



Stanely Bridge, Mediterranean Sea, Alexandria

Business Review

ABC Bank-Egypt is one of the pioneering banks in applying “The Centralization Policy” where all operations of banking services and transactions are carried through one division namely the Central Operations Division

Corporate Banking Group

In July 2004 the new Government was appointed, to face a number of economic challenges, namely is tackling the rapidly rising inflation, currency instability and solving investment, taxes and customs problems in Egypt. The economic team appointed to the new Cabinet, comprising well-regarded economic liberals, appeared to have the expertise to address these problems.

With the appointment of the new Government, it is expected that the structural reform process was accelerated and had a positive effect on the business environment evidenced by the general development witnessed in the macro economy indicators, the implementation of the tax and customs reform programs, the appreciation of the Egyptian Pound, increase in exports and the relative availability of foreign currency, which in its turn will support the strategy of the Corporate Banking Division of ABC Bank - Egypt to increase and enhance the loans portfolio in terms of volume and quality.

The 2005 budget projects a narrower deficit, despite tax cuts, the IMF has shown some concern regarding the deterioration of public finances in recent years. Moreover privatization and merging activities in the banking sector were slowed down.

As for the economic indicators, GDP growth rose to 5% in fiscal year 2005 (July 1st 2004 - June 30th 2005) according to government data. Rate of inflation has also decreased, whereas gas exports have increased rapidly.

The current progress witnessed in the Egyptian Macro Economy performance, the support of ABC Management and the expansion strategy adopted by ABC Group, Bahrain, were used by the Corporate Banking Group as a guideline when forecasting the budget and setting the strategy for the coming years. The Corporate Banking built its strategy on "Best Selection" targeting the most booming sectors in the Egyptian Business Market. Given the fact that most of the lucrative projects prevailing in the market for the booming sectors are concluded in the form of club deals and syndicated loans, the Corporate Banking will be focusing on financing large projects.

With the witnessed improvement in the Macro Economy performance after the appointment of the new Cabinet, we are now in the process of expanding the business of Corporate Banking, and getting the strong support of ABC Group Bahrain.

The following sectors witnessed a promising development:

- Oil, Gas & Petrochemicals
- Fertilizers
- Cement
- Telecommunications
- Power
- Corporate Bonds
- Construction
- Transportation and Aviation

The Corporate Banking Division, since the last quarter of year 2004, has aggressively activated contacts with the syndications lead banks and financial institutions through addressing official letters or personal contacts to place ABC Bank - Egypt among the prime banks interested in participating in the club deals and syndicated loans arranged for the companies operating in the above mentioned sectors.

In what is considered a turning point in the Corporate Banking performance, ABC Bank - Egypt has succeeded for the first time, to proudly lead and manage a club deal amounting to US\$ 90 million arranged for TAV Turkish Construction Company to finance the construction of Terminal 3 of Cairo International Airport, whereas ABC Bank - Egypt's share is US\$ 28 million. In a big event held on 31/10/2005, the Club Deal Agreement was signed between TAV Turkish Construction Company "the borrower" ABC Bank - Egypt "the club deal lead manager" and Barclays Bank, HSBC Bank, MIBank, Misr Romanian Bank (currently Blom Bank) and Egyptian Commercial Bank (currently Piraeus Bank), as "club deal members".

The Corporate Banking Group has also managed to obtain invitations to participate in some major transactions in the Egyptian market in fertilizers, construction and brokerage sectors as well as being listed with other bank's on the database of the Egyptian Holding Companies in order to be contacted whenever new projects are planned to be tendered.

Despite the previously mentioned, ABC Egypt's Corporate Banking portfolio reached EGP 987 million (including direct and contingent liabilities) as of October 31st, 2005. Corporate portfolio is diversified between commercial, manufacturing, construction contracting, textiles, printing and publishing, tourism, chemicals, medical equipment and project finance in the fields of Gas and Oil, Aviation and Telecommunications.

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Correspondent Banking Division

The Correspondent Banking Division facilitates trade finance transactions and is continuously developing its relations with local/international banks. In addition to the Bank's significant market share in trade finance, the Correspondent Banking Division assesses the risks of all domestic and international banks in accordance with the Head Office risk policies.

