

**EXPORT DEVELOPMENT BANK OF EGYPT (S.A.E.)**  
**THE UNCONSOLIDATED FINANCIAL STATEMENTS**  
**AND AUDITORS' REPORT**  
**FOR THE YEAR ENDED**  
**30 June 2011**

Translation of Auditors' report  
Originally issued in Arabic

**Auditors' REPORT**  
**On the unconsolidated financial statements**  
**Of Export Development Bank of Egypt (S.A.E.) as at 30 June 2011**

**To the shareholders**

We have audited the accompanying unconsolidated financial statements of Export Development Bank of Egypt (S.A.E.), which comprise the unconsolidated balance sheet as at 30 June, 2011 and the unconsolidated statements of income, changes in equity and cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory notes.

**Management's responsibility for the unconsolidated Financial Statements**

These unconsolidated financial statements are the responsibility of Bank's management. Management is responsible for the preparation and fair presentation of these unconsolidated financial statements in accordance with central bank of Egypt's rules, pertaining to the preparation and presentation & the financial statements and its amendments, including amendments that relates to financial investments issued on December 16, 2008 and in light of the prevailing Egyptian laws, management responsibility includes, designing , implementing internal control relevant to the preparation and fair presentation of unconsolidated financial statements that are free from material misstatements, whether due to fraud or error; management 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 unconsolidated financial statements based on our audit. We conducted our audit in accordance with Egyptian Standards on Auditing and in the light of the prevailing Egyptian laws. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the unconsolidated financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 entity'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 entity'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 financial statement presentation.

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

## Opinion

In our opinion, the unconsolidated financial statements, referred to above, present fairly, in all material respects, the unconsolidated financial position of the Export Development Bank of Egypt as of June 30, 2011 and of its financial performance and its cash flows for the year then ended in accordance with Central Bank of Egypt's rules pertaining to the preparation and presentation of financial statements issued on December 16, 2008 and the Egyptian laws and regulations relating to the preparation of these financial statements.

## Report On Other Legal and Regulatory Requirements

According to the information and explanations given to us – during the financial year ended June 30, 2011 no contravention of the central bank, banking and monetary institution law No. 88 of 2003.

The Bank maintains proper books of accounting, which include all that is required by the law and by the statutes of the Bank; the unconsolidated financial statements are in agreement thereto.

The unconsolidated financial information included in the Board of Director's report, prepared in accordance with Law No. 159 of 1981 and its executive regulations, is in agreement with the Bank's books of account.

Cairo, 5/10/2011

## Banks' Auditors

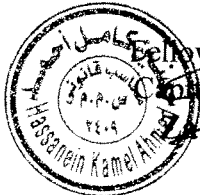
**Hassanein Kamel Ahmed**

R.A.A. 2409

Fellow of Egyptian Tax Society

Capital Market Authority. R(2)

Brook & Co. RODL



**Fatma Mohamed Salah El-Din El-Menshawey**

*Fatma Salah*

Central Auditing Organization

Export Development Bank of Egypt (S.A.E.)

**Unconsolidated Balance Sheet**

As at 30 June 2011

	<u>Note</u>	<u>30 June 2011</u> <u>EGP</u>	<u>30 June 2010</u> <u>EGP</u>
<b>Assets</b>			
Cash and due from Central Bank of Egypt	(14)	1,053,466,482	571,768,138
Due from banks	(15)	690,816,101	786,891,578
Treasury bills and other governmental notes	(16)	827,174,397	610,265,221
Trading financial assets	(17)	190,737,578	208,026,048
Loans to customers	(18)	6,441,795,141	6,780,729,946
Financial Derivatives		0	163,722,545
<b>Financial Investments:</b>			
-Available for sale	(19)	2,180,202,176	2,118,584,726
-Held to maturity	(19)	80,072,133	30,718,400
Financial investments in subsidiaries and associated co.	(20)	551,364,061	377,888,466
Intangible assets	(21)	18,067,504	4,259,107
Other assets	(22)	649,032,498	604,147,262
Fixed assets	(23)	152,010,614	151,175,852
<b>Total Assets</b>		<b>12,834,738,685</b>	<b>12,408,177,289</b>
<b>Liabilities and shareholders' equity</b>			
<b>Liabilities</b>			
Due to banks	(24)	392,934,743	564,798,673
Customers' deposits	(25)	9,835,134,267	8,752,881,041
Financial Derivatives		0	164,195,253
Other loans	(26)	802,612,545	1,079,505,218
Other liabilities	(27)	108,962,152	265,073,825
Other provisions	(28)	23,398,344	40,675,341
Deferred tax	(29)	10,318,127	10,457,322
<b>Total liabilities</b>		<b>11,173,360,178</b>	<b>10,877,586,673</b>
<b>Shareholders' equity</b>			
Paid up capital	(30)	1,440,000,000	1,200,000,000
Reserves	(30)	31,750,457	160,369,354
Retained Earnings	(30)	189,628,050	170,221,262
<b>Total shareholders' equity</b>		<b>1,661,378,507</b>	<b>1,530,590,616</b>
<b>Total liabilities and shareholders' equity</b>		<b>12,834,738,685</b>	<b>12,408,177,289</b>
<b>Contingent liabilities and commitments</b>			
Liabilities against letters of guarantee, Documentary credits and other commitments	(33)	2,461,528,973	2,352,854,578

- The accompanying notes are an integral part of these financial statements.
- Auditors' report attached.

