AHLI UNITED BANK-EGYPT (S.A.E)
CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

Translation of Auditor's report
Originally issued in Arabic

AUDITOR'S REPORT

TO THE SHAREHOLDERS OF AHLI UNITED BANK (S.A.E)

Report on the Consolidated Financial Statements
We have audited the accompanying consolidated financial statements of **AHLI UNITED BANK (S.A.E)**, represented in the consolidated balance sheet as of 31 December 2011, and the related consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements
These financial statements are the responsibility of the Bank's Management, as Management is responsible for the preparation and fair presentation of the financial statements in accordance with the instructions of preparation and presentation of financial statements for Egyptian Banks issued by Central Bank Of Egypt on 16 December 2008 and the related applicable Egyptian laws and regulations. Management responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. This responsibility also includes selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Egyptian Standards on Auditing and applicable Egyptian laws. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the bank's preparation and fair presentation of the financial statements in order to design 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinion

In our opinion, the consolidated financial statements referred to above, give a true and fair view, in all material respects, of the consolidated financial position of **AHLI UNITED BANK (S.A.E)**, as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with the instructions of preparation and presentation of financial statements for Egyptian Banks issued by Central Bank Of Egypt on 16 December 2008 and the related applicable Egyptian laws and regulations relating to the preparation of these Consolidated financial statements.

Report on Other Legal and Regulatory Requirements

Nothing has come to our attention that causes us to believe that the Bank violated any of the provisions of the Central Bank of Egypt, Banking and Monetary System Law No. 88 of 2003 for the year ended 31 December 2011.

The Bank maintains proper accounting records that comply with the laws and the Bank's articles of association and the financial statements agree with the Bank's records.

Auditors

Sherif El Kilany
FESAA-FEST
RAA - 5285
Capital Market Authority No. (83)
Allied for Accounting and Auditing E&Y

Sherin Mourad Noureldin
Egyptian Financial Supervisory Authority Register No. "88"
Central Bank of Egypt Register No. "191"
Fellow of Egyptian Society for taxes
Moore Stephens Egypt

Cairo: 9 February 2012

Ahli United Bank – Egypt (S.A.E)
CONSOLIDATED BALANCE SHEET
As at 31 December 2011

	Notes	**31 December 2011 EGP '000**	31 December 2010 EGP '000
ASSETS			
Cash and balances with Central Bank of Egypt	12	**769,483**	345,475
Due from banks	13/a	**2,483,808**	1,075,533
Certificates deposits	13/b	**60,330**	-
Treasury bills and government notes	14	**886,328**	1,118,773
Loans and advances to banks	15	**38**	36
Loans and advances to customers	15	**5,802,304**	5,443,951
Financial Investments			
- Available for sale	16	**2,190,085**	1,436,987
- Held to maturity	16	**120,363**	123,173
Other assets	18	**344,844**	263,474
Fixed assets, net	19	**197,245**	204,946
TOTAL ASSETS		**12,854,828**	10,012,348
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	20	**821,187**	654,600
Customers' deposits	21	**10,709,952**	8,102,782
Other liabilities	22	**163,438**	143,172
Other provisions	23	**54,445**	84,871
TOTAL LIABILITIES		**11,749,022**	8,985,425
EQUITY			
Issued and paid up capital	25	**750,000**	600,000
Reserves	26	**89,973**	122,039
Retained earnings	26(d)	**256,349**	295,467
		1,096,322	1,017,506
Non-controlling interest	26(d)	**9,484**	9,417
TOTAL EQUITY		**1,105,806**	1,026,923
TOTAL LIABILITIES AND EQUITY		**12,854,828**	10,012,348
Commitments and contingent liabilities			
Contingent liabilities against L/Gs and documentary credits, other commitments	28	**1,486,579**	1,091,029

- The accompanying notes, from 1 to 30 form an integral part of these consolidated financial statements.

CEO and Managing Director

Nevine El Messeery

Auditors

Mr.Sherif Fathi El Kelany

Mr. Shereen Mourad Nour Alden

Ahli United Bank – Egypt (S.A.E)
CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2011

	Notes	**From 1 January to 31 December 2011 EGP '000**	From 1 January to 31 December 2010 EGP '000
Interest income		**809,408**	610,746
Interest expenses		**(487,180)**	(330,538)
Net interest income	5	**322,228**	280,208
Fees and commission income		**97,736**	70,267
Fees and commission expenses		**(1,306)**	(2,201)
Net fees and commission income	6	**96,430**	68,066
Dividend income		**893**	356
Net trading Income	7	**24,158**	13,976
Gain on sale of financial investments	17	**2,509**	19,889
Impairment losses	10	**(47,689)**	(35,318)
Administrative and general expenses and depreciation	8	**(159,908)**	(162,939)
Other operating revenue	9	**11,544**	3,944
Profit before income tax		**250,165**	188,182
Income tax expenses		**(54,230)**	(23,805)
Net profit for the year		**195,935**	164,377
Attributable to:			
Bank's equity shareholders		195,868	164,348
Non-controlling interest		67	29
		195,935	164,377
Earnings per share	11	**2.35**	1.97

The accompanying notes, from 1 to 30 form an integral part of these consolidated financial statements.

Ahli United Bank – Egypt (S.A.E)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2011 EGP '000

	Paid up capital	Legal reserves	Reserve of General Bank Risk	Retained earnings	Capital reserve	Fair value reserve for AFS investment	Special reserve	Net profit for the year	Non-controlling interests	Total
Balances at 1January 2010	600,000	84,826	3,458	91,469	2,098	20,000	3,087	128,763	9,388	943,089
Transferred to reserves	-	8,112	-	-	255	-	-	(8,367)	-	-
Transferred to retained earnings	-	-	5,334	39,650	-	-	-	(44,984)	-	-
Transferred to dividend	-	-	-	-	-	-	-	(75,412)	-	(75,412)
Cumulative changes in fair value of available-for-sale investments	-	-	-	-	-	(5,131)	-	-	-	(5,131)
Non-controlling interest	-	-	-	-	-	-	-	-	29	29
Net profit for the year	-	-	-	-	-	-	-	164,348	-	164,348
Balances at 31 December 2010	600,000	92,938	8,792	131,119	2,353	14,869	3,087	164,348	9,417	1,026,923
Balance at 1 January 2011	600,000	92,938	8,792	131,119	2,353	14,869	3,087	164,348	9,417	1,026,923
Transferred to reserves	-	8,190	-	-	415	-	-	(8,605)	-	-
Transferred to retained earnings	-	-	-	79,362	-	-	-	(79,362)	-	-
Transferred to dividend	-	-	-	-	-	-	-	(76,381)	-	(76,381)
Bonus shares	150,000	-	-	(150,000)	-	-	-	-	-	-
Cumulative changes in fair value of available-for-sale investments	-	-	-	-	-	(40,671)	-	-	-	(40,671)
Non-controlling interest	-	-	-	-	-	-	-	-	67	67
Net profit for the year	-	-	-	-	-	-	-	195,868	-	195,868
Balances at 31 December 2011	750,000	101,128	8,792	60,481	2,768	(25,802)	3,087	195,868	9,484	1,105,806

The accompanying notes, from 1 to 30 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2011

	Notes	From 1 January to 31 December 2011 EGP '000	From 1 January to 31 December 2010 EGP '000
Operating activities			
Profit before tax		**250,165**	188,182
Adjustments:			
Depreciation and amortization	**19**	**22,533**	20,804
Impairment losses	**10**	**47,689**	35,318
Adjustment to other provisions	**24**	**(675)**	(6,611)
Other provisions		**1,324**	10,609
Foreign currency loans loss provision revaluation	**15**	**3,127**	4,169
Differences in revaluation of other provisions in foreign currencies	**24**	**445**	344
Amortization of discount - Investment HTM	**16**	**39**	21
Amortization of discount - Investment AFS	**16**	**362**	299
Investment revaluation	**16**	**(3,405)**	(4,792)
Write back of excess provision	**24**	**(9,517)**	-
Loss from impairment of available for sale investment	**16**	**277**	-
Profits from sale of financial investments in foreign currency		**-**	(19,749)
Collected from selling of fixed assets		**-**	843
Profit from selling of fixed assets		**-**	415
Financial derivatives		**-**	(265)
Operating profits before changes in operating assets and liabilities		**312,364**	228,583
Net decrease (increase) in operating assets and liabilities			
Due from banks		**(1,395,903)**	235,882
Certificates deposits	**13/B**	**(60,330)**	-
Treasury bills and other government notes (more than 3 months)		**232,560**	(704,151)
Investments for trading		**-**	1,311
Loans to customers and banks		**(431,174)**	(1,064,897)
Other assets		**(44,161)**	(106,140)
Due to banks		**166,587**	87,690
Customers' deposits		**2,559,634**	2,261,301
Other liabilities		**21,103**	(4,455)
Income tax		**(54,230)**	(23,805)
Net cash flows from operating activities		**1,306,450**	911,493
Investing activities			
Purchase of fixed assets		**(52,040)**	(61,453)
Proceeds from sale of investment other than held for trading	**16**	**6,176**	(31,016)
Payments to purchase investment other than held for trading	**16**	**(794,408)**	(903,641)
Net cash flows used in investing activities		**(840,272)**	(996,099)
Financing activities			
Dividends paid		**(77,218)**	(75,413)
Net cash flows used in financing activities		**(77,218)**	(75,413)
Increase in cash and cash equivalents during the year		**388,960**	(158,091)
Cash and cash equivalents at the beginning of the year		**518,073**	628,628
Cash and cash equivalents at the end of the year		**907,033**	470,538

CONSOLIDATED STATEMENT OF CASH FLOWS (Cont'd)
For the year ended 31 December 2011

	Notes	From 1 January to 31 December 2011 EGP '000	From 1 January to 31 December 2010 EGP '000
Cash and cash equivalents at the end of the year are as follows:			
Cash and balance with Central Bank of Egypt	12	769,483	345,475
Due from banks	13/A	2,483,808	1,075,533
Treasury bills and other government notes	14	886,328	1,118,773
Deposits with banks	13	(2,356,034)	(960,131)
Treasury bills and other government notes with maturities more than 3 month		(876,552)	(1,109,112)
Cash and cash equivalents at the end of the year		907,033	470,538

The accompanying notes, from 1 to 30 form an integral part of these consolidated financial statements.

