



Consolidated Financial Statements and

The Auditors' Report Thereon

For the Period ended March 31st, 2015

| Description | Pages |
|------------------------------------------------------------------------|--------------|
| Auditors' report | 1 - 2 |
| Consolidated balance sheet | 3 |
| Consolidated statement of income | 4 |
| Consolidated statement of changes in owners' equity | 5 |
| Consolidated statement of cash flows | 6 - 7 |
| Accounting policies and notes of the consolidated financial statements | 8 - 70 |

Consolidated Balance sheet as at March 31st, 2015

All amounts are in thousand Egyptian pounds

| | Note No | 31 March 2015 EGP '000 | 31 December 2014 EGP '000 |
|--------------------------------------------------------------------------|---------|---------------------------|------------------------------|
| Assets | | | |
| Cash and due from Central Bank of Egypt (CBE) | 14 | 1,501,581 | 1,318,949 |
| Due from banks | 15 | 1,005,326 | 1,214,930 |
| Treasury Bills | 16 | 3,835,210 | 4,142,711 |
| Financial assets held for trading | 17 | 20,769 | 19,059 |
| Conventional Financing to customers (Net) | 18/2 | 222,544 | 227,952 |
| Islamic Financing and facilities to customers (Net) | 18/2 | 8,871,244 | 8,199,861 |
| Financial investments | | | |
| Available for Sale Investment | 19/1 | 2,264,700 | 1,694,472 |
| Held to maturity | 19/2 | 12,555 | 12,555 |
| Net investments in associates | 20 | 34,879 | 34,879 |
| Intangible Assets, Net | 21 | 10,680 | 4,482 |
| Other assets | 22 | 874,940 | 1,035,183 |
| Assets Held for Sale, Net | | 996 | 996 |
| Projects under construction | 23 | 16,498 | 18,730 |
| Fixed Assets, Net | 24 | 557,815 | 546,288 |
| Investment property, Net | 25 | 119,691 | 123,385 |
| Leased assets, Net | 26 | 145,674 | 132,569 |
| Deferred Tax Assets | 32 | 780,958 | 829,056 |
| Total assets | | 20,276,060 | 19,556,057 |
| LIABILITIES AND SHAREHOLDERS' EQUITY : | | | |
| Liabilities : | | | |
| Due to banks | 27 | 857,166 | 793,126 |
| Customers' deposits | 28 | 17,177,272 | 16,579,761 |
| Subordinated financing | 29 | 217,027 | 203,209 |
| Other liabilities | 30 | 799,633 | 821,877 |
| Other provisions | 31 | 86,659 | 79,459 |
| End of services | 38 | 55,392 | 67,120 |
| Total Liabilities | | 19,193,149 | 18,544,552 |
| Shareholders' equity: | | | |
| Issued and Paid Up Capital | 33/2 | 1,999,503 | 1,999,503 |
| Paid under capital increase | 33/3 | 1,861,418 | 1,861,418 |
| Reserves | 34 | 261,433 | 250,624 |
| Difference between Face value and Present value (Subordinated Financing) | | 70,420 | 73,138 |
| Accumulated Loss | 34/3 | (3,116,651) | (3,180,703) |
| | | 1,076,123 | 1,003,980 |
| Non controllable interest | | 6,788 | 7,525 |
| Total shareholders' equity | | 1,082,911 | 1,011,505 |
| Total liabilities and shareholders' equity | | 20,276,060 | 19,556,057 |
| Contingent liabilities and commitments | 36/2 | 1,096,921 | 1,164,392 |

- The auditors' report is attached.

- The accompanying notes from (1) to (41) are integral part of these financial statements.

Nevine Loutfy

**Chairman, Chief Executive
Officer and Managing Director**

Haythem Soliman

Chief Financial Officer

Consolidated Statement of Income for the Period Ended March 31st, 2015

All amounts are in thousand Egyptian pounds

| | Note | 31 March 2015 | 31 March 2014 |
|--------------------------------------------------------------------|------|------------------|------------------|
| | No | EGP '000 | EGP '000 |
| Income from Murabaha, Musharaka, Mudaraba and other similar income | 5 | 427,202 | 320,105 |
| Cost of deposits and similar expenses | 5 | (218,463) | (194,508) |
| NET REVENUE FROM FUNDS | | 208,739 | 125,597 |
| Fees and commission income | 6 | 65,605 | 78,878 |
| Fees and commission expense | 6 | (907) | (5,432) |
| NET FEES AND COMMISSION INCOME | | 64,698 | 73,446 |
| Dividends income | 7 | 454 | 3,636 |
| Net trading income | 8 | 96,020 | 18,294 |
| Administrative expenses | 9 | (183,003) | (145,383) |
| Other operating expenses | 10 | (533) | (15,360) |
| Cost of credit | 11 | (13,503) | 44,584 |
| Share of associates results | | - | 6 |
| Profit from financial investments | 19/3 | 6,352 | 1,105 |
| PROFITS BEFORE INCOME TAX | | 179,224 | 105,925 |
| Income tax | 12 | (129,892) | (42,009) |
| NET PROFIT FOR THE PERIOD | | 49,332 | 63,916 |
| Divided as follows: | | | |
| Bank's share | | 50,069 | 62,354 |
| Non controllable interest share | | (737) | 1,562 |
| NET PROFIT FOR THE PERIOD | | 49,332 | 63,916 |
| Earnings per share attributable to ordinary share (EGP) | 13 | 0.25 | 0.31 |

- The accompanying notes from (1) to (41) are integral part of these financial statements.

Translation of Financial Statements originally issued in Arabic

Consolidated statement of change in equity for the Period ended March 31st, 2015

All amounts are in thousand Egyptian pounds

| | Capital | Paid under capital increase | Reserves | | | | Difference between face value and present value of subordinated financing | Accumulated losses | Total | Non-controllable interests | Total | |
|-------------------------------------------------------------------------------------------------------|------------------|-----------------------------|---------------|-----------------|-----------------|---------------------------------------------------|---------------------------------------------------------------------------|--------------------|--------------------|----------------------------|--------------|------------------------------|
| | | | Legal reserve | General reserve | Special reserve | Investments available for sale fair value reserve | | | | | | General banking risk reserve |
| Balance at 1 January 2014 as previously issued | 1,999,503 | 1,861,418 | 22,878 | 42,522 | 26,257 | 105,463 | 61,425 | 53,778 | (3,562,690) | 610,554 | 18,687 | 629,241 |
| Prior year adjustments | - | - | - | - | - | (1,107) | - | - | 143,577 | 142,470 | (15,437) | 127,033 |
| Balance at 1 January 2014 - restated | 1,999,503 | 1,861,418 | 22,878 | 42,522 | 26,257 | 104,356 | 61,425 | 53,778 | (3,419,113) | 753,024 | 3,250 | 756,274 |
| Adjustments due to settlement of subordinated financing granted on 27 December 2012 | - | - | - | - | - | - | - | - | (7,805) | (7,805) | - | (7,805) |
| Transferred to general banking risk reserve | - | - | - | - | - | - | (2,764) | - | 2,764 | - | - | - |
| Net change in fair value of investments available for sale | - | - | - | - | - | 5,716 | - | - | - | 5,716 | - | 5,716 |
| Amortization of the difference between face value from present value for subordinated financing | - | - | - | - | - | - | - | (2,739) | 2,739 | - | - | - |
| Settlement of subordinated financing granted on 27 December 2012 | - | - | - | - | - | - | - | (51,038) | - | (51,038) | - | (51,038) |
| Difference between face value and present value for subordinated financing provided during the Period | - | - | - | - | - | - | - | 80,676 | - | 80,676 | - | 80,676 |
| Net profit for the Period | - | - | - | - | - | - | - | - | 62,354 | 62,354 | 1,562 | 63,916 |
| Balance at 31 March 2014 | 1,999,503 | 1,861,418 | 22,878 | 42,522 | 26,257 | 110,072 | 58,661 | 80,677 | (3,359,061) | 842,927 | 4,812 | 847,739 |
| Balance at 1 January 2015 as previously issued | 1,999,503 | 1,861,418 | 22,878 | 42,522 | 26,258 | 75,532 | 83,434 | 73,138 | (3,180,588) | 1,004,095 | 7,525 | 1,011,620 |
| Prior year adjustments | - | - | - | - | - | - | - | - | (115) | (115) | - | (115) |
| Balance at 1 January 2015 restated | 1,999,503 | 1,861,418 | 22,878 | 42,522 | 26,258 | 75,532 | 83,434 | 73,138 | (3,180,703) | 1,003,980 | 7,525 | 1,011,505 |
| Transferred to general banking risk reserve | - | - | - | - | - | - | (11,265) | - | 11,265 | - | - | - |
| Net change in fair value of available for sale investments | - | - | - | - | - | 22,074 | - | - | - | 22,074 | - | 22,074 |
| Amortization of the difference between face value and present value for subordinated financing | - | - | - | - | - | - | - | (2,718) | 2,718 | - | - | - |
| Net profit of the Period | - | - | - | - | - | - | - | - | 50,069 | 50,069 | (737) | 49,332 |
| Balance as at 31 March 2015 | 1,999,503 | 1,861,418 | 22,878 | 42,522 | 26,258 | 97,606 | 72,169 | 70,420 | (3,116,651) | 1,076,123 | 6,788 | 1,082,911 |

- The accompanying notes from (1) to (41) are integral part of these financial statements.

Consolidated statement of cash flows for the Period ended March 31st, 2015

All amounts are in thousand Egyptian pounds

| | Note | 31 March 2015 LE '000 | 31 March 2014 LE '000 |
|-----------------------------------------------------------------------------------------------------|------|-----------------------------|-----------------------------|
| Cash flows from operating activities | | | |
| Profit before tax | | 179,224 | 105,925 |
| Adjustment to reconcile profit before tax to cash flows from operating activities: | | | |
| Depreciation of fixed assets | | 19,900 | 14,868 |
| Amortization of intangible assets | | 4,152 | 4,354 |
| Depreciation of investment property | | 1,744 | 17 |
| Depreciation of leased assets | | 16,696 | 15,777 |
| Impairment losses for financing and held to maturity investments | | 22,127 | 12,721 |
| Other provisions formed | | 7,935 | 26,308 |
| Credit loss impairment no longer required | | (8,624) | (57,306) |
| Gain from revaluation of assets held for trading | | 2,125 | (1,909) |
| Foreign currency revaluation of Loan Loss provisions | | 468 | 38 |
| Foreign currency revaluation of other provisions | | 188 | 7 |
| Foreign currency revaluation of held to maturity investments | | - | (13) |
| Foreign currency revaluation of available for sale investments | | (957) | (47) |
| Gain on sale of fixed assets | | (1,403) | (1,802) |
| Gain on sale of Investment Property | | (729) | - |
| Gain on sale of Leased assets | | (20) | - |
| Gain on sale of financial assets held for trading | | (443) | (410) |
| Gain on sale of available for sale investments | | (5,909) | - |
| Gain on sale of treasury bills | | (443) | (1,105) |
| Dividends Income | | (454) | (3,548) |
| Share of Associates' results | | - | (6) |
| Amortization of subordinated financing using EIR method | | 2,718 | 2,739 |
| Employees Benefits charged | | 1,585 | - |
| Operating profit before changes in assets and liabilities utilized in operational activities | | 239,880 | 116,608 |
| Net decrease (increase) in assets & liabilities | | | |
| Due from banks with maturity more than 3 months | | 240,664 | 636,209 |
| Treasury bills with maturity more than 3 months | | 320,336 | (86,545) |
| Financial assets held for trading | | (3,417) | 195 |
| Loans and Islamic facilities to customers & Banks | | (686,869) | (436,652) |
| Employees Benefit used | | (13,313) | - |
| Other assets | | 177,286 | (138,047) |
| Due to banks | | 64,041 | 440,220 |
| Customers' deposits | | 575,554 | (934,299) |
| Other liabilities | | (95,793) | 100,088 |
| Tax Paid | | (54) | (9) |
| Net cash flows resulting from operating activities | | 818,315 | (302,232) |
| Used provisions - Other than loan provisions | | (923) | (7,505) |
| Used provisions - loan provisions | | (1,275) | (1,498) |
| Net cash flows resulting from operating activities | | 816,117 | (311,235) |

Consolidated statement of cash flows for the Period ended March 31st, 2015 Cont.

All amounts are in thousand Egyptian pounds

| | 31 March 2015 | 31 March 2014 |
|------------------------------------------------------------------------|--------------------------|------------------|
| | LE '000 | LE '000 |
| <u>Cash flows from investing activities</u> | | |
| Payments to acquire fixed assets | (34,101) | (130,121) |
| Proceeds from sale of fixed assets | 4,077 | 3,619 |
| Payments to acquire intangible assets | (10,350) | (7,440) |
| Payments to acquire Leased assets | (30,441) | (10,405) |
| Proceeds from sale of Leased assets | 660 | 742 |
| Proceeds from Sale of Investment Property | 2,679 | - |
| Projects under construction | 2,231 | 108 |
| Payments to acquire investments available for sale | (1,149,339) | (365,755) |
| Proceeds from Investments available for sale | 602,142 | 88,908 |
| Proceeds from sale of treasury bills | 443 | 1,105 |
| Proceeds from Dividends income | 454 | - |
| Net cash flows used in investing activities | (611,545) | (419,239) |
| Net increase (decrease) in cash and cash equivalents during the Period | 204,572 | (730,474) |
| Cash and Cash Equivalents at 1 January | 1,494,526 | 1,121,997 |
| Cash and cash equivalents at the end of the Period | 1,699,098 | 391,523 |
| Cash and cash equivalents at end of Period are represented in : | | |
| Cash and due from Central Bank of Egypt | 1,501,581 | 582,167 |
| Due from banks | 1,005,326 | 826,460 |
| Treasury bills | 3,835,210 | 3,573,528 |
| Due from banks (mature in more than 3 months) | (848,502) | (495,243) |
| Treasury bills (mature in more than 3 months) | (3,794,517) | (4,095,389) |
| Cash and cash equivalents at end of the Period | 1,699,098 | 391,523 |

- The accompanying notes from (1) to (41) are integral part of these financial statements.

Notes to Consolidated Financial Statements for the Period ended March 31st, 2015

1- General information:

Abu Dhabi Islamic Bank - Egypt S.A.E (formerly National Bank for Development) was established in 1974 in accordance with Investment Law No. 43 of 1974 and its executive regulations and the amendments thereon and is listed on the Egyptian Stock Exchange (EGX). The bank provides a full range of banking services to corporate, retail and micro finance clients through its head office located in Cairo and its 70 branches across all governorates and are served by 2,138 employees at 31st March 2015.

Abu Dhabi Islamic Bank - Egypt is a bank that complies with the principles of Shari'a in all financing, banking and investment transactions and is subject, as a financial institution, to the supervision and control of the Central Bank. In addition, complies with Shari'a principles in all transactions and products provided to its clients, whether such products are investment deposits, investment certificates or savings accounts. An Islamic bank also meets the client's various financing needs by providing many options such as: Murabaha (Cost-plus), Musharakah (Joint venture), Ijarah (Leasing); as well as offers Islamic options for letter of guarantee, letter of credit and covered cards. The Islamic bank has a Shari'a board composed of Islamic jurists who are continually consulted regarding all aspects of existing and new banking transactions.

On April 3rd, 2012 the bank's name was changed in the commercial register from National Bank for Development (S.A.E) to Abu Dhabi Islamic Bank – Egypt (S.A.E)

The Consolidated financial statements for the three months ended March 31st, 2015 have been approved by the bank's board of directors on 10 September 2015.

2- Summary of significant accounting policies

A) Basis of preparation

These consolidated financial statements have been prepared in accordance with the Central Bank of Egypt (CBE) basis of preparation of the bank's consolidated financial statements and principles of recognition and measurement as approved by its board of directors on December 16th, 2008. These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial investment at fair value through the profit & loss, Available for sale financial assets.

These consolidated financial statements have been prepared in accordance with the requirements of related applicable Egyptian laws and regulations. The bank has also prepared consolidated financial statements for the bank and its subsidiaries in accordance with the central bank of Egypt (CBE) basis of preparation, which are companies in which the bank owns directly or indirectly more than half of the voting rights, or has the ability to control the financial and operational policies regardless of the type of activity.

Investments in subsidiaries and associates are presented in the separate financial statements at cost less impairment loss.

Subsidiaries have been fully consolidated into these consolidated financial statements. Subsidiaries are the companies that the bank controls "directly or in-directly" more than 50% of the voting power and has the ability to control the operating and financial policies.

B) Going concern principle

The accumulated losses were LE 3,117mn as of 31 March 2015 (31 December 2014: LE 3,181mn), which exceeds half of the paid up and issued capital which requires the calling of Extraordinary General Assembly meeting to discuss the bank's continuity as per article no. 69 of company's law no. 159 for year 1981. An Extraordinary General Assembly meeting held on 17th April 2014 which approved the bank's continuity as a going concern.

Notes to Consolidated Financial Statements for the Period ended March 31st, 2015 Cont.

C) Basis of consolidation:

C/1 Subsidiaries:

Subsidiaries are entities (including special purpose entities) which the group has the power to govern its financial and operating policies. Usually the group's ownership exceeds half the voting power taking into consideration potential future voting power that the group has the option to exercise or convert at the time of control assessment.

