

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

Standalone Financial Statements and

The Audit Report Thereon

For the Year ended December 31st, 2012

Independent Auditors' Report

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

Report on the Standalone Financial Statements

We have audited the accompanying Standalone Financial Statements of the National Bank for Development S.A.E, represented in the balance sheet as of December 31st, 2012 and the related statements of income, change in equity and cash flow for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the Standalone Financial Statements:

The Standalone Financial Statements are the responsibility of the Banks management. Management is responsible for preparation and fair presentation of these Standalone Financial Statements, in accordance with the instructions of preparation and presentation of Standalone 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 Standalone 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 Standalone 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 Standalone Financial Statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Standalone Financial Statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the Standalone 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 Standalone 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 Standalone Financial Statements.

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

Basis for qualified opinion:

Tax provision shortfall as of 31 December 2012 amounted to LE 95 Million (31 December 2011: 108 Million). We have qualified our audit report for the year ended 31 December 2011 in this regard.

Qualified opinion:

In our opinion, except for the effect on the financial statement, referred to in the previous paragraph, the Standalone 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 December 31st 2012 accordance with the instructions of the preparation and the presentation of Standalone 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 the following:

- 1- Note (2-b) to the standalone financial statements, the Bank's accumulated losses as of December 31st 2012 have reached LE 3,522mn (December 31st 2011: LE 2,626mn) which exceeds half of the issued capital. In accordance to article no. 69 of the companies Law no. 159 of 1981, shareholders extraordinary general assembly meeting will be held to decide the continuity of the Bank. The Standalone Financial Statements have been prepared based on the going concern principal based on the assumption that the Bank's shareholders paid amounts under capital increase by an amount of LE 1,861mn as of 31st December 2012.
- 2- Note no. (19) to the standalone financial statements, the bank has contracted to sell 77.46% of its ownership in National Company for Glass and Crystal (subsidiary) to Abu Dhabi Islamic Holding Company S.A.E (subsidiary) and recognized a gain on sale of L.E 20.7mn in the year ended 31 December 2011. Legal procedures to complete the transfer of the shares title are in progress.
- 3- Note no. (17) to the standalone financial statements, during year 2012, the bank booked the loan loss provision shortfall in full which amounted to L.E 950mn as mentioned in our qualified audit report for year 2011 dated 29th February 2012.

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 Standalone 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****Mohamed Elsayed El Hakeem**

FESAA – FEST

FESAA - FEST

R.A.A (4434)

R.A.A (3960)

Allied for Accounting and Auditing E&Y**BDO & CO.**31st March 2013**Cairo**

National Bank For Development (S.A.E)
Statement of Financial Position
As at December 31st, 2012

Translation of Financial Statements originally issued in Arabic

	Note	<u>December 31st, 2012</u>	<u>"Restated "</u>
	No	<u>LE '000</u>	<u>December 31st, 2011</u>
			<u>LE '000</u>
<u>ASSETS</u>			
Cash and due from Central Bank of Egypt (CBE)	14	1,132,798	1,700,592
Due from banks	15	1,713,552	1,407,480
Treasury bills	16	3,440,951	3,967,242
Facilities to banks (Net)	1/17	31,577	-
Conventional Loans to customers (Net)	2/17	391,381	1,539,146
Financing to customers (Net)	2/17	4,912,301	2,959,076
<u>Financial Investments:</u>			
-Available for sale	1/18	1,075,038	706,533
-Held to maturity	2/18	18,754	23,602
Net investments in Associates & Subsidiaries	19	149,262	149,968
Net Intangible assets	20	11,325	10,357
Other assets	21	632,733	549,555
Fixed assets, net	22	244,084	218,106
Deferred tax asset	28	810,866	536,258
TOTAL ASSETS		<u>14,564,622</u>	<u>13,767,915</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY :</u>			
<u>LIABILITIES :</u>			
Due to banks	23	337,733	770,504
Customers' deposits	24	12,970,850	12,051,680
Subordinated Financing	25	180,777	-
Other liabilities	26	415,840	226,321
Other provisions	27	34,656	22,403
TOTAL LIABILITIES		<u>13,939,856</u>	<u>13,070,908</u>
<u>SHAREHOLDERS' EQUITY:</u>			
Issued and paid-up capital	29	2,000,000	2,000,000
Paid under capital increase	3/29	1,861,418	1,173,321
Reserves	30	221,474	149,603
Difference between Face value and Present value (Subordinated Financing)		64,189	-
Retained losses	4/30	(3,522,315)	(2,625,917)
TOTAL SHAREHOLDERS' EQUITY		<u>624,766</u>	<u>697,007</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>14,564,622</u>	<u>13,767,915</u>
<u>Contingent Liabilities & Commitments</u>			
	2/32	<u>903,462</u>	<u>472,858</u>

Chairman & Chief Executive Officer &
Managing Director &
Nevine Loutfy

CFO
Michael Murray

National Bank For Development (S.A.E)
Income Statement
For year ended December 31st, 2012

Translation of Financial Statements originally issued in Arabic

	Note	<u>December 31st, 2012</u>	"Restated " <u>December 31st, 2011</u>
	No	<u>LE '000</u>	<u>LE '000</u>
Profit/Interest and Similar Income	5	1,014,647	731,578
Cost of deposits and similar costs	5	(704,185)	(557,956)
Net Profit/Interest Income		310,462	173,622
Fees and commission income	6	61,181	59,887
Fees and commission expense	6	(941)	(1,960)
Net fees and commission income		60,240	57,927
Dividend income	7	2,859	5,195
Net trading income	8	16,618	13,904
Administrative expenses	9	(407,658)	(361,775)
Other operating expenses	10	(128,970)	(131,207)
Cost of Credit	11	(978,291)	(371,055)
Gain from sale of financial investments	3/18	(4,789)	22,506
Loss before tax		(1,129,529)	(590,883)
Tax	12	274,608	20,642
Net loss for the year		(854,921)	(570,241)
Loss per share	13	(4.27)	(2.85)

National Bank For Development (S.A.E)
Statement of Changes in Shareholder's Equity
For the year ended December 31st, 2012

Translation of Financial Statements originally issued in Arabic

	Capital	Paid Under Capital Increase			Reserves			Difference between Face Value and Value of Subordinated Financing	Value in LE thousands	
			Legal Reserve	General Reserve	Special Reserve	AFS Investments F.V. Reserve	General Banking Risk Reserve		Retained losses	Total
Balance at 1 January 2011 "as published"	2,000,000	321,707	22,878	42,522	26,257	24,882	62,952	43,857	(2,058,224)	486,831
Prior year Adjustments	-	-	-	-	-	-	-	-	(2,341)	(2,341)
Balance at 1 January 2011 "as restated"	2,000,000	321,707	22,878	42,522	26,257	24,882	62,952	43,857	(2,060,565)	484,490
Paid Under Capital increase	-	652,594	-	-	-	-	-	-	-	652,594
Transfer to general banking risk Reserve	-	-	-	-	-	-	1,685	-	(1,685)	-
Net change at Fair Value for AFS investments	-	-	-	-	-	(31,573)	-	-	-	(31,573)
Difference between face value & present value for subordinated loan	-	-	-	-	-	-	-	(6,574)	6,574	-
Net Loss for the Year	-	-	-	-	-	-	-	-	(570,241)	(570,241)
Transferred from Subordinated Loan to Paid under Capital increase	-	199,020	-	-	-	-	-	(37,283)	-	161,737
Balance at December 31th,2011	2,000,000	1,173,321	22,878	42,522	26,257	(6,691)	64,637	-	(2,625,917)	697,007
Paid Under Capital increase	-	688,097	-	-	-	-	-	-	-	688,097
Transfer to general banking risk Reserve	-	-	-	-	-	-	41,477	-	(41,477)	-
Net change at Fair Value for AFS investments	-	-	-	-	-	30,394	-	-	-	30,394
Net Loss for the Year	-	-	-	-	-	-	-	-	(854,921)	(854,921)
Difference between face value & present value for subordinated loan	-	-	-	-	-	-	-	64,189	-	64,189
Balance at December 31th,2012	2,000,000	1,861,418	22,878	42,522	26,257	23,703	106,114	64,189	(3,522,315)	624,766