  
Maged Fahmy Attiya


Chairman

Bank's Auditors

Hassanein Kamel Ahmed

R.A.A. 2409  
Fellow of Egyptian Tax Society  
Capital Market Authority. R(2)  
Zarook & Co. RODL

Fatma Mohamed Salah El-Din El-Menshawey

  
Fatma Salah  
Central Auditing Organization

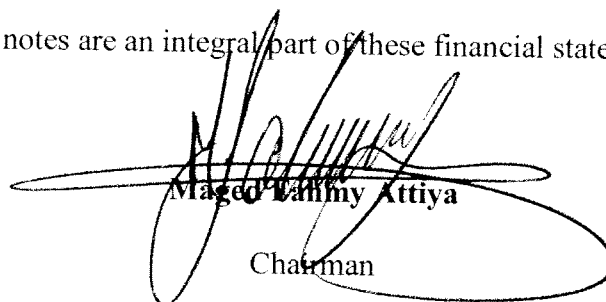
Export Development Bank Of Egypt (S.A.E.)

**Unconsolidated Income Statement**

For the year ended 30 June 2011

	<u>Note</u>	<u>30 June 2011</u> <u>EGP</u>	<u>30 June 2010</u> <u>EGP</u>
Interest and similar income	(5)	828,884,475	839,752,632
Deposits and similar expenses	(5)	(581,432,893)	(548,674,789)
<b>Net Interest Income</b>		<u>247,451,582</u>	<u>291,077,843</u>
Fees and commissions Income	(6)	98,698,302	107,033,782
Fees and commissions Expenses	(6)	(5,094,293)	(3,237,218)
<b>Net income from fees &amp; commissions</b>		<u>93,604,009</u>	<u>103,796,564</u>
Dividends Income	(7)	14,667,275	20,454,073
Net Trading Income	(8)	49,669,068	27,304,272
Profit from Financial Investments	(19)	47,858,926	65,637,401
Impairment of credit losses	(11)	(42,522,134)	(15,262,875)
Administrative expenses	(9)	(227,012,989)	(201,593,189)
Other operating income (expense)	(10)	9,337,041	55,714,400
<b>Net profit before Tax</b>		<u>193,052,778</u>	<u>347,128,489</u>
Income Tax	(12)	(31,785,185)	(43,591,174)
Deferred tax		139,195	(683,840)
<b>Net profit for the year</b>		<u><b>161,406,788</b></u>	<u><b>302,853,475</b></u>
Earnings per share	(13)	<u>0.98</u>	<u>2.24</u>

➤ The accompanying notes are an integral part of these financial statements.

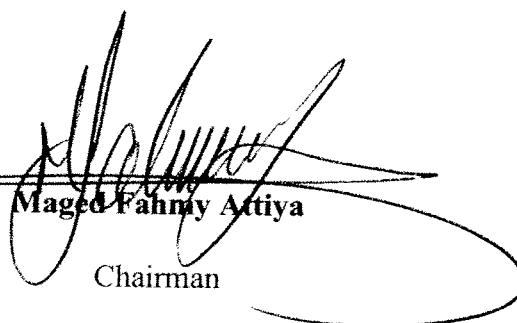
  
**Maged Elhany Attiya**  
 Chairman

Export Development Bank Of Egypt (S.A.E.)

**STATEMENT OF PROFIT APPROPRIATION**

For the year ended 30 June 2011

	<u>30 June 2011</u> <u>EGP</u>	<u>30 June 2010</u> <u>EGP</u>
Net profit for the year	161,406,788	302,853,475
<b><u>Less:</u></b>		
Gain on sale of fixed assets (transferred to capital reserve)	(784,250)	(425,825)
General Banking Risks Reserve	(40,428,614)	(20,537,124)
Change effect in accounting policies	0	8,588,063
Net profit for the year – available for appropriation	120,193,924	290,478,589
Accumulated profit at the beginning of the year	28,221,262	74,683,594
<b>Total</b>	<b><u>148,415,186</u></b>	<b><u>365,162,183</u></b>
<b><u>Distributed as follows:</u></b>		
Legal reserve	16,062,253	28,362,151
General reserve	0	0
Special reserve	0	12,678,770
Dividends to the shareholders	82,080,000	120,000,000
Employees' profit share	16,320,000	28,400,000
Board of directors' remuneration	3,300,000	5,500,000
Accumulated profit at the end of the year	30,652,933	170,221,262
<b>Total</b>	<b><u>148,415,186</u></b>	<b><u>365,162,183</u></b>

  
**Maged Fahmy Attiya**  
 Chairman

Export Development Bank Of Egypt (S.A.E.)