Subsidiaries are fully consolidated from the date the group assumed control; it is disposed at the date the group loses control.

Group acquisition of entities is accounted for using purchase method. The cost of acquisition is measured at the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued and any costs directly attributable to the acquisition process.

Identifiable acquired assets, liabilities and assumed contingent liabilities are recognized at fair value at the date of acquisition.

Excess of acquisition cost over the fair value of the group's share in net identifiable acquired assets is recognized as goodwill. If the acquisition cost is less than the fair value of net identifiable acquired assets, the difference is recognized in the income statement.

Subsidiaries which have been consolidated in the bank's financial statements are as follows:

| <u>Company</u> | <u>Ownership</u> | <u>Industry</u> |
|-------------------------------------------------------|------------------|----------------------|
| National company for Glass | 86.13% | Manufacturing |
| National company for trading and development (ENTAD) | 55.21% | Commercial |
| Assuit Islamic company for trading and development | 55.13% | Commercial |
| Cairo national company for investment | 75.73% | Financial Investment |
| ADI Lease for Financial Lease | 77.76% | Financial Lease |
| Abu Dhabi Islamic holding company | 99.85% | Holding |
| Abu Dhabi Islamic Capital | 98.62% | Investment |
| Abu Dhabi Islamic Properties | 97.88% | Real estate |
| Alexandria National Company for Financial Investments | 56.61% | Financial Investment |
| Cairo National Company for Brokerage & Securities | 42.65% | Financial Investment |

Transactions, balances and unrealized gains resulting from transactions between the group entities are eliminated in the consolidated financial statements unless they indicate impairment in the value of transferred assets.

Accounting policies of subsidiaries are changed when necessary to comply with the group's accounting policies.

Notes to Consolidated Financial Statements for the Period ended March 31st, 2015 Cont.

C/2 Transactions with Non-controlling interests:

The group considers transactions with non-controlling interests as transactions with external parties. Gains and losses due to sale to non-controlling interests are recognized in the income statement. Purchase from non-controlling interests results in goodwill which represents the difference between consideration given and book value of subsidiary's net assets.

C/3 Associates:

Associates are entities over which the group has significant influence; usually the group's ownership represents 20% to 50% of the voting power. Investment in associates is initially measured at cost and is accounted for subsequently using equity method. Investment in associates includes goodwill (less impairment loss) which was recognized at acquisition.

The group's share in associates' profit or loss post acquisition is recognized in the income statement while the group's share in changes in associates' equity pre acquisition is recognized in the group's equity. The book value of investment in associates is adjusted with the post-acquisition accumulated changes. If the group's share of the associates' loss exceeds its book value the group does not recognize further losses.

Transactions, balances and unrealized gains resulting from transactions between the group entities are eliminated in the consolidated financial statements unless they indicate impairment in the value of transferred assets.

Gains and losses that result from changes in ownership structure of associates are recognized in income statement.

C/4 Inventory:

Inventory is measured at the lower of cost or net realizable value, Inventory costs include all costs incurred in bringing the inventory to its present location and condition as follows:

- Raw materials, spare parts, packing tools and fuel.
- Purchase costs using moving average method.
- Finished and Semi-finished products.
- Manufacturing costs, direct-labor costs and indirect costs based on normal activity rates.

Net realizable value is the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale. Provision for obsolete and slow moving items is formed when necessary.

C/5 Real Estate Investment:

Gains or losses arising from changes in the fair value of real estate investments are recognized in the profits and losses of the year when they were realized.

The fair value of real estate investments is the exchange value of a particular asset between parties each of them has a desire to exchange and aware of the standing facts, dealing with free willing and this estimate of the fair value, in particular, does not include the estimated price inflation or deflation with special conditions or certain conditions such as unusual funding or the special arrangements of sale, Re-lease, The particular amounts or concessions granted by any party related to the sale.

The property determines the fair value without making any deduction for the transaction costs that may be incurred by the facility in the process of selling or the other exclusion.

Notes to Consolidated Financial Statements for the Period ended March 31st, 2015 Cont.

C/6 Projects under construction:

Costs incurred to acquire fixed assets are recognized as projects under construction. These assets are transferred to fixed assets when it becomes ready for use, depreciation starts at the date of transfer.

C/7 Defined benefit system:

The National Company for Glass and Crystal gives end of service benefits for employees of the company, the right to obtain these benefits is calculated based on the last salary and length of service for employees.

C/8 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 by which, provide 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.

The bank does not have any geographical sectors that operate in a different economic framework as at March 31st, 2015.

D) Foreign Currency Transactions:

D/1 Trade and presentation currency:

The Egyptian pound is the currency of preparation and presentation of the financial statements.

D/2 Transactions and balances in foreign currency:

The banks' accounting records are maintained in Egyptian pounds, transactions in other foreign currencies are recorded at rates of exchange ruling on the transaction date. Monetary assets and the liabilities in foreign currencies are revaluated into Egyptian pounds at the rates of exchange ruling at the balance sheet date, any resultant gain or loss is then recorded in the income statement as follows:

- Net trading income or net income from financial instruments originally classified as a change in fair value through profit and loss according to its type.
- Other operating income/loss for other items.

The changes in fair value of monetary financial instruments denominated in foreign currencies and classified as available for sale (debt instruments) are classified into:

- Differences due to change in amortized cost of the instrument; these are recognized through profit and loss in "Profit/Interest and similar income"
- Differences due to changes in foreign currencies exchange rates; these are recognized through profit and loss in "Other operating income / Expense"
- Differences due to change in fair value of the instrument which re recognized through equity in "Available for sale fair value reserve".

Translation differences on non-monetary items such as equity securities held at fair value though profit or loss are reported as part of the fair value gain or loss translation difference on non-monetary items such as available for sale the income is recorded directly in equity within "Net unrealized gains and losses on available for sale assets" .

Notes to Consolidated Financial Statements for the Period ended March 31st, 2015 Cont.

E) Financial assets:

The bank classifies its financial assets into the following groups:

- Financial assets designated at fair value through profit and loss.
- Financings and receivables.
- Financial investments held to maturity.
- Financial investments available for sale.

The management's classification depends on the purpose of the investments at the time of its purchase.

E-1 Financial assets designated at fair value through profit and loss

Financial assets include:

- Investments held for trading
 - Financial instrument are recorded as held for trading if it is acquired for resale in short term, or if it represents a part of specific financial instrument portfolio that are managed together and there is an evidence for actual recent transactions refers to the gain of income in short term.
 - Under all circumstances, the bank does not re-classify any financial instrument into financial instruments measured at fair value through profit and loss or to a group of financial assets held for trading.

E-2 Financings and receivables:

Financings 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 that classified as financial assets designated at fair value through profit and loss.
- That the bank upon initial recognition designates as available for sale or for which the bank may not recover substantially all of its initial investment, other than because of a credit deterioration of the issuer.
- Historical probability of default for retail portfolio was calculated according to the realized loss for the past 3 to 6 months and based on average delinquency period for each product. For corporate portfolio, Historical probability of default was calculated as per the rates issued by Moody's for the Middle East for each facility as per its facility risk rating.

E-3 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. All held to maturity financial investments are reclassified as available for Sale in case of a sale of significant amounts unless the sale is in an emergency situation

Notes to Consolidated Financial Statements for the Period ended March 31st, 2015 Cont.

E-4 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 the prices of shares, foreign currencies, or interest rate.

The following principles are followed for the financial assets:

- Purchases or sales of financial assets designated at fair value through profit and loss, held to maturity financial investments, and available for sale financial investments are recognized 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 as designated at fair value through profit and loss at initial measurement are recognize at fair value plus directly attributable costs of acquisition or issue while financial assets designated at fair value through profit and loss at initial measurement are recognized only at fair value, any directly attributable acquisition or issue costs are recorded in the “net trading income” in the income statement.
- Financial assets are de-recognized where the rights to receive cash flows from the asset have expired or the bank has transferred all the risks and rewards of the asset to another party, while a financial liability is derecognized 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.
- Held to maturity financial investments are subsequently measured at amortized cost.
- Profit and loss due to changes in fair value of financial assets designated at fair value through profit and loss are recorded in income statement during the period it occurred.
- Profit and losses arising from changes in fair value of available for sale financial investments are recognized directly in equity, when the asset is disposed of or impaired, the cumulative profit or loss previously recognized in equity is recognized in the income statement.
- Monetary assets' interest/profit income is recognized based on the amortized cost method in the income statement. The foreign currency revaluation differences related to available for sale investments are recognized in the income statement. Available for sale equity instruments related to dividends are recognized in the income statement when they are declared.
- Fair values are obtained from quoted market prices in liquid markets. Where no active market exists, or quoted prices are unobtainable the fair value is estimated using a variety of valuation techniques, including discounted cash flow and other pricing models. Inputs to pricing models are generally market-based where available and taken from reliable external data sources.
- If the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, an entity can measure the equity instrument at cost minus any impairment losses.
- Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the bank has transferred substantially all risks and rewards of ownership, Financial liabilities are derecognized when they are extinguished – that is, when the obligation is discharged, cancelled or expires.
- Available for sale financial assets, held for trading and financial assets at fair value through profit or loss are all subsequently measured at fair value. Financings and receivables and held to maturity investments are subsequently measured at amortized cost.

Notes to Consolidated Financial Statements for the Period ended March 31st, 2015 Cont.

- Interest/profit calculated using the effective interest/profit method and foreign currency gains and losses on monetary assets classified as available for sale are recognized in the income statement, Dividends on available for sale equity instruments are recognized in the income statement when the entities right to receive payment is established.
- 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 measures the equity instruments that are classified as available for sale at cost net of impairment loss, if any.
- Debt instruments can be reclassified from the available for sale investments to held to maturity investments when the bank has the intention and ability to hold to maturity including financings and bonds, Any related profit and loss that were previously recognized are treated as follows:
 - i. Financial assets with fixed or determinable payments and fixed maturity is valued at amortized cost, using the effective interest method in case of impairment the profit/interest and loss that have been previously recognized directly in equity is removed from equity and recognized in the income statement.
 - ii. Profit and loss related to financial assets without fixed or determinable maturity are held in equity till sale or disposal of the asset then removed from equity and recognized in the income statement, In case of impairment the profits and losses that have been previously recognized directly in equity are removed from equity and recognized in the income statement.
- Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the bank has transferred substantially all risks and rewards of ownership.

Financial liabilities are derecognized when they are extinguished – that is, when the obligation is discharged, cancelled or expired.

F) Offset of financial assets and financial liabilities:

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

REPO and reverse REPO agreements represent by net in balance sheet under treasury bills caption.

G) Profit/Interest income and expenses:

G/1 Interest income and expense for all interest/profit-bearing financial instruments, except for those classified as held for trading or designated as at fair value through profit or loss, are recognized within 'profit/interest income' and 'profit/interest expense' in the income statement using the effective profit/interest rate method, The effective profit/interest rate method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the profit/interest income or profit/interest expense over the relevant year.

The effective profit/interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective profit/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 to the contract that are an integral part of the effective profit/interest rate, transaction costs and all other premiums or discounts. Profit/interest income on financings is recognized on accrual basis except for the interest income on non-performing financings, which ceases to be recognized as revenue when the recovery of interest or principle is in doubt.

When financings or debts are classified as non-performing or impaired, related profit/interest income are not recognized but rather, are carried off balance sheet in statistical records and are recognized as revenues on the cash basis as follows:

Notes to Consolidated Financial Statements for the Period ended March 31st, 2015 Cont.

- When collected and after recovery of all areas for retail financings, personal financings, real estate financings for personal housing and financings to small business.
- For corporate financings, profit/interest income is also recognized on the cash basis, according to which interest earned during the periods subsequent to reschedule agreements does not start to accrete on the financing principal until the bank collects 25% of the rescheduled installments and after payments of the installments continue to be regular for at least one year.

H) Fees and commission income:

Fees and commissions charged by the bank for servicing a financing or facility that is measured at amortized cost and that are an integral part of the effective interest rate of that financial instrument are recognized as revenue as the services are provided.

H/1 Recognition of such fees and commission in profit or loss ceases when a financing becomes non-performing or is impaired in which case fees and commission income is rather marginalized and carried off the balance sheet. Recognition of such fees and commissions as revenues continues on the cash basis when the relevant profit/interest income on the financial instrument is recognized since they are generally treated as an adjustment to the effective profit/interest rate on the financial asset.

H/2 If it is probable that the bank will enter into a specific lending arrangement, the commitment fee received is regarded as compensation for an ongoing involvement with the acquisition of a financial instrument and, together with the related transaction costs, is deferred and recognized as an adjustment to the effective profit/interest rate. If the commitment expires without the bank making the financing, the fee is recognized as revenue on expiry.

H/3 A syndication fee received by the bank that arranges financing and retains no part of the financing package for itself (or retains a part at the same effective profit/interest rate for comparable risk as other participants) is compensation for the service of syndication. Such a fee is recognized as revenue when the syndication has been completed.

Fees and commissions resulting from direct negotiations or participation in such negotiations for the benefit of or on behalf of another party, such as those earned on the allotment of shares or other financial assets to a client or acquisition or disposal of entities for a client, are recognized as revenue when the specific transaction has been completed.

H/4 Administrative and other services fees are recognized as income on a time proportionate basis over the lifetime of the service.

I) Dividends:

Dividends are recognized in the income statement when the right to receive dividends is established.

J) REPO and reverse REPO agreements:

Financial instruments sold in accordance to re-purchase agreements are recognized as assets added to the balance of treasury bills on the balance sheet. Liabilities under purchase and re-sale agreements are deducted from the balance of treasury bills and the difference between sale price and re-purchase price is recognized as accrued income over the term of the agreement using effective interest method.

Notes to Consolidated Financial Statements for the Period ended March 31st, 2015 Cont.

K) Impairments of financial assets:

K-1 Financial assets held with cost to depreciation:

The bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a portfolio of assets is impaired. A financial asset or a portfolio of assets is impaired and impairment losses is incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the balance sheet data ('a Loss Event') and that loss event or events has had an impact on the estimated cash flow of the financial asset or the portfolio of financial assets that can be reliably estimated. Objective evidence that a financial asset or a portfolio of financial assets is impaired includes observable data that comes to the attention of the bank about the following loss events:

- Significant financial difficulty of the issuer or the obligor.
- A breach of contract, such as a default or delinquency in interest or principal payments.
- It becomes probable that the borrower will enter bankruptcy or liquidation.
- Deterioration of Financial position of the borrower.
- The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider.
- Impairment in the value of guarantee.
- Deterioration of creditworthiness.

A measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

The bank estimates the period between the date on which the loss event has occurred and the date on which the impairment loss has been identified for each specific portfolio. For application purposes, the bank considers this period to equal one.

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:

- If the bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment based on the historical loss rates.
- Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.
- An asset that is individually assessed for impairment but for which an impairment loss is not recognized is included in a group of other similar assets.
- If there is objective evidence that an impairment loss on financings and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash discounted at the financial asset's original effective interest rate. The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognized in profit or loss.
- For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (asset nature, business nature, geographical location, etc.) that are indicative of the debtors' ability to pay all amounts due according to the contractual terms. Provisions are then related to estimate future payments as an indication of the borrowers' ability to fulfill his contract.

Notes to Consolidated Financial Statements for the Period ended March 31st, 2015 Cont.

- When assessing the impairment loss for a group of financial assets on the basis of the historical loss rates, future cash flows in the group are estimated on the basis of the contractual cash flows of the Bank's assets and the historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.
- The bank ensures that estimates of changes in future cash flow reflects the changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the bank to reduce any differences between loss estimates and actual loss experience.

K-2 Financial investments available for sale and held to maturity date in associates companies

At each balance sheet date, the bank assesses whether there is objective evidence that any financial asset or group of financial assets that are classified as available for sale has been impaired. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is an objective evidence of impairment.

Such decline is presumed to be significant for the equity instruments if it reaches 10% of the cost of the financial instrument, whereas it is presumed a prolonged decline when it extends for a period of more than 9 months.

In respect of available for sale equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized directly in equity. However, if in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss for that debt instrument.

L) Intangible assets

Software (computer programs):

- Expenditure on upgrade and maintenance of computer programs is recognized as an expense in the income statement in the period in which it is incurred. Expenditures directly incurred in connection with specific software are recognized as intangible assets if they are controlled by the bank and when it is probable that they will generate future economic benefits that exceed its cost within more than one year. Direct costs include the cost of the staff involved in upgrading the software in addition to a reasonable portion of relative overheads.
- Upgrade costs are recognized and added to the original cost of the software when it is likely that such costs will increase the efficiency or enhance the performance of the computers software beyond their original specification.
- Cost of the computer software recognized as an asset shall be amortized over the period of expected benefits which shall not exceed three years.

M) Fixed assets:

Lands and buildings comprise the head office premises and branches. All fixed assets are carried at historical cost net of accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the assets carrying amount or recognized separately, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the bank and the cost of the item can be measured reliably. Repairs and maintenance expenses are recognized in profit or loss within "other operating costs" line item during the financial period in which they are incurred.