National Bank For Development (S.A.E)

Statement of Cash Flows

For year ended December 31st, 2012

Translation of Financial Statements originally issued in Arabic

			"Restated "
	Note	<u>. December 31st</u>	<u>. December 31st</u>
		<u>2012</u>	<u>2011</u>
	No	<u>LE '000</u>	<u>LE '000</u>
<u>Operational activities</u>			
Loss before tax		(1,129,529)	(590,883)
<u>Non cash adjustment to reconcile loss before tax to cash flows from operating activities:</u>			
Depreciation of fixed assets	22	40,040	27,903
Amortization of intangible assets	20	14,536	13,290
Cost of credit	11	978,291	371,055
Other provisions	27	70,836	69,032
MTM of Assets held for trading	8	1	244
Other provision used	27	(51,990)	(74,780)
Loans provision used	2/17	(368,815)	(72,882)
Provisions no longer required	27	(4,995)	(1,062)
Foreign currency revaluation of Loan Loss provisions	17	14,979	11,671
Foreign currency revaluation of other provisions	27	85	41
Foreign currency revaluation of held to maturity investments	18	(734)	(953)
Foreign currency revaluation of available for sale investments	18	(704)	(578)
Impairment losses for assets reverted to the bank		11,434	-
Gains on sale of fixed assets	10	(6,480)	(485)
Gains on sale of assets reverted to the bank	10	(8,233)	(4,203)
Impairment losses of financial investment in sub& associated	3/18	5,811	-
Profit from sale of Assets held for trading	8	(755)	(183)
Profit from sale of treasury bills	3/18	(1,022)	(721)
Profit from sale of investments in subsidiaries & Associate	3/18	-	(21,784)
Dividends income	7	(2,859)	(5,195)
Amortization of subordinated loan using EIR method		-	6,574
Foreign currency revaluation of subordinated financing		-	7,459
<u>Operating loss prior changes in assets and liabilities utilized in operational activities</u>		<u>(440,103)</u>	<u>(266,440)</u>
<u>Net decrease (increase) in assets & liabilities</u>			
Due from banks		(258,408)	449,921
Treasury bills		(1,496,023)	(1,791,642)
Assets held for trading		753	-
Loans to customers		(1,465,042)	(556,653)
Other assets		(90,980)	(47,824)
Due to banks		(432,771)	420,558
Customers' deposits		919,170	1,182,938
Other liabilities		189,519	107,244
<u>Net cash flows resulting from (Used in) operating activities</u>		<u>(3,073,885)</u>	<u>(501,898)</u>
<u>Cash flows from investing activities</u>			
Purchase of investments available for sale	2/18	(445,230)	(49,144)
Proceeds from Investments available for sale	2/18	107,823	58,199
Payments for the purchase of fixed assets	22	(66,710)	(95,964)
Payments for the purchase of intangible assets	20	(15,504)	(18,224)
Proceeds from sale of fixed assets		7,172	6,227
Proceeds from Investments in subsidiaries & Associates		-	7,042
Proceeds from investments Held to maturity	2/18	6,946	7,504
Proceeds from sale of treasury bills	3/18	1,022	721
Dividends income	7	2,859	4,093
<u>Net cash flows used in investing activities</u>		<u>(401,622)</u>	<u>(79,546)</u>
<u>Cash flows from financing activities</u>			
Proceeds from Shareholders under Capital Increase	3/29	688,097	652,594
Proceeds from Subordinated Financing		180,777	(460)
Difference between Face Value and Value of Subordinated Financing		64,189	-
<u>Net cash flows resulting from financing activities</u>		<u>933,063</u>	<u>652,134</u>
Net increase in cash and cash equivalents during the Year		(2,542,444)	70,690
Cash and cash equivalents at the beginning of the Year		2,412,183	2,341,493
<u>Cash and cash equivalents at the end of the Year</u>		<u>(130,261)</u>	<u>2,412,183</u>
<u>Cash and cash equivalents at end of Year are represented in :</u>			
Cash and due from CBE	14	1,132,798	1,700,592
Due from banks	15	1,713,552	1,407,480
Treasury bills	16	3,440,951	3,967,242
Due from banks (Deposits matured more than 3 months)	15	(1,613,319)	(1,354,911)
Treasury bills with maturity more than 3 months	16	(4,804,243)	(3,308,220)
<u>Cash and cash equivalents at end of the Year</u>	31	<u>(130,261)</u>	<u>2,412,183</u>

1- BACKGROUND:

National Bank for Development was established as an (S.A.E) in 1974 and in accordance with Investment Law no. 43 of 1974 and its executive regulations and the amendments thereon, the bank provides all banking services related to its activities of corporate, retail and investments. Through its head office located in Cairo and its **69** branches served by **2,225** staff at the date of the Standalone Financial Statements, The Bank is listed on the Egyptian Stock Exchange (EGX).

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

As per the Extraordinary General Assembly meeting dated 3December 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.

The Standalone Financial Statements for twelve months ended December 31st , 2012 have been approved for issue by the Bank's Board of Directors on 28 March 2013.

2- SIGNIFICANT ACCOUNTING POLICIES:

A) Basis for preparation

These Standalone Financial Statements are prepared in accordance with the Central Bank of Egypt (CBE) basis of preparation of the Bank's Standalone Financial Statements and principles of recognition and measurement as approved by its Board of Directors on December 16th , 2008; These Standalone Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of financial investment at fair value through the profit & loss, the subordinated loan and available for sale financial assets.

The Bank also prepared the Standalone 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 , 2012 to gather sufficient information reflecting the Banks' activities, results, cash flow and change in owners' equity.

B) Significant accounting principle:

Although accumulated losses were **LE 3,522mn** at December 31st, 2012 (December 31st, 2011: **LE 2,626mn**), which exceeds the paid up capital in addition to the effect of the shortfall of loan loss provision and tax provisions. The Standalone 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 approved the Bank's continuity as a going concern.

C) Associates and Subsidiary Companies:

C/1 Subsidiaries:

Subsidiaries are entities which the bank has the power to govern its financial and operating policies. Usually the bank's ownership exceeds half the voting power taking into consideration potential future voting power whereas the bank has the option to exercise or convert at the time of assessment.

C/2 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 purchase method is used to account for the acquisition of subsidiaries and associates by the Bank. The cost of an acquisition is measured at the fair value or/and asset given or/and equity instruments issued or/and liabilities are incurred assumed at the date of exchange plus costs directly attributable to the acquisition. Net assets including contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the minority interest. The excess of acquisition cost over the Banks' share fair value in the net assets acquired is recorded as goodwill. If the acquisition cost is less than the fair value of the net assets, the difference is recognized directly in the income statement under the item "Other operating income/ (expenses)".
- Calculation of the associated and subsidiary companies in the standalone financial statements are calculated on the cost basis, investments are registered on the acquisition expenses basis, deducting any impairment loss in value, Dividend income is registered in the income statement which it declared.

D) Segment Reports:

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

The bank does not have any geographical sectors that operate in a different economic framework as at December 31st, 2012.

E) Foreign Currency Transactions:

E/1 Trade and presentation currency

The Egyptian pound is the currency of preparation and presentation of the Standalone Financial Statements.