We strive to identify and meet our correspondent banking needs. Over the years we have successfully developed strong and mutual beneficial correspondent banking relationships and these relationships have positioned us to deliver a comprehensive, value-added and more globally-available trade finance products.

Correspondent Banking and Trade Finance has focused since the re-organization of the Bank on being recognized as a focal point for export trade finance directed to countries where:

- ABC GROUP is present.
- ABC GROUP can provide an added value to the trade finance operation.
- ABC EGYPT can mitigate the political and commercial risks associated with export transactions from Egypt.

Efforts have lead to achieve a \$120 million of export related trade finance business during the year 2004 / 2005 up from \$70 million in the previous year.

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Treasury Group

ABC Bank - Egypt Treasury Group continued to be a main profit source in 2005. Treasury focused on efficient balance sheet management in terms of gapping and pricing to maximize the Bank's earnings. Additionally, Treasury supported revenue generation by providing appropriate pricing for products offered by the Bank.

The Group achieved a net profit which exceeded EGP 36,148 million for the year 2005. The Treasury Group remained an active player in the interbank market providing fine and quick pricing particularly in the government's Bill and Bond market. The Bill/Bond activity was the major contributor to the Group's earnings in 2005. The true liberalization of the foreign exchange market has also begun to allow for foreign exchange gains which we hope will grow over the course of 2006 as volatility in the market increases.

In terms of products, ABC - Egypt Treasury Group continued to provide its clients with structures that met their needs and offered various hedging mechanisms, clients were given access to a wide range of international products through our network, news, pricing and structures.

Finally, the stock market was also a source of income for the Bank as it sought to diversify its sources of income, spread its risks and took advantage of that active market.

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Retail Group

The Retail Banking Group of ABC Bank - Egypt had undergone several changes in order to achieve its planned objectives. During 2005 various initiatives took place, among these initiatives were:

- Change of Card Management System, whereby the project migrated the card database to Arab Financial Services (AFS), Bahrain. This move was intended to smoothen our customers' handling of ABC Bank Visa Credit / Debit Cards.

- Launched the Personal Loan / Credit Cards campaign in Summer which was a big success.

- Opened Haram new Branch, a new addition to the Delivery Channels and horizontal expansion of ABC Bank - Egypt. Massaken Sheraton Branch which will be opened in March 2006 will be another addition to the Bank's Delivery Channels.

- Personal Loans and Credit Cards will be relaunched in 2006, to be the newest in the Egyptian market in addition to the new liability Payroll product.

The Product Development Team always continues the refinement process of the products offerings, and has well situated the personal loans and credit cards products in the market. The Bank Assurance products in coordination with Allianz Egypt was successfully launched during 2005 to cater for the market segment needs in this field. In addition, the interest bearing current account for individuals continued to reflect promising results.

- In 2006, Retail Senior Management will concentrate on:
- Enhancing customer services.
 - Focusing on value added propositions to customers.
 - Streamlining processes to expedite production.
 - Linking individual objectives with the organization's objective to create better business focus amongst staff members.
 - Introducing new assets and liabilities products.

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HR Group

HR Planning

The challenges faced during 2005 as a result of the economical changes taking place in the Egyptian market and the mergers between banks, had its effect on the manpower. This led to the high turnover experienced in ABC Bank and the difficulty to attract high calibers, made it almost crucial to structure a new salary scale and a career path for each Group and Division. This huge project was completed in three phases:

- **Phase I:** Salary surveys for pricing the benchmarked jobs and determine Market Comparison Ratios.
- **Phase II:** Involving line managers with the Human Resources as a panel in the exercise of developing career paths and providing awareness of their career path to their staff.
- **Phase III:** Positioning employees on their new titles and grades and consequently the corresponding salary. The project was completed with minimum resources, the most cost effective way, and in line with the estimated budget.

Another challenge that was surpassed by the Human Resources Group was the headcount restrictions versus the need to open a new branch (Haram Branch) and the necessity to expand in some

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business areas. This was accomplished by career succession planning and strong redundancy plan in addition to proper utilization and effective deployment of the current manpower.

All of the above plus other activities such as; Summer Internship Program, Employees' Orientation, Performance Management and introducing new Employees' Benefits, and Incentive Schemes were also accomplished during 2005.