Depreciation is charged so as to write off the cost of assets, other than land which is not depreciated, over their estimated useful lives, using the straight-line method to the extent of their estimated residual values based on the following annual rates

Depreciation is charged so as to write off the cost of assets, other than land which is not depreciated, over their estimated useful lives, using the straight-line method to the extent of their estimated residual values based on the following annual rates:

| | |
|--------------------------------|----------|
| Buildings | 20 years |
| Decorations and preparations | 20 years |
| Integrated systems & equipment | 5 years |
| Motor vehicles | 5 years |
| Furniture and fittings | 10 years |
| Other equipment | 8 years |

The bank reviews the carrying amounts of its depreciable fixed assets whenever changes in circumstances or events indicate that the carrying amounts of those assets may not be recovered. Where the carrying amount of an asset exceeds its recoverable amount, the carrying amount is reduced to its recoverable amount.

The recoverable amount of an asset is the higher of the asset's net realizable value or value in use. Gains and losses on disposals are determined by comparing proceeds with relevant carrying amount. These are included in profit or loss in other operating income (costs) in the income statement.

N) Leased assets

Leased assets are stated at historical cost net of accumulated depreciation and accumulated impairment losses. The assets are depreciated using the straight line method according to the useful life of the assets starting from the date of usage.

O) Investment property

Investment property is held to earn rentals or for capital appreciation or both. Therefore, an investment property generates cash flows largely independently of the other assets held by an entity.

The following are examples of investment property:

- a. Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of business.
- b. A building that is vacant but is held to be leased out under one or more operates leases.

P) Impairment of non-financial assets:

Non-financial assets that do not have definite useful lives, except for goodwill, shall not be amortized. These are annually tested for impairment. Depreciable fixed assets are tested for impairment whenever changes in circumstances or events indicate that the carrying amounts of those assets may not be recovered.

Impairment loss is recognized and the carrying amount of an asset is reduced to the extent that such carrying amount exceeds the asset's recoverable amount.

The recoverable amount of an asset is the higher of the asset's net realizable value or value in use. For the purpose of estimating the impairment loss, where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

At each balance sheet date, non-financial assets for which an impairment loss is recognized shall be reviewed to assess whether or not such impairment losses should be reversed through profit or loss.

Q) Leasing:

This is calculated as per law no. 95 for the year 1995, about finance leasing in case the contract grants the right to the tenant to purchase the asset by a set date and a set value, in addition to contract life covers more than 75% of estimated useful life, or if the fair value of total rental payments represent payments more than 90% of the assets value. Other contracts represent operational rent contracts.

Q-1 Rent

As for leasing contracts, the expense of rent in addition to maintenance, is recognized as expenses in the under income statement. If the bank decides upon the usage of its right in purchasing the rented assets, the expenses of purchase is capitalized and depreciated over the remaining useful life.

The payments are recognized under operational rent decreased by the amount of any payments received within the stated period, registered in the income statement as steady installments.

R) Cash and cash equivalents

For the purposes of the cash flows statement, cash and cash equivalents comprise balances due within three months from date of acquisition; they include cash and balances due from central bank of Egypt, other than those within the mandatory reserve, current accounts with banks and treasury bills, certificates of deposits and other governmental notes.

S) Other provisions

Provisions for obligations are recognized based on the present value of the best estimate of the consideration required to settle the present obligation at the balance sheet date.

For obligations due, provisions are calculated based on undiscounted expected outflows unless the time value of money has a significant impact on the amount on provision, then it is measured at the present value.

When a provision is wholly or partially no longer required, it is reversed through profit or loss under other operating income/expenses.

Provisions for obligations due within more than 12 months from the balance sheet date are recognized based on the present value of the best estimate of the consideration required to settle the present obligation at the balance sheet date. An appropriate pre-tax discount rate that reflects the time value of money is used to calculate the present value of such provisions. For obligations due within less than twelve months from the balance sheet date, provisions are calculated based on undiscounted expected outflows unless the time value of money has a significant impact on the amount of provision, then it is measured at the present value.

T) Taxes

Taxes include income taxes and deferred taxes, both are recognized in the income statement except for income tax relating to the owners' equity, which is recognized directly within the owners' equity statement.

Income tax expense on the year's profit or loss represents the sum of the tax currently payable and deferred tax, and is recognized in the income statement.

The bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period, in addition to income tax adjustments related to previous years. Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. However, when it is expected that the tax benefit will increase, the carrying amount of deferred tax assets shall increase to the extent of previous reduction.

U) Employees Benefits

Employees saving insurance fund:

In the first of July 2013 the bank established a private social insurance fund (Alsondoq) according to the law number 54 for the year 1975 "private insurance funds law and the regulations", The bank has registered the fund in 14 January of 2014 with a number of registration (884), Working in this fund started on the first of April 2014, terms and modification of the fund is applied on the employees working in the head office of the bank and its branches in the Arab republic of Egypt.

The bank is committed to pay the subscriptions to the fund monthly calculated according to the rules of the fund and its modifications. Generally the fund is financed through the monthly subscriptions and some other resources specified in fund's list.

U) Employees Benefits Continued

Legacy staff medical benefit plan

The Bank has a Defined Benefit Medicare Plan for its legacy employees during their service period and post retirement, the liabilities of this system represent in the present value of its liabilities minus its assets at the end of each period including the actuarial loss and revenues settlements and also the prior year cost. The liability determined by independent actuarial expert using the Projected Unit Credit method. the fair value of the liabilities are determined by the projected forecasted cash outflow using discount rate of governmental bonds with maturities similar the maturity of liability. The liability recorded in other liabilities.

The actuarial revenues or losses arising from experience, change in actuarial assumptions and amendments in the medical plan are hitting the income statement. The bank applies the monthly payment method to the medical plan for current employees, this payments hit the income statement in employee's benefits item.

V) Comparative figures

Comparative figures are reclassified, where necessary, for consistency with changes in the current year's presentation (Note 39).

3- Management of financial risks

The bank, as a result of conducting its activities, is exposed to various financial risks. Since financial activities are based on the concept of accepting risks and analyzing and managing individual risks or group of risks together, the bank aims at achieving a well-balanced risks and relevant rewards, as appropriate 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 risk, interest rate risk and other pricing risks.

The risk management policies have been laid down to determine and analyze the risks, set limits to the risk and control them through reliable methods and up-to-date systems. The bank regularly reviews the risk management policies and systems and amendments thereto, so that they reflect the changes in markets, products and services and the best up-to-date applications.

Risks are managed in accordance with preapproved policies by the board of directors; the risk management department identifies, evaluates and covers financial risks, in close collaboration with the bank's various operating units.

The board of directors provides written rules which cover certain risk areas, such as credit risk, foreign exchange risk, interest rate risk and the use of derivative and non-derivative financial instruments.

3/1 Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The bank deems financings to customers, banks and financial investments in terms of bills, current accounts, deposits at banks, as financial assets exposed to credit risk of settling part or all of the dues by the concerned parties on the maturity date. Credit risk also exists on items not registered in the balance sheet such as financing commitments.

3/1/1 Measurement of credit risk

Financings and facilities to clients

To evaluate credit risk relating to financings and facilities to banks and/or clients, 3 components are to be considered:

-Probability of default: by the client or counter party on its contractual obligations

-Exposure at default: current exposure to the counter party and its likely future developments from which the bank derive the exposure at default.

-Loss given default

The bank's daily activities include measurement of credit risk, which reflects estimated loss (expected loss model) required by Basel banking observatory committee, a conflict could generate between operational measurements and impairments as per the Egyptian accounting standards, which recognizes losses encountered on balance sheet "Recognized losses" rather than "Expected loss" (note 3/1/1).

The bank evaluates each client through a detailed weight categorization; these methods have been developed for internal evaluation usage and for analysis to reach the appropriate weighting. The banks clients have been categorized to 4 categories, reflecting the delay in payment, therefore clients could move between the various categories depending on evolving circumstances. The bank frequently and periodically reviews the efficiency of this method to estimate any cases.

Internal categories:

| Category | Description |
|----------|-------------------|
| 1 | Good debts |
| 2 | Regular follow up |
| 3 | Special follow up |
| 4 | Bad debts |

- Exposure at default is based on the amounts the bank expects to be outstanding at the time of default.
- The estimated loss, is the loss incurred when delay in payment occurs, being a percentage of financing which differs depending upon client, nature of claim, available collaterals and guarantees.

Debt instruments and treasury bills:

The bank in this case uses external categorization, such as standard and poor or other equivalents. If external classification is not available, the method of credit risk is followed. The investment in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirements at the same time.

3/1/2 Minimization and avoidance of risk

The bank manages and controls the credit risk on the debt category and various circumstances, nature, country, manufacture, etc. The assets exposed to credit risk in these categories are classified according to detailed rules and terms depending heavily on information relevant to the customer, his activity, financial position and his payment track record.

Framework for categorizing debts is drawn by sub borders including on/off balance sheet figures, the daily risk relating to trade items (e.g. Foreign exchange). Actual figures are compared to daily limits.

Periodical monitor and review of credit risk through analyzing the ability of clients and estimated clients. In light of the results, amendments to the debt limitation take place as appropriate. Several methods to eliminate risk are as follows:

Collaterals

Several rules and policies are stated by the bank to minimize credit risk, one of which is collaterals, the bank specifies guidelines for certain types of collaterals. Major types are as follows:

- Real estate mortgage
- Operating asset mortgage such as machinery and goods
- Mortgage of financial Instruments such as: securities or equities

Usually the long term facilities are related to corporate, while short term facilities or credit for retail to minimize any losses to minimal. The bank seeks extra collaterals from related parties if a sign of impairment of any financing or facility occurs.

Collaterals depend mainly on type of facility, treasury bills and securities are usually with no collaterals, except for financial pools covered by asset-backed securities and similar guaranteed by financial instruments.

Master netting arrangements:

The bank minimizes credit risk through arrangements made between major clients representing high portfolios and the bank, master netting arrangements doesn't result in netting between assets and liabilities within the balance sheet, because the settlement is normally set on total value. This leads to a lower risk rate for the bank, because in case of non-performing financings settlements are in favor of the bank. Due to fluctuations the bank's risk weight can differ due to circumstances.

Commitments related to credits:

The major need for commitments related to credits is for the client to have liquidity when needed. Guarantees and standby letters of credit issued by the bank on behalf of the client, to grantee a third party the right to withdrawal from the clients account within a certain limit.

Usually this is guaranteed by shipped merchandise or goods therefore the risk weight is less than direct financings. Credit commitments represent the hidden unused part of the risk tolerated by the bank such as granting financings, LCs and LGs, the bank then is subject to losses to equal value of credits. Losses indorsed by unused credits are less than the value, due to facilities being granted for possible commitments for a specific client with certain conditions. The bank observes the credits till maturity date (long term credits hold a higher risk weight).

3/1/3 Impairment & provisioning policies

Impairment loss provisions stated on the end of period balance sheet are extracted from the categorized weight risk rating. Provisions are mainly calculated for credits holding the lowest category. The following table clarifies the percentage upon which the provisions are calculated:

| Banks rating | 31 March 2015 | | 31 December 2014 | |
|-------------------|----------------------|----------------------------|----------------------|----------------------------|
| | Loans and facilities | Impairment loss provisions | Loans and facilities | Impairment loss provisions |
| Assets | % | % | % | % |
| Good debts | 79% | 20% | 84% | 20% |
| Regular follow up | 15% | 14% | 12% | 12% |
| Special follow up | 0% | 1% | 0% | 1% |
| Bad debts | 6% | 65% | 4% | 67% |
| | 100% | 100% | 100% | 100% |

Internal evaluation helps to clarify if there are any significant indications existing for provisions, as per Egyptian accounting standards no. 26, guided by the following points set by the bank:

- Financial problems faced by the client.
- Breaching of financing contract for example overdue installments.
- Prediction of bankruptcy or liquidation or financial restructure.
- Deterioration of competitive position.
- The bank granting superior or extraordinary facilities that the bank could normally not agree upon.
- Impairment of the collateral
- Deterioration of credit status.

Notes to Consolidated Financial Statements for the Period ended March 31st, 2015 Cont.

The bank's policy includes revising all the bank's assets (exceeding a certain percentage of importance) at least once per year or more if needed.

Loss is evaluated at the balance sheet date on all major accounts. Evaluation normally includes the existing collateral, verifying all payments and withdrawals from the account. Impairment loss is accumulated on similar assets; historical expertise, personal judgment statistical methods.

3/1/4 Model of general risk measurement

In addition to the 4 categories stated in note 3/1/1, the management takes on several other detailed measurements, to comply with the CBE requirements. Assets exposed to risk are categorized as per the CBE's conditions and instructions, mainly related to on the client, such as: activity, financial position, payment stability.

The bank calculates the impairment of assets exposed to credit risk, including commitments relating to credit on the basis of rates determined by CBE. In case, the required for impairment losses as per CBE credit worthiness rules exceeds the provisions, that excess shall be debited to retained earnings and carried to the general reserve for banking risks in the equity section.

Such reserve is always adjusted, on a regular basis, by any increase or decrease so that the reserve shall always be equivalent to the amount of increase between the two provisions. Such reserve is not available for distribution (note 32) and shows the movement on the general reserve for banking risks during the financial period.

As follows is the statement of credit rating for corporations as per the bank's internal ratings as compared with those of CBE's, it also includes the percentages of provisions required for impairment of assets exposed to credit risk.

| CBE rating | CBE rating description | Required provision % | Internal rating | Internal rating description |
|-------------------|-------------------------------|-----------------------------|------------------------|------------------------------------|
| <u>1</u> | Low risk | 0% | 1 | Good debts |
| 2 | Moderate risk | 1% | 1 | Good debts |
| 3 | Satisfactory risk | 1% | 1 | Good debts |
| 4 | Appropriate risk | 2% | 1 | Good debts |
| 5 | Acceptable risk | 2% | 1 | Good debts |
| 6 | Marginally acceptable risk | 3% | 2 | Regular Follow up |
| 7 | Risk needs special attention | 5% | 3 | Special Follow up |
| 8 | Substandard | 20% | 4 | Bad debts |
| 9 | Doubtful debts | 50% | 4 | Bad debts |
| 10 | Bad debts | 100% | 4 | Bad debts |

Notes to Consolidated Financial Statements for the Period ended March 31st, 2015 Cont.

3/1/5 Maximum limit for credit risk before guarantees

5/A Maximum limit for credit risk before guarantees:

| | 31 March 2015 | 31 December 2014 |
|---------------------------------------------------------------|--------------------------|---------------------|
| <u>Balance sheet items exposed to credit risks</u> | | |
| Treasury bills | 4,024,323 | 4,340,778 |
| <u>Loans and financing to customers and banks</u> | | |
| <u>Retail loans</u> | | |
| - Overdraft | 1,321 | 1,407 |
| - Covered cards | 473,687 | 398,482 |
| - Personal financing | 4,034,187 | 3,928,311 |
| - Real estate mortgage | 204 | 1,164 |
| <u>Corporate Loans:</u> | | |
| - Overdraft | 1,072,723 | 1,097,024 |
| - Direct financing | 4,705,528 | 4,119,929 |
| - Syndicated financing | 349,403 | 270,787 |
| <u>Financial investments:</u> | | |
| Debt instruments | 2,160,933 | 1,594,426 |
| Total | <u>16,822,309</u> | <u>15,752,308</u> |
| <u>Off balance sheet items exposed to credit risks</u> | | |
| Letters of credit (Import & confirmed export) | 267,634 | 359,913 |
| Letters of guarantee | 401,049 | 423,305 |
| Documentary credit | 211,495 | 184,965 |
| Bank guarantees | 216,743 | 196,209 |
| Total (Note 36) | <u>1,096,921</u> | <u>1,164,392</u> |

The above table represents the maximum limit of risks to be exposed to at the end of March 31st, 2015 and without taking into consideration any guarantees, for balance sheet items, amounts stated depends on the net carrying amount shown in the balance sheet.

As shown in the preceding table, **63.23 %**(December 31st, 2014: **57.53 %**) of the maximum limit exposed to credit risk results from financings and facilities to customers.

The management is confident in its ability to maintain control on an ongoing basis and maintain the minimum credit risk resulting from financing portfolio, facilities, and debt instruments as follows:

- **95.97 %** (December 31st, 2014: **95.67%**) of the financings and facilities portfolio are rated on the highest 2 levels of the internal rating.
- **84.46 %** (December 31st, 2014: **83%**) of the financing portfolio and facilities having no arrears or indicators of impairment.
- Financings and facilities valued on a standalone basis amounting to LE **407k** (December 31st, 2014: LE **416mn**) with impairment less than **3.82%** from its value against (December 31st, 2014: LE **4.24%**).

Notes to Consolidated Financial Statements for the Period ended March 31st, 2015 Cont.

- The bank applied more prudential selection process on granting financings and facilities during the financial Period ended at March 31st, 2015.
- More than **99.90%** of investments in debt instruments and treasury bills represent debt instruments due from the Egyptian government.