1. General information

Ahli United Bank- Egypt S.A.E ("the Bank") provides institutional, retail banking and investment banking services within the Arab Republic of Egypt through head office and 28 branches with more than 689 employees at the date of this balance sheet.

The Bank has been incorporated (under its former -name) on 8 August 1977 in accordance with Law No. 43 of 1974 and its Executive Regulations within the Arab Republic of Egypt, having its Head Office located in 1191 Kournish El Nile of the Governorate of Cairo. On 14 July 2010 the Bank's shares have been voluntarily delisted from the Cairo and Alexandria stock exchanges.
The board has approved the bank's financial statements in XX/XXX/201X

2. Summary of the significant accounting policies

The significant accounting policies for the preparation of these financial statements of the Bank are as follows and these policies have been followed consistently for all presented years unless otherwise disclosed:

A- Basis of preparation of the financial statements

These consolidated financial statements are prepared in accordance with the Egyptian accounting standards issued in 2006 as amended and in accordance with the Central Bank of Egypt (CBE) rules approved by its Board of Directors on 16 December 2008 which are in compliance with the mentioned standards. These financial statements have been prepared under the historical cost convention except in the revaluation of financial assets and financial liabilities held at fair value through the profit or loss, available for sale financial assets and all derivative contracts.

The Bank has prepared the consolidated financial statements of the Bank and its subsidiary in accordance with Egyptian accounting standards and has completely consolidated those subsidiary companies in which the Bank has, directly or indirectly, more than half of the voting rights or has the ability to control the financial and operating policies of the subsidiary company, regardless of the type of the activity.

The financial statements of the subsidiary are prepared for the same reporting period as the Bank, using consistent accounting policies.

All material intra group balances, transactions, income and expenses and profits and losses resulting from intra-group balances are eliminated on consolidation.

2) Summary of the significant accounting policies (continued)

The Published Amendments to the Instructions of the Central Bank of Egypt effective as of 1 January 2010

The management has applied the Central Bank of Egypt instructions concerning the rules of preparation and presentation of the financial statements of banks and basis of the recognition and measurement relating to the activities of the bank, which differ in certain aspects to the Egyptian Accounting Standards.

Following is a summary of the most significant changes to the accounting policies and the financial statements due to application of these accounting adjustments:

- The disclosure requirements have been amended, specifically relating to the objectives and policies and methods of financial risk management and capital adequacy management and some other explanatory notes.
- The Bank has reassessed the fixed assets residual value to determine the effect on the amortizable value; the resultant effect on the financial statements was immaterial.
- The Bank identified the related parties in accordance with the requirements of the new standards and added certain disclosures to these related parties.
- The provision for impairment loss is measured as the difference between the book value and the present value of the expected future cash flows, such cash flows should be discounted using the original effective rate of return of the financial asset. The provision does not include the future credit losses that have not been incurred. The book value of the asset is to be reduced with the impairment loss provision. The impairment loss is recognized in the income statement.
- The method of measuring impairment of loans and advances and other debt instruments at amortized cost has been changed, which in turn resulted in cancellation of the General Provisions component of loans and advances and instead total provision for groups of assets that carry similar credit risk and characteristics or individual provision was provided. The outstanding provision balance as of the 1of January 2009 had been transferred to a special reserve in owner's equity according to the new method and the effects of the new policy are reflected in the statement of changes in equity.
- When determining an actual rate of return for applying the amortized cost method to calculate the income and cost of the return on debt instruments, commissions and fees associated with the acquisition or issuance of debt instruments and added to or deducted from the value of the acquisition / release as part of the cost of instruments which lead to change to the actual rate of return of those tools.

2) Summary of the significant accounting policies (continued)

- The Bank has examined the assets whose ownership has been transferred to the Bank as a settlement of defaulted loans to ensure these assets qualify for being classified as non-current assets held for sale under the other assets. Such examination did not result in a difference in classification or value at which such assets are measured.

B- Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Bank has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank has the ability to control the entity.

C- Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns different from those of segments operating in other economic environments.

D- Translation of foreign currencies

D.1 Functional and presentation currency:

The financial statements are presented in Thousand Egyptian pounds, which is the functional and presentation currency of the Bank.

D.2 Transactions and balances in foreign currencies

The Bank maintains its accounting records in Egyptian pounds. Foreign currency transactions are translated in to Egyptian pounds using the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities in foreign currency are translated at the end of financial period on the basis of prevailing exchange rates at that date. Foreign exchange gains and losses resulting from the settlement of such transactions are taken to " net trading income" in the consolidated statement of income.

2) Summary of the significant accounting policies (continued)

D. Translation of foreign currencies (continued)

D.2 Transactions and balances in foreign currencies (continued)

Non-monetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rate of the date of the initial transactions. Non-monetary available for sale items measured at faire value in foreign currency are translated using the exchange rates at the date when the fair value was determined and the differences are included in equity as part of the fair value adjustments of the respective items

E- Financial assets

Financial assets are classified at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. The management determines the classification of its investments at initial recognition.

E.1 Financial assets at fair value through profit or loss

This category includes two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated as hedging instruments.

Financial assets are designated at fair value through profit or loss when:

- Significant reduction in measurement inconsistencies would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortized cost in relation to loans and advances to customers or banks and debt securities in issue. Certain investments, such as equity investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss.

2) Summary of the significant accounting policies (continued)

E. Financial assets (continued)

E.1 Financial assets at fair value through profit or loss (continued)

- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit and loss.

Profits and loss resulting from change in the fair value of the financial derivatives which are managed along with financial assets and liabilities classified at initial recognition at the fair value through profits and loss in the income statement are accounted under "net income from financial instruments at fair value through profits and loss".

No financial derivative from the category of fair value through profit or loss shall be reclassified throughout it's life in addition, no financial instrument shall be reclassified by transfer from the category of financial instruments at the fair value through profits and losses if such instrument is designated by the Bank at initial recognition as an instrument to be valued at the fair value through profits and loss.

In all cases, the Bank does not reclassify any financial instruments by designated as fair value through profit or loss to the held for trading category.

E.2 Loans and receivables

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

- Those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, or those that the Bank upon initial recognition designates as at fair value through profit or loss.
- Those that the Bank upon initial recognition designates as available for sale.
- Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

E.3 Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale.

2) Summary of the significant accounting policies (continued)

E.4 Available for sale investments

Available-for-sale investments are those intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices

The following applies to financial assets:

Purchases or sales of financial assets classified at fair value through profit and loss, held to maturity financial investments, and available for sale financial investments are recognized on the trading date which is the date when the bank is committed to purchase or sell the financial asset.

Financial assets that are not classified upon initial recognition at fair value through profit and loss are recognized at fair value plus the transaction costs. While financial assets classified at initial recognition at fair value through profit and loss are recognized at fair value only and the transaction costs are recorded in the income statement under the caption "net trading income".

Financial assets are derecognized when the contractual rights to receive cash flows from the asset expires or the when the Bank transfers most of the risks and rewards of ownership thereof to another party. Financial liabilities are derecognized when the obligation under the liability is discharged, cancelled or expires.

Available for sale financial investments and financial assets classified at fair value through profit and loss are subsequently measured at fair value. Held to maturity financial investments and loans and debts are subsequently measured at amortized cost.

Profits and losses arising from changes in the fair value of financial assets classified at fair value through profit and loss are recognized in the income statement during the year in which they arise. Profits and losses arising from changes in the fair value of available for sale financial investments are directly recognized in equity until the asset is disposed of or impaired. At this time the cumulative profits and losses previously recognized in equity are recognized in the income statement.

Interest calculated based on the amortized cost method and foreign exchange profits or losses related to monetary assets classified as available for sale are recognized in the income statement. Dividends arising from available for sale equity instruments are recognized in the income statement when the Bank's right to receive payments is established.

The fair value of quoted investments is based on current bid price. However, when no active market exists, or quoted prices are available, the fair value is determined by the Bank using valuation techniques including discounted cash flows analysis, modern neutral transactions, option pricing models, or other valuation methods commonly used by the market dealers. If the Bank is unable to assess the fair value of equity instruments classified as available for sale, the value thereof is measured at cost less any impairment losses.