E/2 Transactions and balances in foreign currency

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

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

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

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

Translation differences on non-monetary items (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 its 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 purpose of the investments at the time of its purchase.

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

Financial assets include:

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

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, or that classified as Financial Assets designated at fair value through profit and loss.
- That the Bank upon initial recognition designates as Available for Sale.
- For which the Bank may not recover substantially all of its initial investment other than because of a credit deterioration of the issuer.
- Historical Probability of Default for Retail portfolio was calculated according to the realized loss for the past 3 to 6 months and based on average delinquency period for each product. For corporate portfolio, Historical probability of default was calculated as per the rates issued by Moody's for the Middle East for each facility as per its Facility Risk Rating.

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 a sale of significant amounts unless the sale is in an emergency situation.

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

REPO and Reverse Repo agreements represent by net in balance sheet under Treasury Bills caption.

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 'profit/interest income' and 'profit/interest expense' in the income statement using the effective profit/interest rate method. The effective profit/interest rate method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the profit/interest income or profit/interest expense over the relevant year.

The effective profit/interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective profit/interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options), but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective profit/interest rate, transaction costs and all other premiums or discounts. Profit/interest income on 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 financing/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.

J) Dividends:

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

K) REPO and Reverse Repo agreements:

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

L) Impairments of financial assets:

L-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 flow of the financial asset or the portfolio of financial assets that can be reliably estimated. Objective evidence that a financial asset or a portfolio of financial assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

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

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

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

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant, taking into consideration the following:

- If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment based on the historical loss rates.
- Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized, are not included in a collective assessment of impairment.
- An asset that is individually assessed for impairment, but for which an impairment loss is not recognized is included in a group of other similar assets.
- If there is objective evidence that an impairment loss on 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 flows of the Bank's assets and the historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.
- The Bank ensures that estimates of changes in future cash flow reflects 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.

L-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.

M) Intangible Assets

M-1 Software (computer programs):

- Expenditure on upgrade and maintenance of computer programs is recognized as an expense in the income statement in the year 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.

N) 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 year 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:

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

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

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

O) 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.

P) Leasing

This is calculated as per law no. 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 in addition to maintenance, is recognized as expenses in the under income statement. If the Bank decides upon the usage of its right in purchasing the rented assets, the expenses of purchase is capitalized and depreciated over the remaining useful life.

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

Q) 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.

R) 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.

S) 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 Standalone 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 year 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.

T) Comparative figures

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

	Class	Value in LE thousands		
		December 31st, 2011	December 31st, 2011	
		Balance before Adjustment	Debit / (Credit)	Balance after Adjustment
Other assets - Income Receivable (Note 21)	Assets	58,593	(2,341)	56,252
Other credit balances	Liabilities	91,511	(9,436)	100,947
Retained Loss (Note 30/4)	Owner's equity	(2,614,140)	11,777	(2,625,917)

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 and the following table clarifies the percentage upon which the provisions are calculated:

Banks Rating	<u>December 31st , 2012</u>	
	Loans and Facilities	Impairment loss provisions
Good debts	50.14%	0.73%
Regular Follow Up	6.22%	0.52%
Special Follow Up	0.88%	0.38%
Bad debts	42.76%	98.37%
	<u>100%</u>	<u>100%</u>

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 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 31/2) 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
<u>1</u>	Low risk	0%	1	Good debts
2	Moderate risk	1%	1	Good debts
3	Satisfactory risk	1%	1	Good debts
4	Appropriate risk	2%	1	Good debts
5	Acceptable risk	2%	1	Good debts
6	Marginally acceptable risk	3%	2	Regular Follow up
7	Risk needs special attention	5%	3	Special Follow up
8	Substandard	20%	4	Bad debts
9	Doubtful debts	50%	4	Bad debts
10	Bad debts	100%	4	Bad debts

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

5/A Maximum limit for credit risk before guarantees:

	December 31st, 2012	Value in LE thousands December 31st, 2011
<u>Balance Sheet items exposed to Credit Risks</u>		
Treasury Bills	3,732,317	4,171,027
<u>Conventional Loans and facilities to customers</u>		
<u>Retail loans</u>		
- Overdraft	7,785	11,326
- Credit Cards	9,456	3,142
- Personal loans	2,408,960	2,025,076
<u>Corporate Loans:</u>		
- Overdraft	344,043	226,647
- Direct loans	6,543,599	5,407,034
- Syndicated loans	459,796	622,918
<u>Financial Investments:</u>		
Debt instruments	1,041,921	681,357
Total	14,547,877	13,148,527
<u>Off balance sheet items exposed to credit risks</u>		
Letters of credit (Import & confirmed Export)	208,429	111,833
Letters of guarantee	278,445	128,665
Documentary credit	86,959	13,499
Bank guarantees	329,629	218,861
Total (Note 34)	903,462	472,858

The above table represents the maximum limit of risk to be exposed to at the end of December 31st, 2012 and without taking into consideration any guarantees, for balance sheet items, amounts stated depends on the net carrying amount shown in the balance sheet.

As shown in the preceding table **67.18%** (December 31st, 2011: **63.10%**) of the maximum limit exposed to credit risk results from loans and facilities to customers, while investments in debt instruments represents **7.16%** (December 31st, 2011: **5.18%**).

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:

- **56.35%** (December 31st, 2011: **45.17 %**) of the loans and facilities portfolio are rated on the highest 2 levels of the internal rating.
- **50.14 %** (December 31st, 2011: **38.91 %**) of the loan portfolio and facilities having no arrears or indicators of impairment.
- Loans and facilities valued on a standalone basis amounting to LE **4,180mn** (December 31st, 2011: LE **4,498mn**) with impairment less than **42.76%** from its value against (December 31st, 2011: **54.21%**).
- The Bank applied more prudential selection process on granting loans and facilities during the financial Period ended at December 31st, 2012
- More than **99.12 %** of investments in debt instruments and treasury bills represent debt instruments due from the Egyptian government.

3/1/6 Loans and Financing:

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

	December 31st, 2012			December 31st, 2011		
	<u>Loans and facilities to customers</u>	<u>Financing to banks</u>	<u>Total</u>	<u>Loans and facilities to customers</u>	<u>Financing to banks</u>	<u>Total</u>
Loans and facilities						
Not having arrears and not subject to impairment	4,868,452	31,596	4,900,048	3,228,195	-	3,228,195
Arrears not subject to impairment	693,911	-	693,911	570,400	-	570,400
Subject to impairment	4,179,680	-	4,179,680	4,497,548	-	4,497,548
Total (note 17)	9,742,043	31,596	9,773,639	8,296,143.00	-	8,296,143
Less:						
Impairment loss provision	(3,505,882)	(19)	(3,505,901)	(2,878,240)	-	(2,878,240)
Interest in suspense	(462,815)	-	(462,815)	(472,953)	-	(472,953)
Deferred profits	(469,664)	-	(469,664)	(446,728)	-	(446,728)
Net (note 17)	5,303,682	31,577	5,335,259	4,498,222	-	4,498,222

Value in LE thousands

Loans and Financing :

Value in LE thousands

Rating	December 31st , 2012						
	Retail			Corporate			Total
	Overdraft	Credit Cards	Personal loans	Overdraft	Personal loans	Syndicated loans	
Good debts	7,785	9,327	2,247,635	279,577	2,056,140	299,583	4,900,047
Regular follow up	-	87	40,290	64,461	417,361	85,277	607,476
Special follow up	-	26	11,469	5	-	74,936	86,436
Bad debts	-	16	109,566	-	4,070,098	-	4,179,680
Total	7,785	9,456	2,408,960	344,043	6,543,599	459,796	9,773,639

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 December 31st, 2012 by **17.81%** (December 31st, 2011 : **8.07%**).