**Unconsolidated Statement of Cash flows**

For the year ended 30 June 2011

	<u>30 June 2011</u> <u>EGP</u>	<u>30 June 2010</u> <u>EGP</u>
<b><u>Cash flows from operating activities</u></b>		
Net profit before income tax	193,052,778	347,128,489
<b><u>Adjustments to reconcile net profit to cash provided from operating activities:</u></b>		
Depreciation	28,414,170	13,986,670
Impairment of assets	68,064,561	72,592,872
(Reversal ) Impairment of other Provisions	(195,401)	0
Foreign currencies revaluation differences of provisions (other than provision for doubtful debts)	445,899	(215,967)
(Gain) on sale of fixed assets	(784,250)	(425,825)
Operating profit before changes in assets and liabilities used in operating activities	<u>288,997,757</u>	<u>433,066,239</u>
<b><u>Net decrease (increase) in Assets &amp; Liabilities</u></b>		
Due from banks	(487,693,435)	78,189,566
Treasury bills and other governmental notes	(411,175,000)	927,900,000
Trading financial assets	33,209,285	(13,308,323)
Loans to customers	268,843,999	424,539,680
Financial Derivatives (Net)	(472,708)	0
Other assets	(11,639,595)	(256,119,488)
Due to banks	(171,863,930)	(554,012,376)
Customers' deposits	1,082,253,226	260,991,933
Other liabilities	23,328,327	158,071,317
Income tax paid	(31,785,185)	(43,591,174)
<b>Net cash flows provided from operating activities</b>	<b><u>582,002,741</u></b>	<b><u>1,415,727,374</u></b>
<b><u>Cash flows from investing activities</u></b>		
Purchase of fixed assets and branches improvements	(40,538,577)	(50,182,429)
Proceeds from sale of fixed assets	805,850	425,825
Financial investments other than trading financial assets	(241,715,570)	(538,106,448)
Financial investments in subsidiaries and associated co.	(116,134,703)	(146,561,013)
Purchase of intangible assets	(25,272,635)	(4,259,107)
<b>Net cash flows (used in) investing activities</b>	<b><u>(422,855,635)</u></b>	<b><u>(738,683,172)</u></b>
<b><u>Cash flows from financing activities</u></b>		
Net proceeds (repayments) from debt instruments & other loans	(276,892,674)	(263,167,207)
Paid Dividends	(153,900,000)	(150,000,000)
<b>Net cash flows (used in) financing activities</b>	<b><u>(430,792,674)</u></b>	<b><u>(413,167,207)</u></b>
Net (decrease) increase in cash and cash equivalents during the year	(271,645,568)	263,876,995
Cash and cash equivalents at the beginning of the year	1,055,249,851	791,372,856
<b>Cash and cash equivalents at the end of the year</b>	<b><u>783,604,283</u></b>	<b><u>1,055,249,851</u></b>
<b><u>Cash and cash equivalents are represented in:</u></b>		
Cash and due from Central Bank of Egypt	1,053,466,482	571,768,138
Due from banks	690,816,101	786,891,578
Treasury bills and other governmental notes	876,700,000	635,100,000
Balances with Central bank of Egypt (Mandatory reserve)	(1,032,632,805)	(552,568,058)
Balances due from Banks with maturities more than three months	(28,045,495)	(20,416,807)
Treasury bills and other governmental notes with maturities more than three months	(776,700,000)	(365,525,000)
<b>Cash and cash equivalents at the end of the year</b>	<b><u>783,604,283</u></b>	<b><u>1,055,249,851</u></b>

➤ The accompanying notes are an integral part of these financial statements.

**Unconsolidated Statement of Changes in Shareholders' Equity**  
For the year ended 30 June 2010

<u>June 30, 2010</u>	<u>Capital</u>	<u>General Banking Risk Reserve</u>	<u>General Banking Risk Reserve Acquired Assets</u>	<u>Legal Reserve</u>	<u>General Reserve</u>	<u>Reserve of revaluation of available for sale investments</u>	<u>Special Reserve</u>	<u>Capital Reserves</u>	<u>Retained Earnings</u>	<u>Net Profit for the year</u>	<u>Total</u>
	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP
Balance at the beginning of the year	1,200,000,000	0	0	70,391,403	0	(77,325,517)	22,440,170	699,660	74,683,594	0	1,290,889,310
Net profit for the year	0	0	0	0	0	0	0	0	302,853,475	0	302,853,475
Change effect in accounting policies	0	0	0	0	0	0	0	0	8,588,063	0	8,588,063
Dividends paid	0	0	0	0	0	0	0	0	(153,900,000)	0	(153,900,000)
Transferred to reserves	0	20,537,124	0	28,362,151	0	0	12,678,770	425,825	(62,003,870)	0	0
Net change in available- for- sale investments	0	0	0	0	0	82,159,768	0	0	0	0	82,159,768
<b>Balance at the end of the year</b>	<b>1,200,000,000</b>	<b>20,537,124</b>	<b>0</b>	<b>98,753,554</b>	<b>0</b>	<b>4,834,251</b>	<b>35,118,940</b>	<b>1,125,485</b>	<b>170,221,262</b>	<b>0</b>	<b>1,530,590,616</b>