2) Summary of the significant accounting policies (continued)

E.4 Available for sale investments (continued)

The Bank reclassifies the financial asset previously classified as available for sale to which the definition of loans- debts (debentures or loans) applies by means of transferring the category of the instruments available for sale to the category of loans and debts or the financial assets held to maturity, once the Bank has the intention and ability to hold such financial assets in the near future or up to the maturity date, such reclassification is made at fair value as on that date. Any profits or losses related to such assets which have been previously recognized within equity shall be treated as follows:

I. In case of reclassified financial asset, which has a fixed maturity gains or losses are amortized over the remaining life of the investment using the effective yield, any differences between the amortized cost and value based on discounted cash flow is expensed over the life of the financial asset using the effective yield method, and in the case of impairment of the value of the financial asset any gain or loss previously recognized in equity is subsequently recognized in profit and loss.

II. In the case of financial asset which has no fixed maturity, gain or loss remain in equity, whereas, recognition in profit and loss is upon the sale of the asset or disposal, in the case of impairment of the financial asset any gain or loss previously recognized directly within equity is subsequently recognized in profit and loss.

If the Bank adjusts its estimates of repayment schedule, the carrying amount of the financial asset (or group of financial assets) is amended to reflect the actual cash inflows. The adjusted estimates are used to recalculate the book value and calculate the present value of estimated future cash flows at the effective yield of the financial instrument and the difference is recognized as income or expense in the profit and loss.

Due to the current trend of loan recoveries from cash receipts the Bank reclassifies it's estimate of the future cash receipts whereas, the impact of this increase is recognised as a restatement of effective interest rate from the date of the change in estimate and not a settlement of the balance of the original net book value of the asset at the date of the change in estimate.

F- Netting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet 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.

Repos and reverse repos agreements related to treasury bills are netted on the balance sheet and disclosed under "treasury bills and other government notes" caption of the balance sheet.

2) Summary of the significant accounting policies (continued)

G- Financial derivatives instruments

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognized in statement of income under 'Net income from trading'. Changes in fair value of derivatives that are managed in conjunction with the financial assets and liabilities classified at inception as fair value through profit and loss are recognised in the statement of income as 'Net income from financial instrument at fair value through profit and losses".

H- Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognized within 'interest income' and 'interest expense' in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective 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 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 method includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate. The transaction costs include all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

When it is collected and this is after redeeming all dues of consumer loans and personnel mortgages also small loans for economic activities.

2) Summary of the significant accounting policies (continued)

H- Interest income and expense (continued)

For loans granted to the institutions the cash basis is followed when calculating the return according to the new terms of the schedule of the loan until payment of 25% from the rescheduled loan and consistent repayment for a year. If the customer is paying regularly upon the due date the interest calculated is added to the loan balance on the balance sheet (loan interest on rescheduling without suspending the interest). All the suspended interest prior to rescheduling will not be transferred to income statement until the entire rescheduled loan has been repaid.

I- Fees and commissions

Accrued fees for loan or facility service are recognized as revenues at the time service is provided. Fees and commissions relating to the non-performing or impaired loans or debts are suspended and are carried off-balance sheet and are recognized under the revenues on cash basis. Fees that are associated with the effective return of the financial asset are adjusted at the actual interest rate.

The interest income is recognized according to the provisions of as for the fees that represent a complementary part of the actual interest on the financial asset in general are treated as adjustment to the actual interest rate.

Commitment fees on loans granted are deferred if there is a possibility that such loans shall be drawn, since the commitment fees received by the Bank are deemed to be a compensation for the ongoing intervention to acquire the financial instrument; subsequently, they are recognized by adjusting the actual interest rate on the loan. In the event of expiry of the commitment period without issuing the loan by the Bank, the fees are recognized as revenues at the expiry of the commitment period.

Fees related to debt instruments which are measured at fair value are recognized under revenue at initial recognition. The fees for promotion of joint loans are recognized as revenues upon completing the promotion process without retaining any part of the loan by the Bank, or if the Bank maintains a part thereof with the actual interest rate available to other participants.

Fees and commissions from negotiation or participation in negotiation in transaction in favor of a third party, such as arrangement for purchase of shares or other financial instruments, or acquisition or sale of entities is recognized in the income statement upon completion of the transaction. Fees from administrative consultations and other services are recognized over the period of performance of the service. Fees from financial planning and maintenance services provided are recognized throughout the period of service provided.

2) Summary of the significant accounting policies (continued)

J- Dividend income

Dividends are recognized in the income statement when the Bank's right to receive payment is established.

K- Sales and repurchase agreements

Financial instruments sold under repurchase agreements are presented as part of treasury bills and other government notes in the balance sheet while the liability (purchase and resale agreements) is shown as deduction from treasury bills and other government notes in the balance sheet. The difference between the sale and repurchase prices is recognized as a return due through the tenure of the agreement using the effective interest rate method.

L- Impairment of financial assets

L.1 Financial assets measured at amortized cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Cash flow difficulties experienced by the borrower or debtor.
- Breach of loan covenants or conditions (such as non-payment/default).
- Initiation of bankruptcy proceedings or entering in dissolution lawsuit or rescheduling the client's facility.
- Deterioration of the borrower's competitive position;
- The Bank grants privileges or concessions to the borrower on economic or legal grounds, which not be granted under normal conditions, taking in consideration the instructions by the Central Bank Egypt dated 14 April 2011 specifically detailing the treatment of retail and corporate loans during the financial crisis.
- Deterioration in the value of collateral.
- Downgrading credit grade.

2) Summary of the significant accounting policies (continued)

L. Impairment of financial assets (continued)

L.1 Financial assets measured at amortized cost (continued)

A substantive proof for impairment loss of the financial assets is the existence of clear information indicating a measurable decline in the expected future cash flows of such category since initial recognition including such decline that cannot be Separately determined for each individual asset, such as the increase of default cases with respect to a banking product.

The estimated period between loss occurrence and its identification is determined by local management for each identified portfolio. In general, the periods used vary between three months and 12 months; in exceptional cases, longer periods are warranted.

The Bank first assesses whether there is an objective evidence on the impairment of each financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. In this respect, the following criteria would be considered:

- 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 according to historical default ratios.
- 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.
- If there is no impairment losses result from the previous assessment, those assets are included in a collective assessment of impairment.

If the loan or investment held to maturity has a variable interest rate, the discount rate used to measure any impairment losses is the original effective contractual interest rate. Where practicable, the Bank measures the impairment losses based on the fair value of the instrument using declared market prices. In the case of collateralized financial assets, the addition of the present value of the expected future cash flows that may originate from the execution of and sale of the collateral after deducting the related expenses must be observed.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

2) Summary of the significant accounting policies (continued)

L.1 Financial assets measured at amortized cost (continued)

For the purposes of evaluation of impairment for a group of a financial assets according to historical default ratios future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. 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 currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). 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 assets available for sale

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets classify under available for sale or held to maturity is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired.

During periods starting from 1 January 2009, the decline in the value is considered as significant if it is 10% of the book value cost, and shall be considered prolonged if it extends for more than nine months. If the indicated evidences are available then the accumulated loss to be post from the equity and disclosed at the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement if an increase occurs later in the fair value. If the fair value of a debt instrument classified as available for sale increases, where it is possible to objectively relate that increase to an event occurred following the recognition of the impairment in the income statement, the impairment loss is reversed through the income statement.

M- Fixed assets

Land and buildings comprise mainly branches and offices. All property, plant and equipment are stated at historical cost less depreciation & impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

2) Summary of the significant accounting policies (continued)

M- Fixed assets *(continued)*

Subsequent costs are included in the asset's carrying amount or are recognized as a Separate asset, 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. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	40 years
Improvements to the leased assets	10 years
Machinery and equipment	10 years
Other Assets	5-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

The recoverable amount represents the net realizable value of the asset or the usage amount of the asset whichever is higher. The profits and losses on disposal of fixed assets are determined by comparing the net proceeds with the net book value. Gains (losses) are recorded in other operating income (expenses) in the income statement.

N- Lending cost

Lending cost disclosed directly as funding expenses while the lending cost related to acquiring assets are considered as a part of the asset cost.

O- Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks, cash with banks, treasury bills and short-term government securities.

2) Summary of the significant accounting policies (continued)

P- Other provisions

Provisions for restructuring costs and legal claims are recognized when the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions which negated the purpose of wholly or partly repaid within the item other operating income (expense).

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation which become due after one year from the financial statement date using appropriate rate for the due date (without being affected by effective tax rate) which reflect time value of money, and if the due date is less than one year we calculate the estimated value of obligation but if it have significant impact then it calculated using the current value.

Q- Income taxes

Income tax on the profit or loss for the year includes each of year tax and deferred tax and they are recognized in the income statement except for income tax relating to items of equity which is recognized directly in equity.

Income tax is recognized based on net taxable profit as per the effective tax rates applicable on the balance sheet date, in addition to tax adjustments related to the previous years.

The deferred taxes arising from temporary time differences between the book value of assets and liabilities are recognized in accordance with the principles of accounting and value according to the foundations of the tax, this is determining the value of deferred tax on the expected manner to realize or settle the values of assets and liabilities, using tax rates applicable at the date of the balance sheet.

The deferred tax assets of the Bank are recognized if its probable that sufficient taxable profits be realised in future whereby such asset can be utilised and the value of the deferred tax assets would be reduced by the value of the portion not yielding the expected tax benefit from following years. However, in the case tax benefit is highly expected, deferred tax assets will increase within the limits of the above reduced.

