National Bank for Development (S.A.E.)

Financial Statements and Independent Auditors' Report

for the Year Ended 31st December, 2010

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the National Bank for Development S.A.E, represented in the balance sheet as of December 31st, 2010 and the related income statement, change in equity, and cash flow for the year ended December 31st, 2010 and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the Financial Statements:

The financial statements are the responsibility of the Banks management. Management is responsible for preparation and fair presentation of these 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 16th, 2008, as well as with relevant Egyptian laws and regulations. Management's responsibility include designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements, that are free of material misstatement whether due to fraud or error. Management's responsibility also includes selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibilities:

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Egyptian standards on auditing and applicable Egyptian laws. These standards require that we comply with ethical requirements, plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatements.

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

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

Bases for our qualified report:

1- Loan Loss provision shortfall, based on the data made available to us, has amounted to LE 1.3bn as of December 31st 2010 (2009: LE 1.7bn) as described in note no. 18 of the financial statements.

2- Tax provision shortfall as of December 31st, 2010 has amounted to LE 159mn (2009: LE 54mn).

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.

Qualified Opinion:

In our opinion, except for the effect on the financial statement, referred to in the previous paragraph, the financial statements give a true and fair view, in all material aspects of the financial position of National Bank for Development S.A.E and of its financial performance, cash flows for the year then ended in accordance with the instructions of the preparation and the presentation of financial statements of the Egyptian Banks issued by the Central Bank of Egypt on December 16th, 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 the Bank's accumulated losses have reached LE 2,047mn which exceeds half of the paid-in capital (2009: LE 1,536mn). The financial statements have been prepared based on the going concern principal on the assumption that the Bank's shareholders commitment to provide the required funds to the bank. In accordance to article no. 69 of the companies Law No. 159 of 1981, shareholders extraordinary general assembly meeting should be held to decide the continuity of the Bank.

Without qualifying our report, we draw your attention to note no. 37 to the financial statements, that no available current information is available that can enable the Bank's management to assess the financial impact of the current event taking place in Arab Republic of Egypt on the Bank's assets, liabilities and their values may differ significantly if reliable indicators were available that could be used by the Bank to evaluate the effect of the subsequent events on those assets and liabilities in the financial statements.

Report on other Legal and Regulatory Requirements:

Nothing has come to our attention that causes us to believe that the Bank contravened any of the provisions on the Central Bank, Banking & Monetary System Law No. 88 of 2003 for the year then ended.

The Bank maintains proper accounting records that comply with the laws & the Banks Articles of Association & the financial statements agree with the Bank's records.

The financial information included in the board of director's report, prepared in accordance with Law no. 159 of the year 1981 and its executive regulations, is in agreement with the box of the Bank in so far as such information is recorded therein.

Auditors

Mohamed Salah Abo Tabl	**Taha Mohamed Khaled**
FESAA – FEST	FESAA - FEST
R.A.A (4434)	R.A.A (5136)
Allied for Accounting and Auditing E&Y	**BDO & CO**

17th March 2011

Cairo

NATIONAL BANK FOR DIVELOPMENT
AN EGYPTIAN JOINT STOCK COMPANY
Statement of Financial Position as at December 31, 2010

LE	Note No	Dec-10	"Restated" Dec-09
Assets			
Cash and due from Central Bank of Egypt (CBE)	(14)	1,377,353,649	342,594,328
Due from banks	(15)	1,889,768,049	3,627,864,405
Treasury bills	(16)	2,395781,354	968,573,066
Investments held for trading	(17)	20,071,000	--
Loans and credit facilities to customers, net	(18)	1,944,594,814	2,701,894,938
Islamic facilities to customers, net	(18)	2,302,684,000	861,786,599
Financial Investments:			
-Available for sale	(1/19)	726,574,295	507,464,488
-Held to maturity	(2/19)	32,217,120	33,633,620
Investments in associates & subsidiaries	(20)	298,308,291	264,455,375
Intangible assets	(21)	5,422,482	1,363,248
Other assets	(22)	348,319,958	387,253,610
Deferred tax assets	(29)	515,616,385	310,860,850
Fixed assets, net	(23)	155,786,713	49,561,516
Total assets		**12,012,498,110**	**10,057,306,043**
Liabilities and Shareholders' Equity :			
Liabilities :			
Due to banks	(24)	349,946,295	8,524,774
Customers' deposits	(25)	10,868,742,293	9,400,498,878
Long term loans	(26)	148,165,047	937,763
Other liabilities	(27)	119,078,339	92,736,835
Other provisions	(28)	29,172,058	38,129,255
Total liabilities		**11,515,104,032**	**9,540,827,505**
Shareholders' Equity:			
Issued and paid-up capital	(30)	2,000,000,000	1,750,000,000
Paid under capital increase	(4/30)	321,707,558	130,340,899
Reserves	(31)	179,490,939	171,803,835
Subordinated financing (equity share)	(26)	42 981 923	--
Retained losses	(4/31)	(2,046,786,342)	(1,535,666,196)
Total Shareholders' Equity		**497,394,078**	**516,478,538**
Total Liabilities and Shareholders' Equity		**12,012,498,110**	**10,057,306,043**
Contingent Liabilities & commitments	(33)	**493,933,000**	**507,382,240**

Chief Executive Officer & Managing Director	Chairman	CFO
Nevine Loutfy	Mohamed Taymor	Michael Murray

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

NATIONAL BANK FOR DIVELOPMENT
AN EGYPTIAN JOINT STOCK COMPANY
Income Statement
For the year ended December 31st, 2010

	Note No	December 31, 2010	"Restated" December 31, 2009
Profit on loans and similar income	(5)	589,078,507	509,583,918
Interest on deposits and similar expense	(5)	(466,564,971)	(481,824,498)
Net interest income		**122,513,536**	**27,759,420**
Fees and commission income	(6)	66,005,579	34,293,781
Fees and commission expense	(6)	(1,263,781)	(2,011,623)
Net fees and commission income		**64,741,798**	**32,282,158**
Dividend income	(7)	8,192,581	7,992,333
Net trading income	(8)	16,905,327	6,373,518
Gain from financial investments	(3/19)	12,399,078	22,417,391
Impairment losses	(11)	(493,272,001)	(595,737,000)
Administrative expenses	(9)	(281,838,709)	(200,758,703)
Other operating expenses	(10)	(136,256,882)	(46,547,408)
Profit before tax		**(686,615,272)**	**(746,218,291)**
Tax	(12)	188,070,511	291,772,040
Net Profit for the period		**(498,544,761)**	**(454,446,251)**
Earnings per share	(13)	(2.66)	(2.60)