**Unconsolidated Statement of Changes in Shareholders' Equity**  
For the year ended 30 June 2011

<u>June 30, 2011</u>	<u>Capital</u>	<u>General Banking Reserve</u>	<u>General Banking Risk Reserve</u>	<u>General Banking Risk Reserve Acquired Assets</u>	<u>Legal Reserve</u>	<u>General Reserve</u>	<u>Reserve of revaluation of available for sale investments</u>	<u>Special Reserves</u>	<u>Capital Reserves</u>	<u>Retained Earnings</u>	<u>Net profit for the year</u>	<u>Total</u>
	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>
Balance at the beginning of the year	1,200,000,000	20,537,124	0	0	98,753,554	0	4,834,251	35,118,940	1,125,485	170,221,262	0	1,530,590,616
Net profit for the year	0	0	0	0	0	0	0	0	0	0	161,406,788	161,406,788
Capital Increase	240,000,000	0	0	0	(98,000,000)	0	0	0	0	(142,000,000)	0	0
Net change in available- for- sale investments	0	0	0	0	0	0	(35,418,119)	0	0	0	0	(35,418,119)
Net change in Acquired Assets	0	0	4,799,222	0	0	0	0	0	0	0	0	4,799,222
<b>Balance at the end of the year</b>	<b>1,440,000,000</b>	<b>20,537,124</b>	<b>4,799,222</b>	<b>753,554</b>	<b>(30,583,868)</b>	<b>35,118,940</b>	<b>1,125,485</b>	<b>28,221,262</b>	<b>161,406,788</b>	<b>1,661,378,507</b>		

**Notes to the Unconsolidated Financial Statements**

For the year ended 30 June 2011

**1. General information**

Export Development Bank of Egypt (Egyptian Joint Stock Company) was established on July 30, 1983 under Law No. 95 of 1983 and its executive regulations. The objective of the Bank is to encourage, develop Egyptian export activities, and assist in developing agricultural, industrial, and commercial and service exporting sectors, also to provide all investment banking services in local and foreign currencies through its head office and fifteen branches.

**2. Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**2.1 Basis of preparation of the financial statements**

The financial statements have been prepared in accordance with Egyptian Accounting Standards issued in 2006 and its amendments and in accordance with the instructions of the Central Bank of Egypt approved by the Board of Directors on December 16, 2008 consistent with the Standards referred to, and have been prepared under the historical cost modified by the revaluation of trading, financial assets and liabilities held for trading, and assets and liabilities originally classified as at fair value through profit or loss, financial investments available for sale and all derivatives contracts. The unconsolidated preparation of these financial statements was according to relevant domestic laws.

The bank also prepared consolidated financial statements of the Bank and its subsidiaries in accordance with Egyptian Accounting Standards, the subsidiaries companies are entirely included in the consolidated financial statements and these companies are the companies that the bank which - directly or indirectly - has more than half of the voting rights or has the ability to control the financial and operating policies of an enterprise, regardless of the type of activity, the consolidated financial statements of the Bank can be obtained from the Bank's management. The investments in subsidiaries and associate Companies are disclosed in the standalone financial statements of the Bank and its accounting treatment is at cost after deducting the impairment losses from it.

Upon the preparation of the financial statements for the financial year ended 30 June 2011, the Bank's management changed certain accounting policies, and basis of recognition and measurement in compliance with the new Accounting Standards and the Basis of Preparation of the Banks' financial statements and Principles of Recognition and Measurement as issued by the CBE's Board of Directors on December 16, 2008.

**2.2 Subsidiaries and Associates**

**(a) Subsidiaries**

Subsidiaries are all entities over which the Bank has owned directly or indirectly 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.

**Notes to the Unconsolidated Financial Statements**

For the year ended 30 June 2011

**(b) Associates**

Associates are all entities over which the Bank has significant influence directly or indirectly but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The Accounting for subsidiaries and associates in the unconsolidated financial statements are recorded by cost method, investments are recognized by the cost of acquisition including any good will, deducting impairment losses in value, and recording the dividends in the income statement in the adoption of the distribution of these profits and evidence of the bank right to collect it.

**2.3 Segment reporting**

A business segment is a group of assets and operations related to 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.

**2.4 Foreign currency translation**

**(a) Functional and presentation currency**

The financial statements are presented in Egyptian pound, which is the Bank's functional and presentation currency.

**(b) Transactions and balances in foreign currencies**

- The bank hold accounts in Egyptian pounds and prove transactions in other currencies during the financial year on the basis of prevailing exchange rates at the date of the transaction, and re-evaluation of balances of assets and liabilities of other monetary currencies at the end of the financial period on the basis of prevailing exchange rates at that date, and is recognized in the list Gains and losses resulting from the settlement of such transactions and the differences resulting from the assessment within the following items:
  - Net trading income or net income from financial instruments classified at fair value through profit and loss of assets / liabilities held for trading or those classified at fair value through profit and loss according to type.
  - Other operating revenues (expenses) for the rest of the items.
- Changes in the fair value of monetary financial instruments denominated in foreign currencies and classified as available for sale investments (debt instruments) are analyzed into valuation differences resulting from changes in amortized cost of the instrument, translation differences arising from changes in foreign exchange rates and differences resulting from changes in the fair value of the instrument. Valuation differences are recognized in profit or loss to the extent they relate to changes in amortized cost and changes in exchange rates which are reported in the income statement under the line items 'revenues from loans and similar activities' and 'other operating revenues (expenses)' respectively. The remaining differences resulting from changes in fair value of the instrument are carried to 'reserve for cumulative change in fair value of available for sale investments' in the equity section.
- Valuation differences resulting from measuring the non-monetary financial instruments at fair value include gains and losses resulting from changes in fair value of those items. Revaluation differences arising from the measurement of equity instruments classified as at fair value through profit or loss are recognized in the income statement, whereas the revaluation differences arising from the

**Notes to the Unconsolidated Financial Statements**

For the year ended 30 June 2011

measurement of equity instruments classified as available for sale financial investments are carried to 'reserve for cumulative change in fair value of available for sale investments' in the equity section.