2) Summary of the significant accounting policies (continued)

R- Borrowing

Borrowings are recognized initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between proceeds net of transaction costs and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

S- Dividends

Dividends are recorded as deduction from equity when they are approved by the General Assembly of shareholders. Dividends include employees' profit share and Board of Director's benefits established by the Bank's Articles of Association and the Law.

T- Fiduciary activities

The Bank carries out fiduciary activities that result in ownerships or management of assets on behalf of individuals. These assets and income arising thereon are excluded from the Bank's financial statements as they are not assets of the Bank.

U- Comparing figures

Comparing figures are restated if necessary to comply with the changes in the current period

3. Management of financial risks

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance. The most important types of financial risks are credit risk, market risk, liquidity risk and other operating risks. Further, market risk includes exchange rate risk, rate of return risk and other risks.

The Bank's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

3) Management of financial risk (continued)

Risk management is carried out by a risk management department under policies approved by the board of directors. Risk management department identifies, evaluates and hedges financial risks in close co-operation with the Bank's operating units. The board of directors provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, credit risk management is responsible for the independent review of risk management and the control environment.

A- Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in loans and advances, debt securities and other bills. There is also credit risk in off balance sheet financial arrangements such as loan commitments. The credit risk management and control are centralized in a credit risk management team in the Bank's risk management department and reported to the board of directors and head of each business unit regularly.

A.1 Measuring the credit risk

Loans and advances to banks and customer

In measuring credit risk of loan and advances to customers and to banks at a counterparty level, the Bank takes three components into consideration:

- The 'probability of default' by the customer or counterparty on its contractual obligations;
- Current exposures to the counterparty and its likely future development, from which the Bank derive the (exposure at default) and
- The likely recovery ratio on the defaulted obligations (the loss given default).

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical analysis with credit officer judgment and are validated, where appropriate, by comparison with externally available data. Customers of the Bank are segmented into four rating classes. The Bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes.

3) Management of financial risk (continued)

A - Credit risk (continued)

A.1 Measuring the credit risk (continued)

The rating tools are kept under review and upgraded as necessary. The Bank regularly validates the performance of the rating and their anticipated future outcomes with regard to default events.

The Bank's internal ratings classification

Rating	Classification
1	Performing loans
2	Regular watch
3	Special watch
4	Non-performing loans

The loans expose to default depend on the Bank's expectation for the outstanding amounts when default occur. Loss given default or loss severity represents the Bank expectation of the extent of loss on a claim should default occur. It is expressed as percentage loss per unit of exposure and typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit mitigation.

Debt instruments, treasury bills and other notes

For debt securities and other bills, external rating such as Standard & Poor's rating or their equivalents are used by the Bank's risk department for managing of the credit risk exposures, and if this rating is not available, then methods similar to those applying to the credit customers are used. The investments in those securities and bills are viewed as a method to obtain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

3) Management of financial risk (continued)

A - Credit risk (continued)

A.2 Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified − in particular, to individual counterparties and banks, and to industries and countries. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by individual, counterparties, product, and industry sector and by country are approved quarterly by the board of directors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Some other specific control and mitigation measures are outlined below.

Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Mortgage business assets such as premises, inventory and accounts receivable.
- Mortgage financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimize the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other governmental securities are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

3) Management of financial risk (continued)

A - Credit risk (continued)

A.2 Risk limit control and mitigation policies (continued)

Derivatives

The Bank maintains strict control limits on net open derivative positions (i.e., the difference between purchase and sale contracts), by both amount and term. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e., assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements.

Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Bank requires margin deposits from counterparties.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Bank market transactions on any given day.

Master netting arrangements

The Bank further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Bank overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

Commitments related to credit

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letter of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

3) Management of financial risk (continued)

A - Credit risk (continued)

A.2 Risk limit control and mitigation policies (continued)

Commitments related to credit (continued)

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

A.3 Impairment and provisions policies

The internal rating systems described in (Note A.1) focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognized for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment due to the different methodologies applied, the amount of incurred credit losses recorded in the financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and CBE regulation purposes. (Note A.4).

The impairment provision shown in the balance sheet at the period-end is derived from each of the four internal rating grades. However, the majority of the impairment provision results from the bottom grade. The table below shows the percentage of the Bank's in balance sheet items relating to loans and advances and the associated impairment provision for each of the Bank's internal rating categories:

Categories	31 December 2011	
	Loans and facilities %	Impairment losses provision %
Performing loans	93.12	55.76
Regular watch	3.27	1.65
Special watch	0.17	0.07
Non- performing loans	3.44	42.52
	100%	100%

3) Management of financial risk (continued)

A - Credit risk (continued)

A.3 Impairment and provisions policies (continued)

Categories	31 December 2010	
	Loans and facilities %	Impairment losses provision %
Performing loans	90.90	21.32
Regular watch	4.02	1.62
Special watch	0.58	2.06
Non- performing loans	4.50	75.00
	100%	100%

The internal rating tools assists management to determine whether objective evidence of impairment exists under EAS 26, based on the following criteria set out by the Bank:

- Cash flow difficulties experienced by the borrower
- Breach of loan covenants or conditions
- Initiation of bankruptcy proceedings
- Deterioration of the borrower's competitive position
- Bank granted concessions may not be approved under normal circumstances, for economic, legal reasons, or financial difficulties facing the borrower
- Deterioration in the value of collateral
- Deterioration in the credit situation

The Bank's policy requires the review of all financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts.

The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided portfolios of homogenous assets by using the available historical experience, experienced judgment and statistical techniques.

3) Management of financial risk (continued)
A - Credit risk (continued)
A.4 Bank risks measurement general model

In addition to the four categories of measuring credit worthiness discussed in disclosure (Note A.1) the management makes, classification in the form of more detailed sub groups according to the CBE rules. The assets expose to credit risk are classified to detailed classification relying heavily on customer's information, activities, financial position, repayment track records and other criteria.

The Bank calculates the required provisions for impairment of assets exposed to credit risk, including the commitments related to the credit, based on the rates specified by CBE. In the event that the required provision for impairment losses according to the rules of the CBE exceeds what is required for the purpose of preparing the financial statements in accordance with the EAS, the general banking risks reserve shall be recorded under equity as a discount on the retained profits in the amount of such increase. Such reserve is periodically adjusted either by increase or decrease in such way; reserve shall be equivalent to amount of increase and decrease between the provisions. This reserve is non-distributable. Note (27/a) presents the movement on the general reserve banking risks over the financial year.

Below is the statement of credit rating as per internal valuation basis compared to Central Bank of Egypt valuation basis and the percentage of provisions required for impairment assets exposed to credit risk.

Classification of the Central Bank of Egypt	Classification Significance	Required provision rate	Internal classification	Internal classification Significance
1	Low risks	Nil	1	Performing loans
2	Average risk	1%	1	Performing loans
3	Satisfactory risks	1%	1	Performing loans
4	Reasonable risk	2%	1	Performing loans
5	Acceptable risk	2%	1	Performing loans
6	Marginally acceptable risk	3%	2	Regular watch
7	Watch list	5%	3	Special watch
8	Substandard	20%	4	Non- performing loans
9	Doubtful	50%	4	Non -performing loans
10	Bad debt	100%	4	Non -performing loans

3) Management of financial risk (continued)

A - Credit risk (continued)

A.5 Maximum credit risk before guarantees

	31 December 2011	31 December 2010
	EGP'000	EGP '000
In Balance sheet items exposed to credit risk		
Treasury bills and other government notes	**886,328**	1,118,773
Loans to individuals		
- credit cards	**10,427**	15,776
- personal loans	**18,751**	13,684
Corporate:		
- Overdrafts	**82,980**	67,391
- Bank loans	**38**	36
- Direct loans	**3,366,584**	3,501,879
- Syndicated loans	**2,567,335**	2,131,271
Financial investments		
- debt instruments	**2,276,494**	1,526,417
Less: Loan impairment	**(231,572)**	(270,744)
Interest in suspense	**(11,561)**	(15,346)
Advanced discount	**(640)**	-
Total	**8,965,164**	8,089,177
Off Balance sheet items exposed to credit risk		
Letter of credit	**245,453**	172,146
Letter of guarantee	**858,197**	907,371
Accepted securities for suppliers facilities	**19,315**	11,512
Forward deals	**363,614**	-
Total	**1,486,579**	1,091,029

The above table represents the maximum exposure to credit risk at 31 December 2011, without taking account of any collateral held. As for the balance sheet items, the exposures set above based on net carrying amounts are as reported in the balance sheet.

As shown above, 65.0% (2010: 86.6%) of the total maximum exposure is derived from loans and advances to banks and customers; 35.0% (2010:13.4%) represents investments in debt Instruments.

The management is confident of its ability to maintain control on ongoing basis and sustain minimal exposure of credit risk to the Bank resulting from both its loan and advances portfolio and debt instruments based on the following:

3) Management of financial risk (continued)
A - Credit risk (continued)
A.5 Maximum credit risk before guarantees (continued)

96.39% of the loans and advances portfolio is classified at the highest 2 rating against 94.92% at the end of comparative year.

The Bank has implemented more prudent processes when granting loans and advances during the financial period ended in 31 December 2011

.
More than 98.0 % of the investments in debt Instruments are represented in governmental instruments.

