

**National Bank For Development (S.A.E.)**  
**Consolidated Financial Statements and**  
**The Limited Review Report Thereon**  
**For the Six Months June 30<sup>th</sup>, 2011**

The accompanying Notes from 1 to 37 are an integral part of the Financial Statements

## Limited Review Report

To: The Board of Directors of National Bank for Development S.A.E

### Introduction

We have reviewed the accompanying consolidated statement of financial position of National Bank for Development as at June 30<sup>th</sup>, 2011 and the related consolidated statements of income, consolidated change in shareholders' equity and consolidated cash flow for the 6 months period then ended and a summary of significant accounting policies and other explanatory notes. Management is responsible for preparation and fair presentation of these consolidated financial statements, in accordance with the instructions of preparation and presentation of financial statements for Egyptian banks' issued by the Central Bank of Egypt on December 16<sup>th</sup>, 2008, as well as with relevant Egyptian laws and regulations. Our responsibility is to express a conclusion on these consolidated financial statements based on our review.

### Scope of the Review

We conducted our review in accordance with the Egyptian standard on limited review no. 2410 "*Review of Interim Financial information Performed by the Independent Auditor*". A review of consolidated interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Egyptian Audit Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

### Bases for our qualified conclusion:

- 1- Loan Loss provision shortfall, based on the data made available to us, has amounted to LE 964mn as of June 30<sup>th</sup>, 2011 (December 31<sup>st</sup>, 2010: LE 1.3bn) as described in note no. 17 of the financial statements. We issued a qualified report regarding this matter on the consolidated financial statements as of December 31<sup>st</sup>, 2010.
- 2- Tax provision shortfall as of June 30<sup>th</sup>, 2011 has amounted to LE 154mn (December 31<sup>st</sup>, 2010: LE 159mn). We issued a qualified report regarding this matter on the consolidated financial statements as of December 31<sup>st</sup>, 2010.
- 3- Deferred tax asset utilization of LE 79mn is dependent on shortfall of loan impairment loss and the provision amount that will be charged for the coming years and its effect on future taxable income. We issued a qualified report regarding this matter on the consolidated financial statements as of December 31<sup>st</sup>, 2010.

- 4- National Company for Glass and Crystal – SAE (subsidiary) did not recognize Deferred tax in respect of temporary differences between the tax base of assets and liabilities and there carrying amounts in the statement of financial position as at June 30<sup>th</sup>, 2011 in accordance with Egyptian accounting standards. Also the company did not prepare a technical study to determine impairment in inventory and the value of End of service benefits consequently it was not able to asses the adequacy of the available provisions for these balances. We issued a qualified report regarding this matter on the consolidated financial statements as of December 31<sup>st</sup>, 2010.

**Qualified Conclusion:**

Based on our review, except for the effect of the previous paragraph on the consolidated financial statements, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements does not represent in all material aspects the consolidated financial position of the bank as at June 30<sup>th</sup>, 2011, its consolidated financial performance and consolidated cash flow for the 6 months period then ended in accordance with the instructions of preparation and presentation of financial statements for Egyptian banks' issued by the Central Bank of Egypt on December 16<sup>th</sup>, 2008, as well as with relevant Egyptian laws and regulations.

**Emphasis of matter**

Without qualifying our report, we draw your attention to note (2-b) of the financial statements, stating that although the Bank's accumulated losses as at June 30<sup>th</sup>, 2011 exceeds the paid-in capital and the shortfall in Loan loss provision and Tax provision, the financial statements were prepared in accordance to the going concern principal based on the main shareholders' commitment to provide the required funds to the bank. In accordance to article no. 69 of the companies Law No. 159 of 1981, an extraordinary general assembly meeting was held on April 17<sup>th</sup>, 2011 and decided the continuity of the Bank.

**Auditors**

**Mohamed Salah Abo Tabl**

FESAA – FEST

R.A.A (4434)

**Allied for Accounting and Auditing E&Y**

**15<sup>th</sup> August 2011**

**Cairo**

**Taha Mohamed Khaled**

FESAA - FEST

R.A.A (5136)

**BDO & CO**





**National Bank For Development (S.A.E)**  
**Consolidated Statement of Financial Position**  
**For the period ended June 30<sup>th</sup>, 2011**

Translation of Consolidated Financial Statements originally issued in Arabic

	Note	<u>June 30<sup>th</sup>, 2011</u>	<u>"Restated"</u> <u>December 31<sup>st</sup>, 2010</u>
	<u>No</u>	<u>L.E</u>	<u>L.E</u>
<b>Assets</b>			
Cash and due from Central Bank of Egypt (CBE)	(13)	1,129,613,515	1,377,482,587
Due from banks	(14)	1,220,655,326	1,890,357,895
Treasury bills	(15)	1,813,850,059	2,405,536,641
Financial assets held for trading	(16)	18,069,186	39,692,702
Loans and credit facilities to customers ( Net)	(17)	1,389,776,395	1,679,997,918
Islamic facilities to customers ( Net)	(17)	2,721,608,620	2,340,085,524
<b>Financial Investments:</b>			
-Available for sale	(18/1)	740,272,638	756,036,084
-Held to maturity	(18/2)	27,998,456	32,217,120
Investments in associates & subsidiaries ( Net)	(19)	78,814,776	77,914,689
Intangible assets (Net)	(20)	11,447,897	5,442,482
Other assets	(21)	393,029,347	371,467,461
Inventory	(22)	26,301,184	27,765,811
Projects under construction	(23)	16,520,122	9,782,755
Fixed assets, net	(24)	358,005,086	368,806,327
Deferred tax assets	(30)	580,686,388	515,352,048
<b>Total assets</b>		<b>10,526,648,994</b>	<b>11,897,918,044</b>
<b>Liabilities and Shareholders' Equity :</b>			
<b>Liabilities :</b>			
Due to banks	(25)	303,112,475	349,946,295
Customers' deposits	(26)	9,474,310,529	10,832,874,006
Long term loans	(27)	156,430,727	148,165,047
Other liabilities	(28)	170,586,407	141,162,102
Other provisions	(29)	25,694,416	35,613,709
<b>Total liabilities</b>		<b>10,130,134,554</b>	<b>11,507,761,159</b>
<b>Shareholders' Equity:</b>			
Issued and paid-up capital	(31)	1,999,502,500	1,999,502,500
Paid under capital increase	(31/3)	687,651,602	321,707,558
Reserves	(32)	161,419,809	179,490,935
Subordinated financing (equity share)		38,654,829	42,981,923
Retained losses	(32/4)	(2,514,551,722)	(2,177,579,962)
		<b>372,677,018</b>	<b>366,102,954</b>
<b>Non Controllable Interest</b>		<b>23,837,422</b>	<b>24,053,931</b>
<b>Total Shareholders' Equity</b>		<b>396,514,440</b>	<b>390,156,885</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>10,526,648,994</b>	<b>11,897,918,044</b>
<b>Contingent Liabilities &amp; commitments</b>			
	(33)	<b>795,713,565</b>	<b>493,933,000</b>

Chief Executive Officer & Managing Director  
Nevine Loutfy

Chairman  
Nevine Loutfy

CFO  
Michael Murray

The accompanying Notes from 1 to 37 are an integral part of the Financial Statements

**National Bank For Development (S.A.E)**  
**Consolidated Income Statement**  
**For the period ended June 30<sup>th</sup>, 2011**

Translation of Consolidated Financial Statements originally issued in Arabic

	Note	For the period ended June 30 <sup>th</sup> , 2011	<u>"Restated"</u> For the period ended June 30 <sup>th</sup> , 2010
	<u>No</u>	<u>L.E</u>	<u>L.E</u>
Profit on loans and similar income	(5)	317,794,598	232,677,186
Cost of deposits and similar costs	(5)	(255,124,763)	(199,555,893)
Sales revenue	(5)	48,077,026	59,710,386
<b>Net interest income</b>		<b>110,746,861</b>	<b>92,831,679</b>
Fees and commission income	(6)	28,051,154	35,107,690
Fees and commission expense	(6)	(1,300,516)	(1,166,897)
Cost of sale	(6)	(33,269,801)	(35,943,611)
<b>Net fees and commission income</b>		<b>(6,519,163)</b>	<b>(2,002,818)</b>
Dividend income		1,312,274	2,954,631
Net trading income	(7)	7,949,675	8,779,637
Administrative expenses	(8)	(176,745,284)	(134,889,722)
Other operating expenses	(9)	(63,627,066)	(81,395,572)
Impairment losses	(10)	(280,478,539)	(236,789,793)
Share of associates' income		(591,521)	507,227
Gain from sale of financial investments	(18/3)	392,695	1,956,058
<b>loss before tax</b>		<b>(407,560,068)</b>	<b>(348,048,624)</b>
Tax expense	(11)	65,334,339	134,923,485
<b>Net loss for the period</b>		<b>(342,225,729)</b>	<b>(213,125,139)</b>
Divided as follows:			
<b>Bank's share</b>		(342,009,220)	(216,246,967)
<b>Non controllable interest share</b>		(216,509)	3,121,827
		<b>(342,225,729)</b>	<b>(213,125,139)</b>
<b>Losses per share</b>	(12)	<b>(1,71)</b>	<b>(1,25)</b>

Attached Explanatory Notes from no. 1 to 37 are an integral part of the Financial Statements

**National Bank For Development (S.A.E)**  
**Consolidated Statement of changes in equity**  
**For the period ended June 30<sup>th</sup>, 2011**