**2.5 Financial assets**

The Bank classifies its financial assets in the following categories:

Financial assets classified as at fair value through profits or loss, loans and receivables, held to maturity financial assets, and available for sale financial assets. The Bank's classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Management determines the classification of its investments at initial recognition.

**(a) Financial assets classified at fair value through profit or loss**

This category has 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:

- doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortized cost for 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.
- 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.

Any financial derivative of a valued financial instruments at fair value Not be reclassified Through profit and loss during the retention period or force It also does not re-classification any financial instrument, quoting from a range of financial instruments at fair value through profit and loss if this tool has been customized by the bank at initial recognition As assessed at fair value through profit and loss.

According to the financial assets for trading which are reclassified in the periods that begin form or after first of Jan 2009 it is reclassified according to the fair value in the date of reclassification.

Bank in all conditions doesn't reclassify any financial instrument moving to programs of financial instruments reclassified with fair value from profit and loss or to financial assets program for trading.

**(b) 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: (a) 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; (b) those that the bank upon initial

**Notes to the Unconsolidated Financial Statements**

For the year ended 30 June 2011

recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

**(c) Held-to-maturity financial investments**

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 unless in the necessary cases.

**(d) Available-for-sale financial investments**

Available-for-sale investments are those intended to be held for an indefinite 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 is applied to financial assets**

- Regular-way purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognized on trade-date – the date on which the Bank commits to purchase or sell the asset.
- Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit and loss are initially recognized at fair value, and transaction costs are expensed in the income statement.
- Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when they are extinguished – that is, when the obligation is discharged, cancelled or expires.
- Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method.
- Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are recognized in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in equity, until the financial asset is derecognized or impaired. At this time, the accumulative gain or loss previously recognized in equity is recognized in profit or loss.
- Interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognized in the income statement. Dividends on available-for-sale equity instruments are recognized in the income statement when the bank's right to receive payment is established.
- The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, or no current demand prices available the Bank establishes fair value using valuation techniques. These include the use of recent arm's length transactions,

**Notes to the Unconsolidated Financial Statements**

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- discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. If the bank had been unable to estimate the fair value of equity instruments classified available for sale, value is measured at cost less any impairment in value.
- The Bank reclassifies the financial asset which was classified as a financial instrument available for sale, which left the definition of loans and debts (bonds or loans), to be classified to the group of loans and receivables or financial assets held to maturity - all as the case - when available. The Bank has the intent and ability to hold these financial assets in the foreseeable future or until maturity and reclassification to be booked by fair value at reclassification date, and not process any profits or losses on those assets that have been recognized previously in equity and in the following manner:
    - 1 - In case of reclassification of financial asset, which has a fixed maturity, are amortized gains or losses over the remaining life of the investment retained until the maturity date in a manner effective yield is consumed. Any difference between the value on the basis of amortized cost and value on an accrual basis over the remaining life of the financial asset using the effective yield method, and in the case of the decay of the value of the financial asset is later recognition of any gain or loss previously recognized directly in equity in the profits and losses.
    - 2 - in the case of financial asset which has no fixed maturity continue to profit or loss in equity until the sale of the asset or to dispose of it, then be recognized in the profit and loss. In the case of erosion of the value of the financial asset is later recognition of any gain or loss previously recognized directly within equity in the profits and losses.
  - If the Bank to adjust its estimates of payments or receipts are the settlement of the carrying amount of the financial asset (or group of financial assets) to reflect the actual cash inflows and the adjusted estimates to be recalculated book value and then calculates the present value of estimated future cash flows at the effective yield of the financial instrument and is recognized settlement recognized as income or expense in the profit and loss.
  - In all cases, if the bank re-Tab financial asset in accordance with what is referred to The Bank at a later date to increase its estimate of the proceeds of future cash result of the increase will be recovered from the cash receipts, is the recognition of the impact of this increase in settlement of the interest rate effective from the date of change in the estimate and not in settlement of the balance of the original notebook in the history of change in the estimate.

**2.6 Offsetting financial instruments**

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. And the clauses of agreements to buy treasury bills with a commitment to re-sale agreements and sale of treasury bills with a commitment to re-purchase on a net basis within the balance sheet item, treasury bills and other government papers.

## **2.7 Derivative financial instruments and hedge accounting**

- 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.

- Embedded derivatives, such as the conversion option in a convertible bond, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, provided that the host contract is not classified as at fair value through profit or loss as part of "net trading income".

Embedded derivatives are not split if the Bank chooses to designate the entire hybrid contract as at fair value through profit or loss.

- The accounting treatment used to recognize changes in fair value of derivatives depends on whether or not the derivative is designated as a hedging instrument under hedge accounting rules and on the nature of the hedged item. The Bank designates certain derivatives as either:

- Hedges of the fair value of recognized assets or liabilities or firm commitments (fair value hedge);
- Hedging relating to future cash flows attributable to a recognized asset or liability or a highly probable forecast transaction (cash flow hedge).
- Hedging for net investment in foreign operations relating to future cash flows attributable to a recognized (net investment hedge).