What's next?

In 2005 and throughout 2009, commitment towards our employees' career growth and motivation will be greater, alignment of our goals with ABC Bank strategies will be our focus in meeting their staffing needs, upgrading performance management techniques, and introducing appealing retention schemes.

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Training and Development

The main objective of the Training and Development Department during 2005 was to develop our employees' skills and enhance their knowledge by increasing the training activities.

As we believe in investing in our employees to retain them, some of our employees participated in different conferences abroad and seminars to be aware of the latest in various areas such as: "Retail Delivery Channels Effectiveness", "Budget 2006", "Strategic IT Manager" and "Achieving Operational Efficiency".

Moreover, regular presentations were conducted by Product Managers to Branches' employees to update them with the latest changes and get their customer feedback to overcome any problem they encounter.

Moreover, several courses covering all banking fields are delivered by talented managers; Letters of Credit, Letters of Guarantee, Documentary Collections, Customer Service and Selling Skills. An intensive training plan was set to cover 260 employees from top management to entry level staff.

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Personnel

Over the year 2005, we exerted great efforts to implement the Bank's policies and provide optimal support for the Bank's employees. The year 2005 witnessed a lot of positive changes in the interest of the Bank's employees which ultimately, is in the Bank's interest.

Some of those changes are:

- Continued saving of L.E. 150000 annually as a result of being exempted from the payment of the medical insurance contributions.
- Through the cooperation between the Bank's management and the management of the "Employees' Fund", the Fund was altered from "Defined Benefit Scheme" to become a "Defined Contribution Scheme". The reason behind that was the difficulties undergone upon fulfilling its obligations towards the employees who left the Bank due to changes in the Banking Sector. This necessitated amendment of the payroll system to commensurate with the change of the fund's nature.
- In 2005 the Bank also made a collective insurance policy covering all employees against the risk of death and disability.

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Administration Division

Since the greater challenge of any economic institution is the rationalization of expenditures and finding alternatives to face the continuous increase in prices, the Administration Division played an important role in decreasing the pre-operating costs of the Branches, rationalizing the purchases and all communications and transportation expenses.

In light of the above, the Administration team is in the process of preparing The Bank's Disaster Recovery Center in coordination with a prime Consulting Office in Egypt and with the cooperation of our experienced staff members to cut down expenses.

The Bank's new Haram Branch was ready for operation in October 2005, Massaken Sheraton Branch is also ready and will be in operation beginning of 2006.

In order to cope with international standards for insurance, all Bank's insurance policies are being updated and developed to cope with the international standards for insurance.

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Corporate Communications Division

In the year 2005, Corporate Communications in cooperation with Retail Group continued its joint efforts to create more awareness in the Egyptian Market to ABC Bank - Egypt as well as launching a new campaign for the Bank's products and services through press ads and press coverage. Corporate Communications also used a variety of important tools for branding and positioning such as the

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IT Group

"Trust us; we serve you better through the latest, proven and secured Technology". This is 2005 slogan for IT Group.

The year 2005 was the year of Standardization, Expansion, Rationalization, Quality, Security and Controls.

On the Delivery Channels frontier:

- The global synchronization with the Head Office directed the efforts towards outsourcing the Credit Card processing through a sister multinational company AFS and the Debit Cards through Euro net. The successful implementation of the first led to smoothing the operation, leveraged the administration, unified the (Euronet/Visa) EMV compliance approach and ensured a rational cost effective strategy. The completion of the second is targeting next year. A strategic plan with the ATM hardware vendor is on its way to unify the feel and look, the service level, the legal agreements and the pricing schemes.
- The IVR (Interactive Voice Response) Call Centre over IP is another achievement of our service enhancement through its successful Marketing Campaigns and Customer Tracking Complaints.
- Secured e-mails over our Website is another delivery channel facilitating our senior staff to access their mails remotely, to maintain permanent communication and stay in touch policy.
- Web filtration is another feature implemented for further security and controls.
- The migration to the Global Domain and e-mail of the Head Office is another project to standardize the feel and look of the internal communication and delivery channels.