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NATIONAL BANK FOR DIVELOPMENT

AN EGYPTIAN JOINT STOCK COMPANY

Statement of Changes in Shareholder's Equity

For the year ended December 31st, 2010

	Capital	Paid Under Capital Increase	Legal Reserve	General Reserve	Special Reserve	AFS Investments F.V.Reserve	General Banking Risk Reserve	Subordinated Financing (Equity Share)	Retained Earnings	Total
Balance at January 1st 2009 as reported	1 500 000 000	--	22 878 187	30 090 501	17 165 099	23 707 127	--	--	(1 067 570 940)	**526 269 974**
Effect of change in accounting policies	--	--	--	--	9 092 000	--	32 801 250	--	(202 005)	**41 691 245**
Balance at January 1st 2009 as restated	**1 500 000 000**		**22 878 187**	**30 090 501**	**26 257 099**	**23 707 127**	32 801 250	--	**(1 067 772 945)**	**567 961 219**
Transfer to general banking risk Reserve	--	--	--	--	--	--	13 447 000	--	(13 447 000)	**--**
Paid Under Capital increase	--	380 340 899	--	--	--	--	--	--	--	**380 340 899**
Surplus In Share's Subscription Fess	--	--	--	6 181 045	--	--	--	--	--	**6 181 045**
Net Loss for the year Restated	--	--	--	--	--	--	--	--	(454 446 251)	**(454 446 251)**
Capital increase	250 000 000	(250 000 000)	--	--	--	--	--	--	--	**--**
Change of Fair Value for AFS investments	--	--	--	--	--	16 441 626	--	--	--	**16 441 626**
Balance at December 31st 2009 as restated	**1 750 000 000**	**130 340 899**	**22 878 187**	**36 271 546**	**26 257 099**	**40 148 753**	**46 248 250**	--	**(1 535 666 196)**	**516 478 538**
Paid Under Capital increase	--	441 366 659	--	--	--	--	--	--	--	**441 366 659**
Capital increase	250 000 000	(250 000 000)	--	--	--	--	--	--	--	**--**
Transfer to general banking risk Reserve	--	--	--	--	--	--	16 703 971	--	(16 703 971)	**--**
Change of Fair Value for AFS investments	--	--	--	--	--	(15 266 867)	--	--	--	**(15 266 867)**
Surplus In Share's Subscription Fess	--	--	--	6 250 000	--	--	--	--	--	**6 250 000**
Net Loss for the Year	--	--	--	--	--	--	--	--	(498 544 760)	**(498 544 760)**
Subordinated Financing (Equity Share)	--	--	--	--	--	--	--	47 110 508	--	**47 110 508**
Amortization of subordinated financing using EIR method	--	--	--	--	--	--	--	(4 128 585)	4 128 585	**--**
	--	--	--	--	--	--	--	--	--	**--**
Balance at December 31st 2010	**2000 000 000**	**321 707 558**	**22 878 187**	**42 521 546**	**26 257 099**	**24 881 886**	**62 952 221**	**42 981 923**	**(2 046 786 342)**	**497 394 078**

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

NATIONAL BANK FOR DIVELOPMENT
AN EGYPTIAN JOINT STOCK COMPANY
Statement of Cash Flows
For the year ended December 31st, 2010

	Dec-10	"Restated" Dec-09
Operational activities		
Loss before tax	(686,615,272)	(746,218,291)
Non cash adjustment to reconcile loss before tax to cash flows from operating activities:		
Depreciation of fixed assets	22,669,929	7,379,416
Amortization of intangible assets	8,468,365	3,356,455
Impairment losses	493,272,001	595, 737,000
Other provisions charges	76,444,283	120,313,958
MTM of Assets held for trading	(422,462)	--
Usage from loan loss provision	(79,197,109)	(161,994,301)
provision no longer required	(6,240,833)	--
Foreign currency revaluation of other provisions	37,043	--
Foreign currency revaluation of held to maturity investments	(1,597,500)	142,000
Foreign currency revaluation of available for sale investments	(784 114)	512,000
Impairment losses from investments in subsidiaries & associates companies	--	166,966
Impairment losses (reverse) from held to maturity investment	(623,250)	(954,661)
Gains on sale of fixed assets	(6,588,434)	(197,382,041)
Gains on sale of assets reverted to the bank	9,034,974	(4,622,326)
impairment loss of assets reverted to the bank	344,000	7,108,000
Profit /loss from sale of Assets held for trading	(1,317,798)	8,000
Profit/loss from sale of available for sale investments	(9,731,738)	(18,311,357)
Profit/loss from sale of treasury bills	(2,667,340)	--
Profit from sale of investments in subsidiaries & associates companies	--	(4,272,879)
Dividends income	(8,192,581)	(7,992,333)
Amortization of subordinated loan using EIR method	4,128,585	--
Foreign currency revaluation of subordinated financing	2,745,370	--
Operating loss prior changes in assets and liabilities utilized in operational activities	**(186,833,880)**	**(407,024,394)**
Net decrease /increase in assets & liabilities		
Due from banks	1,770,966,624	(733,978,116)
Treasury bills	(548,005,138)	(74,935,882)
Assets held for trading	(18,330,741)	46,073
Loans to customers	(1,173,537,645)	(160,986,658)
Other assets	26,221,463	(75,415,426)