Translation of Consolidated Financial Statements originally issued in Arabic

	Capital	Paid Under Capital Increase	Legal Reserve	General Reserve	Special Reserve	AFS Investments F.V. Reserve	General Banking Risk Reserve	Retained losses	Subordinated Financing (Equity Share)	Total	Non-controllable interests	Total
<b>Balance at December 31st, 2009 as reported</b>	1,749,700,000	130,340,899	22,878,187	36,271,546	26,257,099	40,148,754	46,248,250	(1,687,996,178)	--	<b>363,848,557</b>	<b>62,571,070</b>	<b>426,419,627</b>
change in Minority – Note (2/A)	--	--	--	--	--	--	--	30,926,448	--	30,926,448	(30,926,448)	--
<b>Balance at December 31st,2009 as restated</b>	<b>1,749,700,000</b>	<b>130,340,899</b>	<b>22,878,187</b>	<b>36,271,546</b>	<b>26,257,099</b>	<b>40,148,754</b>	<b>46,248,250</b>	<b>(1,657,069,730)</b>	--	<b>394,775,005</b>	<b>31,644,622</b>	<b>426,419,627</b>
Net Loss for the period Restated	--	--	--	--	--	--	--	(216,246,967)	--	(216,246,967)	3,121,827	<b>(213,125,139)</b>
Paid Under Capital increase	--	119,659,101	--	6,250,000	--	--	--	--	--	125,909,101	--	125,909,101
Change of Accounting Policies (Equity Method)	--	--	--	--	--	--	--	1,922,495	--	1,922,495	--	1,922,495
Difference between face value & present value for subordinated loan	--	--	--	--	--	--	--	--	47,110,508	47,110,508	--	47,110,508
Transfer to general banking risk Reserve	--	--	--	--	--	--	5,524,727	(5,524,727)	--	--	--	--
Change at Fair Value for AFS investments	--	--	--	--	--	(9,858,883)	--	--	--	(9,858,883)	--	(9,858,883)
<b>Balance at June 30<sup>th</sup>, 2010 as restated</b>	<b>1,749,700,000</b>	<b>250,000,000</b>	<b>22,878,187</b>	<b>42,521,546</b>	<b>26,257,099</b>	<b>30,289,871</b>	<b>51,773,022</b>	<b>(1,876,918,974)</b>	47,110,508	<b>343,611,259</b>	<b>34,766,449</b>	<b>378,377,709</b>
<b>Balance at December 31st, 2010 as reported</b>	<b>1,999,502,500</b>	<b>321,707,558</b>	<b>22,878,187</b>	<b>42,521,546</b>	<b>26,257,099</b>	<b>24,881,886</b>	<b>62,952,217</b>	<b>(2,192,011,185)</b>	<b>42,981,923</b>	<b>351,671,731</b>	<b>49,091,414</b>	<b>400,763,145</b>
Prior year adjustments – Note (22)	--	--	--	--	--	--	--	(10,606,260)	--	(10,606,260)	--	<b>(10,606,260)</b>
change in Minority – Note (2/A)	--	--	--	--	--	--	--	25,037,483	--	25,037,483	(25,037,483)	--
<b>Balance at December 31st,2010 as restated</b>	<b>1,999,502,500</b>	<b>321,707,558</b>	<b>22,878,187</b>	<b>42,521,546</b>	<b>26,257,099</b>	<b>24,881,886</b>	<b>62,952,217</b>	<b>(2,177,579,962)</b>	<b>42,981,923</b>	<b>366,102,954</b>	<b>24,053,931</b>	<b>390,156,885</b>
Paid Under Capital increase	--	365,944,044	--	--	--	--	--	--	--	365,944,044	--	<b>365,944,044</b>
Net Loss for the period	--	--	--	--	--	--	--	(342,009,220)	--	(342,009,220)	(216,509)	<b>(342,225,729)</b>
Change of Accounting Policies (Equity Method)	--	--	--	--	--	--	--	1,587,607	--	1,587,607	--	<b>1,587,607</b>
Transfer to general banking risk Reserve	--	--	--	--	--	--	877,241	(877,241)	--	--	--	--
Change at Fair Value for AFS investments	--	--	--	--	--	(18,948,367)	--	--	--	(18,948,367)	--	<b>(18,948,367)</b>
Amortization of subordinated financing using EIR method	--	--	--	--	--	--	--	4,327,094	(4,327,094)	--	--	--
<b>Balance as at June 30<sup>th</sup>, 2011</b>	<b>1,999,502,500</b>	<b>687,651,602</b>	<b>22,878,187</b>	<b>42,521,546</b>	<b>26,257,099</b>	<b>5,933,519</b>	<b>63,829,458</b>	<b>(2,514,551,722)</b>	<b>38,654,829</b>	<b>372,677,018</b>	<b>23,837,422</b>	<b>396,514,440</b>

Attached Explanatory Notes from no. 1 to 37 are an integral part of the Financial Statements



**National Bank For Development (S.A.E)**  
**Consolidated Statement of Cash Flows**  
**For the period ended June 30<sup>th</sup>, 2011**

Translation of Consolidated Financial Statements originally issued in Arabic

	June 30 <sup>th</sup> , 2011	<u>"Restated"</u> June 30 <sup>th</sup> , 2010
	<u>L.E</u>	<u>L.E</u>
<b><u>Operational activities</u></b>		
Loss before tax	(407,560,068)	(348,048,624)
<b>Non cash adjustment to reconcile loss before tax to cash flows from operating activities:</b>		
Depreciation of fixed assets	22,168,443	18,489,921
Amortization of intangible assets	4,833,520	3,719,981
Impairment losses	280,478,539	236,789,793
Other provisions	33,927,253	51,281,484
MTM of Assets held for trading	2,179,910	1,312,439
Other provision used	(43,871,249)	(53,361,679)
Foreign currency revaluation of Loan Loss provisions	8,027,071	9,911,957
Foreign currency revaluation of other provisions	24,461	19,819
Foreign currency revaluation of held to maturity investments	(717,961)	(1,049,000)
Foreign currency revaluation of available for sale investments	(634,303)	(442,000)
Gains on sale of fixed assets	(514,615)	(6,230,753)
Gains on sale of assets reverted to the bank	(1,062,618)	11,815,779
Profit /loss from sale of Assets held for trading	(160,894)	(2,226,019)
Profit/loss from sale of available for sale investments	(14,158)	(1,114,123)
Profit/loss from sale of treasury bills	(487,939)	(1,941,058)
Amortization of subordinated loan using EIR method	4,327,094	-
Share of subsidiaries' income	591,520	(507,277)
Dividends income	(1,129,377)	(2,954,631)
Foreign currency revaluation of subordinated financing	4,178,583	-
<b>Operating loss prior changes in assets and liabilities utilized in operational activities</b>	<b>(95,416,788)</b>	<b>(84,533,992)</b>
<b><u>Net decrease (increase) in assets &amp; liabilities</u></b>		
Due from banks	644,807,803	191,487,125
Treasury bills	(8,837,256)	(90,988,940)
Assets held for trading	19,675,548	(2,816,944)
Loans to customers	(380,422,559)	(548,438,126)
Inventory	1,438,269	2,251,566
Other assets	(16,386,317)	91,800,707
Due to banks	(46,833,819)	203,675,029
Customers' deposits	(1,394,431,764)	290,255,850
Other liabilities	28,164,403	(2,380,641)
Income tax paid during the period	-	(16,816,044)
<b>Net cash flows resulting from (Used in) operating activities (1)</b>	<b>(1,248,242,480)</b>	<b>33,495,589</b>

**National Bank For Development (S.A.E)**  
**Consolidated Statement of Cash Flows**  
**For the period ended June 30<sup>th</sup>, 2011**

Translation of Consolidated Financial Statements originally issued in Arabic

**Cash flows from investing activities**

Purchase of investments available for sale	(19,962,171)	(289,895,675)
Proceeds from Investments available for sale	17,425,724	273,279,800
Payments for the purchase of fixed assets	(17,359,757)	(91,875,325)
Payments for the purchase of intangible assets	(10,858,935)	-
Proceeds from sale of fixed assets	6,507,184	6,230,753
Projects under construction	(6,737,367)	2,786,541
Profit from sale of treasury bills	487,939	1,941,058
Proceeds from sale investments Held to maturity	3,730,626	-
Dividends income	1,129,377	7,864,861
<b>Net cash flows used in) / resulting from investing activities (2)</b>	<b>(25,637,380)</b>	<b>(94,548,736)</b>

**Cash flows from financing activities**

Paid under Capital Increase	365,944,044	119,659,101
Capital increase	-	6,250,000
Long term financing	(240,000)	140,591,097
Subordinated loan	-	47,110,508
Dividends	-	(8,636,092)
<b>Net cash flows resulting from financing activities (3)</b>	<b>365,704,044</b>	<b>304,974,615</b>
Net increase (decrease) in cash and cash equivalents during the period (1+2+3)	(908,175,816)	243,921,467
Cash and cash equivalents at the beginning of the period	2,377,099,878	431,632,452
<b>Cash and cash equivalents at the end of the period</b>	<b>(33) 1,468,924,062</b>	<b>675,553,920</b>

**Cash and cash equivalents at end of period are represented in :**

Cash and due from Central Bank of Egypt	1,129,613,514	591,382,003
Due from banks	1,220,655,326	3,416,333,308
Treasury bills	1,813,850,060	1,127,920,383
Due from banks (deposits matured more than 3 months)	(1,160,024,090)	(3,384,311,392)
Treasury bills with maturity more than 3 months	(1,535,170,748)	(1,075,770,383)
<b>Cash and cash equivalents at end of the period</b>	<b>(33) 1,468,924,062</b>	<b>675,553,920</b>

## **1- BACKGROUND:**

National Bank for Development was established as an (S.A.E) in 1974 and in accordance with Investment Law no 43 of 1974 and its executive regulations and the amendments thereon. The bank provides all banking services related to its activities of corporate, retail and investments, through its head office located in Cairo and its 69 branches served by 2,177 staff at the date of the financial statements. The Bank is listed on the Egyptian Stock Exchange (EGX).

As per the Extraordinary General Assembly meeting dated 3 September 2007, an approval is being taken to amend the name of "National Bank for Development" to "Abu Dhabi Islamic Bank - Egypt". The name will be amended after converting the Bank's activity to be Shari'a compliant in accordance with Shari'a standards.