Value in LE thousands

Rating	December 31st, 2011						
	Retail			Corporate			Total
	Overdraft	Credit Cards	Personal loans	Overdraft	Personal loans	Syndicated loans	
Good debts	11,326	2,007	1,879,802	-	722,810	612,250	3,228,195
Regular follow up	-	81	77,951	226,647	203,642	10,668	518,989
Special follow up	-	43	16,185	-	35,182	-	51,410
Bad debts	-	1,011	51,138	-	4,445,400	-	4,497,549
Total	11,326	3,142	2,025,076	226,647	5,407,034	622,918	8,296,143

Loans and Financing 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 Financing 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 are represented as follows:

December 31st, 2012

Value in LE thousands

	Retail			Total
	Overdraft	Credit Cards	Personal loans	
30 to 60 days arrears	-	87	40,290	40,377
60 to 90 days arrears	-	26	11,469	11,495
Total	-	113	51,759	51,872

	Corporate			Total
	Overdraft	Personal loans	Syndicated loans	
30 to 60 days arrears	64,461	417,361	85,277	567,099
60 to 90 days arrears	5	-	74,936	74,941
Total	64,466	417,361	160,213	642,040

Value in LE thousands

December 31st, 2011

	Retail			Total
	Overdraft	Credit Cards	Personal loans	
30 days arrears	-	43	48,161	48,204
30 to 60 days arrears	-	38	23,360	23,398
60 to 90 days arrears	-	43	22,615	22,658
Total	-	124	94,136	94,260

	Corporate			Total
	Overdraft	Personal loans	Syndicated loans	
30 to 60 days arrears	52,429	316,857	71,671	440,957
60 to 90 days arrears	-	35,183	-	35,183
Total	52,429	352,040	71,671	476,140

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 Financing subject to individual impairment:

Loans and Financing to clients as follows:

Value in LE thousands

December 31st , 2012	Retail		Corporate	Total
	Credit Cards	Personal loans	Direct Loans	
Loans and Financing subject to individual impairment	16	109,566	4,070,098	4,179,680

December 31st, 2011	Retail		Corporate	Total
	Credit Cards	Personal loans	Direct Loans	
Loans and Financing subject to individual impairment	1,010	51,138	4,445,400	4,497,548

Re-scheduled Loans and facilities

Restructuring activities include renegotiating in terms of payments terms extension, restructure of mandatory management policies, and adjusting/postpone repayment terms. Renegotiating policies depend on indicators or standards in addition to the management personal judgment to show that regular payments are of high probability. These policies are subject to regular review. Long-term loans, especially loans to customers are usually subject to renegotiation.

Value in LE thousands

	December 31st , 2012	December 31st, 2011
<u>Loans and Financing to customers</u>		
<u>Corporate</u>		
Direct Loans	214,200	216,569

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

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

December 31st , 2012	Value in LE thousands		
	Treasury Bills	Investments in Debt Instruments	Total
Less than A-	<u>3,732,317</u>	<u>1,041,921</u>	<u>4,774,238</u>

3/1/8 Geographical sectors:

	Value in LE thousands				Total
	Arab Republic of Egypt			Other Countries	
	Cairo	Alex, Delta & Sinai	Upper Egypt	Total	
Treasury bills	3,732,317	-	-	3,732,317	3,732,317
Debt instruments in AFS and HTM	1,041,921	-	-	1,041,921	1,041,921
Facilities to banks	-	-	-	-	31,596
Loans and Financing to customers					
Retail:					
Overdraft	4,314	900	2,571	7,785	7,785
Credit cards	9,456	-	-	9,456	9,456
Personal loans	1,189,902	909,634	309,424	2,408,960	2,408,960
Corporate loans:					
Overdraft	344,020	23	-	344,043	344,043
Direct loans	6,541,752	1,847	-	6,543,599	6,543,599
Syndicated loans	347,949	-	-	347,949	80,251
Total as of December 31st, 2012	13,211,631	912,404	311,995	14,436,030	111,847
Total as of December 31st, 2011	12,153,967	742,975	251,585	13,148,527	251,585

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 Market Risk Measurement Techniques

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:

A. 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, 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 daily value at risk within the financial period was LE **1,041,921** (December 31st, 2011: LE **681,357K**). 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.

B. 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 VAR summary for 2012

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

Value in LE thousands

	12 months to 31 December 2012			12 months to 31 December 2011		
	Average	High	Low	Average	High	Low
Interest rate risk	1,041,921	-	-	681,357	-	-
Total value upon risk	1,041,921	-	-	681,357	-	-

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 Foreign exchange 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 below summarizes the Group's exposure of the Bank to foreign currency exchange rate risk at December 31st, 2012. Included in the table are the financial instruments at carrying amount, categorized by currency.

Value in LE thousands

December 31st, 2012

	LE	USD	Euro	Sterling	Yen	Others	Total
<u>Assets</u>							
Cash and due from CBE	1,106,871	18,524	143	5,276	58	1,926	1,132,798
Due from banks	958,249	614,445	25,098	82,589	597	32,574	1,713,552
Treasury bills	3,424,222	283,091	-	25,004	-	-	3,732,317
Facilities to Banks	-	31,596	-	-	-	-	31,596
Loans and Financing to clients	8,524,019	1,217,632	-	392	-	-	9,742,043
<u>Financial Investments</u>							
Available for sale	1,052,664	22,374	-	-	-	-	1,075,038
Held to maturity	6,116	12,638	-	-	-	-	18,754
Investments in subsidiaries & Associates	149,262	-	-	-	-	-	149,262
Total Financial Assets	15,221,403	2,200,300	25,241	113,261	655	34,500	17,595,360
<u>Liabilities</u>							
Dues to other banks	654	324,794	-	-	-	12,285	337,733
Customers deposits	12,077,965	737,395	25,181	109,107	603	20,599	12,970,850
Subordinated Financing	-	180,777	-	-	-	-	180,777
Total financial Liabilities	12,078,619	1,242,966	25,181	109,107	603	32,884	13,489,360
Net financial position	3,142,784	957,334	60	4,154	52	1,616	4,106,000
<u>December 31st, 2011</u>							
Total Financial Assets	13,945,113	2,328,553	131,895	22,449	-	27,671	16,455,681
Total financial Liabilities	11,837,807	807,130	129,622	22,275	-	25,351	12,822,185
Net financial position	2,107,306	1,521,423	2,273	174	-	2,320	3,633,496

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 table below summarizes the book value of the financial instruments by type and the re-rating dates or maturity dates (which is nearest).