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

Due to banks		341,421,521	4,427,072
Customers' deposits		1,468,243,415	1,114,485,678
Credit balances and other liabilities		26,342,504	(105,870,106)
Paid income tax		(16,685,024)	(19,088,810)
Net cash flows resulting from (Used in) operating activities (1)		**1,689,803,100**	**(458,340,569)**
Cash flows from investing activities			
Purchase of investments available for sale		(535,643,865)	(1,080,206,606)
Proceeds from Investments available for sale		311,783,043	965,112,000
Payments for the purchase of fixed assets		(129,613,568)	(12,715,857)
Payments for the purchase of intangible assets		(12,527,598)	(1,597,000)
Proceeds from sale of fixed assets		7,306,875	214,890,590
Payments for the purchase of investments in subsidiaries & associates		(33,852,916)	(128,364,188)
Proceeds from sale investments Held to maturity		3,637,250	58,701
Proceeds from sale investments in associates		--	57,621,209
Profit from sale of treasury bills		2,667,340	--
Dividends income		8,192,581	7,992,333
Net cash flows used in) / resulting from investing activities (2)		**(378,050,858)**	**22,791,182**
investing activities (2)			
Cash flows from financing activities			
Paid under Capital Increase		441,366,659	380,340,899
Long term financing		(477,763)	(479,967)
subordinated loan		187,941,600	--
Surplus In share's subscription fees		6,250,000	--
Dividends paid			
Net cash flows resulting from financing activities (3)		**635,080,496**	**379,860,932**
Net increase (decrease) in cash and cash equivalents during the year (1+2+3)		1,946,832,738	(55,688,455)
Cash and cash equivalents at the beginning of the year		394,660,216	450,348,671
Cash and cash equivalents at the end of the year	(32)	**2,341,492,955**	**394,660,216**
Cash and cash equivalents at end of year are represented in :			
Cash and due from Central Bank of Egypt		1,377,353,649	342,594,328
Due from banks		1,889 ,768,049	3,627,864,405
Treasury bills		2,395,781,354	968,573,066
Due from banks (deposits matured more than 3 months)		(1,804,831,893)	(3,575,798,517)
Balances due from banks with maturities more than 3 months			
Treasury bills with maturity more than 3 months		(1,516,578,204)	(968,573,066)
Cash and cash equivalents at end of the year		**2,341,492,955**	**394,660,216**

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

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 70 branches served by 2,140 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 February 21st, 2011, the financial statements as of December 31st, 2010 were approved by the Bank’s board of directors.

2- SIGNIFICANT ACCOUNTING POLICIES:

A) Basis for preparation

These financial statements are prepared in accordance with the Central Bank of Egypt (CBE) basis of preparation of the Bank’s financial statements and principles of recognition and measurement as approved by its board of directors on December 16th, 2008. These 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.

The Bank also prepared the consolidated financial statements in accordance with CBE basis of preparation of the financial statements & principles of recognition and measurement issued by CBE’s board of directors on December 16, 2008.

Consolidated and standalone financial statements are to be read together as of December 31st, 2010 to gather sufficient information reflecting the Banks’ activities, results, cash flow and change in owners’ equity.

The financial statements of the Bank have been prepared up to December 31st, 2009 applying the CBE previous regulations effective until that date which were different in certain aspects from the new Egyptian Accounting Standards 'EAS' issued in 2006 and its amendments. Upon the preparation of the financial statements for the financial year ended December 31st, 2010, the Bank's management changed certain accounting policies, and basis of recognition and measurement in compliance with the new Egyptian Accounting Standards issued in 2006 and the CBE Basis of preparation of the Banks’ financial statements and principles of recognition and measurement as issued by the CBE’s board of directors on December 16th, 2008.

CBE amendments applicable for financial year starting on or after January 1st, 2010 include:

The Bank applied the new CBE standards as well as the EAS applicable to the banking industry. Consequently, comparative figures for the year ended December 31st, 2009 have been amended, as appropriate, in line with the requirements of the new standards.

Summary of the most significant changes in the accounting policies and disclosures in the financial statements arising from the application of these amendments are set out below:

- Changes in the disclosure requirements for financial risks management objectives, policies and procedures, management of capital adequacy as well as other disclosures.

- Starting 2009, the Bank identified the useful lives of the new additions to fixed assets for significant components of the assets. However, this didn't have any significant effect on the financial statements.

- The Bank consolidates all the companies that are controlled by the Bank through direct & indirect ownership irrespective of the company's activities.

- The Bank redefined its related parties in accordance with the amended requirements and added new disclosures in connection therewith.

- The Bank has reassessed the useful lives of its intangible assets; no adjustments have resulted from such reassessment.

- Change in the basis of measurement of impairment loss for loans, facilities, and other debt instruments that are carried at the balance sheet at amortized cost, where the general provision previously recognized for loans and facilities has become no longer appropriate and was replaced by allowances for impairment loss recognized for individual loans and facilities in addition to the collective allowance for groups of assets which carry similar credit risk and characteristics. The method of recognition of specific allowances for individual assets has changed as well. Excess in the book value of the outstanding provisions for credit losses as of January 1st, 2009 over the allowance for impairment losses as calculated in accordance with the new method in the amount of LE 9,092,000 as of 1/1/2009, for loans and facilities and has been carried to a special reserve in equity.

- OREOs were previously disclosed after deduction of impairment losses and an additional 10% provision of assets value; this was executed on assets that remained with the Bank after the stated legal period of time. As per the new regulations issued on December 16th, 2008, additional provisions of LE 33mm as of January 1st, 2009 have been transferred to general reserves, which have been reflected in change of equity.

- Upon measurement of the effective interest rate for calculating actual amortization cost, on debt instruments, fees and commissions related to issuance or custody of the debt instruments to be added or deducted, as part of the trading cost, resulting in change in effective interest rates. Since it was impracticable to implement this method in a retroactive manner, it has been implemented as of January 1st, 2009.

- Change in the basis of measurement of the Bank's debt instruments that are either classified as available for sale or held to maturity investments. Such investments are now measured at amortized cost using the effective interest rate.

B) Significant Accounting Principle:

Although accumulated losses were LE 2,047mn at December 31st, 2010 (2009: LE 1,536mn), which exceeds the paid up capital in addition to the effect of the shortfall of loan loss provision and tax provisions, the 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 will be held to approve the Bank's continuity as a going concern.

C) Associates and Subsidiary Companies:

Are companies where the Bank holds more than 50% of voting and have significant influence in the power to participate in the financial and operating policies. Taken into consideration the future changes that might occur to voting power that effect taking control over that entity.

C/1 Associates:

Are companies where the Bank owns either directly or indirectly enough shares to influence the financial and operating policies of the company, whilst not reaching control (from 20% to 50%)

- The Bank uses the purchasing method and applies the equity method in accounting for its investments in associates instead of the cost method. For the purpose of applying the equity method the Bank has compared the acquisition cost to the fair value of the investments net assets at the acquisition date and accounted for the positive difference as goodwill. In circumstances where the fair value of the investments net assets at the date of acquisition was not available the book value of the investments net assets was deemed to equal its fair value as a basis for determining any goodwill. Consequently, the book value of investments in associates reported at the balance sheet has been adjusted by the Banks share in post-acquisition changes in the net assets of these associates.

- Calculation of the associated and subsidiary companies in the standalone financial statements is calculated on the cost basis, investments are registered on the acquisition expenses basis, deducting any impairment loss in value, distribution of profits is registered in the income statement as item "Other operating Revenues/expenses".