On the Banking Applications and Interfaces Frontier:

- In line with the strategic expansion and business growth plans, more products were introduced to serve Retail, Corporate, Treasury and Risk.
- Reconciliation tools and control procedures were introduced to maintain information synergy and data integrity.
- Standard structure for Interfaces, MIS, inquiries and reports are followed.
- Global Interfaces with Head Office in Bahrain were established to enforce Risk Controls and Risk Mitigation through FERMAT Project. It is a project to consolidate Credit Limits vs. Exposure Across the Board.
- To remain in synchronization with the local and the international upgrades, IT Group maintained synergy with the Central Bank of Egypt National Clearing House upgrades and SWIFT International upgrades too.
- To remain in synchronization with Head Office global implementations, The Treasury Front End of Kondor + application, Anti Money Laundering for Compliance and Document Management System are three projects to be kicked off for implementation during 2006.

Corporate Outdoor Billboard in a prime location, events that were sponsored by the Bank, updated Website, new year's giveaways etc. The new corporate identity of ABC Group was applied to all outdoor signs, advertisements and printed material.

Mutual efforts continued with all Groups and Divisions to produce the Bank's Annual Report and Egypt's input in the Group's Annual Report. The Group's Intranet has been launched and is updated regularly, joint efforts with IT Group has been made to apply Intranet as the home page of all employees in order to improve communication amongst members of the Group.

The Bank's Website is also updated weekly in order to reflect the Bank's image and highlight Retail products, Bank's Branches, Line Managers, etc... In addition a bi-monthly e-newsletter which is sent via e-mail to all employees to announce the Bank's business news, achievements and employees' social news, the Bank's important news and events are also announced in the Group's bi-monthly newsletter "Al- Masrafayah".

All new year's giveaways were tailored to match the Bank's current campaign; Calendars, Agendas and Greeting Cards are used as an advertising tool for the Bank's products, services, Branches and ATM Locations.

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Public Relations Division

Public Relations continued to perform its role effectively by carrying out its internal and external duties. During 2005, the Division accomplished travel and accommodation arrangements for all Board Members, Bank's foreign guests and delegations as well as staff members on business trips. The Division is also in charge of contacts with governmental and non-governmental organizations and bodies.

In order to create inductive environment for communication and enhance cordial relationship between the employees and the management and between the staff members, the Division organized gatherings, trips for entertainment and to holy places. Arrangements were made for summer resorts in collaboration with the Travel Committee and within the budget approved by the Bank for that propose.

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On the Security and Control Frontier:

- Raising the security and control awareness among the senior management is one of the major achievements for IT Group, through the formation of two important committees; the Security Steering Committee and the Business Continuity Steering Committee where policies and strategies will be set, monitored and controlled.
- IT Group embarked on a major security and control project that touched many technical and business processes. The successful establishment and testing of the Disaster Recovery Site (DRS) in Alexandria premises is one of its biggest achievements. This is in coordination with Head Office, where the Core banking data backup in Bahrain HO and its availability through DRS testing was part of the successful test, being one of DR scenarios.
- The establishment of the Security Unit, under the guidance of the IT Group is another achievement towards standardization of security and controls.
- The standardization of Intrusion detection, encryption and Firewall systems emphasizes on further security measures over the Bank's systems and network.
- Tight Security and Control policies and measures were put in place for regular monitor and permanent control.

The IT Group strategies and plans are a true reflection of the banking business strategies for growth and expansion and are set to fully support its targets and objectives.

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Credit and Risk Group

The Credit and Risk Group main objectives are as follows:

- Minimizing risks.
- Maximizing returns.
- Applying Basel II and enhancing Capital Adequacy.
- Obtaining / maintaining the highest possible Investment Grade Rating for the Bank.

The above is achieved through monitoring over the three main risk areas, namely: Credit Risk, Market Risk and Operation Risk.

A. Credit Risk

- Credit Risk is the risk of loss due to borrower or counter-party default. Credit and Risk Group within ABCE is managing Credit Risk through:
- Applying the best practices for managing Credit Risk.
 - Developing and implementing Risk Policies:
 - Credit Risk Policy for corporates and financial institutions.
 - Consumer Risk Policy (Retail).
 - Setting sound, well defined credit processes and procedures.
 - Implementing a corporate Risk Rating System.
 - Implementing a Consumer Scoring System.
 - Setting Portfolio Risk Strategy.