	Value in LE thousands					
December 31st, 2012	Up to 1 Month	1-3 months	3-12 Months	1-5 years	Non - interest bearing	Total
<u>Financial Assets</u>						
Cash and due from CBE	-	-	-	-	1,132,798	1,132,798
Due from banks	830,573	779,019	-	-	103,960	1,713,552
Treasury bills	-	1,190,491	2,541,826	-	-	3,732,317
Facilities to banks	-	-	-	31,596	-	31,596
Loans and Financing to clients	334,738	566,146	2,377,681	2,283,798	4,179,680	9,742,043
<u>Financial Investments</u>						
Available for sale	-	187,940	508,182	378,916	-	1,075,038
Held to maturity	-	-	-	18,754	-	18,754
Investments in subsidiaries & Associates	-	-	-	-	149,262	149,262
Total Financial Assets	1,165,311	2,723,596	5,427,689	2,713,064	5,565,700	17,595,360
<u>Financial Liabilities</u>						
Dues to banks	40,757	275,193	-	-	21,783	337,733
Customers deposits	3,174,475	1,180,333	1,960,062	5,505,159	1,150,821	12,970,850
Subordinated Financing	-	-	-	180,777	-	180,777
Total Financial Liabilities	3,215,232	1,455,526	1,960,062	5,685,936	1,172,604	13,489,360

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 Process

Liquidity Management Process, as carried out and monitored by a separate team in treasury, includes:

- Day – to – day funding, managed by monitoring future cash flows to ensure that requirements can be met. the capability of the Bank to meet its liabilities, including payment upon maturity of loans.
- Maintaining a portfolio of highly marketable assets 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 loans and facilities to banks and clients. Moreover, some debt instruments, Treasury Bills is 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

Basel I

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 Authorized Share 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:

	December 31st , 2012	Value in LE thousands December 31st, 2011
<u>Tier 1 Capital</u>		
Capital shares	2,000,000	2,000,000
Paid under capital increase	1,861,418	1,173,321
Legal reserves	22,878	22,878
General reserves	42,522	42,522
Special reserves	17,165	17,165
Differnce between FV and PV for Subordinated Loan	64,189	-
AFS reserve	-	(6,691)
Retained loss	(3,480,839)	(2,619,030)
Total qualifying Tier 1 Capital	527,333	630,165
<u>Tier 2 Subordinated Capital</u>		
General reserves	47,856	-
Subordinated Loan	180,777	-
45 % of the increase in fair value compared to carrying amount of available for sale investment, investments held to maturity & investments in affiliates	13,411	8,365
Total qualifying Tier 2 subordinated capital	242,044	8,365
Total Capital	769,377	638,530
Risk - weighted Assets:		
On-balance sheet	6,491,790	5,600,763
Off-balance sheet	296,891	117,958
Total Risk - Weighted assets	6,788,681	5,718,721
Capital Adequacy ratio (%)	11.33%	11.17%

Basel II

Value in LE thousands
December 31st, 2012

Tier 1 - Part A

Capital shares	2,000,000
Paid under capital increase	1,861,418
Legal reserves	22,878
General reserves	42,522
Accumulated loss	(3,522,316)
Dedcut: Financial Institutions Investment	(4,387)
Total Tier 1 - Part A	400,115

Tier 1 - Part B

Differnce between FV and PV for Subordinated Loan	64,189
Total Tier 1 - Part A	64,189

Total qualifying Tier 1 (Part A+B)	464,304
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Tier 2

General Provision	47,856
Subordinated Loan	180,777
45 % of the increase in fair value compared to carrying amount of available for sale investment, investments held to maturity & investments in affiliates	13,411
45% of Special Reserve	7,724
Total qualifying Tier 2	249,768
Capital Base (Tier 2 +Tier2)	714,072

Risk - weighted Assets	6,987,860
Market Risk	117,961
Operation Risk	455,103
Total Risk - Weighted assets	7,560,924

*Capital Adequacy ratio (%)	9.44%
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- The BASEL II guidelines were issued on 24th December 2012 which set out a transitional period of six months. As a result of the timing of the instructions, NBD were not in a position to take the necessary actions to comply with the minimum CAR requirements under BASEL II at 31st December 2012

4- SIGNIFICANT ACCOUNTING ESTIMATES

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

	December 31st , 2012	Value in LE thousands December 31st, 2011
Profit on Financing and similar income		
Facilities to banks	529	-
Loans and Financing to customers	470,399	384,378
Treasury bills and bonds	538,744	329,415
Deposits and current accounts	4,975	17,785
Total	1,014,647	731,578
Cost of Deposits and similar Costs		
<u>Deposits and Current Accounts:</u>		
To Banks	(8,312)	(21,020)
To Customers	(695,873)	(536,936)
Total	(704,185)	(557,956)
Net	310,462	173,622

6- NET FEES & COMMISSION INCOME

	December 31st , 2012	Value in LE thousands December 31st, 2011
Fees and commissions income:		
Fees and commissions related to Financing	7,169	8,078
Corporate finance	21,992	17,693
Other fees	32,020	34,116
Total	61,181	59,887
Fees and commissions expenses:		
Other fees paid	(941)	(1,960)
Net	60,240	57,927

7- DIVIDEND INCOME

	December 31st , 2012	Value in LE thousands December 31st, 2011
Available for Sale Investments	2,859	3,997
Investments in Associates & Subsidiaries	-	1,198
Total	2,859	5,195

8- NET TRADING INCOME

	December 31st , 2012	Value in LE thousands December 31st, 2011
Foreign currencies operations		
Gain from foreign currencies exchange	15,864	13,966
MTM of Held for Trading	(1)	(244)
Gain on sale of Held for Trading	755	182
Total	16,618	13,904

9- ADMINISTRATIVE EXPENSES

	December 31st , 2012	Value in LE thousands December 31st, 2011
Salaries and wages*	(241,373)	(222,751)
Social insurance	(10,003)	(8,914)
Depreciation and amortization	(54,578)	(41,193)
Other administrative expenses	(101,704)	(88,917)
Total	(407,658)	(361,775)

* Salaries and wages for the year ended December 31st, 2012 includes an amount of LE **17,754K** (for the year ended December 31st, 2011: LE **14,168K**) which represents average total top 20 salaries paid during the period.

10- OTHER OPERATING EXPENSES

	December 31st , 2012	Value in LE thousands December 31st, 2011
Gain on sale of assets reverted to Bank	8,233	4,203
Gain on Sale of fixed assets	6,480	485
Gain on Sale of sell & lease back assets	1,610	4,312
Software cost	(1,792)	(525)
Operating lease	(72,247)	(71,893)
Impairment loss for assets reverted to bank	(11,434)	-
Other provision	(65,841)	(69,032)
Others	6,021	1,243
Total	(128,970)	(131,207)

11- COST OF CREDIT

	December 31st , 2012	Value in LE thousands December 31st, 2011
Impairment loss Banks	(19)	-
Impairment loss Clients	(979,636)	(368,991)
Impairment loss of HTM investment	1,364	(2,064)
Total	(978,291)	(371,055)

12- TAX

	December 31st , 2012	Value in LE thousands December 31st, 2011
Deferred Tax (*)	274,608	20,642
Total	274,608	20,642

(*) Additional Information on the deferred tax is detailed in note no. 28.

13- LOSS PER SHARE

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

	December 31st , 2012	Value in LE thousands December 31st, 2011
Net loss for the Year	(854,921)	(570,241)
Weighted average for the issued common stocks	200,000	200,000
Loss Per Share	(4.27)	(2.85)

14- CASH AND DUE FROM CENTRAL BANK OF EGYPT

	December 31st , 2012	Value in LE thousands December 31st, 2011
Cash*	182,156	179,633
Due From Central Bank (mandatory reserve)	950,642	1,520,959
	1,132,798	1,700,592

*Cash as at December 31st , 2012 includes an amount of LE 1,731 which represents Purchased checks due on CBE in favor of one of the bank's clients

15- DUE FROM BANKS

	December 31st , 2012	Value in LE thousands December 31st, 2011
Current accounts	100,233	52,569
Deposits	1,613,319	1,354,911
Total	1,713,552	1,407,480
Central Bank (including the required reserve percentage)	391,365	68,664
Local Banks	1,199,520	1,169,455
Foreign Banks	122,667	169,361
Total	1,713,552	1,407,480
Non profit bearing balances	103,960	57,138
Fixed profit balances	1,609,592	1,350,342
Total	1,713,552	1,407,480

16- TREASURY BILLS

	December 31st , 2012	Value in LE thousands December 31st, 2011
91 days maturity	40,000	922,350
182 days maturity	699,175	1,453,075
274 days maturity	1,575,175	921,900
364 days maturity	2,820,621	1,122,038
	5,134,971	4,419,363
Unearned revenues	(291,366)	(203,785)
Total	4,843,605	4,215,578
Repo's		
Repo's matured during 1 week	(1,402,654)	(248,336)
Total (1+2)	3,440,951	3,967,242