D) Retail Banking Reports:

Buisness sectors consist of a group of assets and operations to produce product and services, which have similar risks and benefits, each sector distinct from the other. Geographical sector is related within an economical framework, each with distinct characteristics.

E) Foreign Currency Transactions:

E/1 Trade and presentation currency:

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

E/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.

F) 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.

F-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.

F-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.

F-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.

F-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.

G) 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

H) 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.

I) 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.

J) Dividends:

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

K) Impairments of financial assets:

K-1 Financial Assets held with cost to depreciation:

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a portfolio of assets is impaired. A financial asset or a portfolio of assets is impaired and impairment losses is incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the balance sheet 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.

K-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.

L) Intangible Assets

L-1 Software (computer programs):

- Expenditure on upgrade and maintenance of computer programs is recognized as an expense in the income statement in the period in which it is incurred. Expenditures directly incurred in connection with specific software are recognized as intangible assets if they are controlled by the Bank and when it is probable that they will generate future economic benefits that exceed its cost within more than one year. Direct costs include the cost of the staff involved in upgrading the software in addition to a reasonable portion of relative overheads.

- Upgrade costs are recognized and added to the original cost of the software when it is likely that such costs will increase the efficiency or enhance the performance of the computers software beyond their original specification.

- Cost of the computer software recognized as an asset shall be amortized over the period of expected benefits which shall not exceed three years.

M) Fixed Assets:

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

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

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

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

Building	20 years
Decorations and preparations	20 years
Mechanical systems & equipments	5 years
Transportation facilities	10 years
Other equipment	8 years

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

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

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N) 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.

O) 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.

O-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.

P) 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.

Q) 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.

R) 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 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.

S) 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.

T) 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:

Category	Description
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 year 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:

		December 31st, 2011	
No.	**Banks Rating**	**Loans and Facilities**	**Impairment loss provisions**
1	Good Debts	35.98%	0.34%
2	Regular Follow up	5.44%	0.65%
3	Special follow up	0.81%	0.57%
4	Bad Debts	57.77%	98.44%
		100.00%	100.00%

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.

CBE rating	CBE rating Description	Required Provision %	Internal Rating	Internal Rating Description
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:

	31/12/2010	31/12/2009
Balance Sheet items exposed to Credit Risks		
Treasury Bills	2,456,900	1,001,125
Loans and facilities to clients		
Retail loans		
- Credit Cards	3,691	4,491
- Personal loans	1,557,949	758,798
- Overdraft	19,562	40,853
Corporate Loans:		
- Overdraft	375,515	45,148
- Direct loans	5,241,225	5,513,117
- Syndicated loans	478,984	100,984
Financial Investments:		
- Debt instruments	717,001	449,248
Total	**10,850,827**	**7,913,764**

Based on the analysis included in the following table, the maximum limit of risks to be exposed to at the end of December 2010 and without taking into consideration any guarantees. For balance sheet items, amounts stated depends on the net carrying amount shown in the balance sheet.

	31/12/2010	31/12/2009
Off balance sheet items exposed to credit risks		
Letters of credit	134,229	96,112
Letters of guarantee	104,413	198,647
Documentary credit	8,697	741
Bank guarantees	246,594	211,882
Total	**493,933**	**507,382**

As shown in the preceding table, 70.6% (2009: 71.5%) of the maximum limit exposed to credit risk results from loans and facilities to customers, while investments in debt instruments represents 6.6% (2009: 5.6%).

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:

- 39.57% of the loans and facilities portfolio are rated on the highest 2 levels of the internal rating.

- 34.37% (2009: 19%) of the loan portfolio and facilities having no arrears or indicators of impairment.

- Loans and facilities valued on a standalone basis amounting to LE 4,580mn (2009: 4,738mn) with impairment less than 59.65% from its value against (2009: 73.30%).

- The Bank applied more prudential selection process on granting loans and facilities during the financial year ended at December 31, 2010.

- More than 98.46% 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:

	31/12/2010	31/12/2009
Loans and facilities to clients		
Not having arrears and not subject to impairment	2,639,197	1,253,794
Arrears not subject to impairment	457,813	471,436
Subject to impairment	4,579,916	4,719,616
Total (note 18)	7,676,926	6,463,391
Less:		
Less: impairment loss provision	(2,570,448)	(2,105,738)
Reserved interest	(471,282)	(528,804)
Deferred profits	(387,918)	(265,167)
Net (note 18)	**4,247,278**	**3,563,682**

Loans and facilities:

Value in thousands

Rating	**December 31st, 2010**				
	Retail		**Corporate**		
	Credit Cards	**Personal loans & Overdraft**	**Personal loans & Overdraft**	**Syndicated loans**	**Total loans and facilities**
Good debts	2,553	1,516,039	641,426	478,984	2,639,197
Regular follow up	358	49,928	348,419	--	398,705
Special follow up	780	11,544	46,784	--	59,108
Bad debts	--	--	4,579,916	--	4,579,916
Total	**3,691**	**1,577,511**	**5,616,740**	**478,984**	**7,676,926**

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 31st December 2010 by 18.77% (2009: 6.30%).

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	--
30 to 60 days arrears	398,705
60 to 90 days arrears	59,108
Total	**457,813**

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

December 31,2010	**Retail**	**Corporate**	**Total**
Loans and facilities subject to individual impairment:	**--**	**4,579,916**	**4,579,916**

Re-scheduled Loans and facilities

	31/12/2010	**31/12/2009**
Corporate		
Direct Loans	**196,503**	**245,596**

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 year

December 31,2010	Treasury Bills	Investments in Debt Instruments	Total
BBB	**2,456,900**	**717,001**	**3,173,901**

3/1/8 Geographical sectors:

Description	Greater Cairo	Alex, Delta & Sinai	Upper Egypt	Total
Treasury bills	2,456,900	--	--	2,456,900
Financial assets held for trading	20,071	--	--	20,071
Financial investments: debt instruments available for sale or held to maturity	696,930	--	--	696,930
Loans and facilities				
Retail:				
Overdraft	7,941	5,433	6,188	19,562
Credit cards	3,691	--	--	3,691
Personal loans	848,194	543,567	166,188	1,557,949
Corporate loans:				
Overdraft	375,059	358	98	375,515
Direct loans	5,239,214	1,997	14	5,247,225
Syndicated loans	478,984	--	--	478,984
Total December 31st 2010	10,126,984	551,355	172,488	10,850,827
Total December 31st 2009	**6,152,328**	**678,800**	**82,636**	**7,913,764**

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 year was LE 3,318k (2009: 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:

Value in LE thousands

Existing year		3 months till end of year	
	Average	More	Less
Total value upon interest rate risk	**--**	**--**	**20,071**

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

		3 months till end of year	
	Average	**More**	**Less**
Interest rate risk (local currency)	--	--	671,400
Interest rate risk (foreign currency)	--	--	25,530
Total value upon risk	**--**	**--**	**696,930**

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 31st December 2010. The table includes the book value before deducting financial instruments provisions.