Hedge accounting is used for derivatives designated in a hedging relationship when the criteria are met.

- The Bank documents, at the inception of the transaction, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Bank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value of hedged items.

### **2.7.1 Fair value hedge**

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

The effective portion of changes in the fair value of the interest rate swaps and the changes in the fair value of the hedged item attributable to the hedged risk are recognized in the 'net interest income'. The effective portion of changes in the fair value of the currency swaps are recognized in the 'net trading income'. Any ineffectiveness is recognized in profit or loss in 'net trading income'.

### **2.7.2 Cash flow hedge**

The effective portion of changes in the fair value of derivatives designated and effective for cash flow hedge shall be recognized in equity while changes in fair value relating to the ineffective portion shall be recognized in the income statement in "net trading income".

Amounts accumulated in equity are transferred to income statement in the relevant periods when the hedged item affects the income statement. The effective portion of changes in fair value of interest rate swaps and options are reported in "net trading income".

When a hedged item becomes due or is sold or if hedging instrument no longer qualifies for hedge accounting requirements, gains or losses that have been previously accumulated in equity remain in equity and shall only be recognized in profit or loss when the forecast transaction ultimately occurs. If the forecast transaction is no longer expected to occur any related cumulative gain or loss on the hedging instrument that has been recognized in equity shall be reclassified immediately to income statement.

### **2.7.3 Net investment hedge**

Accounting for net investment hedge is the same for cash flows hedge. Profit or loss from hedging instrument related to the effective portion of the hedge to be recognized in Equity, while it is recognized in the income statement directly for hedging instrument not related to the effective portion. Accumulated profit or loss in equity to be transferred to the income statement upon disposal of foreign transactions.

### **2.7.4 Derivatives that do not qualify for hedge accounting**

Interest on and changes in fair value of any derivative instrument that does not qualify for hedge accounting is recognized immediately in the income statement in "net trading income" line item. However, gains or losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in "net income from financial instruments designated at fair value through profit or loss".

## **2.8 Interest income and expense**

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

The effective interest rate 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 includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.



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

1- When collected and after recovery of all arrears for retail loans, personal loans, real estate loans for personal housing and loans to small business.

2- For corporate loans, interest income is also recognized on the cash basis, according to which interest earned during the periods subsequent to reschedule agreements does not start to accrete on the loan principal until the Bank collects 25% of the rescheduled installments and after payments of the installments continue to be regular for at least one year.

**2.9 Fee and commission income**

Fees and commissions charged by the Bank for servicing a loan are recognized as revenue as the services are provided. Recognition of such fees and commission in profit or loss ceases when a loan becomes non-performing or is impaired in which case fees and commission income is rather marginalized and carried off the balance sheet. Recognition of such fees and commissions as revenues continues on the cash basis when the relevant interest income on the financial instrument is recognized since they are generally treated as an adjustment to the effective interest rate on the financial asset.

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

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

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

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

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

**2.10 Dividend income**

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

**2.11 Purchase and resale agreements, sale and repurchase agreements**

The financial instruments sold, subject to repurchase agreements, are reported as additions to the balance of treasury bills and other governmental notes in the assets side at the balance sheet.

whereas the liability (purchase and resale agreement) is reported in the balance sheet as a deduction therefrom. Difference between the sale price and repurchase price is recognized as a return throughout the period of the arrangement using the effective interest rate method.

## **2.12 Impairment of financial assets**

### **(a) Assets carried 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 (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- The Bank for reasons of economic or legal financial difficulties of the borrower by granting concessions may not agree with the Bank granted in normal circumstances;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

The objective evidence of impairment loss for group of financial assets is the clear data indicate to a decline can be measured in future cash flows expected from this group since its initial recognition, although not possible to determine the decrease of each asset separately, for example increasing the number of failures in payment for One of the banking products.

The estimated period between a losses occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between three months and 12 months.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant and in this field the following are 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 no impairment losses result from the previous assessment of impairment in this case the asset included in a collective assessment of impairment.

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The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement.

If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract when there is objective evidence for asset impairment. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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.

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.

**(b) Assets classified as available for sale**

The Bank assesses at each balance sheet date whether there is 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.

The Decrease Consider significant cause it become 10% From cost of book value and the decrease consider to be extended if it continue for period more than 9 months, and if the mentioned evidences become 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, in a subsequent period, the fair value of a debt

**Notes to the Unconsolidated Financial Statements**

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instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement.

**2.13 Real Estate Investments**

The real estate investments represent lands and buildings owned by the Bank In order to obtain rental returns or capital gains and therefore does not include real estate assets which the bank exercised its work through or those that have owned by the bank as settlement of debts.

**2.14 Intangible assets**

**2.14.1 Software**

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

**2.14.2 Other intangible assets**

Other intangible assets represent intangible assets other than software programs (they include but not limited to trademark, licenses, and benefits of rental contracts). The other intangible assets are recorded at their acquisition cost and are amortized on the straight-line method or based on economic benefits expected from these assets over their estimated useful life. Concerning the assets which do not have a finite useful life, they are not subject to amortization they are annually assessed for impairment, while value of impairment (if any) is charged to the income statement.