17- FACILITIES TO BANKS

	December 31st , 2012	Value in LE thousands December 31st, 2011
Direct loans	31,596	-
Impairment losses Provision	(19)	-
Net	30,277	-

	December 31st , 2012	Value in LE thousands December 31st, 2011
Impairment loss Provision		
Impairment loss charge within the Year	19	-
	19	-

17- LOANS AND FINANCING TO CUSTOMERS

	December 31st , 2012	Value in LE thousands December 31st, 2011
Retail		
Overdraft	7,785	11,326
Credit cards	9,456	3,142
Personal loans	2,408,960	2,025,076
Total (1)	2,426,201	2,039,544
Corporate (including SMEs)		
Overdraft	344,043	226,647
Direct loans	6,543,599	5,407,034
Syndicated loans	428,200	622,918
Total (2)	7,315,842	6,256,599
Total loans & facilities (1 + 2)	9,742,043	8,296,143
Impairment losses for loans	(3,505,882)	(2,878,240)
Profit in suspense *	(462,815)	(472,953)
Deferred profit	(469,664)	(446,728)
Net	5,303,682	4,498,222
Net distributed as follows:		
Conventional loans (Net)	391,381	1,539,146
Financing (Net)	4,912,301	2,959,076
Net	5,303,682	4,498,222

* Profit in suspense was accumulated according to the credit rating issued by the CBE.

17- LOANS AND FINANCING TO CUSTOMERS (continued)

Impairment losses for loan and Financing movement

Impairment loss Provision	December 31st , 2012	Value in LE thousands
		December 31st, 2011
Balance at the beginning of the Year	2,878,240	2,570,448
Impairment loss charge within the Year	979,636	368,990
Recoveries during the Year	160	13
Usage during the Year	(368,815)	(72,882)
Transferred from other provisions	1,682	-
Foreign currency revaluation differences	14,979	11,671
Balance at the end of Year	3,505,882	2,878,240

Movement for impairment losses for Loans and Financing as per type:

<u>RETAIL</u>	Value in LE thousands			
	Overdraft	Credit Cards	Personal Loans	Total
Balance at 1 January 2012	-	1,085	83,390	84,475
Impairment loss charge within the Year	-	82	36,016	36,098
Usage during the Year	-	(1,141)	(692)	(1,833)
Recoveries during the Year	-	54	103	157
Balance at 31 December 2012	-	80	118,817	118,897

CORPORATE

	Overdraft	Direct Loans	syndicated Loans	Total
Balance at 1 January 2012	-	2,793,765	-	2,793,765
Impairment loss charge within the Year	-	943,538	-	943,538
Usage during the Year	-	(366,982)	-	(366,982)
Recoveries during the Year	-	3	-	3
Transferred from other provisions	-	1,682	-	1,682
Foreign currency revaluation differences	-	14,979	-	14,979
Balance at 31 December 2012	-	3,386,985	-	3,386,985

17- LOANS AND FINANCING TO CUSTOMERS (continued)

Value in LE thousands

<u>RETAIL</u>	Overdraft	Credit Cards	Personal Loans	Total
Balance at 1 January 2011	-	924	21,141	22,065
Impairment loss charge within the year	-	162	64,114	64,276
Usage during the year	-	-	(1,879)	(1,879)
Recoveries during the year	-	-	13	13
Balance at 31 December 2011	-	1,086	83,389	84,475

<u>CORPORATE</u>	Overdraft	Direct Loans	syndicated Loans	Total
Balance at 1 January 2011	-	2,548,383	-	2,548,383
Impairment loss charge within the year	-	304,714	-	304,714
Usage during the year	-	(71,003)	-	(71,003)
Foreign currency revaluation differences	-	11,671	-	11,671
Balance at 31 December 2011	-	2,793,765	-	2,793,765

- On 11 December 2012 the bank's management have provided all the shortage in impairment loss provision.

18- FINANCIAL INVESTMENTS

	December 31st , 2012	Value in LE thousands December 31st, 2011
<u>18/1 Available for Sale Investment</u>		
Debt instruments - at Fair value		
Listed	1,029,153	662,377
Equity instruments - at fair value		
Listed	20,768	20,056
Unlisted	25,117	24,100
Total available for sale investments (1)	1,075,038	706,533
<u>18/2 Financial Investment Held to maturity</u>		
Debt Instruments- at amortized cost		
Listed	12,768	18,980
Sanabel Fund (*)	5,986	4,622
Total Investments held to maturity (2)	18,754	23,602
Total Financial Investments (1 + 2)	1,093,792	730,135
Categorized as follows:		
Current	1,062,689	701,413
Non-Current	31,103	28,722
Total	1,093,792	730,135
Categorized as follows:		
Fixed Income debt instruments	1,019,580	646,159
Variable Income debt instruments	28,327	39,820
Variable Income equity instruments	45,885	44,156
Total	1,093,792	730,135

(*) Sanabel Islamic Mutual Fund:

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

The number of Bank's certificates share is **LE 75,000** certificates with a par value of **LE 100**. The acquisition cost amounted to **LE 7,635,000**.

The value per certificate as 31 December 2012 amounted of **LE 79.82** (31 December 2011: **LE 61.63**)

18- FINANCIAL INVESTMENTS (continued)

	Value in LE thousands		
	Financial Investment AFS	Financial Investment HTM	Total
Balance at 1 January 2012	706,533	23,602	730,135
Additions	445,230	-	445,230
Disposals (sales/redemption)	(107,823)	(6,946)	(114,769)
Foreign currency revaluation difference	704	734	1,438
Change in the fair value	30,394	-	30,394
Impairment loss recoveries	-	1,364	1,364
Balance at 31 December 2012	1,075,038	18,754	1,093,792
Balance at 1 January 2011	726,574	32,217	758,791
Additions	69,153	-	69,153
Disposals (sales/redemption)	(58,199)	(7,503)	(65,702)
Foreign currency revaluation difference	578	953	1,531
Change in the fair value	(31,573)	-	(31,573)
Impairment loss	-	(2,065)	(2,065)
Balance at 31 December 2011	706,533	23,602	730,135

18/3 Gain from Financial Investment

	December 31st , 2012	Value in LE thousands December 31st, 2011
Gain on Sale of Treasury Bills	1,022	722
Gain on Sale of Investments in Associates & Subsidiaries	-	21,784
Impairment loss of Investments in Associates & Subsidiaries	(5,811)	-
Balance at the end of Year	(4,789)	22,506

19- FINANCIAL INVESTMENT IN SUBSIDIARIES AND ASSOCIATES (Net)

Value in LE thousands

	December 31st , 2012		December 31st, 2011	
	<u>Value</u>	<u>Share</u>	<u>Value</u>	<u>Share</u>
		<u>%</u>		<u>%</u>
Investments in Subsidiaries				
National Cristal & Glass Company*	10,036	5.42%	10,036	5.42%
Cairo National Company for Investment	76,797	64.75%	76,797	64.75%
National Company for Trading and Development (Entad)	19,206	40.29%	19,206	40.29%
Assuit Islamic National for Trading and Development	23,477	39.91%	23,477	39.91%
ADI Holding Company	4,980	99.60%	-	0.00%
ADI Capital Company	125	2.50%	-	0.00%
Total Subsidiaries Companies	134,621		129,516	
Investments in Associated				
ADILEase leasing Company	8,743	16.98%	8,743.00	16.98%
Cairo National Company for Brokerage & Securities	538	32.00%	538.00	32.00%
Youth Company For Investment and General Services (SERVICO)	126	1.83%	-	0.00%
Alexandria National Company for Financial Investments	2,181	9.04%	2,181.00	9.04%
Arab Mashriq Company for Takaful Insurance	10,000	20.00%	10,000.00	20.00%
Total Associates Companies	21,588		21,462	
Investment in Subsidiaries and Associated Companies	156,209		150,978	
Less: Impairment loss	(6,947)		(1,010)	
Net investment in Subsidiary and Associated Companies (1)	149,262		149,968	
Investment in Subsidiaries and Associated Companies - Fully Impaired	37,852		37,978	
Less: Impairment loss	(37,852)		(37,978)	
Net investment in Subsidiaries and Associated Companies - Fully Impaired (2)	-		-	
Investment in Subsidiary and Associated Companies (Net) (1+2)	149,262		149,968	

*The bank sold (77.46%) of National Cristal & Glass Company to Abu Dhabi Islamic Holding (Subsidiary Company) and so far the Bank will complete the legality transfer process .