Value in thousands

December 31st, 2010	LE	USD	Euro	Sterling	Others	Total
Financial Assets						
Cash and due from CBE	1,360,003	14,457	2,380	74	440	1,377,354
Due from banks	1,292,125	435,515	94,470	51,613	16,045	1,889,768
Treasury bills	2,456,900	--	--	--	--	2,456,900
Loans and facilities to clients	6,688,241	988,323	362	--	--	7,676,926
Financial Investments						
Available for sale	704,136	22,438	--	--	--	726,574
Held to maturity	6,820	25,397	--	--	--	32,217
Investments in subsidiaries	298,308	--	--	--	--	298,308
Assets held for trading	20,071	--	--	--	--	20,071
Total Financial Assets	12,826,604	1,486,130	97,212	51,687	16,485	14,478,118
Financial Liabilities						
Dues to other banks	1,652	348,294	--	--	--	349,946
Customers deposits	10,354,860	347,682	96,625	51,768	15,074	10,868,742
Long term financing	460	147,705	--	--	--	148,165
Total financial Liabilities	10,356,972	843,681	96,625	51,768	15,074	11,366,853
Net financial position	**2,469,632**	**642,448**	**587**	**(81)**	**1,411**	**3,111,265**

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).

31 December 2010	1 month	> 1 month to < than 3 months	> than 3 months to <1 year	> 1 year to < 5 years	> than 5 years	Without Profit/ interest	Total
Financial Assets							
Cash and due from CBE	9,288	--	--	--	--	1,368,195	1,377,483
Due from banks	1,746,806	58,026	--	--	--	84,936	1,889,768
Treasury bills	1,069,900	549.500	837,500	--	--	--	2.456.900
Loans and facilities to clients	276,712	57,082	526,508	2,236,708	4,579,916	--	7,676,926
Financial Investments							
Available for sale	194,465	7,000	21,291	503.818	--	--	726,574
Held to maturity	--	--	--	32,217	--	--	32,217
Investments in subsidiaries	--	--	--	20,071	--	--	20,071
Investments held for trading						298,308	298,308
Total Financial Assets	**3,298,171**	**671,608**	**1,385,299**	**7,372,730**	**--**	**1,751,310**	**14,478,118**
Financial Liabilities							
Dues to banks	1,652	58,000	290,294	--	--	--	349,946
Customers deposits	4,101,065	741,172	1,123,723	4,902,782	--	--	10,868,742
Long term financing	--	--	--	460	147,705	793,468	148,165
Total Financial Liabilities	**3,309,249**	**799,172**	**1,414,017**	**4,903,242**	**147,705**	**793,468**	**11,366,853**

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

	31/12/2010	31/12/2009
Capital		
Tier 1: Basic Capital		
Capital shares	2,000,000	1,750,000
General reserves	42,522	36,271
Special reserves	17,165	17,165
Legal reserves	22,878	22,878
Difference between face & present value for subordinated financing	42,982	--
Paid under capital increase	321,708	130,341
Retained loss	(2,034,211)	(1,535,666)
Total Basic capital	413,044	420,989
Tier 2: (Subordinated capital)		
Subordinated loan	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.	15,726	49,817
Total subordinated capital	151.210	49,817
Total Capital	564,254	470,806
Risk weighted Assets and contingent liabilities		
Assets within Balance Sheet	5,408,913	4,904,062
Contingent liabilities	205,202	136,914
Total risk weighted assets and contingent liabilities	5,614,15	5,040,976
Capital Adequacy ratio (%)	**10.05%**	**9.344%**

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 REVENUES INCOME:

	31/12/2010	31/12/2009
Interest from loans and similar revenues:-		
Loans and facilities to customers	277,277	192,741
Treasury bills and bonds	174,606	150,186
Deposits and current accounts	137,196	166,657
Total	589,079	509,584
Cost of Deposits and similar Costs:		
Deposits and Current Accounts:		
To Banks	(5,723)	(1,232)
To Customers	(460,842)	(480,592)
Total	(466,565)	(481,824)
Net	**122,514**	**27,759**

6- NET FEES & COMMISSION INCOME:

	31/12/2010	31/12/2009
Fees and commissions:		
Credit facilities	5,922	840
Corporate finance	17,544	16,803
Custody	5,157	--
Others	37,383	16,651
Total	66,006	34,294
Fees and commissions expenses:		
Other fees paid	(1,264)	(2,012)
Total	(1,264)	(2,012)
Net	**64,742**	**32,282**

7- DIVIDEND INCOME:

	31/12/2010	31/12/2009
Available for sale investments	4,813	3,892
Investments in associates & subsidiaries	3,305	4,100
Sanable Fund	75	--
Total	**8,193**	**7,992**

8- NET TRADING INCOME

	31/12/2010	31/12/2009
Foreign currencies operations:		
Gain from foreign currencies exchange	15,165	6,374
MTM of held for trading debts instruments	422	--
Gain on sale of held for trading debts instruments	1,318	--
Total	**16,905**	**6,374**

9- ADMINISTRATIVE EXPENSES

	31/12/2010	31/12/2009
Salaries and wages	164,059	119,794
Social insurance	6,491	6,915
Depreciation and amortization	31,138	10,736
Other administrative expenses	80,151	63,314
Total	**281,839**	**200,759**

10-OTHER OPERATING EXPENSES

	31/12/2010	31/12/2009
Gain on sale of sell & lease back assets	--	194, 791
Interest Revenues from sell & lease back assets	6,534	9,017
Training cost	(1,235)	(2,305)
Gains on sale of assets reverted to Bank	(9 ,035)	4,622
Rent	(72,066)	(57,418)
Gain on sale of fixed assets	6 ,588	2 ,591
Early retirement	(8,118)	(78,782)
impairment loss of assets reverted to the Bank	(344)	(7,108)
Other provisions charge	(76,444)	(120,314)
Others	17,863	8,363
Total	**(136,257)**	**(46,547)**

11- IMPAIRMENT LOSSES FOR LOANS

	31/12/2010	31/12/2009
Impairment losses for loans	(500,000)	(595,737)
Impairment reverse For loans	6,728	--
Total	**(493,272)**	**(595,737)**

12- TAX

	31/12/2010	31/12/2009
Income tax(*)	(16,684)	(19,089)
Deferred tax (**)	204,755	310,861
	(136,257)	**(136,257)**

(*) Income tax represents taxes on interest on Treasury bills & bonds.
(**) Additional Information on the deferred tax is detailed in note 29.