A.6 Loans and advances

Following is the position of loans and advances balances to customers and banks in terms of credit solvency:

	31 December 2011 EGP '000
Neither past due nor impaired	5,515,411
Past due but not impaired	323,209
Individually impaired	207,495
Total	**6,046,115**
Less:	
Provision for impairment losses	(231,572)
Interest In suspense	(11,561)
Advanced discount	(640)
Net	**5,802,342**

Provision of impairment losses represents an amount of 158,416 thousands Egyptian pound of specific provision and an amount of 73,156 thousand Egyptian pound of collective provision.

3) Management of financial risk (continued)

A - Credit risk (continued)

A.6 Loans and advances (continued)

Net loans and advances to customers and banks as of 31 December 2011

	Individuals		Institutions		Total loans and advances to clients and banks
	Credit cards	Personal loans	Current accounts and direct loans	Syndication loans	
	EGP'000	EGP '000	EGP '000	EGP '000	EGP '000
Performing loans	-	10,718	3,062,348	2,557,542	5,630,608
Regular watch	9,324	6,968	181,118	-	197,410
Special watch	-	-	10,602	-	10,602
Non-performing loans	1,103	1,065	195,534	9,793	207,495
	10,427	18,751	3,449,602	2,567,335	**6,046,115**
Less: Provision for impairment					**(231,572)**
Interest in suspense					**(11,561)**
Advanced discount					**(640)**
Total					**5,802,342**

* Collateralized loans subject to impairment were not considered as irregular category taking into consideration the Bank's ability to realize the collateral.

The internal valuation method is used by the Bank to assess the credit quality of the portfolio of loans and advances which have not defaulted and therefore not subject to impairment.

3) Management of financial risk (continued)

A - Credit risk (continued)

A.6 Loans and advances (continued)

Loans and facilities to clients and banks in net as of 31 December 2010

	Individuals		Institutions		Total loans and facilities to clients and banks
	Credit cards	Personal loans	Current accounts and direct loans	Syndication loans	
	EGP'000	**EGP '000**	**EGP '000**	**EGP '000**	**EGP '000**
Performing loans	10,687	13,690	3,062,890	2,121,497	5,208,764
Regular watch	-	-	230,770	-	230,770
Special watch	-	-	32,995	-	32,995
Nonperforming loans	3,037	2,086	242,651	9,774	257,548
	13,724	**15,776**	**3,569,306**	**2,131,271**	**5,730,077**
Less:					
Provision for impairment					**(270,744)**
Interest in suspense					**(15,346)**
Total					**5,443,987**

Loans and facilities past due but not subject to impairment

Loans and advances less than 90 days past due are not considered as impaired, unless other information is available to indicate the contrary. Customers' loans and facilities with neither past due nor impaired, the fair value of the collateral related thereto are represented as follows:

Description	**31 December 2011** **current accounts** **EGP '000**
<u>Institutions</u>	
Past due up to 30 days	73,852
Past due 30 - 60 days	5,680
Past due 60-90 days	243,677
Total	**323,209**
Fair value of collateral	**381,981**

3) Management of financial risk (continued)

A - Credit risk (continued)

A.6 Loans and advances (continued)

At the time of initial recording loans and advances, the fair value of collateral are assessed based on the valuation techniques usually used with similar assets. In subsequent period, the fair value is updated at the market prices or similar assets prices.

Loans and advances individually subject to impairment

- **Customers loans and advances**

Loans and advances, assessed on an individual basis before cash flows from collaterals, are amounting to 205,325 Egyptian Pound.

Following is an analysis of the total value of the loans and advances individually subject to impairment including the fair value of the collaterals that the Bank received in return for such loans:

	31 December 2011 EGP '000	31 December 2010 EGP'000
Individually impaired loans	**205,325**	252,425
Fair value of guarantees	**113,578**	94,245

Loans and advances restructured

Restructuring activities include extended payment arrangements; execute obligatory management programs, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans; in particular customer finance loans Renegotiated loans that would otherwise be past due or impaired totalled at the end of the financial period.

Loans and advances Restructured Institutions	**31 December 2011 EGP '000**	31 December 2010 EGP '000
Direct loans	**48,214**	90,652

3) Management of financial risk (continued)

A - Credit risk (continued)

A.7 Debt instruments, treasury bills and other government securities

The following table represents the analysis of debt instruments, treasury bills and other government securities, according to rating agencies in the last financial year (based on an assessment of (Standard & Poor)

	Treasury bills and other government securities	Securities for trading	Investments in securities	Financial assets classified at fair value	Total
+AA	-	-	29,032	-	29,032
A	-	-	23,472	-	23,472
+BBB	-	-	37,898	-	37,898
+BB	-	-	68,521	-	68,521
+B	2,118,232	-	-	-	2,118,232
Unclassified	-	-	33,293	-	33,293
Total	2,118,232		192,216	-	2,310,448

3) Management of financial risk (continued)

A - Credit risk (continued)

A/8/ Centralization risk of financial assets exposure to credit risk.

A/8/1 Geographic sectors

The below table represent the analysis of exposure of credit risk for the Bank with the book value, distributed according to the geographic sector at the end of the period/ current year .In preparing this table the exposure was distributed according to the Bank customers' geographic region.

EGP, 000

	Arab Republic of Egypt						
	Greater Cairo	**Alexandria, delta and Sinai**	**Upper Egypt**	**Total**	**Gulf countries**	**Other countries**	**Grand Total**
Treasury bills and other government notes	886,328	-	-	**886,328**	-	-	**886,328**
Loans to individuals							
- credit cards	5,167	2,570	2,517	**10,254**	80	93	**10,427**
- personal loans	16,816	535	1,400	**18,751**	-	-	**18,751**
Corporate:							
- Overdrafts	50,937	6,490	25,492	**82,919**	55	6	**82,980**
- Direct loans	1,923,637	531,920	861,402	**3,316,959**	7,998	41,627	**3,366,584**
- Syndicated loans	2,509,769	11,413	46,153	**2,567,335**	-	-	**2,567,335**
- Bank loans	38	-	-	**38**	-	-	**38**
Financial investments							
- debt instruments	2,276,494	-	-	**2,276,494**	-	-	**2,276,494**
Total	7,669,186	552,928	936,964	**9,159,078**	8,133	41,726	**9,208,937**

Loan impairment provision	**(231,572)**
Interest in suspense	**(11,561)**
Advanced discount	**(640)**
Total	**8,865,164**

3) Management of financial risk (continued)

A - Credit risk (continued)

A.8/ Centralization risk of financial assets exposure to credit risk. (Continued)

A/8/2 Activity sectors

The below table represent the analysis of exposure of credit risk for the Bank with the book value, distributed according to the Bank customers'industry sector.

EGP, 000

	Financial institutions	Industrial institutions	Real estate activity	Wholesale and retail trade	Government sector	Other activity	Individual	**Total**
Treasury bills and other Government notes	-	-	-	-	886,328	-	-	**886,328**
Loans to individuals								
- credit cards	30	180	43	262	-	416	9,496	**10,427**
- personal loans	-	-	-	-	-	-	18,751	**18,751**
Corporate:								
- Overdrafts	226	33,353	4,825	7,834	-	35,666	1,076	**82,980**
- Direct loans	2,221	1,558,935	138,858	306,696	-	1,236,430	123,444	**3,366,584**
- Syndicated loans	-	1,127,903	289,959	-	-	1,040,296	109,177	**2,567,335**
- Bank loans	38	-	-	-	-	-	-	**38**
Financial investments								
- debt instruments	52,504	37,899	67,859	-	2,118,232	-	-	**2,276,494**
Total	55,019	2,758,270	501,544	314,792	3,004,560	2,312,808	261,944	**9,208,937**

Loan impairment provision	**(231,572)**
Interest in suspense	**(11,561)**
Advanced discount	**(640)**
Total	**8,965,164**

B- Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Bank Separates exposures to market risk into either trading or non-trading portfolios.

The market risks arising from trading and non-trading activities are concentrated in the Bank risk exposure department and are being monitored. Regular reports are submitted to the board of directors and heads of each business unit.

3) Management of financial risk (continued)
B - Market risk (continued)

Trading portfolios include those positions arising from mark to market transactions where the Bank acts as principal with customers or with the market non-trading portfolios primarily arising from the interest rate management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Bank's held-to-maturity and available-for-sale investments.

B.1 Market risks measurement techniques

As part of the management of market risk, the Bank undertakes various hedging strategies. The Bank also enters into interest rate swaps to match the interest rate risk associated with the fixed-rate long-term debt instruments and loans to which the fair value option has been applied. The major measurement techniques used to measure and control market risk are outlined below.

Value at risk

The Bank applies a 'value at risk' methodology (VAR) to its trading and non-trading portfolios, to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Board sets limits on the value of risk that may be accepted for the Bank, trading and non-trading separately, which are monitored on a daily basis by the Bank's treasury department.

VAR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the 'maximum' amount the Bank might lose, but only to a certain level of confidence (98%) the validity of the assumptions and parameters/factors used in the VAR calculation. There is therefore a specified statistical probability (2%) that actual losses could be greater than the VAR estimate. The VAR model assumes a certain 'holding period' until positions can be closed (10 days).