3/1/6 Financing and facilities:

The status of balances of financing in terms of credit rating is as follows:

| | Value in EGP '000 | |
|-------------------------------|---------------------------|---------------------------|
| | 31 March 2015 | 31 December 2014 |
| | Financing to customers | Financing to customers |
| Neither past due nor impaired | 8,983,545 | 8,148,148 |
| Past due not impaired | 1,246,815 | 1,252,618 |
| Subject to impairment* | 406,693 | 416,338 |
| Total (note 2/17) | 10,637,053 | 9,817,104 |
| Less: | | |
| Impairment loss provision** | (272,381) | (251,061) |
| Interest in suspense | (22,504) | (21,918) |
| Deferred profits | (1,248,380) | (1,116,312) |
| Net (note 2/17) | 9,093,788 | 8,427,813 |

* Customers financing and facilities subjected to impairment related to the period before acquisition.

** The impairment loss provision for non-performing portfolio amounted to LE 101 mm as of 31 March 2015 (31 December 2014: LE 113mn).

- Non-performing financing against guarantees and not subject to impairment after taking into consideration the collectability of the guarantees.
- Financings and facilities portfolio has increased by **8.35%** as of 31st March 2015 (31st December 2014: increased by **34.66%**).

Notes to Consolidated Financial Statements for the Period ended March 31st, 2015 Cont.

3/1/6 Financing and facilities Continued

Financing to customers and banks

Value in EGP '000

| Rating | 31 March 2015 | | | | | | | |
|-------------------|---------------|----------------|--------------------|----------------------|------------------|------------------|----------------------|-------------------|
| | Overdraft | Retail | | | Overdraft | Corporate | | Total |
| | | Covered cards | Personal financing | Real estate mortgage | | Direct financing | Syndicated financing | |
| Good debts | 1,321 | 469,699 | 3,903,048 | 56 | 921,582 | 3,600,708 | 87,131 | 8,983,545 |
| Regular follow up | - | 2,573 | 39,523 | 82 | 151,032 | 769,674 | 262,271 | 1,225,155 |
| Special follow up | - | 1,280 | 8,138 | 17 | 109 | 12,116 | - | 21,660 |
| Bad debts | - | 135 | 83,478 | 49 | - | 323,031 | - | 406,693 |
| Total | 1,321 | 473,687 | 4,034,187 | 204 | 1,072,723 | 4,705,529 | 349,402 | 10,637,053 |

Value in EGP '000

| Rating | 31 December 2014 | | | | | | | |
|-------------------|------------------|----------------|--------------------|----------------------|------------------|------------------|----------------------|------------------|
| | Overdraft | Retail | | | Overdraft | Corporate | | Total |
| | | Covered cards | Personal financing | Real estate mortgage | | Direct financing | Syndicated financing | |
| Good debts | 1,407 | 393,135 | 3,806,934 | 61 | 953,813 | 2,912,610 | 80,188 | 8,148,148 |
| Regular follow up | - | 4,395 | 34,057 | 1,053 | 143,159 | 870,436 | 190,599 | 1,243,699 |
| Special follow up | - | 801 | 3,930 | 50 | 52 | 4,086 | - | 8,919 |
| Bad debts | - | 151 | 83,390 | - | - | 332,797 | - | 416,338 |
| Total | 1,407 | 398,482 | 3,928,311 | 1,164 | 1,097,024 | 4,119,929 | 270,787 | 9,817,104 |

Financing and facilities neither past due nor impaired

The credit worthiness for financings and facilities portfolio that are neither past due nor impaired is based on the banks' internal rating

Notes to Consolidated Financial Statements for the Period ended March 31st, 2015 Cont.

3/1/6 Financing and facilities Continued

Financing and facilities past due but not impaired:

They are financing having arrears until 90 days and they are not subject to impairment unless there is information to the contrary. Financings and facilities to customers having arrears and not subject to impairment and fair value of related guarantees are represented as follows:

Value in EGP '000

| 31 March 2015 | Overdraft | Covered cards | <u>Retail</u> Personal financing | Real estate mortgage | Total |
|-----------------------|-----------|---------------|-------------------------------------|----------------------|---------------|
| 30 to 60 days arrears | - | 2,573 | 39,523 | 82 | 42,178 |
| 60 to 90 days arrears | - | 1,280 | 8,138 | 17 | 9,435 |
| Total | - | 3,853 | 47,661 | 99 | 51,613 |

| 31 December 2014 | Overdraft | Covered cards | <u>Retail</u> Personal financing | Real estate mortgage | Total |
|-----------------------|-----------|---------------|-------------------------------------|----------------------|---------------|
| 30 to 60 days arrears | - | 4,395 | 34,057 | 1,053 | 39,505 |
| 60 to 90 days arrears | - | 801 | 3,930 | 50 | 4,781 |
| Total | - | 5,196 | 37,987 | 1,103 | 44,286 |

Value in EGP '000

| 31 March 2015 | Overdraft | Direct financing | <u>Corporate</u> Syndicated financing | Total |
|-----------------------|----------------|------------------|------------------------------------------|------------------|
| 30 to 60 days arrears | 151,033 | 769,674 | 262,271 | 1,182,978 |
| 60 to 90 days arrears | 109 | 12,115 | - | 12,224 |
| Total | 151,142 | 781,789 | 262,271 | 1,195,202 |

Value in EGP '000

| 31 December 2014 | Overdraft | Direct financing | <u>Corporate</u> Syndicated financing | Total |
|-----------------------|----------------|------------------|------------------------------------------|------------------|
| 30 to 60 days arrears | 143,159 | 870,436 | 190,599 | 1,204,194 |
| 60 to 90 days arrears | 52 | 4,086 | - | 4,138 |
| Total | 143,211 | 874,522 | 190,599 | 1,208,332 |

At the initial recognition of financings and facilities, the fair value of the guarantees is determined using similar techniques for similar assets subsequently; its fair value is updated to reflect either the market price or prices of similar assets.

Notes to Consolidated Financial Statements for the Period ended March 31st, 2015 Cont.

Financings subject to individual impairment:

Financings to clients and banks as follows:

| 31 March 2015 | <u>Retail</u> | | | <u>Corporate</u> | Value in EGP '000 |
|---------------------------------------------|---------------|--------------------|----------------------|------------------|-------------------|
| | Covered cards | Personal financing | Real estate mortgage | Direct financing | Total |
| Financings subject to individual impairment | 135 | 83,480 | 49 | 323,029 | 406,693 |

| 31 December 2014 | <u>Retail</u> | | | <u>Corporate</u> | Total |
|---------------------------------------------|---------------|--------------------|----------------------|------------------|---------|
| | Covered cards | Personal financing | Real estate mortgage | Direct financing | |
| Financings subject to individual impairment | 151 | 83,390 | - | 332,797 | 416,338 |

3/1/7 Investments in debt instruments and treasury bills:

The following table represents breakdown of debt instruments and Treasury Bills, as per rating agencies at the end of the financial Period.

| 31 March 2015 | Value in EGP '000 | | |
|---------------|-------------------|---------------------------------|------------------|
| | Treasury bills | Investments in debt instruments | Total |
| Less than B- | 4,024,323 | 2,160,933 | 6,185,256 |
| | <u>4,024,323</u> | <u>2,160,933</u> | <u>6,185,256</u> |

3/1/8 Collateral acquisition:

During the current period, assets reverted to bank are:

| <u>Asset nature</u> | 31 March 2015 | 31 December 2014 |
|---------------------|---------------|------------------|
| | Book value | Book value |
| Real estate | - | 114,412 |
| Total | <u>-</u> | <u>114,412</u> |

The assets reverted to bank are classified under other assets caption in the balance sheet and those assets are sold when this is practical.

Notes to Consolidated Financial Statements for the Period ended March 31st, 2015 Cont.

3/1/9 Activities sectors

| 31 March 2015 | Value in LE '000 | | | | |
|------------------------------------------------------------------|--------------------------|------------------------|-----------------------|------------------------|--------------|
| | <i>Wholesale Banking</i> | <i>Capital Banking</i> | <i>Retail Banking</i> | <i>Other Operation</i> | <i>Total</i> |
| <u>Revenue and expense according to activities sector</u> | | | | | |
| Revenue from activity sectors | 117,722 | 182,134 | 136,224 | 167,999 | 604,079 |
| Expenses of activity sectors | (66,582) | (4,108) | (148,101) | (206,065) | (424,856) |
| Profit before tax for the Period | 51,140 | 178,026 | (11,877) | (38,066) | 179,223 |
| Tax | - | - | - | (129,892) | (129,892) |
| Profit for the Period | 51,140 | 178,026 | (11,877) | (167,958) | 49,331 |

Assets and liabilities according to activity sector

| | | | | | |
|------------------------------------|-----------|-----------|------------|-----------|------------|
| Assets related to activity sectors | 6,611,425 | 7,012,027 | 4,509,399 | - | 18,132,851 |
| Non-Classified assets | - | - | - | 2,143,209 | 2,143,209 |
| Total assets | 6,611,425 | 7,012,027 | 4,509,399 | 2,143,209 | 20,276,060 |
| Liabilities of activity sectors | 5,333,390 | 1,074,193 | 11,863,355 | - | 18,270,938 |
| Non-classified liabilities | - | - | - | 922,211 | 922,211 |
| Total liabilities | 5,333,390 | 1,074,193 | 11,863,355 | 922,211 | 19,193,149 |

| 31 December 2014 | Value in LE '000 | | | | |
|-----------------------------------------------------------------|--------------------------|------------------------|-----------------------|------------------------|--------------|
| | <i>Wholesale Banking</i> | <i>Capital Banking</i> | <i>Retail Banking</i> | <i>Other Operation</i> | <i>Total</i> |
| <u>Revenue and expense according to activity sectors</u> | | | | | |
| Revenue from activity sectors | 434,987 | 633,915 | 439,055 | 323,621.00 | 1,831,578 |
| Expenses of activity sectors | (121,908) | (39,502) | (667,851) | (579,189) | (1,408,450) |
| Profit before tax for the Period | 313,079 | 594,413 | (228,796) | (255,568) | 423,128 |
| Tax | - | - | - | (160,792) | (160,792) |
| Profit for the Period | 313,079 | 594,413 | (228,796) | (416,360) | 262,336 |

Assets and liabilities according to activity sectors

| | | | | | |
|------------------------------------|-----------|-----------|------------|-----------|------------|
| Assets related to activity sectors | 5,940,855 | 6,959,960 | 4,329,364 | - | 17,230,179 |
| Non-Classified assets | - | - | - | 2,325,878 | 2,325,878 |
| Total assets | 5,940,855 | 6,959,960 | 4,329,364 | 2,325,878 | 19,556,057 |
| Liabilities of activity sectors | 4,429,842 | 996,335 | 12,171,886 | - | 17,598,063 |
| Non-classified liabilities | - | - | - | 946,489 | 946,489 |
| Total liabilities | 4,429,842 | 996,335 | 12,171,886 | 946,489 | 18,544,552 |

Notes to Consolidated Financial Statements for the Period ended March 31st, 2015 Cont.

3/1/10 Geographical sectors:

| | Arab republic of Egypt | | | | Value in EGP '000 | |
|----------------------------------|------------------------|---------------------|----------------|-------------------|-------------------|-------------------|
| | Cairo | Alex, Delta & Sinai | Upper Egypt | Total | Other countries | Total |
| | | | | | | |
| Treasury bills | 4,024,323 | - | - | 4,024,323 | - | 4,024,323 |
| HT investment | 20,769 | - | - | 20,769 | - | 20,769 |
| Investments in debt instruments | 2,160,933 | - | - | 2,160,933 | - | 2,160,933 |
| Financing to customers | | | | | | |
| Retail: | | | | | | |
| Overdraft | 945 | 280 | 96 | 1,321 | - | 1,321 |
| Covered cards | 473,687 | - | - | 473,687 | - | 473,687 |
| Personal financing | 2,343,345 | 1,228,430 | 462,412 | 4,034,187 | - | 4,034,187 |
| Real estate mortgage | 204 | - | - | 204 | - | 204 |
| Corporate | | | | | | |
| Overdraft | 1,072,682 | 41 | - | 1,072,723 | - | 1,072,723 |
| Direct financing | 4,692,086 | 13,434 | 8 | 4,705,528 | - | 4,705,528 |
| Syndicated financing | 349,403 | - | - | 349,403 | - | 349,403 |
| Total as of 31 March 2015 | 15,138,377 | 1,242,185 | 462,516 | 16,843,078 | - | 16,843,078 |
| Total as of 31 December 2014 | 14,056,953 | 1,249,794 | 464,620 | 15,771,367 | - | 15,771,367 |

3/1/11 Activities sectors:

| | Value in LE '000 | | | | | | |
|------------------------------------------|-----------------------|---------------------------|----------------|----------------------|---------------------|------------------|-------------------|
| | Financial institution | Manufacturing institution | Services | Wholesale and Retail | Governmental sector | Retail | Total |
| Treasury bills | - | - | - | - | 4,024,323 | - | 4,024,323 |
| Assets held for trading: | | | | | | | |
| Equity instruments | 20,769 | - | - | - | - | - | 20,769 |
| Loans and facilities to customers | | | | | | | |
| Consumer loans: | | | | | | | |
| Overdrafts | - | - | - | - | - | 1,321 | 1,321 |
| Covered cards | - | - | - | - | - | 473,687 | 473,687 |
| Personal financing | - | - | - | - | - | 4,034,187 | 4,034,187 |
| Mortgage financing | - | - | - | - | - | 204 | 204 |
| Corporate loans | | | | | | | |
| Overdrafts | - | 368,504 | 3 | 44,635 | 659,581 | - | 1,072,723 |
| Directs financing | 88,140 | 1,871,558 | 130,260 | 1,995,976 | 619,594 | - | 4,705,528 |
| Syndicated financing | - | 87,131 | - | - | 262,272 | - | 349,403 |
| Financial investments | | | | | | | |
| Debt instruments | 1,973 | - | - | - | 2,151,460 | - | 2,153,433 |
| Total as of 31 March 2015 | 110,882 | 2,327,193 | 130,263 | 2,040,611 | 7,717,230 | 4,509,399 | 16,835,578 |
| Total as of 31 December 2014 | 57,300 | 1,997,095 | 55,396 | 1,885,065 | 7,439,647 | 4,329,364 | 15,763,867 |

3/2 Market risk

The bank exposed to market risks which is the risk that the fair value or future cash flow fluctuation resulted from changes in market prices. Market risks arise from open market related to interest rate, currency, and equity products of which each 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 about market risk are submitted to the Board of Directors and each business unit head periodically.

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 price 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.

3/2/1 Market risk measurement techniques

The following are the major measurement techniques used:

A. 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 market risk department.

VAR is a statistical estimation of the expected losses on the current portfolio from adverse market movements in which it represents the 'maximum' amount the Bank expect to lose 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 year is 10 days before closing the opening position. It also assumes that market movements during the holding year 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 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 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 committee.

The average daily VAR for the Bank during the current

The quality of the VAR model is continuously monitored through examining the VAR results for trading portfolio and results are reported to the top management and Board of Directors.

Notes to Consolidated Financial Statements for the Period ended March 31st, 2015 Cont.

B. Stress testing:

Stress testing provides an indicator of the expected losses that may arise from sharp adverse circumstances Stress testing are designed to match business using standard analysis for specific scenarios. The stress testing carried out by the Bank treasury. Stress testing include: 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 Board of directors

3/2/2 VAR summary

Total value at risk according to type of risk:

| | Value in EGP '000 | | | | | |
|--------------------------------------------|----------------------------------|----------|----------|---------------------------------|----------|----------|
| | Three Months Ended 31 March 2015 | | | Twelve Months Ended 31 December | | |
| | Average | More | Less | Average | More | Less |
| Interest rate risk | 2,153,433 | - | - | 1,586,926 | - | - |
| Total value upon interest rate risk | 2,153,433 | - | - | 1,586,926 | - | - |

The increase in VAR especially the interest rate risk mainly proportion to 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.

Notes to Consolidated Financial Statements for the Period ended March 31st, 2015 Cont.

3/2/3 Foreign exchange volatility risk

The Bank is exposed to foreign exchange rate volatility risk in terms of the financial position and cash flows. The Board of Directors set aggregate limits for foreign exchange in the total value (summation value) for each position at the end of the day, and during the day which is controlled on timely basis.

The following table summarizes the Bank' exposure to foreign exchange volatility risk at the end of the financial period.

