

**Chairman and
Managing Director's
Statement**



The year 2007 witnessed a severe global financial crisis that began in the United States of America by the unforeseen end of the inflated real-estate bubble. The value of the residential real-estate has increased in the last six years at a rate of 75% reaching a value close to \$75 trillion. In fact, until this latest episode, real estate prices in the USA had never fallen in the aggregate. This historical real estate boom created highly inflated values for many assets in many different sectors. This was achieved through the huge amount of debts incurred to secure the real estate, mainly as a result of the availability of cheap funds, the facilities of the international loans and an increase in the securitization

–of the real-estate debts. Banks and lending institutions facilitated the arrival of the real estate crisis by allowing homeowners to obtain loans based on an increment of the actual price of the asset, as well as not requiring adequate collateral for the asset. This runs contrary to the custom of giving loans at a higher percentage of the real-estate value .without heeding to get suitable financial payments when getting the real-estate financing The inflated values created much risk in the market which was only exacerbated by the lack of accurate pricing for the risk factors. As individuals were unable to repay their loans, some even after selling their mortgaged assets, the banks and financial institutions resorted to being restricting their lending operations to maintain some cash against bad .debts, which were expected to be written off as the value of the assets plummeted This was then followed by a steep decline in the values of the banks' shares in the stock .market. Thus, a crisis of global proportion had brewed

The subprime mortgage crisis in America quickly infected global markets, with some being hit more than others. Even states lacking direct American investment, such as Saudi Arabia, saw a fall in value in realms such as the stock market. In some cases, this

was even more than the decline seen in countries that do not maintain restrictions on the foreign investments, such as some European ones

There are three plausible trends that contributed to this phenomenon. The first trend was the intensive entry of international banks and financial institutions into the American real-estate lending market. The second trend was the general economic stagnation in the United States of America that is represented by the growing budget deficit, the disturbance of the trade balance and the continuous rise in unemployment and inflation. This trade deficit impacts all financial markets, as United States of America is the biggest importer in the world. This last factor creates a global fear because of the continuous falling of the exchange rate of the USD against other major currencies

The Egyptian economy saw a different story though. The fiscal year of 2006-2007 witnessed the highest growth in the history of modern Egypt (7.1%) following an impressive growth rate reached in 2005-2006 (6.8%), thus affirming the likeliness of a continuation of this boom of economical activity. This economic performance has been widespread in most of the diverse sectors of the economy as well. The investment rate increased steadily from 18.7% to 21.2% of the Gross National Product as well as foreign cash flows increased from \$6.1 billion in 2005-2006 to \$11.1 billion in 2006-2007. This growth ranked Egypt at the top of the list of North African countries with regard to receiving foreign capital and only second on the entire African Continent

Housing and Development Bank was proud to be a part of this success. The Bank witnessed, for the first time, the announcement of the financial statements of the Bank collectively, including the main share in the Holding Company for Investment and Development as well as the Development and Housing Company for the Real-estate Investment. The publishing of the collective financial statements of the bank is intended to express in full transparency the operations of the Bank and its economic performance. It also reflects the importance of the Sister Companies as a basic element in the general strategy of the Bank and its future performance. Due to these factors, the Bank has decided to publish its financial statements collectively in the future and to continue to announce the Bank's financial statements individually. The profits of the collective operation reached 504 million Egyptian pounds and the net profit totaled 188.7 million Egyptian pounds for the year ending 31/12/2007

The Bank has managed to have distinguished results in the fiscal year 2007 as total assets reached about 10.635 billion Egyptian pounds with an impressive growth rate of compared to its counterparty as of 31/12/2006 and the balance of the deposits reached about 4.805 billion Egyptian pounds within an impressive growth rate of 1.9% compared to its counterparty as of 31/12/2006. The net profit reached about 182 million Egyptian pounds with growth rate of 65.5% compared to its counterparty on 31/12/2006. The administrative, general consumption charges reached about 198 million Egyptian pounds, which represents 40% of the net revenues of the business compared to 56% on 31/12/2006. This is an indication of the success of the investment in human resources and the efficient infrastructure of the bank's information systems. Our Bank, by virtue of the strength of its financial position and the sufficiency of its allocations, has succeeded in becoming a strong competitor among many large banks that are renown for efficiency

.and strength

In the domain of the geographical expansion, the Bank took necessary steps to grow the network of branches through the opening of new branches throughout the year. There are currently 43 branches, in addition to 5 collection offices, connecting all the branches of the bank with its communication network. Some branches have already developed the re-engineering of its infrastructure, such as the El Sheikh Zayed, El Minya and Borg El Arab branches. The new organizational chart of the Bank has contributed heavily to the effectiveness of the bank as a whole. A new electronic branch has been opened in Nasr City, performing all banking services to the clients around 24 hours a day. The number of (ATM) machines has been increased to 75 while the P.O.S. reached 70 outlets. The HDB CALL CENTER has been thoroughly developed and has extended working hours as well as having increased the number of service providers in order to provide the best service to the clients inside and outside Egypt

In the domain of banking retail activities, there has been much development of the Card Center and the development of a diverse portfolio of personal loans that satisfy the clients' needs such as car loans, educational expenses loans, ten years housing loans and the real-estate financing loan. In addition to this, issuance already been given for a diversified group of credit cards, discount cards and pre-paid cards such as HDB card Master Card, Premium Card and Felucy Card, which explains the 66% increase in the issuing of cards over the fiscal year

To ensure maximum diversification of the Bank's loan and credit portfolio, and to reduce