**2.15 Fixed Assets**

Lands and buildings are mainly represented in head office, branches and offices premises. All fixed assets are disclosed at historical cost less accumulated depreciation and impairment losses. The historical cost includes expenditures that are directly attributable to the acquisitions of the fixed assets' items.

Subsequent costs are included in the assets carrying amount or recognized separately, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. Repairs and maintenance

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expenses are recognized in profit or loss within "other operating costs" line item during the financial period in which they are incurred.

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

Premises and constructions	40 years
Fixtures and air conditions	5 years
Safes	50 years
Copiers and fax	8 years
Vehicles and means of transportation	5 years
Electric appliances	10 years
Mobile phones	3 years
Telephone networks, fire extinguishers	10 years
Computers and computers' software	3 years
Furniture	10 years
Decorations	4 years

The residual value and useful lives of the fixed assets are reviewed on the each balance sheet date and they are adjusted whenever it is necessary. Depreciated assets are reviewed for purposes of determining extent of impairment when an event or change in conditions occurs suggesting that the book value may not be recovered. Consequently, the book value of the asset is reduced immediately to the asset's net realizable value in case increasing the book value over the net realizable value.

The net realizable value represents the net selling value of the asset or its utilization value whichever is greater. Gains and losses from the disposal of fixed assets are determined by comparing the net proceeds at book value. Gains (losses) are included within other operating income (expenses) in the income statement.

**2.16 Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. 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 impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

**2.17 Leases**

The accounting treatment for the finance lease in accordance with law 95 of 1995, if the contract entitles the lessee to purchase the asset at a specified date and the value selected, or the current value of the total lease payments representing at least 90% of the value of the asset. The other leases contracts are considered operating leases contracts.

**Notes to the Unconsolidated Financial Statements**

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**(a) Being lessee**

Lease payments made under operating leases, net of any discounts received from the lessor, are recognized in profit or loss on a straight-line basis over the term of the contract.

**(b) Being lesser**

Assets leased out under operating lease contracts are reported as part of the fixed assets in the balance sheet and are depreciated over the expected useful lives of the assets, on the same basis as other property assets. Lease rental income is recognized net of any discounts granted to the lessee, using the straight line method over the contract term.

**2.18 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, They include cash and balances due from Central Bank of Egypt (other than those under the mandatory reserve), balances due from banks, treasury bills and other governmental notes.

**2.19 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 a 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.

**2.20 Financial Guarantees**

A financial guarantee contract is a contract issued by the bank as security for loans or debit current accounts due from its clients to other entities that requires the bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. These financial guarantees are presented to the banks, corporations and other entities on behalf of the bank's clients. When a financial guarantee is recognized initially, the Bank shall measure it at its fair value that is directly attributable to the issue of such financial guarantee.

The amount initially recognized less, when appropriate, cumulative amortization of security fees recognized in the income statement using the straight-line method over the term of the guarantee and The best estimate for the payments required to settle any financial obligation resulting from the

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financial guarantee at the balance sheet date Such estimates are made based on experience in similar transactions and historical losses as supported by management judgment. Any increase in the obligations resulting from the financial guarantee, shall be recognized within other operating income (costs) in the income statement.

**2.21 Employees' benefits**

The bank has employees insurance fund, it was founded at the first of July 2000 under the law of 54 for the year 1975 and its executive regulations for the purpose of granting insurance and compensation benefits for the members.

The Bank is committed to lead to the fund monthly and annual subscriptions in accordance with the Rules of the Fund and its amendments, and there are no obligations to the bank following the payment of additional contributions. Contributions are recognized in expenses of employee benefits when due. The recognition of contributions paid in advance as an asset to the extent that its payment to the reduction of future payments or cash refund.

**2.21 income taxes**

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

Income tax is recognized based on net taxable profit using the tax rates applicable at the date of the balance sheet in addition to tax adjustments for previous years.

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.

Deferred tax assets of the Bank recognized when there is likely to be possible to achieve profits subject to tax in the future to be possible through to use that asset, and is reducing the value of deferred tax assets with part of that will come from tax benefit expected during the following years, that in the case of expected high benefit tax, deferred tax assets will increase within the limits of the above reduced.

**2.22 Borrowing**

Borrowing is 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.

**2.23 Capital**

**2.23.1 Capital issuance cost**

Cost of issuance of new shares, issuance of shares to effect an acquisition, or issue of share options, net of tax benefits, are reported a deduction from equity.

### **2.23.2 Dividends**

Dividends are recognized when the general assembly of shareholders approves them. Dividends include the employees' profit share and the board of directors' remuneration as prescribed by the Bank's articles of association and the corporate law.

### **2.24 Comparatives figures**

Comparative figures are reclassified, where necessary, to conform with changes in the current year presentation

## **3. Financial risk management**

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. And the most important types of financial risks are credit risk, market risk, liquidity risk and other operating risks. Also market risk includes exchange rate risk, rate of return risk and other prices risks.

The Bank's risk management policies are designed to identify and analyses 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.

Risk management is carried out by a risk department under policies approved by the Board of Directors. Bank Treasury identifies, evaluates and hedges financial risks in close co-operation with the Bank's operating units. The Board 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.

### **3.1 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 Bank Treasury and reported to the Board of Directors and head of each business unit regularly.