On 27th July 2011 the consolidated financial statements as of June 30<sup>th</sup>, 2011 were approved by the Bank's board of directors.

## **2- SIGNIFICANT ACCOUNTING POLICIES:**

### **A) Basis for preparation**

These consolidated financial statements are 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 16<sup>th</sup>, 2008. These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through the profit & loss, available for sale financial assets and all derivative contracts.

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.

The bank's consolidated financial statements can be acquired from management.

### **B) Significant Accounting Principle:**

Although accumulated losses were LE 2,515 mn at June 30<sup>th</sup>, 2011 (2010: LE 2,177 mn), which exceeds the paid up capital in addition to the effect of the shortfall of loan loss provision and tax provisions, the consolidated financial statements have been prepared on the going concern basis as shareholders undertake to continue providing financial support to the Bank.

As per article no. 69 of company's law no. 159 for year 1981, an Extraordinary General Assembly meeting was held on April 17th, 2011 and approved the continuity of the bank's activities.

**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	5.42%	Manufacturing
National company for trading and development (ENTAD)	40.29%	Commercial
Assiot Islamic company for trading and development	39.91%	Commercial
Cairo national company for investment	64.75%	Investment
Abu Dhabi Islamic holding company – under establishment	99.99%	CO. under establishment

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.

**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/2 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/3 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/4 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/5 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 doesn't have geographical segments working in economic environment as at 30 June 2011.

#### **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 Bank's accounting records are maintained in Egyptian pounds. Transactions in other foreign currencies are recorded at rates of exchange ruling at the value 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 related to the monetary financial instruments denominated in foreign currencies as available for sale (debt instruments) are classified to revaluation differences arising from changes in amortized cost, differences arises from change in foreign exchange rate and differences arises from change in fair market value, changes related to amortized cost recognized in profit and loss in interest income from loans and similar income, changes related to foreign exchange recognized in other operating income/loss and changes related to fair value recognized in reserve for available for sale investment revaluation differences.

Translation differences on non-monetary items (equity securities) held at fair value though income is also reported through the income statement whereas for those classified as available-for-sale the income is recorded directly in equity within "Net unrealized gains and losses on available-for-sale assets" item.

#### **E) Financial assets:**

The Bank classifies the financial assets into the following groups:

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

The management's classification depends on the investments at its initial recognition.

#### **E-1 Financial Assets designated at its fair value through profit and loss**

Financial assets include:

- Financial instrument 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 Loans and Receivables:**

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

- That the Bank intends to sell immediately or in the short term, which are classified as held for trading;
- 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 credit deterioration of the issuer.

#### **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 sale of significant amounts – except in emergency cases.

#### **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 derecognized 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 when 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. Loans and receivables and held-to-maturity investments are subsequently measured at amortized cost.
- Gains and losses arising from changes in the fair value of financial assets classified as at fair value through profit or loss are recognized in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of "available for sale financial assets" are recognized directly in equity, until the financial asset is derecognized or impaired, at which time, the cumulative gain or loss previously recognized in equity is recognized in income statement.
- 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 at fair value when the Bank has the intention and ability to hold to maturity including loans 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

**G) Profit/Interest Income and Expenses:**

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 'interest income' and '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 period.

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 loans is

recognized on accrual basis except for the interest income on non performing loans, which ceases to be recognized as revenue when the recovery of interest or principle is in doubt.

When loans 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:

- When collected and after recovery of all areas for retail loans, personal loans, real estate loans for personal housing and loans to small business.
- For corporate loans, 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 loan 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 loan 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.

Recognition of such fees and commission in profit or loss ceases when a loan 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.

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 loan, the fee is recognized as revenue on expiry.

A syndication fee received by the Bank that arranges a loan and retains no part of the loan 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.

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

Fees charged for financial planning services and custodian services provided over long periods are recognized as income over the period during which the service is rendered.

**I) Dividends:**

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

**J) Impairments of financial assets:**

**J-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 date ('a loss event') and that loss event or events has had an impact on the estimated cash flows 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 loans 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 asset's 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.
- 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 flow's 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 reflect and are directionally consistent with 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.

## **J-2 Financial Investments available for sale and held to maturity date in associates and subsidiary 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.

## K) 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.

## L) 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:

Mechanical systems & equipments	5 years
Motor vehicles	5 years
Other equipment	8 years
Furniture and fittings	10 years
Buildings	20 years
Decorations and preparations	20 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.

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#### **M) 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.

#### **N) Leasing:**

It's calculated as per law 95 for the year 1995, if the contract grants the right to the tenant to purchase the asset by a set date and a set value, in addition to contract covered more than 75% of estimated useful life, or if the existing rent represents more than 90% of the assets value. Other contracts represent operational rent contracts.

##### **N-1 Rent**

As for leasing contracts the expense of rent is recognized, in addition to maintenance expenses, 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.

#### **O) 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.

## **P) 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.

## **Q) 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.

## R) Borrowing

Loans obtained by the Bank are initially recognized at the fair value net of transaction costs incurred in connection with obtaining the loan. Borrowings are subsequently measured at amortized cost, with the difference between net proceeds and the value to be paid over the borrowing period, recognized in profit or loss using the effective interest rate method.

## S) Comparative figures

Comparative figures are reclassified, where necessary, for consistency with changes in the current period's presentation.

## 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 loans 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 loan commitments.

#### 3/1/1 Measurement of Credit Risk

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

- Probability of default
- Exposure at default
- Loss given default



The Banks 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:**

<b>Category</b>	<b>Description</b>
1	Good debts
2	Regular Follow Up
3	Special Follow Up
4	Bad debts

The estimated loss, is the loss incurred when delay in payment occurs, being a percentage of loan 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.

**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 eliminated 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 loan 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 loans 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 loans. Credit commitments represent the hidden unused part of the risk tolerated by the Bank such as granting loans, 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:

No.	Banks Rating	June 30th, 2011	
		Loans and Facilities	Impairment loss provisions
1	Good debts	32.37%	1.79%
2	Regular Follow Up	5.35%	0.24%
3	Special Follow Up	0.81%	0.02%
4	Bad debts	61.47%	97.95%
		<b>100.00%</b>	<b>100.00%</b>

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 loan 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.

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 31) and shows the movement on the general reserve for banking risks during the financial year.

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.

<b>CBE rating</b>	<b>CBE rating Description</b>	<b>Required Provision %</b>	<b>Internal Rating</b>	<b>Internal Rating Description</b>
1	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

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

**5/A Maximum limit for credit risk before guarantees:**

	Value in thousands	
	<b>30/6/2011</b>	<b>31/12/2010</b>
<b>Balance Sheet items exposed to Credit Risks</b>		
<b>Treasury Bills</b>	1,875,850	2,466,950
<b>Loans and advances to clients:</b>		
<b><u>Retail loans</u></b>		
- Credit Cards	3,237	3,691
- Personal loans	1,735,892	1,557,949
- Overdraft	13,361	19,562
<b><u>Corporate Loans:</u></b>		
- Overdraft	226,221	375,515
- Direct loans	5,106,308	5,014,030
- Syndicated loans	700,409	478,984
<b><u>Financial Investments:</u></b>		
- Debt instruments	685,021	717,001
<b>Total</b>	<b>10,346,389</b>	<b>10,633,682</b>

	Value in thousands	
	<b>30/6/2011</b>	<b>31/12/2010</b>
<b>Off balance sheet items exposed to credit risks</b>		
Letters of credit	232,269	134,229
Letters of guarantee	315,095	104,413
Documentary credit	27,474	8,697
Bank guarantees	220,876	246,594
<b>Total</b>	<b>795,714</b>	<b>493,933</b>

The above table represents the maximum limit of risks to be exposed to at the end of June 30, 2011 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, 70.29% of the maximum limit exposed to credit risk results from loans and facilities to customers, while investments in debt instruments represents 6.7%.

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

- 37.72% (December 31, 2010: 33.07%) of the loans and facilities portfolio are rated on the highest 2 levels of the internal rating.
- 32.37% (December 31, 2010: 23.16%) of the loan portfolio and facilities having no arrears or indicators of impairment.
- Loans and facilities valued on a standalone basis amounting to LE 4.624mn (December 31, 2010: LE 4,580mn) with impairment less than 61.47% from its value against (December 31, 2010: LE 62.07%).
- The Bank applied more prudential selection process on granting loans and facilities during the financial period ended at June 30, 2011.
- More than 98.47% of investments in debt instruments and treasury bills represent debt instruments due from the Egyptian government.

### 3/1/6 Loans and Facilities:

The status of balances of loans and facilities in terms of credit rating are as follows:

	Value in thousands	
	30/6/2011	31/12/2010
<b>Loans and facilities to clients</b>		
Not having arrears and not subject to impairment	2,742,358	2,412,002
Arrears not subject to impairment	546,583	457,814
Subject to impairment	4,496,577	4,579,916
<b>Total (note 18)</b>	<b>7,785,518</b>	<b>7,449,732</b>
<b>Less:</b>		
Less: impairment loss provision	(2,800,586)	(2,570,448)
Reserved interest	(473,737)	(471,283)
Deferred profits	(399,810)	(387,918)
<b>Net (note 18)</b>	<b>4,111,385</b>	<b>4,020,083</b>

### Loans and facilities:

Rating	Value in thousands				
	June 30, 2011				
	<u>Retail</u>		<u>Corporate</u>		Total loans and facilities
Credit Cards	Personal loans & Overdraft	Personal loans & Overdraft	Syndicated loans		
Good debts	2,159	1,629,461	420,997	689,741	<b>2,742,358</b>
Regular follow up	33	86,598	354,475	10,668	<b>451,774</b>
Special follow up	45	11,649	83,115	--	<b>94,809</b>
Bad debts	1,000	21,635	4,473,942	--	<b>4,496,577</b>
<b>Total</b>	<b>3,237</b>	<b>1,749,343</b>	<b>5,332,529</b>	<b>700,409</b>	<b>7,785,518</b>

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

Loans and facilities portfolio has increased as of June 30, 2011 by 4.5% (December 31, 2010: 20.23%).