It also assumes that market moves occurring over this holding period will follow a similar pattern to those that have occurred over 10-day periods in the past. The Bank's assessment of past movements is based on data for the past five years. The Bank applies these historical changes in rates, prices, indices, etc. directly to its current positions − a method known as historical simulation. The Actual outcomes are monitored regularly to test the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

As VAR constitutes an integral part of the Bank's market risk control regime, VAR limits are established by the Board annually for all trading and non-trading portfolio operations and allocated to business units. Actual exposure against limits, together with a consolidated bank-wide VAR, is reviewed daily by the Bank risk treasury department.

3) Management of financial risk (continued)

B - Market risk (continued)

B.1 Market risks measurement techniques (continued)

Stress testing

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Bank risk department include: risk factor stress testing, where stress movements are applied to each risk category; emerging market stress testing, where emerging market portfolios are subject to stress movements; and ad hoc stress testing, which includes applying possible stress events to specific positions or regions − for example, the stress outcome to a region following a currency peg break. The results of the stress tests are reviewed by senior management in each business unit and by the board of directors. The stress testing is tailored to the business and typically uses scenario analysis.

B.2 Summary on the value at risk

Total value at risk by risk type **EGP, 000**

	Average	Higher	Lower
Risk of interest rate	**50.2**	**79.7**	**11.7**
Total value at risk	**50.2**	**79.7**	**11.7**

The increase of VAR especially the interest rate risk, mainly relates to the increased volatility of market interest rates in global principal financial markets.

VAR is calculated with individual form of the intended centres and the market historical movements.

3) Management of financial risk (continued)
B - Market risk (continued)
B.3 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarizes the Bank's exposure to foreign currency exchange rate risk and Bank's financial instruments at carrying amounts, categorized by currency.

- Currency risk concentration on the financial instruments

31 December 2011	Egyptian Pound	US Dollar	Euro	Sterling Pound	Other Currencies	Total
	EGP '000	EGP '000	EGP '000	EGP '000	EGP '000	EGP '000
Financial Assets:						
Cash and balance with Central Bank	653,572	108,508	5,541	1,024	838	769,483
Due from banks	1,995	1,985,761	451,181	40,294	4,577	2,483,808
Certificate deposits	-	60,330	-	-	-	60,330
Treasury bills and government notes	818,808	67,520	-	-	-	886,328
Loans and advances for customers and banks	3,674,729	2,005,539	122,035	39	-	5,802,342
Financial investments:						
Available for sale	2,190,085	-	-	-	-	2,190,085
Held to maturity	52,504	67,859	-	-	-	120,363
Other assets and fixed assets	530,856	10,763	460	10	-	542,089
Total financial assets	**7,922,549**	**4,306,280**	**579,217**	**41,367**	**5,415**	**12,854,828**
Financial liabilities:						
Due to banks	736,359	19,431	65,373	7	17	821,187
Customers' deposits	6,010,537	4,146,189	507,513	41,669	4,044	10,709,952
Other liabilities and provisions	151,603	65,157	1,063	55	4	217,882
Total financial liabilities	**6,898,499**	**4,230,777**	**573,949**	**41,731**	**4,065**	**11,749,021**
Net financial position of the balance sheet	**1,024,050**	**75,503**	**5,268**	**(364)**	**1,350**	**1,105,807**

B.4 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but profit may decrease in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate reprising that may be undertaken, which is monitored daily by risk department.

3) Management of financial risk (continued)

B - Market risk (continued)

B.4 Interest rate risk (continued)

The table below summarizes the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorized by the earlier of reprising or contractual maturity dates.

December 31, 2011	Up to 1 month	More than 1 month to 3 months	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years	Without return	Total
Financial Assets:	**EGP '000**	**EGP '000**	**EGP '000**	**EGP '000**	**EGP '000**	**EGP '000**	**EGP '000**
Cash and balances with Central Bank	-	-	-	-	-	769,483	769,483
Due from banks	-	2,392,818	90,990	-	-	-	2,483,808
Certificate deposits	-	60,330	-	-	-	-	60,330
Treasury bills and other government notes	-	9,776	876,552	-	-	-	886,328
Loans and advances to customers and banks	1,503,167	119,092	251,120	1,620,053	2,308,910	-	5,802,342
Financial investments:							
Available for sale	822	98,215	1,749,856	341,192	-	-	2,190,085
Held to maturity	-	-	-	120,363	-	-	120,363
Other assets and fixed assets	236,431	-	108,413	-	-	197,245	542,089
Total financial assets	**1,740,420**	**2,680,231**	**3,076,931**	**2,081,608**	**2,308,910**	**966,728**	**12,854,828**
Financial liabilities							
Due to banks	821,187	-	-	-	-	-	821,187
Customers' deposits	2,760,240	1,788,547	2,038,264	2,193,423	1,929,478	-	10,709,952
Other liabilities and provisions	-	-	174,456	43,426	-	-	217,882
Total financial liabilities	**2,581,427**	**1,788,547**	**2,212,720**	**2,236,849**	**1,929,478**	**-**	**11,749,021**

C- Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

3) Management of financial risk (continued)

C - Liquidity risk (continued)

Liquidity risk management

The Bank's liquidity management process, as carried out within the Bank and monitored by Risk management department, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or is borrowed by customers. **-** The Bank maintains an active presence in global money markets to enable this to happen.

- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow.

- Monitoring balance sheet liquidity ratios against internal and requirements of Central Bank of Egypt.

- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

Risk management department also monitors unmatched medium-term assets, the level and type of un drawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

Funding approach

Sources of liquidity are regularly reviewed by a Separate team in the risk management, to maintain a wide diversification by currency, provider, product and term.

D- Financial instruments measured at fair value

D.1 Financial instrument measured at fair value using valuation techniques

No change during the financial year in estimated fair value using valuation techniques

Due from banks

The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using Prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

3) Management of financial risk (continued)

D- Financial instruments measured at fair value (continued)

D.1 Financial instrument measured at fair value using valuation techniques (continued)

Loans and overdrafts to banks

Loans and banking facilities represented in loans not from deposits at banks. The expected fair value of the loans and facilities represents the discounted value of future cash flows expected to Be collected. Cash flows are discounted using the current market rate to determine fair value.

Loans and overdrafts to customers

Loans and Facilities are net of provisions for impairment. The estimated fair value of loans and Facilities represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Financial Investments

Investment securities include only interest-bearing assets held to maturity; assets classified as available for sale are measured at fair value. Fair value for held-to-maturity assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

Due to other banks and customers, other deposits and other borrowings

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing Deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

E- Capital management

The Bank's objectives when managing capital, which consists of another items in addition of owner's equity stated in balance sheet are:

- To comply with the capital requirements in Egypt and the countries in which the Bank's branches exist.
- To safeguard the Bank's ability to continue as going concern, so that it can continue to provide returns for shareholders and stakeholders dealing with the Banks.
- To maintain a strong capital base to support the growth of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee as implemented by the Central Bank of Egypt, for supervisory purposes. The required information is filed with the Authority on a quarterly basis.

3) Management of financial risk (continued)
E- Capital management (continued)

Central Bank of Egypt requires the following:

- Hold the minimum level of the issued and paid up capital of EGP 500 Million
- Maintain a ratio of total regulatory capital to the risk weighted asset or above the agreed minimum of 10%.

Capital adequacy ratio numerator consists of the two following tiers.

Tier one:
Tier one, consisting of paid-up capital (after deducting the book value of treasury shares), and retained earnings and reserves resulting from the distribution of profits with the exception of banking risk reserve and deducting there from previously recognized goodwill and any transferred loss

Tier two:
Qualifying subordinated loan capital, which consists of the equivalent of the risk allocation according to the principles of credit issued by the Central Bank of Egypt for not more than 1.25% of total assets and liabilities weighted with risk, loans / deposits support in excess of the schedule of five years (with consumption of 20% of their value in each year of the last five years of the schedule) and 45% of the increase between the fair value and book value for each of the financial investments available for sale, held to maturity and investment in subsidiaries / associates.

When calculating the total denominator of capital adequacy, it shall not exceed the capital cushions (Qualifying subordinated loan capital) for share capital and loans not to increase (deposits) support for half of the share capital.
The risk weighted assets ranging from zero to 100% reflect the associated credit risk of the debtor categories, taking in to consideration with the cash collateral. The same treatments are used for the off balance sheet items after any significant adjustments to reflect the nature of the potential loss.
The Bank had complied with all the local capital requirements during the financial period. The following table summarizes the Tier 1 and Tier 2 capital components and the capital adequacy ratio.

3) Management of financial risk (continued)

E- Capital management (continued)

	31 December 2011 EGP '000	31 December 2010 EGP'000
Capital		
(Tier 1 capital) Basic capital	**750,000**	600,000
Legal reserve	**101,128**	92,938
Other reserves	**(23,034)**	2,353
Retained earnings	**60,876**	131,637
Total qualifying Tier 1 capital	**888,970**	826,928
(Tier 2 capital) Backup capital		
General risks provision equivalent loans backup deposits	**87,095**	81,610
45% of the increase in fair value over the book value for available for sale, held to maturity and subsidiaries companies.	**-**	5,345
Total qualifying Tier 2 capital	**87,095**	86,955
Total capital	**976,065**	913,883
Risk-weighted assets:		
On-balance sheet	**6,964,519**	6,080,697
Off-balance sheet	**465,383**	448,131
Total risk-weighted assets	**7,429,902**	6,528,827
Capital Adequacy ratio (%)	**13.14%**	14.00%

4. Critical accounting estimates and judgments

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances and available information.

