoureya Street, Port Said, Egypt.
Tel: (2066) 324 4698
Fax: (2066) 324 4694

Damietta Branch
Damietta Port, Damietta, Egypt.
Tel: (2057) 292 114
Fax (2057) 292 113

Sharm El Sheikh Branch
Shamandoura Mall, Ne'ema Bay, Sharm El Sheikh,
Egypt.
Tel: (2069) 360 0615
Fax: (2069) 360 0613

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

Sharm Azur Branch
Villa Chris Village, Peace Road, 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

Nabq Travco
Mirabel Resort, Jaz, Nabq Bay, Sharm El Sheikh, Egypt.
Tel: (2069) 371 0072
Fax: (2069) 371 0390

Ritz Carlton Branch
Carlton Mall, Hadabet Om El Seed, Sharm El Sheikh,
Egypt.
Tel: (2069) 366 6009
Fax: (2069) 366 6012

Hilton Dreams Branch
Hilton Dreams Hotel, Sharm El Sheikh, Egypt.
Tel: (2069) 360 3040 Ext (306)

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

Sheraton Road Branch
Sheraton Road, Hurghada, Egypt.
Tel: (2065) 345 0106
Fax: (2065) 345 0110

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

HSBC Bank Egypt Head Office and Branches (continued)

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

Banking District Branch
3 Banking district, El Kawthar district,
Hurghada, Egypt.
Tel: (2065) 345 3062
Fax: (2065) 345 3065

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

Makadi Branch
Makaddi Bay Km32, Safaga Road, Hurghada, Egypt.
Tel: (2065) 359 0550
Fax: (2065) 359 0551

Hilton Long Beach Unit
Hilton Long Beach Resort, Sahl Hasheesh
Hurghada, Egypt.

Ras Shokeir Branch
(operates from 11 till 30 of each month)
112 Km Hurghada Road, Ras Shokeir, Egypt.
Tel: (2065) 2737 4002
Fax: (2065) 2737 4001

Touristic Road Branch:
Touristic Road, infront of Duty free shop.
Tel: (2065) 346 3400
Fax: (2065) 346 3404

Marsa Alam Branch
65 Kilo South El Qusier, Marsa Alam, Egypt.
Tel: (2065) 375 0180
Fax: (2065) 375 0186

Luxor Branch
Khaled Ibn El Walid Street, Iberotel Hotel, Luxor,
Quenna, Egypt.
Tel: (2095) 235 7853
Fax:(2095) 235 7786

Assiut Branch
Assiut University, Assiut, Egypt.
Tel: (088) 237 3680
Fax: (088) 237 3686

The HSBC Group: International Network (as at 28 February 2011)

Services are provided by around 7,500 offices in 87 countries and territories:

Europe	***Offices***		***Offices***
Armenia	7	Kazakhstan	10
Austria	1	Luxembourg	7
Belgium	2	Malta	47
Channel Islands	39	Monaco	3
Czech Republic	3	Netherlands	1
France	402	Poland	17
Georgia	1	Russia	7
Germany	16	Slovakia	2
Greece	21	Spain	4
Hungary	1	Sweden	2
Ireland	7	Switzerland	31
Isle of man	3	Turkey	336
Italy	2	United Kingdom	1,350
Asia-Pacific			
Australia	39	Macau Special Administrative Region	7
Bangladesh	13	Malaysia	56
Brunei Darussalam	12	Maldives	1
China	175	New Zealand	11
Cook Islands	1	Pakistan	11
Hong Kong Special		Philippines	26
Administrative Region	324	Singapore	24
India	132	Sri Lanka	16
Indonesia	198	Taiwan	50
Japan	11	Thailand	2
Korea, Republic of	14	Vietnam	17
Americas			
Argentina	179	Guatemala	1
Bahamas	5	Honduras	77
Bermuda	13	Mexico	1,202
Brazil	1,353	Nicaragua	1
British Virgin Islands	3	Panama	74
Canada	272	Paraguay	6
Cayman Islands	11	Peru	23
Chile	8	United States of America	524
Colombia	23	Uruguay	16
Costa Rica	35	Venezuela	1
El Salvador	89		
Middle East and Africa			
Algeria	2	Libya	2
Angola	1	Mauritius	12
Bahrain	9	Nigeria	1
Egypt	88	Oman	8
Iraq	17	Palestinian Autonomous Area	1
Israel	1	Qatar	7
Jordan	6	Saudi Arabia	103
Kenya	1	South Africa	5
Kuwait	1	United Arab Emirates	31
Lebanon	8		

Associated companies are included in the network of offices.