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.

20- INTANGIBLE ASSETS (Net)

	December 31st, 2012	Value in LE thousands December 31st, 2011
Computer software		
Net Book value at the beginning of Year / Year	10,357	5,422
Additions	15,504	18,225
Amortization for the Year / Year	(14,536)	(13,290)
Net book value at end of Year / Year	11,325	10,357

21- OTHER ASSETS

	December 31st, 2012	"Restated" Value in LE thousands December 31st, 2011
Accrued revenues	86,712	56,252
Pre-paid expenses	31,129	18,107
Due from sale and leaseback assets	-	24,027
Down payments under purchase fixed assets	9,412	35,664
Assets reverted to the Bank in settlement of debts (Net of Impairment)	124,427	127,123
Deposits & custody	1,990	2,392
Due from Abu Dhabi Islamic Holding	165,450	169,343
Due from Tax Authority *	155,179	73,699
Other debit balances	58,434	42,948
Total	632,733	549,555

* Represents amounts under settlements in dispute with the Tax Authority (Note 35).

22- FIXED ASSETS (NET OF ACCUMULATED DEPRECIATION)

	Value in LE thousands			
	Land & Premises	Machinery & Equipment	Other Assets	Total
Net Book value at 1 January 2012	20,993	1,605	195,508	218,106
Additions	460	77	66,173	66,710
Disposals	(460)	(10)	(2,610)	(3,080)
Depreciation	(1,900)	(278)	(37,862)	(40,040)
Depreciation related to disposal	-	10	2,378	2,388
Net Book value at 31 December 2012	19,093	1,404	223,587	244,084

Cost	41,918	3,881	401,754	447,553
Accumulated depreciation	(22,825)	(2,477)	(178,167)	(203,469)
Net Book value at 31 December 2012	19,093	1,404	223,587	244,084

	Value in LE thousands			
	Land & Premises	Machinery & Equipment	Other Assets	Total
Net Book value at 1 January 2011	24,066	1,739	129,982	155,787
Additions	-	151	95,812	95,963
Disposals	-	(754)	(7,546)	(8,300)
Depreciation	(3,073)	(285)	(24,545)	(27,903)
Depreciation related to disposal	-	754	1,805	2,559
Net Book value at 31 December 2011	20,993	1,605	195,508	218,106

Cost	41,918	3,814	338,191	383,923
Accumulated depreciation	(20,925)	(2,209)	(142,683)	(165,817)
Net Book value at 31 December 2011	20,993	1,605	195,508	218,106

- Fixed Assets after depreciation include LE **10.3mn** (December 31st, 2011: **LE 10.3mn**) represent cost of assets not registered yet. Legal procedures are under progress for them to be registered.
- Total value of fully depreciated assets as December 31st, 2012 amounting to LE **102mn**.

23- DUE TO BANKS

	December 31st , 2012	Value in LE thousands December 31st, 2011
Foreign Banks	21,783	3,909
Local Banks	315,950	766,595
Total	337,733	770,504

24- CUSTOMERS' DEPOSITS

	December 31st , 2012	Value in LE thousands December 31st, 2011
Demand deposits	1,732,580	1,584,933
Time deposits & call accounts	3,577,557	4,050,316
Term saving certificates	4,330,825	3,351,473
Savings deposits	3,176,869	2,978,364
Other deposits	153,019	86,594
Total	12,970,850	12,051,680
<u>Classified as follows:</u>		
Corporate deposits	3,934,960	4,067,133
Retail deposit	9,035,890	7,984,547
Total	12,970,850	12,051,680
Profit free balances	1,150,821	912,864
Variable Profit balances	11,820,029	11,138,816
Total	12,970,850	12,051,680
Current balances	8,640,025	8,700,207
Non-current balances	4,330,825	3,351,473
Total	12,970,850	12,051,680

25- SUBORDINATED LOAN

	Rate %	December 31st , 2012	Value in LE thousands December 31st, 2011
Subordinated Loan *	5.3	<u>180,777</u>	<u>-</u>
Total		<u>180,777</u>	<u>-</u>

*The subordinated loan by amount of USD **39mn** equivalent to LE **241mn** granted by ADIB- UAE under Wakala investment agreement for tenor of six years starts on 27th December 2012 with a profit rate of 0.125% form the investment amount and the expected profit equals to Libor USD on any extension period after six years.

The bank have recognize the subordinated loan by the present value using discount rate of 5.3% and the difference between the face value and the present value in the agreement date by an mount EGP 64,189K was added to equity statement as per the CBE regulations .

26- OTHER LIABILITIES

	December 31st , 2012	Value in LE thousands December 31st, 2011
Accrued revenues	42,880	47,426
Unearned revenues from the sale & leaseback assets	-	1,610
Accrued expenses	2,639	2,639
Due to Tax Authority *	155,179	73,699
Other credit balances	<u>215,143</u>	<u>100,947</u>
Total	<u>415,841</u>	<u>226,321</u>

* Represents amounts under settlements in dispute with the Tax Authority (Note 35).

27- OTHER PROVISIONS

	Value in LE thousands				
	Provision for Contingent Claims	Provision for Tax	Provision for Contingent Liabilities	Other Provision	Total
Balance at 1 January 2012	14,360	-	8,043	-	22,403
Formed during the Year	5,156	63,801	1,879	-	70,836
Amount used during the Year	(3,989)	(48,001)	-	-	(51,990)
Provision no longer required	(4,995)	-	-	-	(4,995)
Foreign currencies revaluation difference	33	-	51	-	84
Transferred to loans provision	(915)	-	(767)	-	(1,682)
Balance at 31 December 2012	9,650	15,800	9,206	-	34,656
Balance at 1 January 2011	15,508	-	12,602	1,062	29,172
Formed during the year	4,998	63,928	106	-	69,032
Amount used during the year	(10,852)	(63,928)	-	-	(74,780)
Provision no longer required	-	-	-	(1,062)	(1,062)
Transferred from Contingent Liabilities to contingent claims	4,693	-	(4,693)	-	-
Foreign currencies revaluation difference	13	-	28	-	41
Balance at 31 December 2011	14,360	-	8,043	-	22,403

28- 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:

	December 31st , 2012	Value in LE thousands December 31st, 2011
	Assets / (Liabilities)	Assets / (Liabilities)
Fixed Assets	(27,269)	(18,370)
Provisions (other than the impairment loss for loans)	4,714	4,480
Profit in suspense	115,704	94,591
Retained tax losses	717,717	455,557
Net tax of which an asset arises	810,866	536,258

Movement of deferred tax assets and liabilities method:

Beginning balance	536,258	515,616
Addition	354,858	99,747
Disposals	(80,250)	(79,105)
Closing Balance	810,866	536,258

29- CAPITAL

29/1 Authorized Capital

The authorized capital amounts to **LE 4bn** (December 31st, 2011: **LE 4bn**)

The Extra-ordinary General Assembly on May 3rd, 2010, decided to increase the issued capital from **LE 2.0bn** to **LE 4bn**. The Bank is undertaking the procedures to finalize registration of this increase in the Banks' statute and commercial registration.