**Loans and facilities having no arrears and not subject to impairment**

The credit worthiness is rated for the loans and facilities portfolio that have no arrears and is not subject to impairment that is by reverting to the Banks' internal rating.

**Loans and facilities having arrears and not subject to impairment:**

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

	Value in thousands
30 days arrears	28,726
30 to 60 days arrears	423,048
60 to 90 days arrears	94,809
<b>Total</b>	<b><u>546,583</u></b>

At the first recognition of loans and facilities the fair value of the guarantees is re-evaluated on a regular basis taking into consideration market value in the subsequent events.

**Loans and facilities subject to individual impairment:**

Loans and facilities to clients as follows:

	Value in LE thousands		
<b>June 30, 2011</b>	<b>Retail</b>	<b>Corporate</b>	<b>Total</b>
Loans and facilities subject to individual impairment:	<u>22,635</u>	<u>4,473,942</u>	<u>4,496,577</u>

**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.

	Value in LE thousands		
<b>June 30, 2011</b>	<b>Treasury Bills</b>	<b>Investments in Debt Instruments</b>	<b>Total</b>
BBB++	<u>1,875,850</u>	<u>685,021</u>	<u>2,560,870</u>

**3/1/8 Geographical sectors:**

Description	Value in LE thousands				Total
	Arab Republic of Egypt			Other Countries	
	Cairo	Alex, Delta & Sinai	Upper Egypt		
Treasury bills	1,875,850	--	--	--	1,875,850
Investment held for trading	18,069	--	--	--	18,069
Debt instruments available for sale or held to maturity	685,021	--	--	--	685,021
<b>Loans and facilities</b>					
<b>Retail:</b>					
Overdraft	7,390	2,519	3,452	--	13,361
Credit cards	3,237	--	--	--	3,237
Personal loans	929,334	620,085	186,563	--	1,735,982
<b>Corporate loans:</b>					
Overdraft	225,887	284	50	--	226,221
Direct loans	5,104,336	1,964	8	--	5,106,308
Syndicated loans	611,617			88,792	700,409
<b>Total June 30, 2011</b>	<b>9,460,741</b>	<b>624,852</b>	<b>190,073</b>	<b>88,792</b>	<b>10,364,458</b>
<b>Total December 31, 2010</b>	<b>9,929,461</b>	<b>551,355</b>	<b>172,488</b>	<b>--</b>	<b>10,653,304</b>

**3/2 Market Risk**

Market risk is reflected in the fluctuation of the fair value or future cash flow, resulting from changes in market parameters. Market risk affects interest rates, foreign currency as well as equity products. Each is exposed to general market movements.

Management of market risk, either related to trading or non-trading, is monitored by two separate teams, whereas reports are presented regularly to the board of directors.

Trading portfolios include direct dealing with clients and with the market, as for non-trading portfolios it is mainly established from management of assets interest rates or liabilities relating retail.

These portfolios include foreign exchange and equity instruments resulting from investments held to maturity and investments available for sale.

### 3/2/1 Methods of Measurement of Market Risk

As a part of managing market risk, the Bank has several hedging strategies and enters into several contracts for exchange of interest rate, that is to try to balance the risk of the debt instruments, long term loans with fixed interest in case of fair value implementation. Following are the major measurement methods used:

#### Value at risk:

The Bank implements value at risk method on portfolios held for trade as well as non-trade. That is to evaluate the market risk and estimated maximum loss, depending on some predictions of the change in market conditions. The board of directors set limits to values at risk (for both trading and non-trading investments), which are monitored on a daily basis by the market risk department. The value at risk is the estimated calculated loss of the existing portfolio, this reflects the maximum loss that could occur but with a set ratio of 98%. Therefore there is a 2% probability of actual loss is more than the estimated loss. From the model of value at risk, a ten day custody is expected, before closing all positions. Also, it is assumed that market movement within the ten days of custody will follow the same pattern. The market pattern is determined on a historical 5 year basis, used to predict ratios, prices, rates. Outputs are closely monitored to evaluate the accuracy of the measurement method.

Using this method doesn't guarantee the value of loss to be within limits, especially if there is a major market movement. As the market risk impacts a major part of the Banks business, the board of directors on a yearly basis set appropriate limitations for the value at risk (trading and non-trading) and are divided on the business sectors, comparing actual to estimated values, reviewed on a daily basis by the risk department. The average daily value at risk within the financial period was LE 3,318k (December 31, 2010: LE 1.155k). The quality of the value at risk model is evaluated regularly, through testing results of portfolio held for trade. Reports are presented after wards to management and board of directors.

#### Stress Testing:

Stress testing gives an indication of the loss that may arise from sharp change in circumstances. Stress testing is designed to understand the impact, using standard analysis for specific scenarios.

The Bank undertakes various scenarios using risk analysis, such as compressing risk factors, by predicting crucial movements on each risk category, as well as developing country testing, due to special circumstances such as currency floating. Stress testing results are reviewed by management and the board of directors.

### 3/2/2 Summary of value at risk:

#### Total value at risk for Investment held for trade:

Existing period	Value in LE thousands		
	Average	More	Less
Total value upon interest rate risk	--	--	--



**Total value at risk for Non-trading investment held for trade upon type of risk:**

	Value in LE thousands		
	Average	More	Less
Interest rate risk (local currency)	--	--	662,503
Interest rate risk (foreign currency)	--	--	22,517
<b>Total value upon risk</b>	<b>--</b>	<b>--</b>	<b>685,020</b>

There is a direct tie between the increase of value at risk and increase of interest rate risk in global markets. The 3 stated results (average, less, more) have been individually calculated.

The value calculated does not represent the total value at risk by the whole Bank as a result of the diversified relation between different portfolios as well as different risk factors.

**3/2/3 Methods of Measurement of Market Risk:**

The Bank has exposure to foreign currency risk and cash flow. The board of directors has set limitations to the financial currency as a total value at the end of each day as well as monitoring it within the day. The following table summarizes the exposure of the Bank to foreign currency fluctuations as of 31<sup>st</sup> December 2010. The table includes the book value before deducting financial instruments provisions.

June 30th, 2011	Value in thousands					
	LE	USD	Euro	Sterling	Others	Total
<b>Financial Assets</b>						
Cash and due from CBE	1,104,467	19,294	2,415	378	2,781	<b>1,129,614</b>
Due from banks	20,269	1,048,578	108,556	30,325	12,927	<b>1,220,655</b>
Treasury bills	1,875,850	-	-	-	-	<b>1,875,850</b>
Loans and facilities to clients	6,823,009	962,083	426	-	-	<b>7,785,518</b>
<b>Financial Investments</b>						
Available for sale	719,138	21,135	-	-	-	<b>740,273</b>
Held to maturity	5,613	22,385	-	-	-	<b>27,998</b>
Investment held for trading	18,069	-	-	-	-	<b>18,069</b>
Investments in associates	55,885	22,930	-	-	-	<b>78,815</b>
<b>Total Financial Assets</b>	<b>10,622,579</b>	<b>2,096,405</b>	<b>111,397</b>	<b>30,703</b>	<b>15,708</b>	<b>12,876,792</b>
<b>Financial Liabilities</b>						
Dues to other banks	4,324	298,788	-	-	-	<b>303,112</b>
Customers deposits	8,824,708	492,310	111,289	30,618	15,386	<b>9,474,311</b>
Long term financing	220	156,211	-	-	-	<b>156,431</b>
<b>Total financial Liabilities</b>	<b>8,829,252</b>	<b>947,309</b>	<b>111,289</b>	<b>30,618</b>	<b>15,386</b>	<b>9,933,854</b>
<b>Net financial position</b>	<b>1,793,327</b>	<b>1,149,096</b>	<b>108</b>	<b>85</b>	<b>322</b>	<b>2,942,938</b>

### 3/2/4 Interest Rate Risk

The Bank is exposed to fluctuation of interest rates, which reflects in the cash flow as well as fluctuation in the fair value of financial instruments. Marginal Interest could increase as a result of fluctuations and profits could decrease. The board of directors has set limitations to the differences in interest ratings and re-pricing. This is monitored on a daily basis by the risk department. The following table summarizes the book value of the financial instruments by type and the re-rating dates or maturity dates (which is nearest).

	Value in LE thousands					
30 June 2011	Till 1 month	More than 1 month till 3 months	More than 3 months till 1 year	More than 1 year till 5 years	Without Profit/ interest	Total
<b>Financial Assets</b>						
Cash and due from CBE	-	-	-	-	1,129,614	<b>1,129,614</b>
Due from banks	1,142,843	-	-	-	77,812	<b>1,220,655</b>
Treasury bills	283,550	658,000	934,300	-	-	<b>1,875,850</b>
Loans and facilities to clients	467,072	33,189	362,724	6,922,533	-	<b>7,785,518</b>
<b>Financial Investments</b>						
Available for sale	214,786	-	17,500	507,987	-	<b>740,273</b>
Held to maturity	-	-	-	27,998	-	<b>27,998</b>
Investment held for trading	-	-	-	-	18,069	<b>18,069</b>
Investments in associates	-	-	-	-	78,815	<b>78,815</b>
<b>Total Financial Assets</b>	<b><u>2,108,251</u></b>	<b><u>691,189</u></b>	<b><u>1,314,524</u></b>	<b><u>7,458,518</u></b>	<b><u>1,304,310</u></b>	<b><u>12,876,792</u></b>
<b>Financial Liabilities</b>						
Dues to banks	4,324	298,788	-	-	-	<b>303,112</b>
Customers deposits	2,316,712	825,300	1,316,707	5,015,592	-	<b>9,474,311</b>
Long term financing	-	-	220	156,211	-	<b>156,431</b>
<b>Total Financial Liabilities</b>	<b><u>2,321,036</u></b>	<b><u>1,124,088</u></b>	<b><u>1,316,927</u></b>	<b><u>5,171,803</u></b>	<b><u>-</u></b>	<b><u>9,933,854</u></b>

### 3/3 Liquidity Risk

Liquidity risk is defined as the risk of not being able to meet cash flow or collateral requirements, when they fall due and at a reasonable price. This could lead to failing to meet deposits obligations to clients and loan commitments.