The following table includes the carrying amounts of the financial instruments in their currencies:

| 31 March 2015 | Value in EGP '000 | | | | | | |
|---------------------------------------|-------------------|------------------|---------------|----------------|------------|---------------|-------------------|
| | LE | USD | Euro | Sterling | Yen | Others | Total |
| Assets | | | | | | | |
| Cash and due from CBE | 1,482,291 | 14,804 | 234 | 1,302 | 42 | 2,908 | 1,501,581 |
| Due from banks | 367,739 | 480,544 | 19,410 | 106,832 | 490 | 30,311 | 1,005,326 |
| Treasury bills | 3,674,575 | 301,204 | - | 48,544 | - | - | 4,024,323 |
| Financial assets held for trading | 20,769 | - | - | - | - | - | 20,769 |
| Financing and facilities to customers | 8,099,642 | 2,527,749 | 668 | 8,992 | - | 2 | 10,637,053 |
| Financial investments | | | | | | | |
| Available for sale | 2,242,424 | 22,276 | - | - | - | - | 2,264,700 |
| Held to maturity | 12,555 | - | - | - | - | - | 12,555 |
| Investments in associates | 34,879 | - | - | - | - | - | 34,879 |
| Total Financial Assets | 15,934,874 | 3,346,577 | 20,312 | 165,670 | 532 | 33,221 | 19,501,186 |
| Liabilities | | | | | | | |
| Due to banks | 371 | 856,694 | - | - | - | 101 | 857,166 |
| Customers' deposits | 15,833,668 | 1,124,579 | 19,892 | 165,687 | 540 | 32,906 | 17,177,272 |
| Long-term financing | - | 217,027 | - | - | - | - | 217,027 |
| Total Financial Liabilities | 15,834,039 | 2,198,300 | 19,892 | 165,687 | 540 | 33,007 | 18,251,465 |
| Net financial position | 100,835 | 1,148,277 | 420 | (17) | (8) | 214 | 1,249,721 |

31 December 2014

| | | | | | | | |
|-------------------------------|------------------|------------------|-----------|--------------|--------------|--------------|----------------|
| Total Financial Assets | 14,974,926 | 3,249,806 | 21,331 | 176,031 | 302 | 30,330 | 18,452,726 |
| Total Financial Liabilities | 15,373,036 | 1,976,559 | 21,271 | 176,222 | 596 | 28,412 | 17,576,096 |
| Net Financial Position | (398,110) | 1,273,247 | 60 | (191) | (294) | 1,918 | 876,630 |

Notes to Consolidated Financial Statements for the Period ended March 31st, 2015 Cont.

3/2/4 Profit rate risk

The Bank is exposed to profit rate risk which is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market profit rates. Fair value profit rate risk is the risk that the value of a financial instrument will fluctuate 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. Profit margins may increase as a result of such changes but may profit decrease in the event that unexpected movements arise. The Board of Director sets limits on the level of mismatch of interest rate reprising that may be undertaken which is monitored daily by Bank risk department

| | | | | | | Value in EGP '000 |
|---------------------------------------|------------------|------------------|------------------|-------------------|----------------------|----------------------|
| <u>31 March 2015</u> | Up to 1 Month | 1-3 months | 3-12 Months | 1-3 years | More than 3 years | Total |
| Financial assets | | | | | | |
| Cash and due from CBE | 118,481 | - | - | 1,383,100 | - | 1,501,581 |
| Due from banks | 875,989 | 129,337 | - | - | - | 1,005,326 |
| Treasury bills | 967,211 | 483,120 | 2,573,992 | - | - | 4,024,323 |
| Financial assets held for trading | - | - | 20,769 | - | - | 20,769 |
| Financing and facilities to customers | 561,341 | 1,694,079 | 3,180,214 | 4,203,962 | 997,457 | 10,637,053 |
| Financial investments | | | | | | |
| Available for sale | 687,094 | - | 198,297 | 724,032 | 655,277 | 2,264,700 |
| Held to maturity | - | - | - | - | 12,555 | 12,555 |
| Investments in associates | - | - | - | - | 34,879 | 34,879 |
| Other financial assets | 177,545 | 88,380 | 564,166 | 1,317,142 | 472,289 | 2,619,522 |
| Total financial assets | 3,387,661 | 2,394,916 | 6,537,438 | 7,628,236 | 2,172,457 | 22,120,708 |
| Financial liabilities | | | | | | |
| Dues to banks | 209,577 | - | 647,589 | - | - | 857,166 |
| Customers deposits | 3,061,866 | 1,231,119 | 1,969,371 | 8,754,031 | 2,160,885 | 17,177,272 |
| Subordinated financing | - | - | - | - | 217,027 | 217,027 |
| Other financial liabilities | 258,216 | 129,059 | 782,377 | 1,618,744 | 1,080,847 | 3,869,243 |
| Total financial liabilities | 3,529,659 | 1,360,178 | 3,399,337 | 10,372,775 | 3,458,759 | 22,120,708 |
| Interest re-pricing | (141,998) | 1,034,738 | 3,138,101 | (2,744,539) | (1,286,302) | - |

3/3 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 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 risk department includes:

- Daily funding managed by monitoring future cash flows to ensure that all requirements can be met when due. This includes availability of liquidity as they due or to be borrowed to customers. To ensure that the Bank reaches its objective the Bank maintains an active presence in global money markets.
- The Bank maintains a portfolio of highly marketable and diverse assets that assumed to be easily liquidated in the event of an unforeseen interruption of cash flow.
- Monitoring liquidity ratios in relation with internal requirements and central bank of Egypt requirements.
- Managing financing and facilities concentration and dues.

For monitoring and reporting purposes The Bank calculates the expected cash flow for the next day, week and month which are the main time Spain to manage liquidity.

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

Its' role is also to monitor the liquidity gaps between average maturity assets and the level and type of unused financing commitments, the ratio of usage of debit current accounts, and the effect of contingent liabilities such as LCs and LGs.

Funding strategy

Liquidity resources are reviewed through a separate team at the risk department to maintain wide diversification by currencies, geographical location, sources as well as maturities.

Assets available to meet all liabilities and cover financing commitments include cash, balances with the central bank, Balances due from banks, treasury bills and financings and facilities to banks and customers. Moreover, some financing and facilities to customers may be extended during the normal course of business of the bank. The bank has the ability to meet unexpected net cash flows through selling financial papers, and finding other financing sources.

3/4 Capital management

Basel II

The bank's objectives in managing its capital include elements in addition to equity shown in the balance sheet are represented in the following:

- Compliance with capital legal requirements in Egypt.
- Protecting the bank's ability to continue as a going concern and enabling it to generate yield for shareholders and other parties dealing with the bank.
- Maintaining a strong capital base to enhance growth.

Capital adequacy ratio and capital usage is reviewed on a daily basis in accordance with regulatory authority's requirements (CBE), through set models based on Basel II instructions, the required information is presented to the CBE on a quarterly basis.

The CBE regulations require compliance with the following:

- Maintaining LE 500mn as a minimum requirement for the authorized and issued capital.
- Maintaining a ratio between capital elements, asset and contingent liability elements weighted by risk weights at 10% or more.

The capital adequacy ratio consists of the following two tiers:

Tier 1:

It is the basic capital comprising of paid up capital (after deducting the carrying amount of the treasury stocks), retained earnings, reserves resulting from profit appropriations except the general banking risk reserve less any goodwill previously recognized and any carried forward losses.

Tier 2:

Is the sub-ordinate capital comprising the equivalent of the general bank risk reserve in accordance with CBE credit rating deposits not more than 1.25 % of total assets and contingent liabilities (weighted credit risk rates), subordinate deposits / financings maturing after more than 5 years (amortizing 20% of their value each year), and 45 % of the increase between the fair value and carrying amount for the available for sale investments, investments held to maturity, and investments in affiliates and subsidiaries.

The numerator of capital adequacy ratio calculation has to consider:

- Subordinated capital not exceed the basic capital.
- Subordinated financing (deposits) not exceed half basic capital.

Assets are risk weighted in a range from 0% to 100 % according to the type of asset, to reflect related credit risk taking into consideration cash guarantees; the 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 has complied with all the capital requirements within the last two years. Following is a table summarizing capital and capital adequacy ratio:

Notes to Consolidated Financial Statements for the Period ended March 31st, 2015 Cont.

3/4 Capital management Continued

| Basel II | 31 March 2015 | 31 December 2014 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|---------------------|
| Tier 1 - part A | EGP '000 | EGP '000 |
| <u>Going concern capital</u> | | |
| Capital shares | 2,000,000 | 2,000,000 |
| Paid under capital increase | 1,861,418 | 1,861,418 |
| Reserves | 65,400 | 65,400 |
| Accumulated loss | (3,268,110) | (3,136,166) |
| Dedcut: Financial institutions investment | (2,128) | (3,819) |
| Total Tier 1 - Part A - Going concern capital | 656,580 | 786,833 |
| <u>Tier 1 - Part B Gone concern capital</u> | | |
| Difference between FV and PV for subordinated financing | 70,419 | 73,137 |
| Current Period profit | 60,169 | - |
| Total Tier 1 - Part B - Going concern capital | 130,588 | 73,137 |
| Total qualifying tier 1 (Part A+B) | 787,168 | 859,970 |
| <u>Tier 2</u> | | |
| Impairment losses related to financing, facilities, performing contingent liabilities | 108,601 | 86,571 |
| Subordinated financing | 217,027 | 203,210 |
| 45 % of the increase in fair value compared to carrying amount of available for sale investment, investments held to maturity & investments in affiliates | 48,419 | 38,541 |
| 45% of special reserve | 7,724 | 7,724 |
| Total qualifying Tier 2 | 381,771 | 336,046 |
| Capital base (Tier 2 +Tier2) | 1,168,939 | 1,196,016 |
| Contingent assets and liabilities weighted risk | 9,717,546 | 8,795,255 |
| Capital requirement for market risk | 362,819 | 303,129 |
| Capital requirement for operation risk | 1,141,608 | 1,141,608 |
| Total assets and contingent liabilities weighted risk , Market and operations | 11,221,973 | 10,239,992 |
| *Capital adequacy ratio (%) | 10.42% | 11.68% |

- Based on consolidated Banking group with its financial institutions and in accordance with The CBE instructions issued on 24 December 2012.

4- Significant accounting estimates

The bank undertakes estimations and judgments that affect the value of assets and liabilities, consistently estimations and judgments are based on historical experience and other factors, including the expectations of future events that are reasonably estimated in accordance with the available information.

A) Impairment loss for financings and facilities

The bank reviews the portfolio of financings and facilities on at least a quarterly basis. The bank uses discretionary judgment on determining whether it is necessary to record impairment in the income statement using reliable data indicating measurable decline in the expected future cash flows from financing portfolio before identifying any decline at the level of one financing. This evidence include data indicating negative change in the ability of a portfolio of borrowers to repay the bank, or local and economic circumstances related to default. On scheduling future cash flows, the management use estimates based on previous experience related to impairment of assets having credit risks. Such experience refers to 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 minimize any discrepancy between the estimated loss and actual loss based on given experience.

B) Impairment loss of equity instruments available for sale

In the case of available for sale financial investments, a significant or prolonged decline in the fair value of the security below its cost is considered as impairment. Where such evidence exists, significant or prolonged decline needs a personal judgment. To make this judgment the bank assesses- besides other factors- the common share price volatility. In addition, impairment exists when there is objective evidence that a certain company has a financial difficulty in its cash flow from operating and financing activities, industry tool or sector or technological advances.

C) Financial investments held to maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as investments held to maturity. This category requires personal judgment and therefore the bank tests whether there is a genuine intent and ability to hold such investments to maturity. If the bank fails to hold such investments till maturity (except for certain tightly defined circumstance such as if an entity sells an insignificant amount of held to maturity investments close to maturity date), investments should be reclassified as available for sale, which will be measured at fair value instead of amortized cost.

Notes to Consolidated Financial Statements for the Period ended March 31st, 2015 Cont.

5- Net revenue from funds

| | 31 March 2015 EGP '000 | 31 March 2014 EGP '000 |
|-----------------------------------------------|------------------------------|------------------------------|
| Profit on financing and similar income | | |
| Financing and facilities to customers | 244,626 | 179,554 |
| Treasury bills and bonds | 163,390 | 140,042 |
| Deposits and current accounts | 19,186 | 509 |
| Total | 427,202 | 320,105 |
| Cost of deposits and similar costs | | |
| <u>Deposits and current accounts:</u> | | |
| To banks | (4,108) | (6,918) |
| To customers | (214,355) | (187,590) |
| Total | (218,463) | (194,508) |
| Net | 208,739 | 125,597 |

6- Net fees and commission income

| | 31 March 2015 EGP '000 | 31 March 2014 EGP '000 |
|-------------------------------------------|------------------------------|------------------------------|
| Fees and commissions income: | | |
| Fees and commissions related to financing | 13,660 | 7,079 |
| Fees related to corporate finance | 32,224 | 52,388 |
| Other fees | 19,721 | 19,411 |
| Total | 65,605 | 78,878 |
| Fees and commissions expenses: | | |
| Other fees paid | (907) | (5,432) |
| Net | 64,698 | 73,446 |

7- Dividends income

| | 31 March 2015 EGP '000 | 31 March 2014 EGP '000 |
|--------------------------------|------------------------------|------------------------------|
| Investments held for trading | - | 76 |
| Available for sale investments | 427 | 3,548 |
| Mutual fund certificates | 27 | 12 |
| Total | 454 | 3,636 |

Notes to Consolidated Financial Statements for the Period ended March 31st, 2015 Cont.

8- Net trading income

| | 31 March 2015 EGP '000 | 31 March 2014 EGP '000 |
|-------------------------------------------------------------------------------|---------------------------------------|------------------------------|
| Foreign currencies operations: | | |
| Gain from foreign currencies exchange | 97,702 | 15,975 |
| Loss on revaluation of assets and liabilities by foreign currency for trading | (2,125) | 1,909 |
| Gain on sale of held for trading investments | 443 | 410 |
| Total | <u>96,020</u> | <u>18,294</u> |

9- General and administrative expenses

| | 31 March 2015 EGP '000 | 31 March 2014 EGP '000 |
|-------------------------------|---------------------------------------|------------------------------|
| Salaries and wages* | (77,778) | (72,998) |
| Social insurance | (3,531) | (3,224) |
| Employees benefits | | |
| Defined contribution plan | (6,815) | (2,319) |
| Defined benefit plan | (2,633) | (1,619) |
| Depreciation and amortization | (25,797) | (16,997) |
| Other administrative expenses | (66,449) | (48,226) |
| Total | <u>(183,003)</u> | <u>(145,383)</u> |

* Salaries and wages for the period ended 31 March 2015 includes an amount of LE 1,812 which represents average total top 20 salaries paid during the period

10- Other operating expenses

| | 31 March 2015 EGP '000 | 31 March 2014 EGP '000 |
|---------------------------------------|---------------------------------------|------------------------------|
| Gain on sale of fixed assets | 1,403 | 1,802 |
| Gain on sale of investment properties | 729 | - |
| Gain from sale of Leased Assets | 20 | - |
| Software cost | (865) | (514) |
| Operating lease | (4,901) | (4,511) |
| Impairment of other provision | (8,355) | (26,308) |
| Others | 11,436 | 14,171 |
| Total | <u>(533)</u> | <u>(15,360)</u> |

Notes to Consolidated Financial Statements for the Period ended March 31st, 2015 Cont.

11- Impairment loss

| | 31 March 2015 EGP '000 | 31 March 2014 EGP '000 |
|---------------------------------------------|---------------------------------------|------------------------------|
| Financing and facilities to customers net | (13,503) | 44,037 |
| Impairment loss recovery of HTM investments | - | 547 |
| Total | <u>(13,503)</u> | <u>44,584</u> |

12- Tax

| | 31 March 2015 EGP '000 | 31 March 2014 EGP '000 |
|----------------|---------------------------------------|------------------------------|
| Income tax | (79,844) | (9) |
| Deferred tax * | (50,048) | (42,000) |
| | <u>(129,892)</u> | <u>(42,009)</u> |

The settlement actual price for income tax

| | | |
|---------------------------------------|----------------------|----------------------|
| Income before tax | 179,224 | 105,925 |
| Current Tax Rate | 30% | 25% |
| Income tax based on applied tax price | <u>53,767</u> | <u>26,481</u> |

Taxable effect Per each of :

| | | |
|--------------------------------------------|-----------------------|----------------------|
| Non-deductible expenses | (4,509) | (826) |
| Non-taxable income | - | (35) |
| Unrealized tax losses | 992 | 16,389 |
| Other taxes | 79,642 | - |
| Taxable income | <u>129,892</u> | <u>42,009</u> |
| Income tax according to effective tax rate | <u>72%</u> | <u>40%</u> |

Additional information about deferred tax is presented in note 32. The effective tax that has been charged to the income statement from the amount that would arise using the tax rate applied on the bank's net income.

13- Earnings per share

Earnings per share calculated by dividing the net profit of the period by weighted average number of ordinary issued shares during the period.

| | 31 March 2015 EGP '000 | 31 March 2014 EGP '000 |
|-------------------------------------|---------------------------------------|------------------------------|
| Net profit for the Period | 50,069 | 62,354 |
| Weighted average of ordinary shares | 199,950 | 199,950 |
| Earning Per Share | <u>0.25</u> | <u>0.31</u> |

* For the purpose of presenting gain per share, the bank did not discounted board members and staff bonus due to accumulated loss which comply with companies' law no. 159 for 1981 article 194.

14- Cash and due from central bank of Egypt

| | 31 March 2015 EGP '000 | 31 December 2014 EGP '000 |
|-------------------------------------------|---------------------------------------|---------------------------------|
| Cash | 119,364 | 153,322 |
| Due from Central Bank (mandatory reserve) | <u>1,382,217</u> | <u>1,165,627</u> |
| | <u>1,501,581</u> | <u>1,318,949</u> |
| Non-profit bearing balances | <u>1,501,581</u> | <u>1,318,949</u> |
| | <u>1,501,581</u> | <u>1,318,949</u> |

15- Due from banks

| | 31 March 2015 EGP '000 | 31 December 2014 EGP '000 |
|----------------------------------------------------------------------------------------------------|---------------------------------------|---------------------------------|
| Current accounts | 153,981 | 124,171 |
| Deposits | <u>851,345</u> | <u>1,090,759</u> |
| Total | <u>1,005,326</u> | <u>1,214,930</u> |
| Central bank (including the required reserve percentage) of the foreign currencies balances | 486,337 | 504,144 |
| Local banks | 159,997 | 284,586 |
| Foreign banks | <u>358,992</u> | <u>426,200</u> |
| Total | <u>1,005,326</u> | <u>1,214,930</u> |
| Profit free balances | 153,981 | 124,171 |
| Fixed profit balances | <u>851,345</u> | <u>1,090,759</u> |
| Total | <u>1,005,326</u> | <u>1,214,930</u> |

Notes to Consolidated Financial Statements for the Period ended March 31st, 2015 Cont.