29/2 Issued and paid in Capital:

The issued and paid in capital amounted to **LE 2bn** (December 31st, 2011: **LE 2bn**) represented by 200mn shares (December 31st, 2011: **200mn** shares) with a nominal value of LE 10 each.

29/3 Amounts paid under capital increase

- During the last 4 years ADIB – UAE deposited **LE 1,662k** in cash directly as amounts paid under capital increase, on 28th December 2011 ADIB – UAE approved to transfer the full amount of Subordinated financing of **LE 199,020k** to amounts paid under capital increase.

	December 31st , 2012	Value in LE thousands December 31st, 2011
Beginning balance	1,173,321	321,708
Amounts Paid under capital increase	688,097	652,595
Transferred from other financing	-	161,737
Transferred from Difference between Face Value and Value of Subordinated Financing	-	37,281
	1,861,418	1,173,321

30- RESERVES AND RETAINED LOSSES

<u>Reserves</u>	December 31st , 2012	Value in LE thousands December 31st, 2011
Legal Reserves	22,878	22,878
General Reserves	42,522	42,522
Special Reserves	26,257	26,257
Fair Value Reserves - Investments available for sale	23,703	(6,691)
General Banking Risk Reserve	106,114	64,637
Total Reserves	221,474	149,603

31/1 Special Reserves*

	December 31st , 2012	Value in LE thousands December 31st, 2011
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 for pervious years	9,092	9,092
	26,257	26,257

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

31/2 Fair value reserve – available for sale investments *

	December 31st , 2012	Value in LE thousands December 31st, 2011
Beginning balance	(6,691)	24,882
Change in fair value	29,597	(31,730)
Loss transferred to income statement for AFS disposals	797	157
	23,703	(6,691)

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

31/3 General Banking Risk Reserves

	December 31st , 2012	Value in LE thousands December 31st, 2011
Beginning balance	64,637	62,952
Adjustments for change in the measurement policy of impairment loss for loans and facilities	35,994	(7,239)
10% provision based on the value of assets reverted to the Bank	5,483	8,924
	106,114	64,637
Balance of General Bank Risk Reserve		
General Bank Risk Reserve for loans & facilities	55,302	19,308
General Bank Risk Reserve for assets reverted to the Bank	50,812	45,329
	106,114	64,637

-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.

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

31/4 Retained Losses

	December 31st , 2012	"Restated" Value in LE thousands December 31st, 2011
Balance at the beginning of the financial Year	(2,625,917)	(2,060,566)
Net Loss of the financial Year	(854,921)	(570,241)
Transferred to general banking risk reserve	(41,477)	(1,684)
Cost of the subordinated loan using EIR	-	6,575
	<u>(3,522,315)</u>	<u>(2,625,917)</u>

31- CASH AND CASH EQUIVALENT

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

	December 31st , 2012	Value in LE thousands December 31st, 2011
Cash and Due from CBE	1,132,798	1,700,592
Due from banks	1,713,552	1,407,480
Treasury Bills	3,440,951	3,967,242
Due from Banks maturities more than 3 months	(1,613,319)	(1,354,911)
Treasury bills maturities more than 3 months	(4,804,243)	(3,308,220)
	<u>(130,261)</u>	<u>2,412,183</u>

32- CONTINGENT LIABILITIES AND COMMITMENTS

A- Capital commitments

The Banks contracts for capital commitments reached **LE 2,278k** as of December 31st, 2012 (December 31st, 2011: **LE 9,576k**). Representing purchases of fixed assets and the management is adequately confident that finance shall be made available for covering these commitments.

33- CONTINGENT LIABILITIES AND COMMITMENTS (continued)

B- Contingent Liabilities

	December 31st , 2012	Value in LE thousands December 31st, 2011
Letters of credit	208,429	111,833
Letters of guarantee	278,445	128,665
Documentary credit	86,959	13,499
Bank guarantees	329,629	218,861
	<u>903,462</u>	<u>472,858</u>

34- RELATED PARTY TRANSACTIONS

34/1 Loans and facilities to related parties:

	December 31st , 2012	Value in LE thousands December 31st, 2011
Islamic Financing and Conventional Loans	<u>131,207</u>	<u>337,427</u>

34/2 Deposits from Related Parties:

	December 31st , 2012	Value in LE thousands December 31st, 2011
Deposits	<u>7,905</u>	<u>2,052</u>

- The pervious deposits are of variable interest and upon demand.

34/3 ADIB – UAE

	December 31st , 2012	Value in LE thousands December 31st, 2011
Due from Banks	<u>7,728</u>	<u>5,792</u>
Dues to Banks	<u>316,653</u>	<u>304,824</u>
Amounts paid under capital increase	<u>1,861,418</u>	<u>1,173,321</u>

34- RELATED PARTY TRANSACTIONS (continued)

34/4 ADI – Holding

	December 31st , 2012	Value in LE thousands December 31st, 2011
Amount received from NGF's shares Selling	<u>164,185</u>	<u>164,185</u>
Establishment Expenses	<u>1,265</u>	<u>178</u>

34/5 National Cristal & Glass Company

	December 31st , 2012	Value in LE thousands December 31st, 2011
Profit/Interest and Similar Income	<u>19,247</u>	<u>21,899</u>
Cost of deposits and similar costs	<u>68</u>	<u>609</u>

34/6 Board Members and top management benefits

	December 31st , 2012	Value in LE thousands December 31st, 2011
Salaries and short term benefits	<u>5,960</u>	<u>3,459</u>

34- 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.

35- TAX POSITION

Corporate Tax:

- Tax inspections for the years prior 2008 have been fully completed and all due taxes have been paid and the internal committee was set and no due taxes were reported.
- Preparation and presenting the tax return for the years till 2011 have been presented to tax authority as per law no. 91 for the year 2005.
- Tax return for the year 2007/ 2008 was inspected and an internal committee is being set.
- The bank didn't pay the tax (20%) regarding T-bill and T-bonds income from September 2010 till now.

Salary Tax:

- Tax inspections and internal committee for the years prior 2008 have been fully completed and there was no due tax for this period.
- The years 2009 to 2011 are currently being inspected.
- The payroll taxes are being paid on the due dates as stated by law.

Stamp duty Tax:

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

- Inspections of all Upper Egypt branches (17 branches) have been finalized from opening of the branches to 31/7/2006 with all tax liabilities settled.
- Inspections of 14 out of 20 East Delta branches have been finalized from opening of the branches till 31/7/2006 with all tax liabilities settled.
- Inspections of 12 out of 14 West Delta branches have been finalized from opening of the branches till 31/7/2006 with all tax liabilities settled.
- Inspection of 15 out of 17 Cairo branches has been finalized from start of their activities to 31/7/2006. Tax liabilities for 10 branches were settled and 5 branches are still under settlement after tax disputes.
- An appeal in the court is in process For 47 branch for which the tax liability was determined. Partial settlement of these liabilities was made to avoid delay penalties since the court appeal does not stop the tax liability.
- As for the remaining 11 bank branches, coordinating between tax authorities is in process to start inspection for years prior to 31/7/2006.

35- TAX POSITION (continued)

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. An appeal on the amount is in process and an internal committee of the tax authorities has been set up to study the issue.

Sales Tax:

- Inspections of the bank branches up to 31/12/2006 and due tax was paid.
- Years 1/1/2007 to 31/12/2012 is currently under preparation for future inspection.