- Setting Portfolio Risk Triggers.
- Ensure ongoing adequate controls over Credit Risk.

B. Market Risk

- Market Risk is the loss related to the change in value of a financial instrument or a portfolio because of a change in the value of market variables. Credit and Risk Group manages these risks through:
- Identifying and Monitoring Price (interest rate) and Liquidity Risks.
 - Reviewing of Liquidity and Interest Gaps.
 - Ensuring that MTM is adequately performed.
 - Perform stress scenarios, to minimize risks and avoid sudden financial shocks.
 - Provide a regular reporting to the ALCO committee.

C. Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, human resources, systems, or from external events. Credit & Risk Group ensures full compliance to the Group's Head Office policies and guidelines as well as local regulations of the Central Bank of Egypt.

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Remedial Loans Group

Remedial Loans Group has played a very effective role in impacting end results for the year 2005 as total collected debts has reached L.E. 20.6 MM which positively affected profit/loss account with a total profit amounting to L.E. 16.4 MM. Noting that this figure has been achieved through provision release and collection of both non-accrued and suspended interest (after deducting newly formed provision).

During this period, the Group has succeeded in releasing provision totaling L.E. 16.1 MM that were piled – up as per historical predicted scenario of settling bad debts. Fortunately, after so many meetings and arrangements with clients along with restructuring and rescheduling of their debts, remedial clients started to settle their old time debts that carry provision which led to the release of the above mentioned amount during this year.

Non-accrued and suspended interests that were collected as per the above mentioned scenario were added to revenues totaling L.E. 4.6 MM cash. It is also worth mentioning that the released provision resulting from old time debts totaling L.E. 10.3 MM cash, also a total of L.E. 5.8 MM from debt - asset swap plus deducting newly formed provision totaling L.E. 4.3 MM resulted in a total surplus of L.E. 16.4 MM.

As per mentioned, concerning releasing or forming new provision, the strength of the risk assortment of corporate portfolio eliminated the need for new provision in the coming future.

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Central Operations Division

ABC Bank - Egypt is one of the market leaders in applying "the Centralization Approach", whereby operations of all banking products and services are executed through the Central Operations Division, in which distinguished, experienced and well trained staff exist.

Central Operations Division is operating on four major pillars:

Back Office Operations Department

A major Department in the Central Operations Division responsible for handling all back office operations and is split into two major activities:

- Treasury Back Office Section
 This Section is responsible for executing all Treasury deals already performed by the Dealing Room in terms of payments, confirmation, booking and cash management; it also supports the dealers in performing their daily tasks efficiently.
- Branches Back Office Operations Section
 Thanks to this Section that others are concentrating on the execution of all transactions and deals performed to ABC Bank clients through its Branches Network. Inside Time Deposits and Saving Certificates are being handled, Inward and Outward Transfers are being processed, Corporate Loans are being booked and accessed and checks portfolios are also managed and collected either through Clearing Network or through our correspondents.

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Trade Finance Department

Trade Finance is a specialized Department in the Central Operations Division responsible for the operation of all Trade Finance products performed across ABC Bank Branches such as:

- Issuing Letters of Credit for Imports and international trade.
- Advising, confirming and utilizing Export Letters of Credits.
- Accepting Bills of Exchange, drawn on the strength of export/import business.
- Discounting commercial paper guaranteed by ABC Bank and /or its correspondents.
- Handling inward & outward Documentary Collection business.
- Issuing Local Letters of Guarantee upon request of our clients and correspondents.
- Advising and confirming Foreign Letters of Guarantee.
- Exchanging shipping documents, import and export collection fees as a low cost alternative for the implementation of imports and exports.

Literally, the Department is responsible for executing the transactions, booking them and effecting relevant limits, if needed through PCs' specialized programs for Foreign Trade finances.

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Branches Services Department

This Department consists of two units directed to one objective, which is, the best utility of the Bank's cash either Branches or ATM Network.