13- LOSS PER SHARE

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

	31/12/2010	31/12/2009
Net loss for the year (1)	(498,544,760)	(454,446,251)
Weighted average for the issued common stocks (2)	187,500,000	175,000,000
Loss Per Share (1:2)	**(2,66)**	**(2,60)**

14- CASH AND DUE FROM CENTRAL BANK OF EGYPT

	31/12/2010	31/12/2009
Cash	146,887	118,731
Due From Central Bank (mandatory reserve)	1,230,467	223,863
	1,377,354	**342,594**

15- DUE FROM BANKS

	31/12/2010	31/12/2009
Current accounts	84,936	52,066
Deposits	1,804,832	3 ,575,798
Total	**1,889,768**	**3,627,864**
Central Bank other than mandatory reserve	1,348,026	2,009,610
Local Banks	356,191	1,517,939
Foreign Banks	185,551	100,315
Total	**1,889,768**	**3,627,864**
Non profit bearing balances	84,936	52,066
Fixed profit balances	1,804,832	3,575,798
Total	**1,889,768**	**3,627,864**

16- TREASURY BILLS

Values in thousands

	31/12/2010	31/12/2009
91 days maturity	883,575	--
182 days maturity	409,000	621,750
274 days maturity	439,575	241,750
364 days maturity	724,750	137,625
Total	**2,456,900**	**1,001,125**
Less: Unearned revenues	(61,119)	(32,552)
Net	**2,395,781**	**968,573**

17- FINANCIAL ASSETS HELD FOR TRADING

Debit Instruments	31/12/2010	31/12/2009
Governmental bonds	20,071	--
Total	**20,071**	**--**

18- LOANS AND FACILITIES TO CUSTUMERS

	31/12/2010	31/12/2009
Retail		
Overdraft	19,562	40,853
Credit cards	3,691	4,491
Personal loans	1,557,949	758,798
Total (1)	1,581,202	804,142
Corporate (including SMEs)		
Overdraft	375,515	45,148
Direct loans	5,241,225	5,513,117
Syndicated loans	478,984	100,984
Total (2)	6,095,724	5,659,249
Total loans & facilities (1 + 2)	7,676,926	6,463,391
Less :		
Impairment losses for loans	(2,570,448)	(2,105,738)
Reserved interest *	(471,282)	(528,804)
Deferred profit	(387,918)	(265,167)
Net	4,247,278	3,563,682
Net distributed as follows:		
Loans and facilities to customers net	1,944,594	2,701,895
Islamic facilities to customers net	2,302,684	861,787
Total	**4,247,278**	**3,563,682**

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

Impairment losses for loan movement

	31/12/2010	31/12/2009
Balance at the beginning of the year	2,105,738	1,545,932
Impairment loss charge within the year	493,272	595,737
Recoveries during the year	1,765	65
Usage during the year	(45,485)	(1,743)
Foreign currency revaluation differences	15,158	(34,253)
Balance at the end of year	**2,570,448**	**2,105,738**

Movement for impairment losses for Loans as per type:

December 31st 2010	Retail		
	Credit Cards	Personal Loans	Total
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)
Balance at the end of year	**924**	**21,141**	**22,065**

	Corporate	
	Direct Loans	Total
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
Balance at the end of year	**2,548,383**	**2,548,383**

December 31st, 2009	Retail		
	Credit Cards	**Personal Loans**	**Total**
Balance at the beginning of the year	438	7,994	8,432
Impairment loss charge within the year	397	4,020	4,417
Recoveries during the year	--	66	66
Usage during the year	--	(392)	(392)
Balance at the end of year	**835**	**11,688**	**12,523**

	Corporate	
	Direct Loans	**Total**
Balance at the beginning of the year	1,537,500	1,537,500
Impairment loss charge within the year	591,320	591,320
Recoveries During the year	(33,860)	(33,860)
Usage during the year	(1,744)	(1,744)
Balance at the end of year	**2,093,216**	**2,093,216**

The management is following its strategy to provide LE 500mn annually for the impairment loss for loans and facilities that were existing at 30th September 2007 per the Banks agreement with the CBE the shortfall of impairment loss reduced to LE 1.3bn from LE 1.7mn at the end of 2009.

19- FINANCIAL INVESTMENTS

19/1 Available for Sale Investment

	31/12/2010	**31/12/2009**
Debt instruments – at Fair value		
Listed	671,400	421,678
Equity instruments - at fair value		
Listed	29,996	83,226
Unlisted	25,179	2,560
Total available for sale investments (1)	**2,395,781**	**968,573**

19/2 Financial Investment Held to maturity	31/12/2010	31/12/2009
Debt Instruments- at amortized cost		
Listed	25,530	27,570
Sanabel Fund (*)	6,687	6,064
Total Investments held to maturity (2)	32,217	33,634
Total financial Investments (1 + 2)	758,792	541,098
Current	733,613	538,538
Non-Current	25,179	2,560
Total	758,792	541,098
Categorized as follows:		
Fixed Income debt instruments	648,352	421,678
Variable Income debt instruments	55,265	27,570
Variable Income equity instruments	55,175	91,850
Total	**758,792**	**541,098**

	Financial Investment AFS	**Financial Investment HTM**	**Total**
Beginning balance for the current year	507,464	33,634	541,098
Additions	535,644	--	535,644
Disposals (sales/redemption)	(302,051)	(3,638)	(305,689)
Foreign currency revaluation difference	784	1,598	2,382
Change in the fair value	(15,266)	--	(15,266)
Reverse of impairment loss	--	623	623
Balance at 31st December2010	**726,575**	**32,217**	**758,792**

	Financial Investment AFS	**Financial Investment HTM**	**Total**
Beginning balance for the comparative year	349,675	32,880	382,555
Additions	1,088,643	--	1,088,643
Transferred from investments in subsidiaries & associates	18,840	--	18,840
Disposals (sales/redemption)	(965,624)	(60)	(965,684)
Foreign currency revaluation difference	(512)	(142)	(654)
Change in the fair value	16,442	--	16,442
Reverse of impairment loss	--	956	956
Ending balance at 31st December 2009	**507,464**	**33,634**	**541,098**

19/3 Gain from Financial Investment

	31/12/2010	**31/12/2009**
Gain on sale of investments available for sale	9,732	18,311
Gain on sale of treasury bills	2,667	--
Gain on sale of Investment in subsidiaries & associates	--	4,273
Impairment losses for investment in subsidiaries & associates	--	(167)
Total Gain from Financial Investments	**12,399**	**22,417**

(*) 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.