4) Critical accounting estimates and judgements (continued)

(a) Impairment losses for loans and overdraft

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence include observable data indicating that there has been an adverse change in the payment status of borrowers to repay the Bank, or national or local economic conditions that correlate with defaults on assets. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Impairment of available for-sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. Identifying significant or prolonged decline requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial situation of the invested, industry and sector performance, changes in technology, and operational and financing cash flows.

(c) Financial Investments held to maturity

The non-derivative financial assets with fixed or determinable payments and fixed maturity are being classified held to maturity. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments till maturity. If the Bank fails to keep these investments until maturity except in certain strictly defined circumstances such as selling an insignificant amount close to maturity it will be required to reclassify the entire category as available for sale. The investments would therefore be measured at fair value instead amortized cost and the classification of any such investments will be suspended.

(d) Income taxes

The Bank is subject to income taxes in relation with the operation of its branches abroad. This requires the use of significant estimations in order to determine the total provision for income tax. There are several operations and accounts for which the final tax cannot be determined with certainty. The Bank created provisions for the expected results of the tax inspection that is being conducted and to account for probable additional tax. When there is a difference between the final results of the tax and the pre recorded amounts, these differences will be adjusted against the income tax and the deferred income tax provision

5. Net interest income

Interest received from loans and similar items:	31 December 2011 EGP '000	31 December 2010 EGP '000
Customers loans and advances	**481,212**	433,649
Treasury bills and bonds	**323,371**	172,702
Deposits and current accounts	**4,825**	4,395
Total	**809,408**	610,746
Interest paid on deposits and similar items:		
Deposits and current accounts:		
To banks	**122,836**	59,042
To customers	**364,344**	271,496
Total	**487,180**	330,538
Net interest income	**322,228**	280,208

6. Net income from fees & commission

Fees & commissions income :	31 December 2011 EGP '000	31 December 2010 EGP '000
Fees & commissions related to credit	**80,825**	57,525
Custody fees	**5,041**	8,154
Other fees	**11,870**	4,588
Total		
Fees and commission expenses:	**97,736**	70,267
Other paid fees	**(1,306)**	(2,201)
Total	**(1,306)**	(2,201)
Net income from fees and commissions	**96,430**	68,066

7. Net trading income

	31 December 2011 EGP '000	31 December 2010 EGP '000
Foreign exchange gains	**24,158**	17,785
Profit /(losses) from trading equity instruments revaluation	**-**	(180)
Loss from swap	**-**	(3,629)
Net trading income	**24,158**	13,976

8. Administrative and general expenses and depreciation

	31-Dec-11 EGP '000	31-Dec-10 EGP '000
Staff cost		
Wages and salaries	**70,269**	64,890
Social insurances	**3,600**	3,394
Total staff cost	**73,869**	68,284
Depreciation	**22,533**	20,803
Other administrative expenses	**62,182**	63,243
Other impairment provision	**1,324**	10,609
Total administrative expenses	**159,908**	162,939

9. Other operating income

	31 December 2011 EGP '000	31 December 2010 EGP '000
Profits on disposal of fixes assets	**562**	1,210
Write back of excess provisions	**9,517**	-
Profit on sale fixed assets	**-**	415
Other revenues	**1,465**	**2,319**
Total	**11,544**	**3,944**

10. Impairment losses on loans

	31 December 2011 EGP '000	31 December 2010 EGP '000
Loan loss impairment	**47,689**	35,318
Total	**47,689**	35,318

11. Earnings per Share

12. Earning per share is calculated by dividing the net shareholders profits by the weighted average number of shares issued during the year.

	31 December 2011 EGP '000	31 December 2010 EGP '000
Net profit	195,868	164,348
Profit Share	(19,559)	(16,381)
Net profit for the period available for distribution	176,309	147,967
Weighted average number of shares	75,000	75,000
Basic earnings per share	2.35	1.97

13. Cash and balances with Central Bank of Egypt

	31 December 2011 EGP '000	31 December 2010 EGP '000
Cash	**278,384**	75,136
Other balances with Central Bank of Egypt	**3,016**	-
Mandatory reserve deposits with the Central Bank of Egypt	**488,083**	270,339
Total	**769,483**	345,475

14. Due from banks

	31 December 2011 EGP '000	31 December 2010 EGP '000
Current accounts	**127,774**	115,402
Deposits	**2,356,034**	960,131
Total	**2,483,808**	1,075,533
Consisting of :		
Deposits with Central Bank of Egypt other than mandatory reserve deposit	**391,561**	264,576
Deposits with local banks	**418,648**	299,295
Deposits with foreign bank	**1,673,599**	511,662
	2,483,808	1,075,533
Distributed to:		
Deposits without interest	**127,774**	115,402
Deposits with fixed interest	**2,356,034**	960,131
	2,483,808	1,075,533

13 (A) Certificates of deposits

	31 December 2011 EGP '000	31 December 2010 EGP '000
Certificates of Deposits Ahli united bank – Qatar (maturity 28 March 12)	**60,563**	**-**
Interest on advance	**(233)**	**-**
Total	**60,330**	**-**

15. Treasury bills and government notes

	31 December 2011 EGP '000	31 December 2010 EGP'000
91 Days maturity	**10,025**	9,900
182 Days maturity	**159,050**	270,750
365 Days maturity	**756,570**	887,650
Treasury bills-Repo		
Total	**925,645**	1,168,300
Unearned interest	**(39,317)**	(49,527)
Net	**886,328**	1,118,773

16. Loans and advances to customers

	31 December 2011 EGP '000	31 December 2010 EGP '000
Individuals		
Credit cards	**10,427**	13,724
Personal loans	**18,751**	15,776
Total (1)	**29,178**	29,500
Institutions including micro credits to economic enterprises		
Current accounts	**82,980**	67,391
Direct loans	**3,366,584**	3,501,879
Syndication loans	**2,567,335**	2,131,271
Total (2)	**6,016,899**	5,700,541
Total loans and advances to customers (1+2)	**6,046,077**	5,730,041
Less: provision for impairment loss	**(231,572)**	(270,744)
Less: Interest in suspense *	**(11,561)**	(15,346)
Advanced discount	**(640)**	-
Net distributed to:	**5,802,304**	5,443,951
Current balances	**1,779,206**	2,002,759
Non-current balances	**4,023,098**	3,441,192
Net loans and advances to customers	**5,802,304**	5,443,951
Loans and advances to banks	**38**	36

* Balance remaining before the start of new regulations.

15. Loans and advances to customers (continued)

Analysis of provision for impairment loss of loans and facilities to customers

	31 December 2011 EGP '000	31 December 2010 EGP' 000
Balance at the beginning of the year	**270,744**	190,546
Impairment provision for the period/ year (Note 10)	**47,689**	35,318
Provision in foreign currency revaluation diff.	**3,127**	4,169
Transfer between provisions	**22,003**	26,107
Recoveries from written off debts	**7,572**	15,439
Wright off during the year	**(119,563)**	(835)
Balance at the end of the year	**231,572**	270,744

Analysis of provision for impairment loss of loans and facilities by type:

	Retail Personal Loans EGP '000	Total EGP '000
Balance At Beginning Of The Period	**3,365**	3,365
Transfer between provision	**2,008**	2,008
Impairment provision for the period/ year (Note 10)	**86**	86
Provision used during the year	**(3,960)**	(3,960)
Balance At End Of The Period (1)	**1,499**	1,499

	Corporate Direct Loans EGP'000	Total EGP '000
Balance At Beginning Of The Period	**267,379**	**267,379**
Impairment provision for the period/ year	**47,603**	**47,603**
Recoveries from written off debts	**7,572**	**7,572**
Transfer from between provision	**19,995**	**19,995**
Reserve Revaluation Difference	**3,127**	**3,127**
Wright off during the year	**(115,603)**	**(115,603)**
Balance At End Of The Period (2)	**230,073**	**230,073**
Total (1) + (2)	**231,572**	**231,572**

17. Financial investments

	31 December 2011	31 December 2010
	EGP '000	EGP '000
Available for sale investments		
Debt instruments – fair value		
Listed (Treasury bills)	**1,817,620**	1,062,542
Listed (Nongovernmental Bonds)	**37,899**	39,996
Listed (Government Bonds)	**300,612**	300,706
Equity instruments - fair value		
Listed	**6,636**	7,338
Unlisted	**27,318**	26,405
Total financial investments available for sale	**2,190,085**	1,436,987
Financial investments held to maturity		
Golden pyramids plaza bonds due 2014 (listed)	**67,859**	87,073
Contact securitization bonds due 2017 (listed)	**52,504**	36,100
Total financial investments held to maturity	**120,363**	123,173
Total financial investments	**2,310,448**	1,560,160
Current balances	**33,954**	33,743
Noncurrent balances	**2,276,494**	1,526,417
	2,310,448	1,560,160
Equity instruments	**33,954**	33,743
Fixed interest debt instruments	**1,908,023**	1,102,538
Variable interest debt instruments	**368,471**	423,879
	2,310,448	1,560,160

***16. Financial investments* (continued)**

	Available for Sale Investments	Held to Maturity	Total
	EGP '000	EGP '000	EGP '000
Balance at January 1, 2011	1,436,987	123,173	1,560,160
Additions	826,383	24,060	850,443
Disposals	-31,975	-30,236	-62,211
Impairment losses	-277	-	-277
Differences in revaluation of the cash assets in foreign currencies	-	3,405	3,405
Profit (losses) from fair value deference	-40,671	-	-40,671
Amortization of discount	-362	-39	-401
Balance at December 31, 2011	2,190,085	120,363	2,310,448

18. Profit (losses) from financial investment

	31 December 2011 EGP '000	31 December 2010 EGP '000
Profit from sale of available for sale investments	-	18,420
Profit from sale of financial assets for trading	-	140
Impairment losses	(277)	-
Profit from treasury bills	2,786	1,329
	2,509	19,889

19. Other assets

	31 December 2011 EGP '000	31 December 2010 EGP '000
Accrued revenue	**152,535**	121,370
Prepaid expenses	**4,354**	3,724
Advances for purchase of fixed assets	**10,844**	12,376
Payment for new H.Q project *	**104,818**	66,078
Assets acquired as settlement of debts	**36,448**	29,780
Petty cash	**3,936**	4,271
Other assets	**31,909**	25,875
Total	**344,844**	263,474

* includes interest capitalization of EGP 7.4 million for the construction cost of the Bank's new head office.