16- Treasury bills

| | 31 March | 31 December |
|-------------------|------------------|-------------|
| | 2015 | 2014 |
| | EGP '000 | EGP '000 |
| 91 days maturity | 43,000 | 28,050 |
| 182 days maturity | 280,900 | 161,950 |
| 273 days maturity | 1,223,300 | 1,406,425 |
| 364 days maturity | 2,477,123 | 2,744,353 |
| | 4,024,323 | 4,340,778 |
| Unearned revenues | (189,113) | (198,067) |
| Total | 3,835,210 | 4,142,711 |

17- Financial assets held for trading

| | 31 March | 31 December |
|----------------------------------|-----------------|-------------|
| | 2015 | 2014 |
| | EGP '000 | EGP '000 |
| <u>Equity Instruments</u> | | |
| Domestic companies shares | 13,353 | 15,218 |
| Mutual funds | 7,416 | 3,841 |
| Total | 20,769 | 19,059 |
| | 20,769 | 19,059 |

-The bank classifies the investment in the governmental bonds as assets held for trading, as short term trading is the main purpose of holding these investments.

18- Financing and Facilities to customers

Financing and facilities to customers

| | 31 March 2015 EGP '000 | 31 December 2014 EGP '000 |
|-------------------------------------------|------------------------------|---------------------------------|
| Retail | | |
| Overdraft | 1,321 | 1,407 |
| Covered cards | 473,687 | 398,482 |
| Personal financing | 4,034,187 | 3,928,311 |
| Real estate mortgage | 204 | 1,164 |
| Total (1) | 4,509,399 | 4,329,364 |
| Corporate (including SMEs) | | |
| Overdraft | 1,072,723 | 1,097,024 |
| Direct financing* | 4,705,528 | 4,119,929 |
| Syndicated financing | 349,403 | 270,787 |
| Total (2) | 6,127,654 | 5,487,740 |
| Total financing and facilities | 10,637,053 | 9,817,104 |
| Impairment losses | (272,381) | (251,061) |
| Profit in suspense | (22,504) | (21,918) |
| Deferred profit | (1,248,380) | (1,116,312) |
| Net | 9,093,788 | 8,427,813 |
| Net distributed as follows: | | |
| Conventional financing to customers (Net) | 222,544 | 227,952 |
| Islamic financing to customers (Net) | 8,871,244 | 8,199,861 |
| Net | 9,093,788 | 8,427,813 |

Impairment losses for financing movement

| | 31 March 2015 EGP '000 | 31 December 2014 EGP '000 |
|-------------------------------------------|------------------------------|---------------------------------|
| Impairment loss provision | | |
| Balance at the beginning of the Period | 251,061 | 229,180 |
| Impairment loss charged during the Period | 22,127 | 36,613 |
| Recoveries during the Period | 8,624 | 94,635 |
| Utilized during the Period | (1,275) | (11,757) |
| Transferred from other provisions | - | 3,171 |
| No longer required | (8,624) | (101,250) |
| Foreign currency revaluation differences | 468 | 469 |
| Balance at the end of Period | 272,381 | 251,061 |

18- Total Financing and facilities to customers (Net of Deferred Profit) – Continued

| | 31 March 2015 EGP '000 | 31 December 2014 EGP '000 |
|------------------------------------|---------------------------------------|---------------------------------|
| Retail | | |
| Overdraft | 1,321 | 1,407 |
| Covered cards | 137,559 | 111,036 |
| Personal financing | 3,198,096 | 3,124,576 |
| Real estate mortgage | 204 | 1,164 |
| Total (1) | 3,337,180 | 3,238,183 |
| Corporate (including SMEs) | | |
| Overdraft | 1,072,723 | 1,097,036 |
| Direct financing | 4,629,368 | 4,094,786 |
| Syndicated financing | 349,402 | 270,787 |
| Total (2) | 6,051,493 | 5,462,609 |
| Total financing | 9,388,673 | 8,700,792 |
| Impairment losses for loans | (272,381) | (251,061) |
| Profit in suspense ** | (22,504) | (21,918) |
| Net | 9,093,788 | 8,427,813 |
| Net distributed as follows: | | |
| Conventional financing (Net) | 222,544 | 227,952 |
| Islamic financing (Net) | 8,871,244 | 8,199,861 |
| Net | 9,093,788 | 8,427,813 |

** Profit in suspense was previously formed in accordance with credit instructions issued by CBE.

18-Financing and facilities to customers – Continued

Movement for impairment losses for financing as per type

Value in EGP '000

| 31 March 2015 | Overdraft | Covered cards | Retail | | Total |
|-------------------------------------------|-----------|---------------|--------------------|----------------------|---------------|
| | | | Personal financing | Real estate mortgage | |
| Balance at 1 January 2015 | - | 553 | 93,578 | 236 | 94,367 |
| Impairment loss charged during the Period | - | (64) | 2,083 | (162) | 1,857 |
| Utilized during the Period | - | (134) | (904) | - | (1,038) |
| Recoveries during the Period | - | 426 | 82 | - | 508 |
| No longer required | - | (426) | (82) | - | (508) |
| Total | - | 355 | 94,757 | 74 | 95,186 |

| 31 December 2014 | Overdraft | Covered cards | Retail | | Total |
|-------------------------------------------|-----------|---------------|--------------------|----------------------|---------------|
| | | | Personal financing | Real estate mortgage | |
| Balance at 1 January 2014 | - | 431 | 92,263 | 1,213 | 93,907 |
| Impairment loss charged during the Period | - | 649 | 4,470 | (480) | 4,639 |
| Utilized during the Period | - | (527) | (2,838) | (497) | (3,862) |
| Recoveries during the Period | - | 110 | 241 | - | 351 |
| Provisions no longer required | - | (110) | (558) | - | (668) |
| Total | - | 553 | 93,578 | 236 | 94,367 |

| 31 March 2015 | Overdraft | Direct financing | Corporate | | Total |
|-------------------------------------------|--------------|------------------|----------------------|--------|----------------|
| | | | Syndicated financing | Others | |
| Balance at 1 January 2015 | 6,651 | 145,305 | 4,738 | - | 156,694 |
| Impairment loss charged during the Period | 234 | 20,415 | (379) | - | 20,270 |
| Utilized during the Period | - | (237) | - | - | (237) |
| Recoveries during the Period | - | 8,116 | - | - | 8,116 |
| Provisions no longer required | - | (8,116) | - | - | (8,116) |
| Foreign currency valuation differences | - | 468 | - | - | 468 |
| Total | 6,885 | 165,951 | 4,359 | - | 177,195 |

| 31 December 2014 | Overdraft | Direct financing | Corporate | | Total |
|-------------------------------------------|--------------|------------------|----------------------|--------|----------------|
| | | | Syndicated financing | Others | |
| Balance at 1 January 2014 | 1,196 | 125,671 | 8,406 | - | 135,273 |
| Impairment loss charged during the Period | 5,455 | 30,207 | (3,688) | - | 31,974 |
| Utilized during the Period | - | (7,895) | - | - | (7,895) |
| Recoveries from written off provisions | - | 94,284 | - | - | 94,284 |
| Transferred from other provisions | - | 3,171 | - | - | 3,171 |
| Provisions no longer required | - | (100,582) | - | - | (100,582) |
| Foreign currency valuation differences | - | 449 | 20 | - | 469 |
| Total | 6,651 | 145,305 | 4,738 | - | 156,694 |

19- Financial investments

| | 31 March 2015 EGP '000 | 31 December 2014 EGP '000 |
|----------------------------------------------------------|---------------------------------------|---------------------------------|
| <u>19/1 Available for sale investment</u> | | |
| Debt instruments - at fair value | | |
| Listed | 2,153,378 | 1,586,871 |
| Equity instruments - at fair value | | |
| Listed | 56,273 | 55,262 |
| Unlisted | 55,049 | 52,339 |
| Total available for sale investments (1) | <u>2,264,700</u> | <u>1,694,472</u> |
| <u>19/2 Financial investment held to maturity</u> | | |
| Debt instruments- at amortized cost | | |
| Listed | 55 | 55 |
| Sanabel Fund (*) | 7,500 | 7,500 |
| El-Naharda Fund (**) | 5,000 | 5,000.00 |
| Total investments held to maturity (2) | <u>12,555</u> | <u>12,555</u> |
| Total financial investments (1 + 2) | <u>2,277,255</u> | <u>1,707,027</u> |
| Categorized as follows: | | |
| Current | 2,209,706 | 1,642,188 |
| Non-current | 67,549 | 64,839 |
| Total | <u>2,277,255</u> | <u>1,707,027</u> |
| Categorized as follows: | | |
| Fixed profit debt instruments | 2,151,461 | 1,584,953 |
| Variable profit debt instruments | 14,473 | 14,473 |
| Variable profit equity instruments | 111,321 | 107,601 |
| Total | <u>2,277,255</u> | <u>1,707,027</u> |

Mutual fund:

(*) Sanabel Islamic Mutual Fund

The investments held to maturity include the bank's investment in Sanabel Islamic mutual fund in association with ABC bank, managed by Prime for Investment, on 25 December 2011 the fund management was transferred to HC Company.

The number of bank's certificates share is LE75k certificates of par value LE100. The acquisition cost amounted to LE 7,635k.

The residual value of the certificate as 31st March 2015 amounted of LE 101.82 (December 31st, 2014: LE 104.51)

() Abu Dhabi Islamic Bank (El-Nahrda) Mutual Fund**

The Bank has established Abu Dhabi Islamic Bank (El-Nahrda) Mutual Fund (compatible with the principles of Islamic Sharia law, the fund is managed by Beltone management of investment funds.

The number of bank's IC's share is 50k of par value LE 100.

The residual value of the certificate as 31st March 2015 amounted of LE 102.63 (31 December 2014: LE 100.96).

19- Financial investments – Continued

| | Value in EGP '000 | | |
|-----------------------------------------|----------------------|----------------------|------------------|
| | Financial investment | Financial investment | Total |
| Balance at 1 January 2015 | 1,694,472 | 12,555 | 1,707,027 |
| Additions | 1,149,339 | - | 1,149,339 |
| Disposals (sales/redemption) | (602,142) | - | (602,142) |
| Foreign currency revaluation difference | 957 | - | 957 |
| Change in the fair value | 22,074 | - | 22,074 |
| Impairment loss recoveries | - | - | - |
| Balance as at 31 March 2015 | 2,264,700 | 12,555 | 2,277,255 |
| Balance at 1 January 2014 | 1,252,372 | 12,181 | 1,264,553 |
| Additions | 645,596 | 5,000 | 650,596 |
| Disposals (sales/redemption) | (174,054) | (5,429) | (179,483) |
| Foreign currency revaluation difference | 495 | 150 | 645 |
| Change in the fair value | (28,922) | - | (28,922) |
| Impairment loss | (1,015) | 653 | (362) |
| Balance at 31 December 2014 | 1,694,472 | 12,555 | 1,707,027 |

19/3 Profit from financial investment

| | 31 March 2015 EGP '000 | 31 March 2014 EGP '000 |
|--------------------------------------------------|------------------------------|------------------------------|
| Gain from sale of available for sale investments | 5,909 | - |
| Gain on sale of treasury bills | 443 | 1,105 |
| | 6,352 | 1,105 |

Notes to Consolidated Financial Statements for the Period ended March 31st, 2015 Cont.

20- Investments in associates (Net)

| | 31 March 2015 | | 31 December 2014 | |
|------------------------------------------------------|---------------|---------|------------------|---------|
| | Value | Share % | Value | Share % |
| Arab Mashriq Company for Takaful insurance | 30,714 | 20% | 30,714 | 20% |
| Upper Egypt National Company for Construction | 633 | 23% | 633 | 23% |
| Assuit National Company for Agricultural Development | 3,010 | 22% | 3,010 | 22% |
| United Group for Trading and Engineering | 522 | 24% | 522 | 24% |
| Investment in associated companies | 34,879 | | 34,879 | |

| | Country of company | Company's assets | Company's liabilities (with out equity) | Company's revenues | Value in LE '000 | |
|--------------------------------------------|--------------------|------------------|-----------------------------------------|--------------------|-----------------------------|-------------------------|
| | | | | | Net profit/loss for company | Contribution percentage |
| Contribution in associates | | | | | | |
| Arab Mashriq Company for Takaful Insurance | Egypt | 368,774 | 228,902 | 58,347 | 29,956 | 20% |
| Total | | 368,774 | 228,902 | 58,347 | 29,956 | |

21- Intangible assets

| | 31 March 2015 | 31 December 2014 |
|------------------------------------------------|---------------|------------------|
| | EGP '000 | EGP '000 |
| Computer software | | |
| Net book value at the beginning of the Period | 4,482 | 5,685 |
| Additions | 10,350 | 20,662 |
| Depreciation for the Period | (4,152) | (21,865) |
| Net book value at the end of the Period | 10,680 | 4,482 |

Notes to Consolidated Financial Statements for the Period ended March 31st, 2015 Cont.

22- Other assets

| | 31 March | 31 December |
|------------------------------------------------------------------------|-----------------------|------------------|
| | 2015 | 2014 |
| | EGP '000 | EGP '000 |
| Accrued revenues | 178,198 | 153,846 |
| Pre-paid expenses | 81,208 | 69,926 |
| Down payments under purchase fixed assets | 18,913 | 34,656 |
| Assets reverted to the bank in settlement of debts (Net of impairment) | 115,137 | 115,137 |
| Deposits and custody | 5,534 | 6,316 |
| Due from tax authority - Debit balances* | 271,828 | 398,277 |
| Settlement account- leasing | 12,614 | 12,611 |
| Inventory | 63,568 | 45,064 |
| Other debit balances | 127,940 | 199,350 |
| Total | <u>874,940</u> | <u>1,035,183</u> |

* Represents amounts under settlements in dispute with the tax authority

23- Projects under construction

| | 31 March | 31 December |
|-------------------------------------|----------------------|---------------|
| | 2015 | 2014 |
| | EGP '000 | EGP '000 |
| Balance for beginning of the Period | 18,730 | 24,955 |
| Additions | (2,328) | 4,726 |
| Transfer to fixed assets | 96 | (10,951) |
| Net at the end of the Period | <u>16,498</u> | <u>18,730</u> |

24- Fixed assets – Net of accumulated depreciation

| | Value in EGP '000 | | | |
|----------------------------------------|----------------------------|----------------------------------|---------------------|------------------|
| | <i>Land & premises</i> | <i>Machinery & equipment</i> | <i>Other assets</i> | <i>Total</i> |
| Net book value at 1 January 2015 | 205,470 | 73,842 | 266,976 | 546,288 |
| Additions | 3,329 | 21,944 | 8,828 | 34,101 |
| Disposals | (2,671) | (940) | (4,070) | (7,681) |
| Depreciation | (1,768) | (2,165) | (15,967) | (19,900) |
| Depreciation related to disposals | - | 940 | 4,067 | 5,007 |
| Net book value at 31 March 2015 | 204,360 | 93,621 | 259,834 | 557,815 |
| Cost | 213,698 | 108,892 | 368,779 | 691,369 |
| Accumulated depreciation | (9,338) | (15,271) | (108,945) | (133,554) |
| Net book value at 31 March 2015 | 204,360 | 93,621 | 259,834 | 557,815 |

| | Value in EGP '000 | | | |
|-------------------------------------------|----------------------------|----------------------------------|---------------------|------------------|
| | <i>Land & premises</i> | <i>Machinery & equipment</i> | <i>Other assets</i> | <i>Total</i> |
| Net book value at 1 January 2014 | 107,236 | 77,283 | 244,001 | 428,520 |
| Additions | 107,444 | 2,889 | 73,839 | 184,172 |
| Disposals | (3,198) | (453) | (158) | (3,809) |
| Depreciation | (6,682) | (6,330) | (50,778) | (63,790) |
| Depreciation related to disposals | 670 | 453 | 72 | 1,195 |
| Net book value at 31 December 2014 | 205,470 | 73,842 | 266,976 | 546,288 |
| Cost | 213,040 | 87,888 | 364,021 | 664,949 |
| Accumulated depreciation | (7,570) | (14,046) | (97,045) | (118,661) |
| Net book value at 31 December 2014 | 205,470 | 73,842 | 266,976 | 546,288 |

- Fixed Assets not registered to the name of the bank amounted to LE 8.43mn (31st December 2014: EGP 8.43mn) as of 31 March 2015. Legal registration procedures are under progress.
- Fully depreciated assets as of 31st March 2015 and still in use amounted to LE 108mn (31 December 2014: LE 107mn)

24- Fixed assets – Net of accumulated depreciation Continued

▪ **Exercising the right to purchase the leased assets held under financial leasing**

On 27th February 2014 the Bank exercised the right to purchase the leased assets held under the financial leasing from Al-Tawfik leasing company amounted LE 115 million the bank recorded as fixed asset with the same value and depreciated over the remaining estimated useful life for those assets.