20- FINANCIAL INVESTMENT IN SUBSIDIARIES AND ASSOCIATES

Value in LE thousands

	31/12/2010		31/12/2009	
	Value	Share %	Value	Share %
National Cristal & Glass Company	163,593	88.30	163,593	88.30
Cairo National Company for Investment	76,797	64.75	42,945	39.95
National Company for Trading and Development	19,206	40.29	19,206	40.29
Assuit Islamic National for Trading and Development	22,374	39.91	22,374	39.91
Total Subsidiary Companies (1)	281,970		248,118	
Upper Egypt for Contracting and Construction	1,950	40	1,950	40
Sharkia National Co. For Trading & Development	500	24.75	501	24.75
ADILease leasing Company	4,629	9.39	4,629	9.39
Cairo National Company for Brokerage & Securities	538	32	538	32
North Egypt for Contracting and Construction	1,024	20	1,024	20
Alexandria National Company for Financial Investments	2,181	9.04	2,181	9.04
Arab Mashriq Company for Takaful Insurance	10,000	20	10,000	20
Total Associates Companies (2)	20,822		20,822	
Investment in subsidiary and associated companies (1+2)	302,792		268,940	
Less: Impairment loss	(4,484)		(4,484)	
Net investment in subsidiary and associated companies	**298,308**		**264,456**	

As per a study by the Bank's management to determine the level of control exercised over the companies classified as associated companies has resulted in some of these companies being reclassified to be subsidiaries.

21- INTANGIBLE ASSETS

	31/12/2010	31/12/2009
Net Book value at the beginning of the year	1,363	--
Additions	12,527	4,551
Amortization	(8,468)	(3,188)
Net book value at end of year	**5,422**	**1,363**

22- OTHER ASSETS

Value in LE Thousands

	31/12/2010	31/12/2009
Accrued Revenues	52,270	37,584
Pre-paid expenses	33,167	3,842
Due from sale and leaseback assets	48,054	72,082
Prepaid under purchase fixed assets	45,746	92,035
Assets reverted to the Bank in settlement of debts (Net of Impairment)	124,989	137,707
Deposits & custody	242	443
Other debit balances	43,850	43,561
Total	**348,320**	**387,254**

23- FIXED ASSETS (NET OF ACCUMULATED DEPRECIATION)

Value in Thousand

	Land & Premises	Machinery & Equipment	Other Asset	Total
Balance of the current financial year				
Net book value at 31 December 2009	26,205	532	22,825	49,562
Additions	493	1,391	127,730	129,614
Disposals	(719)	--	--	(719)
Depreciation	(1,913)	(184)	(20,573)	(22,670)
Net book value as of 31 December 2010	24,066	1,739	129,982	155,787
Balance at end of Financial year				
Cost	43,049	7,244	254,372	304,665
Accumulated depreciation	(18,982)	(5,505)	(124,391)	(148,878)
Net book value as of 31 December 2010	**24,066**	**1,739**	**129,982**	**155,787**

	Land & Premises	Machinery & Equipment	Other Assets	Total
Net book value as of 31 December 2008	47,364	478	19,205	67,047
Additions	25	170	9,566	9,761
Disposals	(19,199)	--	(667)	(19,866)
Depreciation	(1,985)	(116)	(5,279)	(7,380)
Net book value as of 31 December 2009	**26,205**	**532**	**22,825**	**49,562**
Balance at end of financial year				
Cost	43,275	5,853	126,643	175,771
Accumulated Depreciation	(17,070)	(5,321)	(103,818)	(126,209)
Net book value as of 31 December 2009	**26,205**	**532**	**22,825**	**49,562**

Fixed Assets after depreciation include LE 10.3mn (2009: LE 2.6mn) represent assets not registered yet. Legal procedures are under progress for them to be registered.

24- DUE TO BANKS

	31/12/2010	31/12/2009
Foreign Banks	348,294	8,228
Local Banks	1,652	297
Total	**349,946**	**8,525**

25- CUSTOMERS' DEPOSITS

	31/12/2010	31/12/2009
Demand deposits	1,602,728	2,818,295
Time deposits & call accounts	3,895,175	1,780,941
Term saving certificates	2,294,938	1,578,296
Savings deposits	2,977,615	3,050,685
Other deposits	98,286	172,282
Total	**10,868,742**	**9,400,499**
Classified as follows:		
Corporate deposits	4,324,054	8,506,735
Retail deposit	6,544,688	893,764
Total	**10,868,742**	**9,400,499**
Profit free balances	793,468	2,990,577
Variable Profit balances	10,075,274	4,831,626
Fixed interest balances	--	1,578,296
Total	**10,868,742**	**9,400,499**
Classified as follows:		
Current balances	8,573,804	7,822,203
Non-current balances	2,294,938	1,578,296
Total	**10,868,742**	**9,400,499**

26-Long Term Financing

	Profit/Interest rate	31/12/2010	31/12/2009
Social Fund	8.00%	460	938
Subordinated Loan (*)	5.83%	147,705	--
Total		**148,165**	**938**

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

(*) SUBORDINATED LOAN

	31/12/2010	31/12/2009
Face value of the subordinated financing	187,942	--
Difference between face value and present value	(47,111)	--
Amortization of subordinated using EIR method	4,129	--
Foreign currency revaluation difference	2,745	--
Total	**147,705**	**--**

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 30th 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.