#### Liquidity Risk Management Department

Operations carried out by the department are as follows:

- Daily funding is monitored by the Treasury department through observation of future cash flows to ensure the capability of the Bank to meet its liabilities, including payment upon maturity of loans.

- Keeping a high market asset portfolio that guarantees flexibility in liquidation if needed to meet any unexpected fluctuations.
- Observation of liquidity ratios compared to the internal policies of the Bank, and the CBE.

Regular assessment of the Bank structural liquidity profile - daily, weekly and Monthly – which are the main time spans to manage liquidity. Risk Department studies maturities of contracted financial liabilities as well as financial assets.

Its role is also to monitor the Liquidity gaps between average maturity assets and the level and type of unused loan 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, in order to provide wide range diversification in currencies, geographical location, sources products as well as maturities.

Assets available to meet all liabilities and cover loan commitments include cash, balances with the central bank, balances due from banks, treasury bills and other governmental notes, and loans and facilities to banks and clients. Moreover, some debt instruments, treasury bills and other governmental notes are pledged to cover liabilities. The Bank has the ability to meet unexpected net cash flows through selling securities, and finding other financing sources.

**3/4 Capital Management**

The Bank's objectives behind managing capital including elements other than 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 as per the observatory authorities regulations (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 issued and paid-in capital.
- Maintaining a ratio between capital elements, and asset and contingent liability elements.
- Capital to be greater than 10% of weighted risk assets.

The capital adequacy ratio consists of the following two tiers:

**Tier 1:**

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

**Tier 2:**

Is the sub-ordinate capital comprising the equivalent of the general reserve according to CBE credit rating bases issued by CBE not in excess of 1.25 % of total assets and contingent liabilities (risk weights applied), subordinate loans 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.

On calculating the total numerator of capital adequacy, it is to be considered that tier 2 should not be greater than tier 1, and subordinate loans (deposits) should not be greater than 50 % of Tier 1.

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:

	Value in LE Thousands	
	<b>30/6/2011</b>	<b>31/12/2010</b>
<b><u>Capital</u></b>		
<b><u>Tier 1: Basic Capital</u></b>		
Capital shares	1,995,503	1,999,503
General reserves	42,522	42,522
Special reserves	17,165	17,165
Legal reserves	22,878	22,878
Difference between face & present value for subordinated financing	38,655	42,982
Paid under capital increase	687,652	321,708
Retained loss	(2,519,589)	(2,179,436)
<b><u>Total Basic capital</u></b>	<b><u>288,786</u></b>	<b><u>267,322</u></b>
<b><u>Tier 2: (Subordinated capital)</u></b>		
Subordinated loan	127,793	135,484
45 % of the increase in fair value compared to carrying amount of available for sale investment, investments held to maturity, & investments in affiliates and subsidiaries,	4,704	13,250
<b><u>Total subordinated capital</u></b>	<b><u>132,497</u></b>	<b><u>148,734</u></b>
<b><u>Total Capital</u></b>	<b><u>421,283</u></b>	<b><u>416,056</u></b>
<b><u>Risk weighted Assets and contingent liabilities</u></b>		
Assets within Balance Sheet	5,359,057	5,294,906
Contingent liabilities	149,366	205,202
<b><u>Total risk weighted assets and contingent liabilities</u></b>	<b><u>5,508,423</u></b>	<b><u>5,500,108</u></b>
<b><u>Capital Adequacy ratio ( % )</u></b>	<b><u>7.65%</u></b>	<b><u>7.56%</u></b>

**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. The following are the

related estimations and judgments:

**A) Impairment loss for loans and facilities:**

The Bank reviews the portfolio of loans 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 loan portfolio before identifying any decline at the level of one loan. 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) The impairment 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.

**5- NET INTEREST INCOME:**

Value in LE thousands

	<b>30/6/2011</b>	<b>30/6/2010</b>
<b><u>Profit on loans and similar income:-</u></b>		
Loans and facilities to customers	165,787	102,046
Treasury bills and bonds	138,062	66,661
Deposits and current accounts	13,946	63,870
<b>Total</b>	<b>317,795</b>	<b>232,677</b>

**Cost of Deposits and similar Costs:**

Deposits and Current Accounts:

To Banks	(13,164)	(452)
To Customers	(241,961)	(199,104)
<b>Total</b>	<b>(255,125)</b>	<b>(199,556)</b>
Sales Revenue	48,077	59,710
<b>Net</b>	<b>110,747</b>	<b>92,832</b>

**6- NET FEES & COMMISSION INCOME:**

	Value in LE thousands	
	30/6/2011	30/6/2010
<b>Fees and commissions income:</b>		
Fees and commissions related to credit	3,622	1,004
Corporate finance	8,493	7,418
Custody fees	--	5,319
Other fees	15,936	21,367
<b>Total</b>	<b>28,051</b>	<b>35,108</b>
<b>Fees and commissions expenses:</b>		
Other fees paid	(1,301)	(1,167)
<b>Total</b>	<b>(1,301)</b>	<b>(1,167)</b>
Cost of goods sold	(33,270)	(35,944)
<b>Net</b>	<b>(6,519)</b>	<b>(2,003)</b>

**7- NET TRADING INCOME**

	Value in LE thousands	
	30/6/2011	30/6/2010
Foreign currencies operations:		
Gain from foreign currencies exchange	9,497	5,806
MTM of held for trading - debts instruments	(2,180)	(1,302)
Gain on sale of held for trading debts instruments	-	4,275
MTM of held for trading – Equity instruments	633	-
<b>Total</b>	<b>7,950</b>	<b>8,780</b>

## 8- ADMINISTRATIVE EXPENSES

Value in LE thousands

	<b>30/6/2011</b>	<b>30/6/2010</b>
Salaries and wages	(108,939)	(72,218)
Social insurance	(4,175)	(2,131)
Depreciation and amortization	(18,788)	(13,855)
Other administrative expenses	(44,843)	(46,686)
<b>Total</b>	<b>(176,745)</b>	<b>(134,890)</b>

## 9- OTHER OPERATING EXPENSES

Value in LE thousands

	<b>30/6/2011</b>	<b>30/6/2010</b>
Gain (Loss) on sale of assets reverted to Bank	1,063	(11,816)
Gain on sale of fixed assets	581	6,231
Gain on sale of sell & lease back assets	2,466	3,439
Training cost	(63)	(571)
Operating lease	(35,839)	(35,502)
Other provision	(33,927)	(50,821)
Others	2,092	7,705
<b>Total</b>	<b>(63,627)</b>	<b>(81,395)</b>

## 10- IMPAIRMENT LOSSES FOR LOANS

Value in LE thousands

	<b>30/6/2011</b>	<b>30/6/2010</b>
Impairment losses	(279,273)	(250,000)
Impairment recovery	--	13,412
Held to maturity investment	(1,206)	(201,750)
<b>Total</b>	<b>(280,479)</b>	<b>(236,790)</b>

## 11- TAX EXPENSES

Value in LE thousands

	<b>30/6/2011</b>	<b>30/6/2010</b>
Income tax(*)	--	(16,816)
Deferred tax (**)	65,334	151,739
<b>Total</b>	<b>65,334</b>	<b>134,923</b>

(\*) Income tax represents taxes on interest on Treasury bills & bonds.

(\*\*) Additional Information on the deferred tax is detailed in note 30.

## 12- LOSS PER SHARE

The loss per share during period was calculated by using the weighted average method for the numbers of the outstanding shares during the period.

Value in LE thousands

	<b>30/6/2011</b>	<b>30/6/2010</b>
Net loss for the period (1)	(342,009,220)	(216,246,967)
Weighted average for the issued common stocks (2)	199,950,250	174,970,000
<b>Loss Per Share (1:2)</b>	<b>(1.71)</b>	<b>(1.25)</b>

## 13- CASH AND DUE FROM CENTRAL BANK OF EGYPT

Value in LE thousands

	<b>30/6/2011</b>	<b>31/12/2010</b>
Cash	206,161	147,016
Due From Central Bank (mandatory reserve)	923,453	1,230,467
<b>Total</b>	<b>1,129,614</b>	<b>1,377,483</b>

## 14- DUE FROM BANKS

Value in LE thousands

	<b>30/6/2011</b>	<b>31/12/2010</b>
Current accounts	60,631	85,249
Deposits	1,160,024	1,805,109
<b>Total</b>	<b>1,220,655</b>	<b>1,890,358</b>
Central bank (including the required reserve percentage)	84,857	1,348,026
Local Banks	976,570	356,781
Foreign Banks	159,228	185,551
<b>Total</b>	<b>1,220,655</b>	<b>1,890,358</b>
Non profit bearing balances	78,217	85,249
Fixed profit balances	1,142,438	1,805,109
<b>Total</b>	<b>1,220,655</b>	<b>1,890,358</b>



## 15- TREASURY BILLS

	Values in thousands	
	30/6/2011	31/12/2010
91 days maturity	283,550	884,625
182 days maturity	658,000	413,000
274 days maturity	562,025	441,575
364 days maturity	372,275	724,750
<b>Total</b>	<b>1,875,850</b>	<b>2,466,950</b>
Less: Unearned revenues	(62,000)	(61,413)
<b>Net</b>	<b>1,813,850</b>	<b>2,405,537</b>