20. Fixed assets

EGP '000

	Lands and buildings	**Leased assets improvements**	**Equipment and machinery**	**Other assets**	**Total**
Net book value as of January 01, 2011	72,653	67,797	13,236	51,261	**204,929**
Additions	2,852	4,455	1,108	6,416	**14,822**
Depreciation cost	(2,002)	(5,667)	(1,841)	(13,023)	**(22,530)**
Net book value 31 December 2011	73,503	66,585	12,503	44,654	**197,221**
Balance at the end of current period represents in					
Cost	93,498	89,881	22,526	109,466	**315,371**
Accumulated depreciation	(19,995)	(23,296)	(10,023)	(64,812)	**(118,126)**
Net book value at 31 December 2011	73,503	66,585	12,503	44,654	**197,245**

Fixed assets (after depreciation) at the balance sheet date include the amount of 8, 074 thousand Egyptian pounds non registered assets while their registrations procedures are in progress.

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21. Due to banks

	31 December 2011 EGP '000	31 December 2010 EGP '000
Foreign banks	**85,797**	54,072
Local banks	**735,390**	600,528
	821,187	654,600

22. Customers' deposits

	31 December 2011 EGP '000	31 December 2010 EGP '000
Demand deposits	**1,893,855**	1,203,680
Time deposits	**5,811,978**	4,857,087
Certificates of deposit	**1,983,510**	1,051,489
Saving deposits	**867,124**	815,903
Other deposits	**153,485**	174,623
	10,709,952	8,102,782
Corporate deposits	**7,318,348**	5,571,501
Retail deposits	**3,391,604**	2,531,281
	10,709,952	8,102,782
Non-interest bearing balances	**2,047,340**	1,378,303
Floating-interest bearing balances	**6,679,102**	5,672,990
Fixed interest bearing balances	**1,983,510**	1,051,489
	10,709,952	8,102,782
Current balances	**8,726,442**	7,051,293
Non-current balances	**1,983,510**	1,051,489
	10,709,952	8,102,782

23. Other liabilities

	31 December 2011 EGP '000	31 December 2010 EGP '000
Accrued interest	**69,591**	52,400
Clearing operations – CBE	**3,912**	23,674
Transmission deposits	**26,087**	22,026
Tax payable	**15,418**	10,043
Advanced revenue	**18,387**	10,000
Accrued expenses	**12,122**	12,578
Distributions creditors	**305**	1,141
Other credit balances	**17,616**	11,310
Total	**163,438**	143,172

24. Other provisions

31 December 2011

	Provisions for contingent claims EGP '000	(Other) claims provision EGP '000	Fixed contingent liabilities EGP '000	Total EGP '000
Balance at beginning of year	**18,609**	**47,004**	**19,258**	**84,871**
Transfer between provisions	**-**	**(19,995)**	**(2,008)**	**(22,003)**
Charged during the period	**1,324**	**-**	**-**	**1,324**
Utilized during the year	**(139)**	**(536)**	**-**	**(675)**
Revaluation difference	**170**	**32**	**243**	**445**
Provision no longer required	**(9,517)**	**-**	**-**	**(9,517)**
Balance at end of year	**10,447**	**26,505**	**17,493**	**54,445**

23. Other provisions (continued)

31 December 2010

	Provisions for contingent claims EGP '000	Other claims provision EGP '000	Fixed contingent liabilities EGP '000	Total EGP '000
Balance at beginning of year	16,245	71,477	18,914	106,636
Charged during the year	4,347	6,262	-	10,609
Used during the year	(1,983)	(4,628)	-	(6,611)
Transfer to loans provision	-	(26,107)	-	(26,107)
Revaluation difference	-	-	344	344
Balance at end of year	18,609	47,004	19,258	84,871

25. Deferred tax

	31 December 2011 EGP '000	31 December 2010 EGP '000
Fixed assets	**(8,687)**	(6,961)
Provision	**9,365**	7,573
Net deferred tax	**678**	612

26. Capital

	Number of shares	**Number of Ordinary shares**	**Total Number of shares**
Balance on January 1, 2011 Bones share	60,000	60,000	60,000
	15,000	15,000	15,000
Balance on 31 December 2011	75,000	75,000	75,000

Authorized capital is 1 billion Egyptian Pound and the issued and paid in capital reached 750 million Egyptian Pounds with a nominal value of 10 Egyptian Pound per share and all issued shares are paid fully.

27. Reserves

	31 December 2011 EGP '000	31 December 2010 EGP '000
Special reserve	**3,087**	3,087
General bank risk reserves	**8,792**	8,792
Legal reserve	**101,128**	92,938
Capital reserves	**2,768**	2,353
Fair value reserve- available for sale financial investments	**(25,802)**	14,869
Total reserves at the end of financial period	**89,973**	122,039

A. General banking risks reserve*

	31 December 2011 EGP '000	31 December 2010 EGP '000
Balance at the beginning of the year	**8,792**	3,458
Transferred from retained earnings	**-**	5,334
Balance at the end of the period	**8,792**	8,792

* Instructions of the Central Bank of Egypt require the creation of general banking risk reserve to face unexpected risk. No distribution from this reserve shall be made until obtaining the prior approval of the Central Bank of Egypt. According to the requirements of preparation and presentation of the Banks' financial statements and the recognition and measurement principles issued by the board of directors of the Central Bank of Egypt on December 16, 2008, the method of measurement of the loans, advances and other debt instruments impairment which are measured at amortized cost.
The total increase in capital available on December 1, 2009 had been transferred in accordance with the new method to the general banking risk reserve.

26. Reserves (continued)

B. Legal reserve*

	31 December 2011 EGP '000	31 December 2010 EGP '000
Balance at the beginning of the year	**92,938**	84,826
Transfer from profit of the period / year	**8,190**	8,112
Balance at the end of the financial year	**101,128**	92,938

* According to the Bank's Articles of Association, 5% of the year's net profits are transferred to the legal reserve; the transfer to legal reserve shall be suspended when the balance thereof exceeds 50% of the total issued capital.

C. Fair value reserve – available for sale financial investments

	31 December 2011 EGP '000	31 December 2010 EGP '000
Balance at the beginning of the financial year	**14,869**	20,000
Cumulative changes in the fair value	**(40,671)**	(5,131)
Balance of the end of financial year / period	**(25,802)**	14,869

D. Retained earning

	31 December 2011 EGP '000	31 December 2010 EGP '000
Balance at the beginning of the financial year	**295,467**	220,750
Transfer to legal reserve	**(8,190)**	(8,112)
Cash dividends	**(60,000)**	(60,000)
Employees' profit share	**(16,381)**	(15,412)
Transfer to bonus shares	**(150,000)**	-
Transfer to general bank risk reserve	**-**	(5,334)
Non-controlling interest	**(67)**	(547)
Transfer to Capital reserve	**(415)**	(255)
Net profit for the period/year	**195,935**	164,377
Balance at the end of the financial period /year	**256,349**	295,467

28. Cash and cash equivalent for cash flow purpose

	31 December 2011 EGP '000	31 December 2010 EGP '000
Cash and due from central Bank(12)	**769,483**	345,475
Due from banks (13)	**127,774**	115,402
Treasury bills and other government notes	**9,776**	9,661
	907,033	470,538

29. Contingent liabilities and commitments

Liabilities against letters of credit, documentary credits and other commitments:

	31 December 2011 EGP '000	31 December 2010 EGP '000
Accepted securities	**19,315**	11,512
Letters of guarantee	**858,197**	907,371
Letter of credit /import	**243,958**	116,175
Letter of credit / export	**1,495**	55,971
Forward exchange contracts	**363,614**	-
	1,486,579	1,091,029

30. Related party transactions

The bank is controlled by the parent bank, Ahli United Bank - Bahrain B.S.C. which owns 85.14 % of the ordinary shares. As for the remaining 14.86 %, it is owned by other shareholders.

Following are related party transactions and balances during the financial year / period ended at 31 December 2011:

	31 December 2011 EGP '000	**31 December 2010** EGP '000
Deposits	**224**	1,053
Due from Banks	**114,606**	97,040
Due to Banks	**8,887**	43,981

31. Comparative Figures

Some comparative figures have been reclassified to conform to the presentation of financial statements for the period.