27- OTHER LIABILITIES

	31/12/2010	31/12/2009
Accrued interest	22,178	17,787
Excess amounts from capital subscriptions	--	238
Unearned revenues from the sale & leaseback assets	5,922	12,456
Accrued expenses	2,639	2,638
Other credit balances	88,339	59,618
Total	**119,078**	**92,737**

28- OTHER PROVISIONS

Other provisions movement from 1/1/2010 till 31/12/2010:

	Legal	Tax	Contingent Liabilities	Other	Total
Balance at the beginning of year	20,272	289	10,265	7,303	38,129
Formed during the year	--	74,144	2,300	--	76,444
Amount used during the year	(4,764)	(74,433)	--	--	(79,197)
Provision no longer required	--	--	--	(6,241)	(6,241)
Foreign currencies revaluation difference	--	--	37	--	37
Total	**15,508**	**--**	**12,602**	**1,062**	**29,172**

Other provisions Movement from 1/1/2009 till 31/12/2009:

	Legal	Tax	Contingent liabilities	Other	Total
Balance at the beginning of year	20,654	52,146	7,090	--	79,890
Formed during the year	--	109,756	3,175	7,303	120,234
Amount used during the year	(382)	(161,613)	--	--	(161,995)
Total	**20,272**	**289**	**10,265**	**7,303**	**38,129**

The Bank added on 31/12/2009 an amount of LE 7.3mn to other provisions to cover some unsettled differences which resulted from the implementation of new banking system in 2009, an amount of LE 6.2mn was settled during 2010.

29- 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:

	31/12/2010	31/12/2009
Fixed Assets	(10,498)	(1,339)
Provisions (other than the impairment loss for loans)	5,833	13,263
Reserved interest	94,257	--
Retained tax losses	426,024	298,937
Net tax of which an asset arises	**515,616**	**310,861**

Movement of deferred tax assets and liabilities method:

	31/12/2010	31/12/2009
Beginning balance	310,861	--
Deferred tax for the year	204,755	310,861
Closing Balance	**515,616**	**310,861**

30- CAPITAL

30/1 Authorized Capital

The authorized capital amounts to LE 4.0bn (2009: LE 2.0bn)

The extra-ordinary general assembly on May 3rd, 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.

30/2 Issued Capital:

The issued capital amounted to LE 2.0bn (31st Dec 2009: LE 1.75bn) represented by 200 million shares (31st Dec 2009: 175 million shares) with a nominal value of LE 10 each.

30/3 Paid-In Capital:

The paid-in capital amounted to LE 2.0bn on 31 December 2010 (2009: LE 1.75bn).

The shareholders subscribed for LE 250mm to increase the issued share capital to LE 2.0bn. This increase has been registered in commercial register.

30/4 Amounts paid under capital increase

ADIB – UAE has deposited an amount of to LE 321,707,558 under capital increase within the year.

31- RESERVES AND RETAINED LOSSES

	31/12/2010	31/12/2009
Reserves		
Special Reserves	26,257	26,257
General Reserves	42,522	36,272
General Banking Risk Reserve	62,952	46,248
Legal Reserves	22,878	22,878
Fair Value Reserves – investments available for sale	24,882	40,149
Total Reserves	**179,491**	**171,804**

31/1 Special Reserves

	31/12/2010	31/12/2009
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
	26,257	**26,257**

Distribution from this reserve is only allowed with CBE approval.

31/2 General Banking Risk Reserves

	31/12/2010	31/12/2009
Beginning balance	46,248	--
Adjustments for change in the measurement policy of impairment loss for loans and facilities	26,344	203
10% provision based on the value of assets reverted to the Bank	(9,640)	46,045
Closing balance	**62,952**	**46,248**

Balance of General Bank Risk Reserve

	31/12/2010	31/12/2009
General Bank Risk Reserve for loans & facilities	26,547	203
General Bank Risk Reserve for assets reverted to the Bank	36,405	46,045
	62,952	**46,248**

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

31/3 Fair value reserve – available for sale investments

	31/12/2010	31/12/2009
Beginning balance	40,149	23,707
Change in fair value	(18,917)	16,442
Loss transferred to income statement for AFS disposals	3,650	--
Closing balance	**24,882**	**40,149**

Distribution from this reserve is only allowed with CBE approval.

31/4 Retained Losses

	31/12/2010	Restated 31/12/2009
Balance at the beginning of the financial year	1,535,666	1,081,220
Net Loss of the financial year	498,545	454,446
Transferred to general banking risk reserve	16,704	--
Cost of the subordinated loan using implied profit rate	(4,128)	--
Balance at the end of the financial year	**2,046,787**	**1,535,666**

32- CASH AND EQUIVALENT

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

	31/12/2010	31/12/2009
Cash and Due from CBE	1,377,354	342,594
Due from banks	1,889,768	3,627,863
Treasury Bills	2,395,781	968,573
Due from Banks maturities > 3 months	(1,804,832)	(3,575,799)
Treasury bills maturities > 3 months	(1,516,578)	(968,573)
	2,341,493	**394,660**

33- CONTINGENT LIABILITIES AND COMMITMENTS

A- Capital commitments:

The Banks contracts for capital commitments reached LE 20,055k as of December 31, 2010 (2009: LE 123.7mn), 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

	31/12/2010	31/12/2009
Documentary Credit	8,697	741
Letter of Guarantees	104,413	198,647
Import Letter of Credit	134,229	92,012
Export Letter of credit	--	4,100
Banks Guarantees	246,594	211,882
	493,933	**507,382**

34- RELATED PARTY TRANSACTIONS

34/1 Loans and facilities to related parties:

	31/12/2010	31/12/2009
Outstanding loans at the beginning of the financial year	456,479	406,303
(Decrease) / Increase in loans during the year	(102,556)	50,176
Loans outstanding at the end of the financial year	**353,923**	**456,479**

34/2 Deposits from Related Parties:

	31/12/2010	31/12/2009
Deposits outstanding at the beginning of the financial year	14,985	59,707
Increase/Decrease	13,946	(44,722)
Deposits outstanding at the end of the financial year	**28,931**	**14,985**

The pervious deposits are of variable interest and upon demand.

34/3 ADIB – UAE

	31/12/2010	31/12/2009
Due from Banks	1,741	9,778
Dues to Banks	26,586	150
Subordinated financing	147,705	--

34/4 Board Members and top management benefits

	31/12/2010	31/12/2009
Salaries and short term benefits	7,250	3,700

35- 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 30th, 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 30th, 2009 to re-rent these facilities with a value of LE 321mm to be paid on 120 monthly installments starting April 30th, 2009.

36- TAX POSITION

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 report for the year 2007 and 2008 are currently being inspected.

Income 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 – 2009 are currently being inspected.
- The payroll taxes are being paid on the due dates as stated by law.

Stamp 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- SUBSEQUENT EVENTS TO THE FINANCIAL STATEMENTS:

The Arab Republic of Egypt has experienced incidents that had major effects on the economic sector. The result is a significant reduction in economic activities within the coming period could occur. Assets, liabilities, return values as well as business results within the coming period may be impacted which cannot be estimated at this point of time.