## 16- Investments ASSETS HELD FOR TRADING

	Value in LE thousands	
	30/6/2011	31/12/2010
<b>Debit Instruments</b>		
Governmental bonds	--	20,071
<b>Equity instruments</b>		
Equity shares	18,069	19,622
<b>Total</b>	<b>18,069</b>	<b>39,693</b>

## 17- LOANS AND FACILITIES TO CUSTOMERS

	Value in LE thousands	
	30/6/2011	31/12/2010
<b>Retail</b>		
Overdraft	13,361	19,562
Credit cards	3,237	3,692
Personal loans	1,735,982	1,557,949
<b>Total (1)</b>	<b>1,752,580</b>	<b>1,581,203</b>
<b>Corporate (including SMEs)</b>		
Overdraft	226,221	375,515
Direct loans	5,106,308	5,014,030
Syndicated loans	700,409	478,984
<b>Total (2)</b>	<b>6,032,938</b>	<b>5,868,529</b>
<b>Total loans &amp; facilities (1 + 2)</b>	<b>7,785,518</b>	<b>7,449,732</b>
Impairment losses for loans	(2,800,586)	(2,570,448)
Reserved interest *	(473,737)	(471,283)
Deferred profit	(399,810)	(387,918)

<b>Net</b>	<b>4,111,385</b>	<b>4,020,083</b>
<b>17 - LOANS AND FACILITIES TO CUSTOMERS – “Continue “</b>		
<b>Net distributed as follows:</b>		
Loans and facilities to customers net	1,389,776	1,679,998
Islamic facilities to customers net	2,721,609	2,340,085
<b>Total</b>	<b>4,111,385</b>	<b>4,020,083</b>

\* Reserved Interest which were accumulated according to the credit rating issued by the CBE.

**Impairment losses for loan movement**

	Value in LE thousands	
	30/6/2011	31/12/2010
Balance at the beginning of the period / year	2,570,448	2,105,738
Impairment loss charge within the period / year	279,273	493,272
Recoveries during the period / year	12	1,765
Usage during the period / year	(57,173)	(45,485)
Foreign currency revaluation differences	8,027	15,158
<b>Balance at the end of period / year</b>	<b>2,800,587</b>	<b>2,570,448</b>

**Movement for impairment losses for Loans as per type:**

	Value in LE thousands		
	June 30, 2011	<u>Retail</u>	
	Credit Cards	Personal Loans	Total
Balance at the beginning of the period	924	21,141	22,065
Impairment loss charge within the period	117	24,417	24,534
Recoveries during the period	--	12	12
Usage during the period	--	(1,738)	(1,738)
<b>Balance at the end of period</b>	<b>1,041</b>	<b>43,832</b>	<b>44,873</b>
		<u>Corporate</u>	
		Direct Loans	Total
Balance at the beginning of the period		2,548,383	2,548,383
Impairment loss charge within the period		254,738	254,738
Usage during the period		(55,435)	(55,435)
Foreign currency revaluation differences		8,027	8,027
<b>Balance at the end of period</b>		<b>2,755,713</b>	<b>2,755,713</b>

## 17 - LOANS AND FACILITIES TO CUSTOMERS – “Continue “

	Value in LE thousands		
	<b>Retail</b>		
<b>December 31<sup>st</sup>, 2010</b>	<b>Credit Cards</b>	<b>Personal Loans</b>	<b>Total</b>
Balance at the beginning of the year	835	11,688	12,523
Impairment loss charge within the year	89	11,591	11,680
Recoveries during the year	--	5	5
Usage during the year	--	(2,143)	(2,143)
<b>Balance at the end of year</b>	<b>924</b>	<b>21,141</b>	<b>22,065</b>

  

	<b>Corporate</b>	
	<b>Direct Loans</b>	<b>Total</b>
Balance at the beginning of the year	2,093,215	2,093,215
Impairment loss charge within the year	481,592	481,592
Recoveries During the year	1,760	1,760
Usage during the year	(43,342)	(43,342)
Foreign currency revaluation differences	15,158	15,158
<b>Balance at the end of year</b>	<b>2,548,383</b>	<b>2,548,383</b>

The bank's management will continue to provide the impairment loss till the end of year 2012 to cover the shortage in impairment loss provision amounting to LE 964 mn as of 30 June 2011 (LE 1.3bn: 31 December 2010) according to agreement with CBE which obligates the bank to provide minimum LE 500mn annually till 2012.

## 18- FINANCIAL INVESTMENTS

### 18/1 Available for Sale Investment

	Value in LE thousands	
	<b>30/6/2011</b>	<b>31/12/2010</b>
<b>Debt instruments – at Fair value</b>		
Listed	662,504	671,400
<b>Equity instruments - at fair value</b>		
Listed	24,551	29,996
Unlisted	53,218	54,640
<b>Total available for sale investments (1)</b>	<b>740,273</b>	<b>756,036</b>

**18/2 Financial Investment Held to maturity**

	<b>30/6/2011</b>	<b>31/12/2010</b>
<b>Debt Instruments- at amortized cost</b>		
Listed	22,517	25,530
Sanabel Fund (*)	5,481	6,687
<b>Total Investments held to maturity (2)</b>	<b>27,998</b>	<b>32,217</b>
<b>Total financial Investments (1 + 2)</b>	<b>768,271</b>	<b>788,253</b>
Current	715,053	733,613
Non-Current	53,218	54,640
<b>Total</b>	<b>768,271</b>	<b>788,253</b>
Categorized as follows:		
Fixed Income debt instruments	645,894	648,352
Variable Income debt instruments	44,608	55,265
Variable Income equity instruments	77,769	84,636
<b>Total</b>	<b>768,271</b>	<b>788,253</b>

	<b>Financial Investment AFS</b>	<b>Financial Investment HTM</b>	<b>Total</b>
Beginning balance for the current period	755,916	32,217	<b>788,133</b>
Additions	19,961	--	<b>19,961</b>
Disposals (sales/redemption)	(17,291)	(3,730)	<b>(21,021)</b>
Foreign currency revaluation difference	635	717	<b>1,352</b>
Change in the fair value	(18,948)	--	<b>(18,948)</b>
impairment loss	--	(1,206)	<b>(1,206)</b>
<b>Balance at 30 June 2011</b>	<b>740,273</b>	<b>27,998</b>	<b>768,271</b>
Beginning balance for the current year	542,464	33,634	<b>576,098</b>
Additions	535,714	--	<b>535,714</b>
Disposals (sales/redemption)	(306,484)	(3,637)	<b>(310,121)</b>
Foreign currency revaluation difference	784	1,597	<b>2,381</b>
Change in the fair value	(15,267)	--	<b>(15,267)</b>
Impairment loss	(1,175)	623	<b>(552)</b>
<b>Balance at 31st December 2010</b>	<b>756,036</b>	<b>32,217</b>	<b>788,253</b>

### 18/3 Gain from Financial Investment

	Value in LE thousands	
	30/6/2011	30/6/2010
Gain on sale of investments available for sale	--	15
Gain on sale of treasury bills	393	1,636
<b>Total Gain from Financial Investments</b>	<b>393</b>	<b>1,956</b>

(\*) Sanabel Mutual Fund:

The investments held to maturity include the Bank's investment in Sanabel mutual fund in association with ABC bank, managed by Prime for Investment,

The number of the certificates has reached LE 2,527,744 with a nominal value of LE 252,774,400 and the Bank's share is LE 75,000 certificates with a par value of LE 100. The acquisition cost amounted to LE 7,635,000.

### 19- INVESTMENTS IN ASSOCIATE & SUBSAIDIRES (Net)

	Value in LE thousands			
	30/6/2011		31/12/2010	
	Value	Share %	Value	Share %
ADI Lease leasing Company	43,468	85.04	43,356	85.04
Upper Egypt for Contracting and Construction	633	62.76	633	62.76
Upper Egypt for bricks and construction material	8,924	86.60	8,924	86.60
Cairo National Company for Brokerage & Securities	1,452	32.00	719	32.00
Alexandria National Company for Financial Investments	13,420	50.00	13,364	50.00
Arab Mashriq Company for Takaful Insurance	10,620	20.00	10,620	20.00
Real estate Company for National Banks for Development	298	22.71	298	22.71
<b>investment in associated companies</b>	<b>78,815</b>		<b>77,914</b>	

- The bank did not apply equity method for some associates were they did not issue periodical financial statements as at 30 June 2011 for the purpose of preparing the consolidated financial statements. The effect of not applying equity method on these companies is immaterial.

### 20- INTANGIBLE ASSETS (Net)

	Value in LE thousands	
	30/6/2011	31/12/2010
<b>Computer software</b>		
Net Book value at the beginning of the period	5,422	1,363
Additions	10,859	12,527
Amortization	(4,833)	(8,468)
<b>Net book value at end of period</b>	<b>11,448</b>	<b>5,442</b>

## 21- OTHER ASSETS

	Value in LE Thousands	
	30/6/2011	31/12/2010
Accrued Revenues*	51,308	46,611
Pre-paid expenses	27,409	33,578
Due from sale and leaseback assets	36,041	48,054
Prepaid under purchase fixed assets	67,491	45,746
Assets reverted to the Bank in settlement of debts (Net of Impairment)	127,873	124,989
Deposits & custody	1,156	1,138
Other debit balances **	81,751	71,351
<b>Total</b>	<b>393,029</b>	<b>371,467</b>

\* Accrued expenses as at 31 December 2010 was adjusted by L.E 5,672 k as a result of correcting technical error drive to calculating accrued income for a non-performing clients whose debt was rescheduled during prior year. The error was corrected on the accumulated losses as shown in statement of shareholders equity.

\*\* Other debit balances as at 31 December 2010 was adjusted by L.E 4,893k. As result of an adjustment made to the Salaries and wages included in administrative expenses in the income statement.