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credit risks that may be caused by a high degree of the credit concentration, the Bank has participated in a group of corporate loans with other banks to contribute in the financing of several sectors including communication, petrochemicals and real-estate. Their diversified revenues, as well as retail banking loans, contributed in causing the boom in the Banks' net revenues as they represent a dominant percentage in the credit portfolio of the Bank. The Bank was also eager to provide a diversified group of saving pools in both local and foreign currencies with competitive interest rates

;As a bank, it is important to note that we have two competing elements in our charter that of clarifying the credit portfolio from bad debts as well that of magnifying the credit portfolio of the Bank. Both of these missions are constantly being heeded in our operation as both of them directly affect the profit of the Bank

Additionally, with the aim of promoting the securities' market, the Bank has initiated executive measures during the past year for establishing an accumulative fund, called the .Al Taamir Fund for Investment, in the size of 100 million Egyptian pounds. To ensure an efficient operation, its management has been entrusted to one of the specialized companies. In addition, there is currently a study being prepared for the issuance of security bonds for part of the individuals loans portfolio within a limit of 400 million Egyptian pounds. This is being done in coordination and participation of the Commercial International Bank, which is acting as a financial consultant and a manager of the portfolio of 200 million Egyptian pounds. There is also the establishment of a floating of security

bonds in the form of shares according to the rules of Islamic Sharia' within a limit of 200 million Egyptian pounds through participation with one of the specialized companies

As 2007 has witnessed the entrance of many international banking institutions into the .Egyptian market there has been an increase in demand for distinguished banking staff The Bank is eager to continue supporting the distinguished employees of our institution and developing their skills through local and foreign training programs. The total number

of the employees was 2,413 employees at the end 2007. The total number of the participants in the training programs reached 1,643 trainees for a total number of training

.hours of 49,512 hours, distributed through 184 programs during the year

For the housing business, the implementation of new projects has already begun in new cities such as El Sheikh Zayed City, El Obour City and New Cairo City. In addition to ,this

the Bank has had an active role in implementing the National Housing Project, according to the electoral program of His Highness the President of Egypt, for providing the housing

units to the persons of limited income. With the participation of both Banque Misr and the National Bank of Egypt, the Bank has signed a number of financing protocols only with the National Project with the governorates of Dakahlia, Ismailia, Alexandria, El .Sharkiya and El Behira

The Bank has also signed a bridge loan with the governorates of Assuit, El Fayoum and Sohag for the financing on 600 housing units in the Assuit governorate, 2,016 units in the El Fayoum governorate and 480 units in the Sohag governorate. This is in addition to the implementation of 1,340 housing units by the Bank in El Obour city within the .guidelines of the National Housing Project

Due to the comprehensiveness of the Bank's role in relation to the community, the Bank initiated a project to establish the Suzan Mubarak Library in El Zagazig City with the aim

of disseminating culture and awareness among citizens. The Bank has also supported philanthropic institutions in the domains of health, education and social services in addition

to the participation in more than 28 exhibitions and conferences that had been held during

.the year

The activities of the Bank during the previous year have revealed impressive results that :are reflected in the following points

The Bank succeeded to maintain the quality of its credit portfolio, as well as recruiting -1 and attracting of new deposits. This occurred despite the shift of 2 billion Egyptian .pounds to the Central Bank of Egypt as a result of the implementation of the Law No for 2006 for establishment of an account in the name of Ministry of Finance at the 139 .Central Bank of Egypt

The increased market share of our Bank in the market as it succeeded to grow the –2
loans portfolio at a percentage of 13%. This is despite the intense competition from
.both domestic and foreign entities

.The rate of the capital sufficiency has reached 14.3% –3

Rise of the financial investments of the Bank. The Bank has contributed to and started –4
:the procedures of establishing the following companies during 2007

Development Company for Financial and Real-estate Marketing–
Development Company for Real-estate Investment Funds–
(Development Company for Security and Environment (Protection–
Housing and Development Company for Insurance–

Increase in the circulation rate of the shares in the stock market. The Bank is now –5
considered one of the 30 most active companies in terms of the circulation value during
the year as the market value of the capital reached 2,454 million Egyptian pounds on
2007/12/31

The Extra Ordinary General Assembly of the Bank on 5/11/2007 approved an increase
in the amount of licensed capital from one billion Egyptian pounds to 3 billion Egyptian
pounds. They also approved an increase in the paid up capital from 550 million Egyptian
pounds to 1150 million Egyptian pounds delegating the Board of Directors of the Bank
,to undertake the procedures of floating according to the rule of the law. On 16/1/2008
there was an announcement for the underwriting bulletin in the first stage at an
increment
of 120 million Egyptian pounds for the old shareholders at a rate of one share per 4.5833
shares. The announcement for the remaining 75% of the increment of the capital at the
.fare value will be completed during the year 2008

Finally, we are trying our best to achieve even greater accomplishments for the sake of
the sustainability and efficiency, and to be successful by the virtue of God in order to
.provide and create developed banking services to satisfy the needs of our noble clients

In conclusion, I would like to thank my colleagues, the members of the Board of
,Directors
and the employees in the Bank for their great effort that produced all of these wonderful
.results

Also I have the honour to thank Mr. Engineer Minister of Housing, Utilities and Urban
Communities as well as Dr. Governor of the Central Bank of Egypt for their loyal
cooperation
.and their continuous support and care for the Bank's progress and success

Chairman and Managing Director

• **Fathy El Sebai Mansour**