On 30th March 2009 the bank signed sale and finance leaseback contract of the Bank's 29 branches with Al-Tawfik Company for Financial Leasing of net book value amounted to LE 20 million compared to the total selling price amounted to LE 214 million resulted in deferred profit of LE 194 million.

The bank paid LE 171 million of the total selling price representing the rental value for the first five years of financial lease agreement with Al-Tawfik company for a period of ten years starting from 30 April, 2009 of total rental value of LE 321 million to be paid ten annual installments (120 monthly installments) with the Bank's option to buy the assets in whole or in part at any time during the duration of the contract.

Based on the CBE approval the bank used the profit to reduce its losses starting from year 2009 instead of recording it in capital reserve and amortizing it on the period of contract with a condition of not financing the finance leasing company to complete the sale process.

25- Investment property (Net)

| | Value in EGP '000 | | | |
|--------------------------------------------------|-------------------|----------------|-------------|----------------|
| | Land | Premises | Others | Total |
| Balance as at 1 January 2015 | 34,725 | 88,113 | 547 | 123,385 |
| Disposals | (400) | (1,639) | - | (2,039) |
| Depreciation expense | - | (1,710) | (34) | (1,744) |
| Depreciation expense related to disposals | - | 89 | - | 89 |
| 31 March 2015 | 34,325 | 84,853 | 513 | 119,691 |
| Balance at 1 January 2014 | 34,765 | 94,028 | 650 | 129,443 |
| Disposals | (40) | (2,313) | - | (2,353) |
| Depreciation expense | - | (4,238) | (103) | (4,341) |
| Depreciation expense related to disposals | - | 636 | - | 636 |
| Net book value at 31 December 2014 | 34,725 | 88,113 | 547 | 123,385 |

26- Financial leased assets (Net)

| | 31 March 2015 EGP '000 | 31 December 2014 EGP '000 |
|------------------------------------------------|------------------------------|---------------------------------|
| Cost | | |
| Beginning balance | 228,290 | 197,568 |
| Additions | 30,441 | 70,913 |
| Disposals | (6,329) | (40,191) |
| Total | 252,402 | 228,290 |
| Accumulated depreciation | | |
| Beginning balance | (95,721) | (87,440) |
| Period's depreciation | (16,696) | (47,885) |
| Disposals | 5,689 | 39,604 |
| | (106,728) | (95,721) |
| Net book value at the end of the Period | 145,674 | 132,569 |

27- Due to banks

| | 31 March 2015 EGP '000 | 31 December 2014 EGP '000 |
|-------------------------------|------------------------------|---------------------------------|
| Current accounts | 6,265 | 29,641 |
| Deposits | <u>850,901</u> | <u>763,485.00</u> |
| Total | <u><u>857,166</u></u> | <u><u>793,126</u></u> |
| Local banks | 129,914 | 170,923 |
| Foreign banks | <u>727,252</u> | <u>622,203</u> |
| | <u><u>857,166</u></u> | <u><u>793,126</u></u> |
| Non-profit bearing balances | 6,265 | 29,641 |
| Fixed profit bearing balances | <u>850,901</u> | <u>763,485.00</u> |
| | <u><u>857,166</u></u> | <u><u>793,126</u></u> |

28- Customers' deposits

| | 31 March 2015 EGP '000 | 31 December 2014 EGP '000 |
|---------------------------------|------------------------------|---------------------------------|
| Demand deposits | 4,170,058 | 3,434,692 |
| Time deposits and call accounts | 2,772,392 | 3,024,934 |
| Term saving certificates | 5,900,841 | 5,773,466 |
| Savings deposits | 4,022,993 | 3,943,351 |
| Other deposits | <u>310,988</u> | <u>403,318</u> |
| Total | <u><u>17,177,272</u></u> | <u><u>16,579,761</u></u> |
| <u>Classified as follows:</u> | | |
| Corporate deposits | 5,313,917 | 4,407,875 |
| Retail deposit | <u>11,863,355</u> | <u>12,171,886</u> |
| | <u><u>17,177,272</u></u> | <u><u>16,579,761</u></u> |
| Non-profit balances | 2,596,722 | 2,096,352 |
| Variable profit balances | <u>14,580,550</u> | <u>14,483,409</u> |
| | <u><u>17,177,272</u></u> | <u><u>16,579,761</u></u> |
| Current balances | 11,276,431 | 10,806,295 |
| Non-current balances | <u>5,900,841</u> | <u>5,773,466</u> |
| Total | <u><u>17,177,272</u></u> | <u><u>16,579,761</u></u> |

29- Subordinated financing

| | 31 March 2015 EGP '000 | 31 December 2014 EGP '000 |
|--------------------------------------------------------|---------------------------------------|---------------------------------|
| Subordinated Financing | 217,027 | 203,209 |
| Total | 217,027 | 203,209 |
| Subordinated Financing | | |
| Face value of the subordinated financing | 203,209 | 209,023 |
| Amortization of subordinated using EIR method | 2,718 | 10,278 |
| Foreign exchange difference | 11,100 | 5,557 |
| Closure of subordinated financing given on 27 Dec 2012 | - | (212,316) |
| Present value of subordinated financing | - | 190,667 |
| Total | 217,027 | 203,209 |

- The Bank obtained subordinated financing of total amount USD 39mn equivalent to LE 294mn from ADIB- UAE under Wakala investment agreement of tenor of seven years started on 27 March, 2014 with a profit rate of 0.125% form the investment amount and the expected profit equals to Libor USD on any extension period after those seven years.
- The bank recorded the subordinated financing by its present value using discount rate of 5.17% and the difference between the face value and the present value of total amount LE 80,676k recorded in the equity caption.

30- Other liabilities

| | 31 March 2015 EGP '000 | 31 December 2014 EGP '000 |
|----------------------------------------------------|------------------------------|---------------------------------|
| Accrued profit | 41,961 | 28,426 |
| Unearned revenues from the sale & leaseback assets | 104 | 113 |
| Accrued expenses | 76,888 | 100,688 |
| Down payment - leasing clients | 31,794 | 29,105 |
| Due to tax authority - Credit balances * | 271,828 | 398,277 |
| Other credit balances | 377,058 | 265,268 |
| Total | 799,633 | 821,877 |

* Represents amounts under settlements in dispute with the Tax Authority (Note 40)

31- Other provisions

| | Value in EGP '000 | | | | |
|---------------------------------------|---------------------------------------|----------------------|--------------------------------------------|--------------------|---------------|
| | Provision for Contingent Claims | Provision for Tax | Provision for Contingent Liabilities | Other Provision | Total |
| Balance as at 1 January 2015 | 22,607 | 43,106 | 12,388 | 1,358 | 79,459 |
| Provisions charged during the Period | 8,452 | 490 | (1,521) | 514 | 7,935 |
| Provisions used during the Period | (923) | - | - | - | (923) |
| Foreign exchange difference | - | - | 188 | - | 188 |
| Balance as at 31 March 2015 | 30,136 | 43,596 | 11,055 | 1,872 | 86,659 |
| Balance at 1 January 2014 | 10,158 | 65,236 | 11,965 | 839 | 88,198 |
| Provisions charged during the Period | 14,133 | 26,167 | 449 | 581 | 41,330 |
| Provisions used during the Period | (1,646) | (48,297) | - | (62) | (50,005) |
| Provision no longer required | (38) | - | - | - | (38) |
| Foreign exchange difference | - | - | (26) | - | (26) |
| Balance as at 31 December 2014 | 22,607 | 43,106 | 12,388 | 1,358 | 79,459 |

32- Deferred tax

The deferred tax calculated on the differences based on the liability using the actual tax rate.

| | 31 March 2015 EGP '000 <u>Assets /</u> <u>(Liabilities)</u> | 31 December 2014 EGP '000 <u>Assets /</u> <u>(Liabilities)</u> |
|-----------------------------------------------------------|-------------------------------------------------------------------------|----------------------------------------------------------------------------|
| Fixed assets | (22,746) | (27,366) |
| Provisions (other than the impairment loss for financing) | 4,754 | 8,723 |
| Profit in suspense | 5,479 | 5,479 |
| Tax losses carried forward | 793,471 | 842,220 |
| Net tax resulted in assets | <u>780,958</u> | <u>829,056</u> |

Movement of deferred tax assets and liabilities method:

| | | |
|-----------------------|-----------------------|-----------------------|
| Beginning balance | 829,056 | 899,097 |
| Additions | 4,411 | 4,222 |
| Disposals | (52,509) | (74,263) |
| Ending Balance | <u>780,958</u> | <u>829,056</u> |

Deferred tax assets resulted from tax losses carried forward are not recognized unless there's future taxable profits is likely to happen by which the bank can benefit from on the short term.

Deferred Tax Assets of LE 1,622k related to ADILease (subsidiary), were not recognized due to absence of reasonable assurance that the company will achieve future taxable profits which the company can benefit from on the short term

33- Capital

33/1 Authorized capital

The authorized capital amounts to LE 4 bn (December 31st, 2014: LE 4 bn)

33/2 Issued and paid-In capital:

The issued and paid in capital amounted to LE 1,9Bn (December 31st, 2014: LE 1,9Bn) represented by 199.5mn shares with a nominal value of LE 10 each after eliminate the shares owned by minority interest

33/3 Amounts paid under capital increase

ADIB – UAE made cash deposit LE 1,662k as amounts paid under capital increase up till year 2012, on 28 December, 2011 ADIB – UAE approved to transfer the full amount of subordinated financing of LE 199mn to amounts paid under capital increase, Accordingly balance of total amounts paid under capital increase reached LE 1,861mn (31 December 2014 LE 1,861mn).

34- Reverses and retained earnings

| <u>Reserves</u> | 31 March 2015 EGP '000 | 31 December 2014 EGP '000 |
|-----------------------------------------------------|------------------------------|---------------------------------|
| Legal reserves | 22,878 | 22,878 |
| General reserve | 42,522 | 42,522 |
| Special reserves | 26,257 | 26,257 |
| Fair value reserve – available for sale investments | 97,607 | 75,533 |
| General Banking Risk Reserve | 72,169 | 83,434 |
| Total Reserves | 261,433 | 250,624 |

34/1 Special reserves

| | 31 March 2015 EGP '000 | 31 December 2014 EGP '000 |
|----------------------------------------------------------------------------------------------------------|------------------------------|---------------------------------|
| Adjustments resulted from change in the valuation policy of AFS Investments related to prior years | 17,165 | 17,165 |
| Adjustment resulted from valuation policy of impairment loss for financing and facilities of prior years | 9,092 | 9,092 |
| | 26,257 | 26,257 |

Distribution from this reserve prohibited unless there is CBE approval

34/2 Fair value reserve – Available for sale investments

| | 31 March 2015 EGP '000 | 31 December 2014 EGP '000 |
|--------------------------------------------------------------------------|------------------------------|---------------------------------|
| Beginning balance | 75,533 | 104,356 |
| Change in fair value | 21,877 | (27,101) |
| Losses (Profit) transferred to income statement related to AFS disposals | 197 | (1,722) |
| | 97,607 | 75,533 |

34/3 General banking risk reserves

| | 31 March 2015 | 31 December 2014 |
|-----------------------------------------------------------------------------------------------------|--------------------------|---------------------|
| | EGP '000 | EGP '000 |
| Beginning balance | 83,434 | 61,425 |
| Adjustments related to change in the measurement policy of impairment loss for loans and facilities | (11,418) | 21,901 |
| 10% provision based on the value of assets reverted to the bank | 153.00 | 108 |
| | <u>72,169</u> | <u>83,434</u> |
| Balance of general banking risk reserve | | |
| General Banking Risk Reserve for financing and facilities | 71,907 | 83,326 |
| General Banking Risk Reserve related to assets reverted to the Bank | 262 | 108 |
| | <u>72,169</u> | <u>83,434</u> |

The CBE instructions require the bank to provide general bank reserves to guarantee any differences in impairment loss measurement methods for financings/facilities and assets reverted to the bank.

34/4 Accumulated losses

| | 31 March 2015 | 31 December 2014 |
|---------------------------------------------|---------------------------|---------------------|
| | EGP '000 | EGP '000 |
| Balance at the beginning of the Period | (3,180,703) | (3,424,801) |
| Net income for the Period | 50,069 | 255,944 |
| Transferred to general banking risk reserve | 11,265 | (22,009) |
| Amortization of the subordinated financing | 2,718 | 10,277 |
| Prior years adjustment - Subsidiaries | - | (114) |
| | <u>(3,116,651)</u> | <u>(3,180,703)</u> |

35- Cash and cash equivalent

For the purpose of presenting the cash flow statement, cash and cash equivalents include the following balances maturing within less than 3 months from the date of acquisition.

| | 31 March 2015 EGP '000 | 31 March 2014 EGP '000 |
|----------------------------------------------|---------------------------------------|------------------------------|
| Cash and due from CBE | 1,501,581 | 582,167 |
| Due from banks | 1,005,326 | 826,460 |
| Treasury bills | 3,835,210 | 3,573,528 |
| Due from banks maturities more than 3 months | (848,502) | (495,243) |
| Treasury bills maturities more than 3 months | <u>(3,794,517)</u> | <u>(4,095,389)</u> |
| | <u>1,699,098</u> | <u>391,523</u> |

36- Contingent liabilities and commitments

36/1 Capital commitments:

The banks contracts for capital commitments reached LE **6,990K** as of 31 March, 2015(December 31st, 2014: LE **4,423k**), representing purchases of fixed assets and the management is adequately confident that net profit shall be realized and finance shall be made available to cover these commitments when due.

36/2 Contingent liabilities

| | 31 March 2015 EGP '000 | 31 December 2014 EGP '000 |
|------------------------------------|---------------------------------------|---------------------------------|
| Letter of credit (Import- Export) | 267,634 | 359,913 |
| Letter of guarantee | 401,049 | 423,305 |
| Documentary credit | 211,495 | 184,965 |
| Bank guarantees | 216,743 | 196,209 |
| | <u>1,096,921</u> | <u>1,164,392</u> |

36/3 Operating lease commitment

| | 31 March 2015 EGP '000 | 31 December 2014 EGP '000 |
|---------------------------|---------------------------------------|---------------------------------|
| From 1 year up to 5 years | 36,146 | 27,653 |
| More than 5 years | 26,427 | 20,761 |
| | <u>62,573</u> | <u>48,414</u> |

37- Related party transactions

37/1 The related party balances included in the consolidated financial statement were as follows

| | Directors EGP '000 | Subsidiaries and associates EGP '000 | Major shareholder EGP '000 | Total EGP '000 |
|-------------------------------------------------------------------------|-----------------------|--------------------------------------------|----------------------------------|-------------------|
| 31 March 2015 | | | | |
| Financing and facilities to customers | - | - | - | - |
| Due from banks | - | - | 16,921 | 16,921 |
| Other assets | - | - | 754 | 754 |
| | <u>-</u> | <u>-</u> | <u>17,675</u> | <u>17,675</u> |
| Due to banks | - | - | 649,200 | 649,200 |
| Customers' deposits | - | 175 | - | 175 |
| Other liabilities | - | - | 6,227 | 6,227 |
| Subordinated financing | - | - | 217,027 | 217,027 |
| Paid under capital increase | - | - | 1,861,418 | 1,861,418 |
| Difference between face value and present value of subordinated loan | - | - | 70,420 | 70,420 |
| | <u>-</u> | <u>175</u> | <u>2,804,292</u> | <u>2,804,467</u> |
| 31 December 2014 | | | | |
| Due from banks | - | - | 17,961 | 17,961 |
| Other assets | - | - | 734 | 734 |
| | <u>-</u> | <u>-</u> | <u>18,695</u> | <u>18,695</u> |
| Due to banks | - | - | 635,249 | 635,249 |
| Customers' deposits | - | 87,802 | - | 87,802 |
| Other liabilities | - | - | 2,117 | 2,117 |
| Subordinated financing | - | - | 203,209 | 203,209 |
| Paid under capital increase | - | - | 1,861,418 | 1,861,418 |
| Difference between face value and present value of subordinated loan | - | - | 73,139 | 73,139 |
| | <u>-</u> | <u>87,802</u> | <u>2,775,132</u> | <u>2,862,934</u> |

37/2 During the period significant transactions with related parties included in the consolidated income statement are as follows:

| | Directors EGP '000 | Subsidiaries EGP '000 | Major EGP '000 | Total EGP '000 |
|-------------------------------------|-----------------------|--------------------------|-------------------|-------------------|
| 31 March 2015 | | | | |
| Salaries and short term benefits | (7,420) | - | - | (7,420) |
| Cost of subordinated loan using EIR | - | - | 2,718 | 2,718 |
| 31 March 2014 | | | | |
| Salaries and short term benefits | (4,514) | - | - | (4,514) |
| Cost of subordinated loan using EIR | - | - | (2,739) | (2,739) |

38- Employees Benefits

Retirement benefits obligations

| | 31 March 2015 | 31 December 2014 |
|---------------------------------------------------|----------------|------------------|
| Liabilities listed on balance sheet: | | |
| Pension benefits | 1,175 | 14,461 |
| Medical benefits after retirement | 54,217 | 52,659 |
| | <u>55,392</u> | <u>67,120</u> |
| Amounts recognized in the income statement | | |
| Pension benefits | (6,815) | (2,319) |
| Medical benefits after retirement | (2,633) | (1,619) |
| | <u>(9,448)</u> | <u>(3,938)</u> |

38- Employees Benefits Continued

38/1 Private insurance fund

At the first of July 2013, the bank established private insurance fund (the fund) according to Law No.54 for year 1975, the fund registered in EFSA on 14 January 2014 with No. (884), on 1 July 2014 the fund started its work. The employees in the head office and all branches are committed to the fund regulations.