## 22- Inventory

	Value in LE Thousands	
	30/6/2011	31/12/2010
Raw Materials	3,053	4,725
Spare parts	12,495	12,874
Packing Materials	684	474
Fuel, Oils & Supplies	2,155	1,919
Work in Progress	123	148
Finished goods	9,466	9,301
<b>Total</b>	<b>27,976</b>	<b>29,441</b>
impairment in inventory value	(1,675)	(1,675)
	<b>26,301</b>	<b>27,766</b>

## 23- Projects under construction

	Value in LE Thousands	
	30/6/2011	31/12/2010
balance for beginning of the period	9,783	8,213
additions	7,931	1,570
transfer to fixed assets	(1,194)	-
amortized to expense	-	-

16,520	9,783
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## 24- FIXED ASSETS (NET OF ACCUMULATED DEPRECIATION)

	Value in Thousands			
30 June 2011	Land & Premises	Machinery & Equipment	Other Asset	Total
<u>Balance of the current financial period</u>				
Net book value at January 1st 2011	102,783	87,235	178,788	368,806
Additions	90	2,075	15,195	17,360
Disposals	(300)	-	(5,693)	(5,993)
Depreciation	(2,899)	(4,120)	(15,149)	(22,168)
<b>Net book value as of June 30th, 2011</b>	<b>99,674</b>	<b>85,190</b>	<b>173,141</b>	<b>358,005</b>
<u>Balance at end of Financial period</u>				
Cost	139,104	218,960	345,983	704,047
Accumulated depreciation	(39,430)	(133,770)	(172,842)	(346,042)
<b>Net book value as of June 30th, 2011</b>	<b>99,674</b>	<b>85,190</b>	<b>173,141</b>	<b>358,005</b>

- Fixed Assets after depreciation include LE 10.3mn (2010: LE 2.6mn) represent assets not registered yet. Legal procedures are under progress for them to be registered.

31 Dec 2010	Land & Premises	Machinery & Equipment	Other Assets	Total
Net book value at January 1st 2010	96,773	90,521	72,000	259,294
Additions	10,031	4,400	135,233	149,664
Disposals	(1,850)	(6,093)	(7,881)	(15,825)
Depreciation	(3,302)	(7,686)	(28,446)	(39,434)
Accumulated depreciation related to disposal	1,132	6,093	7,881	15,107
<b>Net book value as of 31 December 2010</b>	<b>102,783</b>	<b>87,235</b>	<b>178,788</b>	<b>368,806</b>
<u>Balance at end of financial year</u>				
Cost	140,447	222,808	344,362	707,617
Accumulated Depreciation	(37,663)	(135,573)	(165,575)	(338,792)
<b>Net book value as of 31 December 2010</b>	<b>102,783</b>	<b>87,235</b>	<b>178,788</b>	<b>368,806</b>

## 25- DUE TO BANKS

	Value in LE thousands	
	30/6/2011	31/12/2010
Foreign Banks	301,930	348,294
Local Banks	1,182	1,652
<b>Total</b>	<b>303,112</b>	<b>349,946</b>

## 26- CUSTOMERS' DEPOSITS

	Value in LE thousands	
	30/6/2011	31/12/2010
Demand deposits	1,469,010	1,595,390
Time deposits & call accounts	2,327,376	3,868,375
Term saving certificates	2,743,355	2,294,188
Savings deposits	2,866,079	2,977,615
Other deposits	68,491	97,306
<b>Total</b>	<b>9,474,311</b>	<b>10,832,874</b>

### Classified as follows:

Corporate deposits	7,041,955	4,288,186
Retail deposit	2,432,356	6,544,688
<b>Total</b>	<b>9,474,311</b>	<b>10,832,874</b>

Profit free balances	748,270	786,131
Variable Profit balances	8,726,041	10,046,743
<b>Total</b>	<b>9,474,311</b>	<b>10,832,874</b>

### Classified as follows:

Current balances	6,730,956	8,537,936
Non-current balances	2,743,355	2,294,938
<b>Total</b>	<b>9,474,311</b>	<b>10,832,874</b>

## 27- Long Term Financing

Value in LE thousands



	Profit/Inter est rate	30/6/2011	31/12/2010
Social Fund	8.00%	220	460
Subordinated Loan (*)	5.83%	156,211	147,705
<b>Total</b>		<b>156,431</b>	<b>148,165</b>

**(\*) SUBORDINATED LOAN**

	Value in LE thousands	
	30/6/2011	31/12/2010
Face value of the subordinated financing	147,705	187,942
Difference between face value and present value	--	(47,111)
Amortization of subordinated using EIR method	4,327	4,129
Foreign currency revaluation difference	4,179	2,745
<b>Total</b>	<b>156,211</b>	<b>147,705</b>

The subordinated loan of US\$ 33mn is from ADIB-UAE, as per a framework agreed upon for a Wakala investment for a period of 5 years starting June 30<sup>th</sup> 2010 with an estimated profit of 0.125% from the investment amount. Should the facility extend beyond 5 years the expected profit is equal to LIBRO for USD.

The Bank has recognized the subordinated loans by present value Using Discount Rate 5.83%, the difference between the face value and present value on date of agreement have been added to owners equity as per CBE instructions.

**28- OTHER LIABILITIES**

	Value in LE thousands	
	30/6/2011	31/12/2010
Accrued interest	45,181	22,178
Unearned revenues from the sale & leaseback assets	3,456	5,922
Accrued expenses	4,680	7,166
Other credit balances	117,269	105,896
<b>Total</b>	<b>170,586</b>	<b>141,162</b>

**29- OTHER PROVISIONS**

**Other provisions movement from 1/1/2011 till 30/6/2011:**

	Provision for contingent claims	Provision for Tax	Provision for Contingent Liabilities	Other Provision	Total
Balance at the beginning of period	15,759	435	12,602	3,818	35,614
Formed during the period	--	32,873	995	60	33,928
Amount used during the period	(10,769)	(32,878)	--	(224)	(43,871)
Foreign currencies revaluation difference	--	--	23	--	23
Transferred from Contingent Liabilities to claims Provision	4,693	--	(4,693)	--	--
<b>Total</b>	<b>12,682</b>	<b>430</b>	<b>8,927</b>	<b>3,655</b>	<b>25,694</b>

**Other provisions Movement from 1/1/2010 till 31/12/2010:**

Value in LE thousands

	Provision for Legal	Provision for Tax	Provision for Contingent Liabilities	Other Provision	Total
Balance at the beginning of period	22,030	1,420	10,265	10,411	44,126
Formed during the period	1,601	74,915	2,300	120	78,936
Amount used during the period	(4,872)	(75,900)	--	(472)	(81,244)
Provision no longer required	--	--	--	(6,241)	(6,241)
Foreign currencies revaluation difference	--	--	37	--	37
<b>Total</b>	<b>18,759</b>	<b>435</b>	<b>12,602</b>	<b>3,818</b>	<b>35,614</b>

**30- DEFERRED TAX**

The deferred tax has been calculated on the differences based on the liability using the actual tax rate of 20%.

The deferred tax asset resulting from retained loss is not recognized unless a future tax profit is estimated and it is expected the Bank can benefit from the losses in the short run.

Following is the deferred asset and liabilities:

Value in LE thousands

**30/6/2011**                      **31/12/2010**

	Assets / (Liabilities)	Assets / (Liabilities)
Fixed Assets	(11,261)	(10,762)
Provisions (other than the impairment loss for loans)	3,672	5,833
Reserved interest	94,747	94,257
Retained tax losses	493,529	426,024
<b>Net tax of which an asset arises</b>	<b>580,687</b>	<b>515,352</b>

**Movement of deferred tax assets and liabilities method:**

	Value in LE thousands	
	30/6/2011	31/12/2010
	Assets / (Liabilities)	Assets / (Liabilities)
Beginning balance	515,352	310,858
Deferred tax Income	65,335	204,573
Deferred Tax for the prior year	--	(79)
<b>Closing Balance</b>	<b>580,687</b>	<b>515,352</b>

**31- CAPITAL**

**31/1 Authorized Capital**

The authorized capital amounts to LE 4.0bn (31 December 2010: LE 4.0bn)

The extra-ordinary general assembly on May 3<sup>rd</sup>, 2010, decided to increase the issued capital from LE 2.0bn to LE 4.0bn. The Bank is undertaking the procedures to finalize registration of this increase in the Banks' statute and commercial registration.

**31/2 Issued and Paid-In Capital:**

The issued capital amounted to LE 1,999,502,500 (31 December 2010: LE 1,999,502,500) represented by 199 million shares (31<sup>st</sup> Dec 2009: 199 million shares) with a nominal value of LE 10 each after eliminate the shares owned by minority interest.

**31/3 Amounts paid under capital increase**

ADIB – UAE has deposited an amount of to LE 687,652 in thousand (31 December 2010: LE 321,708 in thousand) under capital increase within the period.

**32- RESERVES AND RETAINED LOSSES**

Value in LE thousands

	30/6/2011	31/12/2010
<b>Reserves</b>		
Special Reserves	26,257	26,257
General Reserves	42,522	42,522
General Banking Risk Reserve	63,829	62,952
Legal Reserves	22,878	22,878
Fair Value Reserves – investments available for sale	5,934	24,882
<b>Total Reserves</b>	<b>161,420</b>	<b>179,491</b>

### 31/1 Special Reserves

Value in LE thousands

	30/6/2011	31/12/2010
Adjustments for change in the measurement policy for AFS Investments related to previous years	17,165	17,165
Adjustments for change in the measurement policy of impairment loss for loans and facilities (note 2/A)	9,092	9,092
	<b>26,257</b>	<b>26,257</b>

Distribution from this reserve is only allowed with CBE approval.