The Central Vault Unit

This Unit is responsible for keeping an equilibrium in the level of cash maintained in the Bank by absorbing the excess cash from the Branches Network, maintaining effective channels with the Central Bank of Egypt to export any banknote needed to fill any deficit and import excess cash in cooperation with the Dealing Room.

ATM Unit

The ATM Unit is responsible, in cooperation with the Bank's Call Center, for keeping ABC Bank - Egypt ATMs located in a number of prime sites in Cairo Hotels and shopping centers, in a perfect status.

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Internal Revision Department

This Department is concerned with keeping a vigilant eye on the execution of all transactions performed in the Branches and other operating centers, moreover, special care is rendered for checking the documentation received from all operating centers and in turn archiving it in a safe environment to facilitate any future access, this is in the light of its major objective to ensure and complete the hierarchy of the internal control function in ABC Bank - Egypt, a matter that has strategic and special focus in ABC Group, Bahrain.

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Legal Division

The Bank's Legal Division carries out all legal procedures that are apt to enhance protection of the Bank against any legal risks that may lead to material and negative consequences. The Legal Division achieves that objective by taking all legal actions towards setting the required guarantees in the right legal frame and after examining all submitted documents in order to identify the legal stance of the Bank's customers, including companies, institutions etc... These actions take place in order to implement the competent authority decisions and provide the legal opinion concerning all banking and legal issues, in the light of the laws in force and instructions of the Central Bank of Egypt. In addition, the Legal Division follows up the new laws that are issued to reflect the recent factual changes in all fields (corporations, banks, money laundering, commercial law, cheque regulations etc...). The Division extends assistance to all the Bank's committees formed by virtue of resolutions of the Bank's Board of Directors or the Chief Executive Officer.

The Legal Division represents the Bank in front of all the governmental and non governmental bodies (Investment Authority, Capital Market Authority, Commercial Registry, Real Estate Office). This is besides taking the necessary legal procedures for collecting the Bank's due earnings whether in front of courts of different degrees, investigating authorities, or different control bodies.

Furthermore, the Legal Division in collaboration with the external legal advisors provide complete legal consultations, to protect the Bank against incurring the legal liabilities for procedures and investments that may lead to material or negative consequences.

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The Inspection and Audit Division

The role of the Inspection and Audit Division is to secure a full protection of the depositors, ensure a regular work flow in all Bank's units and introducing the best service to customers' efficiently and effectively and monitors the consistent high level of performance.

The Inspection and Audit Division performs scheduled audit missions according to the approved Annual Audit Plan, snap checks are also performed on all the Bank's units to verify the regularity of work flow. The Division follows up all internal and external auditors' reports in order to rectify any findings and to make sure that all requirements were met.

The Audit Committee which includes some non – executive Board Members; is considered to be an authorized channel between the Board and the Internal Audit Division to enable the Board to perform the control functions on the Bank's business in addition to sound and effective follow-up of the Bank's regulations, procedures and internal control.

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Corporate Governance and Compliance Division

The concept of governance and compliance became more defined due to the active role played by the Division in supporting all Bank's Groups and Divisions by working on compliance and follow up of the implementation of previously adopted procedures and policies. In addition, it prepares periodical reports and submits recommendations to the Bank's senior management, establish mechanisms and monitor the compliance to laws and instructions issued by the Central Bank of Egypt (CBE), within the adopted procedures and policies which are in principal derived from the polices and objectives of the Head Office in Bahrain.

The Division is responsible for establishing effective monitoring regulations and tools which are derived from the rules of banking control provisions. These regulations and laws should also be in line with the set of objectives and vision of the Head Office in Bahrain. The Division is also responsible for the continuity of implementing those regulations to comply with the relevant conditions and standards of the previously adopted regulations. The aim is to overcome any probable risks of the Banks activities, and to ensure the continuity of developed control and professional environment throughout the Bank's Groups and Divisions.

Corporate Governance and Compliance Division also applies anti-money laundering procedures and ensures effective implementation of relevant rules and regulations. The Division is also responsible for preparing, developing and updating the work regulations and flows needed for the entire Bank's services and products as well as setting policies, developing code of ethics in addition to reviewing reports submitted by external and internal monitoring authorities. The main aim is to establish a mechanism to rectify any wrong performance and set strategies for implementing the required corrective measures and minimize any potential risks.

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