The bank obligated to pay monthly contributions, in which, calculated according to fund regulation, generally the fund financed through monthly contributions in addition to other resources that detected in fund regulation.

38/2 Legacy staff medical benefit plan

The Bank has a Defined Benefit Medicare Plan for its legacy employees during their service period and post retirement, the bank hired independent actuarial expert to conduct the study and determine the necessary amount of the obligation to be recorded in financial statements using the (projected unit credit method).

The main assumptions are used by the actuarial expert listed as follows:-

- Death rate from British table A49-ULT52
- Discount rate 15%
- Inflation rate 12%
- (projected unit credit method)

The liability hits the accumulated losses according to Egyptian accounting standard No. 5 (change in accounting policies, errors and estimates).

38/3 End of service fund - Defined benefit plan for employees in National Company for Glass and Crystal

The national company for Crystal and Glass has End of service Defined benefit plan for workers. The company has assigned an independent actuarial expert to estimate the obligations resulting from the end of service mentioned above applying the total present value method of end of service reward discharged when the employees stay at work until they reach the legal age of retirement or death prior to that calculated in accordance with the terms of the actual service until 12/31/2014 and inserted at an annual salary until the end of the service.

The main assumptions used by the actuarial expert were represented as follows:

- The life rate according to the British table A67-70ULT of life rates.
- Discount rate 12%
- According to the restated labor law which were decided to have a minimum annual premium of 7% has been considered that rate of 7% calculated annually
- Legal retirement age is 60 years.

The expense of the liability was charged to the accumulated losses according to the Egyptian accounting standard No. 5 (Accounting policies and changes in accounting estimations and faults).

39- Prior year adjustments

Since 2010 The Bank has a Defined Benefit medical Plan for its legacy employees during their service period and post retirement, the bank retroactively applied employees benefit accounting policies in accordance with the Egyptian accounting standard no. 38 "Employee benefits". During 2014, the Bank hired independent actuarial expert to conduct the study and determine the liability amount has to be recorded.

The actuarial study reached t to LE 30,599k by which has been recorded into accumulated losses as of 1 January 2013 and 2014 taking into consideration its accumulative effect.

As per the Bank management, year 2013 is considered the first year by which liability can be reasonably estimated and the liability difference between years 2013 and 2014 is not material accordingly year 2013 has not been affected and earning per share.

The following is the accumulative effect of the adjustment on the balance sheet items as of 1 Jan 2013 and 1 Jan 2014.

| | | Note | 31 December 2014 Before adjustment EGP '000 | Increase /Decrease EGP '000 | 31 December 2014 After adjustment EGP '000 |
|--------------------------|---------------|------|------------------------------------------------------|-----------------------------------|--------------------------------------------------|
| Other assets | Assets | 22 | 1,035,207 | (24) | 1,035,183 |
| Investment property, Net | Assets | 25 | 123,476 | (91) | 123,385 |
| | | | <u>1,158,683</u> | <u>(115)</u> | <u>1,158,568</u> |
| Accumulated Loss | Equity | 34/3 | <u>(3,180,588)</u> | <u>(115)</u> | <u>(3,180,703)</u> |
| | | | <u>(3,180,588)</u> | <u>(115)</u> | <u>(3,180,703)</u> |

Notes to Consolidated Financial Statements for the Period ended March 31st, 2015 Cont.

40- Re-issuance of the financial statements (31 December 2014)

The financial statements of the Bank for the year ended 31 December 2014 were classified in accordance with the regulations of the preparation and presentation of financial statements as per the Central Bank of Egypt instructions issued on 16 December 2008 based on the following:

During the period from 2010 to 2012, ADIB UAE transferred amounts of USD 255 Mil under the Capital Increase account of ADIB Egypt; additionally ADIB UAE transferred an amount of USD 39 Mil for the subordinated loan to reach USD 70 Mil during the year 2014. The Increment deducted from the balance due to ADIB UAE, this balance was created to recognize the liability due to ADIB UAE as a result from the surplus of USD transferred amounts as of the balance sheet date.

Pursuant to the change in the accounting treatment regarding the USD amounts deposited by ADIB UAE under the increase in Paid up capital resulted in a material change in the financial statements to derecognize the said liability and recognize the resulting forex differences into the relevant years' income statement accounts and consequently reverse the increase in subordinated loan and all related adjustments for the financial statements of the years 2012,2014, which resulted in the following :

| | Item type | 31 December 2013 Before adjustment 000" LE | Debit/(Credit) 000" LE | 31 December 2013 After adjustment 000" LE |
|---------------------------------------------------|-------------|--------------------------------------------------|---------------------------|-------------------------------------------------|
| Deferred tax assets | Assets | 959,926 | (59,796) | 900,130 |
| | | <u>959,926</u> | <u>(59,796)</u> | <u>900,130</u> |
| Other liabilities | | | | |
| Accumulated losses | liabilities | 780,788 | (239,184) | 541,604 |
| | Equity | (3,598,501) | 179,388 | (3,419,113) |
| CAR% | | <u>(2,817,713)</u> | <u>(59,796)</u> | <u>(2,877,509)</u> |
| | | <u>10.40%</u> | <u>1.65%</u> | <u>12.05%</u> |
| <u>Income statement items</u> | | | | |
| Net trading income | | | | |
| Tax | Income | 60,211 | 163,793 | 224,004 |
| | Expense | 146,975 | (59,795) | 87,180 |
| | | <u>207,186</u> | <u>103,998</u> | <u>311,184</u> |
| | | | | |
| | Item type | 31 December 2014 Before adjustment 000" LE | Debit/(Credit) 000" LE | 31 December 2014 After adjustment 000" LE |
| Deferred tax assets | Assets | 898,383 | (69,327) | 829,056 |
| | | <u>898,383</u> | <u>(69,327)</u> | <u>829,056</u> |
| Subordinated loan | | | | |
| Other liabilities | liabilities | 364,736 | (161,527) | 203,209 |
| Difference between PV and FV of subordinated loan | liabilities | 866,043 | (44,166) | 821,877 |
| Accumulated losses | Equity | 131,239 | (58,100) | 73,139 |
| | Equity | (3,375,055) | 194,466 | (3,180,589) |
| | | <u>(2,013,037)</u> | <u>(69,327)</u> | <u>(2,082,364)</u> |
| CAR% | | <u>12.08%</u> | <u>-0.40%</u> | <u>11.68%</u> |
| <u>Income statement items</u> | | | | |
| Cost of deposits and similar Costs | | | | |
| Net trading income | Expense | (829,730) | 6,028 | (823,702) |
| Tax | Income | 73,439 | 32,415 | 105,854 |
| | Expense | 151,260 | (9,532) | 141,728 |
| | | <u>(605,031)</u> | <u>28,911</u> | <u>(576,120)</u> |

41- Tax position

41- 1 Tax position for ADIB - EG

Corporate tax:

- Tax inspections for the years prior 2008 have been fully completed and all due taxes have been paid and the internal committee was set and no due taxes were reported.
- The tax authority has inspected the corporate tax due for the period from 2009 till 2012 and informed the bank through form no. 19A. The bank objected the deemed tax claim at the due date.
- The bank prepared and presented the tax return for the years till 2013 to the tax authority as per law no. 91 for the year 2005.
- Starting from February 2012, and based on the Banks legal and tax advisor , the Bank raised a legal case against the unconstitutional nature of taxes on T bills for taxable loss making entities during the loss years from 2010 up to 2012 accordingly the Bank stopped paying those taxes and its related penalties. The balance is recorded under other debit balances” note (no.21) to the financial statements. As per the Bank’s tax and legal advisors opinions that it is probable that the bank will win such legal case, the legal case has been postponed to 28 February 2015 till finalizing the expert reports.
- During the first quarter of 2014 the bank fully provided the tax provision shortfall amounted to LE 28MN.

Salary tax:

- Tax inspections and internal committee for the years prior 2008 has been finalized and no tax due for this period.
- The tax authority inspection and settlement took place for the period since 2009 till 2012 and all taxes due were paid in full.
- The bank pays the payroll taxes on monthly basis on the due dates as stated by law.

Stamp duty tax

First: In light of law no. 111 for the year 1980 (before amendments)

- Inspection of all 18 branches of Upper Egypt branches has been finalized starting from opening date of those branches till 31/7/2006 and with all tax liabilities has been settled.
- Inspection of 15 out of 20 of East Delta branches has been finalized from opening of the branches till 31/7/2006 with all tax liabilities settled.
- Inspections of 12 out of 14 West Delta branches have been finalized from opening of the branches till 31/7/2006 with all tax liabilities settled.
- Inspection of 12 out of 17 Cairo branches has been finalized from start of their activities to 31/7/2006. Tax liabilities for 10 branches were settled and 7 branches are still under settlement after tax disputes.
- The bank raised appeal in the court For 45 branches. The bank paid all the branches’ due settlement to avoid delay penalties since the court appeal does not stop the tax liability due.

41- Tax position Continued

Second: In light of law no. 143 for the year 2006 amended by law 111 of 1980 (after amendments)

- Inspections of the bank branches have been completed for the years starting 1/8/2006 to 31/12/2007. A tax claim has been raised and the bank objected on it, an internal committee has been formed and transferred to appeal committee.

Sales tax

- Inspection of the bank branches from 2002 till 2006 has been finalized and all taxes due were paid.
- Year 2007 up to 2011, the tax inspection is in process till 31 December 2011, All supporting documents has been submitted to the tax authority, the bank is still waiting for tax authority claims.

Real estate Tax

- The bank received claims for real estate tax for some branches and the bank objected on these claims in the legal deadlines.

41-2 Tax position for National Glass

Corporate tax:

- Tax inspections for the years prior 2006 have been fully completed and all due taxes have been paid.
- Company books have not been inspected from beginning of their activities from 2007 till 2013.

Sales tax:

- Tax inspections for the years prior 2007 have been fully completed and all due taxes have been paid.
- Tax inspections for the years from 2008 to 2012 have been fully completed and there are no claims till now.
- Company books have not been inspected for year ended 2013 knowing that there is accumulated tax losses..

Salary tax:

- Tax inspections for the years prior 2004 have been fully completed and all due taxes have been paid.
- Company books have not been inspected from 2005 till 2013.

Stamp duty tax:

- Tax inspections for the years prior 2006 have been fully completed and all due taxes have been paid.
- Company books have not been inspected from 2007 till 2013.

41-3 Tax position for national company for trading and development (ENTAD):

Sales tax:

- Tax inspection has been completed up to 31 December 2011. The company received form (15) which includes the inspection results and presented checks to pay all due amounts.

Stamp duty tax:

- Tax inspection for the periods prior to 31 June 2006 has been fully completed and all due taxes have been paid.

41- Tax position Continued

Salary tax

- Tax inspection for the periods prior to 31 December 2004 has been fully completed and all due taxes have been paid.
- Tax inspection from 1 January 2005 till 31 December 2013 is being set for tax inspection.

Corporate tax:

- Period from the beginning of the activity till 31 December 2004 (Except years 1999/ 2001):
There is a final tax claim amounted to LE 4.7mn excluding delay fines and the company paid LE 1.7mn as a down payment and the rest is under settlement amounted to LE 3mn.
- Tax inspection for the periods from 1 January 1999 to 31 December 2001 has been fully completed and an appeal has been filed. Disputes are being studied by the court.
- In the Other debit balances there is 1 million LE withholding taxes for the tax years under the current account to be settled with the tax authority.

41 -4Tax position for Cairo national company for investment

Income tax:

- Tax inspection from 1995 to 2004 has been fully completed and all due taxes have been paid.
- The tax return was prepared and delivered to tax authority from 2005 to 2013 and the Tax inspection for the previous periods have not been inspected

Salary tax:

- Tax inspection from 1995 till 2011 has been fully completed and all due taxes have been paid.
- The taxes paid monthly and in regular basis.

Stamp duty tax:

- Tax inspection from 1995 to 2010 has been fully completed and all due taxes have been paid.

41- Tax position Continued

41 -5 Tax position for Assiut Islamic company for trading and development

Income tax:

From 1989 till 1991:

- Tax inspections for the years have been fully completed and all due taxes have been paid.

From 1992 till 1995:

- Processing by the experts committee.

For the years 1996 and 1997:

- Processing by an appeal committee.

From 1998 till 2002:

- Processing by an internal committee.

For 2003 till 2004:

- Tax inspection for these years has not been inspected.

For 2005 till 2013:

- Tax inspection has been fully completed and all due taxes have been paid according to law No. 91 for the year 2005.

Salary tax:

- Tax inspections have been fully completed and all due taxes have been paid till 31 December 1994.
- The taxes paid monthly and in regular basis

Withholding tax:

- All due taxes have been paid till 30 September 2005.
- The taxes paid quarterly and in regular basis.

Stamp duty tax:

- Tax inspection has been completed up to 31 December 2010.
- Tax inspection for 2011 till 2013 has not been inspected.

Sales Tax:

- The company is not subjected to this tax.

Social insurance:

- The insurance paid in regular basis.

41- Tax position Continued

41 -6 Tax position for ADI lease

Corporate tax

- Tax inspections till year ended 2000 have been fully completed and all due taxes have been settled.
- Tax inspections from 1/1/2001 till 31/12/2009 have been fully completed and the company notified of the tax inspection result with form (19) and objected on legal due dates to the result of the tax inspection and the internal committee is currently considering the tax dispute.
- No tax inspection has been carried out from 2010 up till now.

Salary tax

- Salary tax inspections till 2001 have been fully completed and the company objected to the result of the tax inspection and the internal committee was notified and all due taxes have been settled.
- Salary tax inspections from 1/1/2002 till 31/12/2009 have been fully completed and the internal committee was held and all due taxes have been settled.
- No tax inspection has been carried out from 2010 up till now.

Stamp tax

- Tax inspections till 31/12/2010 have been fully completed and all due taxes have been settled.
- No tax inspection has been carried out from 2011 up till now.

41 -7 Tax position for ADI Holding

Corporate tax

- No tax inspection has been carried out up till date.

Salary tax

- Salary tax is paid on regular monthly payments.

Stamp tax

- No tax inspection has been carried out up till date.

Income tax

- The company is subjected to the tax of financial institutions. The company refers to an expert to estimate the provision for income tax and when there are differences between the actual results and the primary ones these differences affects the provision for income tax and the deferred tax for these periods.

41- Tax position Continued

41 -8 Tax position for ADIB capital

Commercial & Industrial income tax

- Company is subject to tax law no. 91 year 2005 and its amendments.
- No tax inspection has been carried out up till date.

Stamp tax

- Company is subject to tax law no. 143 year 2006 and its amendments.

41 -9 Tax position for ADI properties

Commercial and manufacturing profits tax

- The company is subject to the corporate tax No.91 for 2005 and its amendments.
- There is no tax inspection has taken place for the period from the inception date till date.

Stamp duty taxes

- The company is subject to the corporate tax No.143 for 2006 and its amendments.

42- Tax position Continued

41 -10 Tax position for Cairo national company for brokerage and securities:

Corporate tax:

- Tax inspections from 1995 to 2004 have been fully completed and all due taxes have been settled.
- Years from 2005 to 2013 tax returns have been sent on time according to law regulations 1991 – 2005 and settled.

Salary tax:

- Tax inspections from 2002 to 2012 have been fully completed and all due taxes have been settled.
- Tax inspections for 2013 have been fully inspected.

41 -11 Tax position for Alexandria national company for investment:

Corporate tax:

- Tax inspections from the beginning of the activity till 31 December 2004 have been fully completed and all due taxes have been settled.
- Years from 31 December 2005 to 31 December 2013 No tax inspection has been carried out, Tax returns have been sent on time and no tax dues have been recognized.

Movable values tax:

- Years from the beginning of the of the company's activity till 31 December 1999 no agreement has been set with the tax authority regarding the tax pools for 1996/1999 and a court case was raised without judgment till now.
- Tax inspections from 1 January 2000 to 31 December 2004 have been fully completed and all due taxes have been settled.

Salary tax:

- Tax inspections till 2006 have been fully completed and all due taxes have been settled.
- Tax inspections from 2007 till 2009 have been fully completed.
- Salary tax is paid to tax authority on regular monthly payments.

Stamp tax:

- Tax inspections till 2010 have been fully completed and all due taxes have been settled.
- No tax inspection has been carried out from 1 January 2011 till 31 December 2013.

43- Translation

These financial statement are a translation into English from original Arabic statement. The original Arabic statements are the official financial statements.