### 31/2 General Banking Risk Reserves

Value in LE thousands

	30/6/2011	31/12/2010
Beginning balance	62,952	46,248
Adjustments for change in the measurement policy of impairment loss for loans and facilities	(4,244)	26,344
10% provision based on the value of assets reverted to the Bank	5,121	(9,640)
<b>Closing balance</b>	<b>63,829</b>	<b>62,952</b>

### Balance of General Bank Risk Reserve

Value in LE thousands

	30/6/2011	31/12/2010
General Bank Risk Reserve for loans & facilities	22,303	26,547
General Bank Risk Reserve for assets reverted to the Bank	41,526	36,405
	<u>63,829</u>	<u>62,952</u>

- The CBE instructions require the Bank to provide general bank reserves to guarantee any differences in impairment loss measurement methods for loans/facilities and assets reverted to the Bank between the old and new CBE methodologies Note (3/1/4).
- Distribution from this reserve is only allowed with CBE approval.

### 31/3 Fair value reserve – available for sale investments

	30/6/2011	31/12/2010
Beginning balance	24,882	40,149
Change in fair value	(19,159)	(18,917)
Loss transferred to income statement for AFS disposals	211	3,650
<b>Closing balance</b>	<u>5,934</u>	<u>24,882</u>

- Distribution from this reserve is only allowed with CBE approval.

### 31/4 Retained Losses

	30/6/2011	31/12/2010
		<u>Restated</u>
Balance at the beginning of the financial period / year	(2,177,580)	(1,687,996)
Net Loss of the financial period / year	(342,009)	(477,009)
Transferred to general banking risk reserve	(877)	(16,704)
Cost of the subordinated loan using EIR	4,327	4,129
Change of Accounting Policies (Equity Method)	1,587	-
<b>Balance at the end of the financial period / year</b>	<u>(2,514,552)</u>	<u>(2,177,580)</u>

## 33- 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.

	Value in LE thousands	
	<b>30/6/2011</b>	<b>31/12/2010</b>
Cash and Due from CBE (Note 13)	1,129,614	1,377,783
Due from banks (Note 14)	1,220,655	1,890,358
Treasury Bills (Note 15)	1,813,850	2,405,537
Due from Banks maturities more than 3 months	(1,160,024)	(1,804,832)
Treasury bills maturities more than 3 months	(1,535,171)	(1,525,283)
	<b>1,468,924</b>	<b>2,343,263</b>

### **34- CONTINGENT LIABILITIES AND COMMITMENTS**

#### **A- Capital commitments:**

The Banks contracts for capital commitments reached LE 23,673 k as of June 30, 2011 (December 31, 2010: LE 20,055k ), representing purchases of fixed assets and the management is adequately confident that net profit shall be realized and finance shall be made available for covering these commitments.

#### **B- Contingent Liabilities**

	Value in LE thousands	
	<b>31/12/2010</b>	<b>31/12/2010</b>
Documentary Credit	27,474	8,697
Letter of Guarantees	315,095	104,413
Import Letter of Credit	232,269	134,229
Banks Guarantees	27,474	246,594
	<b>795,714</b>	<b>493,933</b>

### 35- RELATED PARTY TRANSACTIONS

#### 35/1 Loans and facilities to related parties:

	Value in LE thousands	
	30/6/2011	31/12/2010
Outstanding loans at the beginning of the financial Period / year	124,898	68,804
(Decrease ) / Increase in loans during the Period / year	60	56,094
<b>Loans outstanding at the end of the financial Period /year</b>	<b>124,958</b>	<b>124,898</b>

#### 35/2 Deposits from Related Parties:

	Value in LE thousands	
	30/6/2011	31/12/2010
Deposits outstanding at the beginning of the financial Period /year	1,549	4,037
Increase/Decrease	23	(2,488)
<b>Deposits outstanding at the end of the financial Period / year</b>	<b>1,572</b>	<b>1,549</b>

The pervious deposits are of variable interest and upon demand.

#### 35/3 ADIB – UAE

	Value in LE thousands	
	30/6/2011	31/12/2010
Due from Banks	4,845	1,741
Dues to Banks	298,450	26,586
Subordinated financing	156,211	147,705
Amounts paid under capital increase	687,652	321,707

#### 35/4 Board Members and top management benefits

	Value in LE thousands	
	30/6/2011	30/6/2010
Salaries and short term benefits	1,688	3,273

### **36- SALES OF FIXED ASSETS RE-RENTED ON LEASING BASIS:**

#### **35/1 December 27th, 2007:**

The Banks management sold two buildings, with one of the leasing companies with a total value of LE 120,136,200, to be paid on 60 monthly installments starting 27 January 2008. This amount includes LE 32,163,200 of retained interest. This resulted in "Profit from sales of fixed assets" reaching LE 84,632,667 covering the provisions of loans with this amount. The Bank re-rented the two building on a leasing basis contract with a total value of LE 121,056,000, to be paid on 60 installments starting January 27, 2008.

#### **35/2 March 30<sup>th</sup>, 2009:**

The Banks management has sold a land and building owned by the Bank which comprise of 29 branches of the Bank on a leasing contract basis with a total value of LE 214,659,243 resulting in "Profit from sales of fixed assets with a value of LE 194,791,863. An agreement with the CBE was reached to use this amount to decrease the operating losses of the first quarter 2009, instead of amortizing on the leasing period that is on condition that the Bank doesn't grant any facilities to the leasing company to finalize the deal. The Bank has also finalized a leasing agreement dated March 30<sup>th</sup>, 2009 to re-rent these facilities with a value of LE 321mm to be paid on 120 monthly installments starting April 30<sup>th</sup>, 2009.

### **37- TAX POSITION**

#### **37-1 Tax Position for NBD**

##### **Corporate Tax:**

- Tax inspections for the years prior 2006 have been fully completed and all due taxes have been paid with the exception of the individual pool where an internal committee is being set to inspect this issue.
- Preparation and presenting the tax report for the years prior to 2009 have been presented to tax authority as per law no. 91 for the year 2005.
- Tax return for the year 2007 and 2008 are currently being inspected.

##### **Salary Tax:**

- Internal committee has finalized matters for the years prior to 2005 and there are no taxes due for this period.
- Year 2006 has been inspected and an internal committee has been formed.
- The years 2007 till 2009 are currently being inspected.
- The salary taxes are being paid on the due dates as stated by law.

##### **Stamp duty Tax:**

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



- Inspections of 27 branches have been finalized from opening of the branches to 31/7/2006 with all tax liabilities settled.
- Inspection of 17 Cairo branches have been finalized from start of their activities to 31/7/2006, payment of part of tax dues has been made and other years which are under dispute are in internal committees and the Appeal Courts.
- As for the remaining 20 bank branches, coordinating between tax authorities is in process to start inspection for years prior to 31/7/2006.
- 5 branches have not been inspected from beginning of their activities till 31/7/2006.

**Second: In light of law no. 143 for the year 2006 (amendment of law no. 111)**

- Inspections of the bank branches for the years starting 1/8/2006 to 31/12/2007, have been finalized from opening of the branch to 31/7/2006, the results of the inspection was an amount of LE 19,004,887 and penalty of LE 5,504,090. An appeal on the amount is in process and an internal committee of the tax authorities has been set up to study the issue.

**37-2 Tax Position for NGF**

**Corporate 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 beginning of their activities from 2005 till 2010.

**Sales Tax:**

- Tax inspections for the years prior 2007 have been fully completed and all due taxes have been paid.
- Company books have not been inspected from beginning of their activities from 2008 till 2010.

**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 beginning of their activities from 2005 till 2010.

**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 beginning of their activities from 2007 till 2010.

**37-3 Tax Position for National company for trading and development (ENTAD):**

**Sales Tax:**

- Tax inspection has been completed up to 31 December 2007. The company received form (15) which includes the inspection results and presented cheques to pay all due amounts.
- The company filed law suit no. 8131 for 2009 related to the period 2004/2006 and another law suit related to 2007.

**Stamp duty tax and development fees:**

- Tax inspection for the periods prior to 31 December 2003 has been fully completed and all due taxes have been paid.

- Tax inspection for period starting 1 January 2004 to 31 December 2005 has been fully completed. The company received form (3) and filed an appeal, internal committee is in process.

**Salary tax:**

- Tax inspection for the periods prior to 31 December 1994 has been fully completed and all due taxes have been paid.
- Tax inspection for the periods 1 January 1995 to 31 December 2000 has been fully completed, due tax amounted to LE 189,114. An appeal on the amount was filed and transferred to complain committee. On 24 October 2009 the committee decreased the tax due to LE 58,764. Payments are in process.
- For period from 1 January 2001 to 31 December 2008 a date is being set for tax inspection.

**Corporate tax:**

- Taxes due on Paper factory, file number 8/264
- Tax inspection for the periods from 1 January 1985 to 31 December 1989 has been fully completed and an appeal has been filed. Disputes are being studied by the court.
- Periods from 1 January 1994 to 31 December 1998 tax due amounted to LE 4 mn of which the company paid 1.3 mn.
- 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.
- Tax inspection for the periods from 1 January 2002 to 31 December 2004 has not been inspected.

**37-3 Tax Position for Cairo national company for investment**

**Corporate Tax:**

- Tax inspection for the periods prior from 1994 to 2004 has been fully completed and all due taxes have been paid.
- The Tax Return was prepared and delivered to tax authority for the years 2005/2008 and the Tax inspection for the previous periods have not been inspected

**Salary Tax:**

- Tax inspection for the period till 2007 has been fully completed and all due taxes have been paid.
- The taxes paid monthly and in regular basis.

**Stamp duty tax:**

- Tax inspection for the period till 2006 has been fully completed and all due taxes have been paid.

**37-4 Tax Position for Assiot Islamic company for trading and development**

**Salary Tax:**

Salary Tax was paid till 31 December 1994; Tax inspection for the remaining years have not been inspected. And the tax paid according to company books monthly and in regular basis till the date of financial statements.

**Corporate 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.

From 1998 till 2002:

- Processing by an internal committee.

For the years 2003 and 2004:

- Tax inspection for these years have not been inspected

**Withholding Tax:**

- All due taxes have been paid till 30 September 2005.