### **3.1.1 Credit risk measurement**

#### **(a) Loans and advances to banks and customers**

To measure credit risk related to loans and advances extended to banks and customers, the bank examines the following three components:

- Probability of default of the customer or others in fulfilling their contractual obligations.
- The current position and the likely expected future development from which the bank can conclude the balance exposed to default (Exposure at default).
- Loss given default.

The daily activities of the bank's business involves of measurement for credit risk which reflect the expected loss (The Expected Loss Model) required by the Basel Committee on Banking Supervision. The operating measures may interfere with the impairment charge according to the Egyptian Accounting Standard no. (26), which depends on losses realized at the balance sheet's date (realized losses models) and not on expected losses.

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.

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

#### **Bank's internal ratings scale:**

<b>Bank's internal ratings scale</b>	<b>Bank's rating Description of the grade</b>
1	Performing loans
2	Regular watching
3	Watch list
4	Nonperforming loans

And the loans expose to default depend on the banks expectation for the outstanding amounts when default occur.

example, as for a loan position is the nominal value while for commitments the bank enlists all already drawn amounts besides these amounts expected to be withdrawn until the date of default, if it happens.

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.

#### **(b) Debt securities and other bills**

For debt securities and other bills, external rating such as Standard & Poor's rating or their equivalents are used by bank Treasury for managing of the credit risk exposures, and if this rating is not available, then other ways similar to those used with the credit customers are uses. The

investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

### **3.1.2 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:

#### **(a) 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, And inventory;
- 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.

#### **(b) 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 one time, the amount subject to credit risk is limited to the current fair value of instruments that are favorable 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

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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 single day.

**(c) 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 favorable 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.

**(d) Credit-related commitments**

The primary purpose of these instruments is to ensure that funds are available to a customer as required.

Guarantees and standby letters 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.

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.

**3.1.3 Impairment and provisioning policies**

The internal rating systems described in Note 3.1.1 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 provided for 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.

The impairment provision shown in the balance sheet at the year-end is derived from each of the four internal rating grades. However, the majority of the impairment provision comes from the bottom two grades. 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:

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Bank's rating	June 30,2011		June 30,2010	
	Loans and advances	Impairment provisions	Loans and advances	Impairment provisions
Performing loans	81%	12%	85%	13%
Regular watching	4%	2%	1%	1%
Watch list	1%	2%	2%	3%
Non-performing loans	14%	84%	12%	83%
	100%	100%	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.

#### **3.1.4 Pattern of measuring the general banking risk**

In addition to the four categories of measuring credit worthiness discussed in disclosure 3.1.1.a the management makes small groups more detailed according to the CBE rules. Assets facing credit risk are classified to detailed conditions relying greatly on customer's information , activities , financial position and his regular payments to his debts .

The bank calculates the provisions needed for assets impairment in addition to credit regulations according to special percentages determined by CBE.

In the case of increase of impairment loss provision needed according to CBE than that for purposes of making the financial statements according to the EAS , the general banking risk reserve is included in owners' equity deducted from the retained earning with this increase , this reserve is modified with periodic basis with the increase and decrease , which equals the increase in provisions and this reserve is not distributed.

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And this are categories of institutional worthiness according to internal ratings compared with CBE ratings and rates of provisions needed for assets impairment related to credit risk:

CBE Rating	Description	Provision %	Internal Rating	Internal Description
1	Low Risk	0	1	Performing loans
2	Average Risk	1%	1	Performing loans
3	Satisfactory Risk	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 watching
7	Watch list	5%	3	Watch list
8	Substandard	20%	4	Non-performing loans
9	Doubtful	50%	4	Non-performing loans
10	Bad Debt	100%	4	Non-performing loans

**3.1.5 Maximum exposure to credit risk before collateral held****Balance sheet items exposed to credit risks**

	<u>June 30, 2011</u> <u>EGP</u>	<u>June 30, 2010</u> <u>EGP</u>
Loans and Advances to customers	7,220,797,844	7,478,723,431
Financial Investments: debt instruments	1,663,874,491	1,486,895,379
Other assets	649,032,498	604,147,262
<b>Total</b>	<b>9,533,704,833</b>	<b>9,569,766,072</b>

**Off Balance sheet items exposed to credit risk**

	<u>June 30, 2011</u> <u>EGP</u>	<u>June 30, 2010</u> <u>EGP</u>
Letter of guarantee	1,218,785,701	1,168,497,246
Letter of Credit(Import)	884,732,153	802,830,953
Letters of credit (export-confirmed)	7,245,435	29,133,074
Shipping documents (export)	166,551,878	145,569,771
Outstanding forward contracts	184,213,806	206,823,534
<b>Total</b>	<b>2,461,528,973</b>	<b>2,352,854,578</b>

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**3.1.6 Loans and advances**

Balances of loans and Advances in terms of credit risk rating are as follows:

	<b>June 30, 2011</b> <b>EGP</b>	<b>June 30, 2010</b> <b>EGP</b>
Neither have arrears nor impaired	6,017,180,995	6,200,266,989
Have arrears but not impaired subject to impairment	270,672,865	310,516,584
	992,026,477	1,033,671,796
<b>Total</b>	<b>7,279,880,337</b>	<b>7,544,455,369</b>
Less: impairment loss provision	(838,085,196)	(763,725,423)
<b>Net</b>	<b>6,441,795,141</b>	<b>6,780,729,946</b>

**Loans and advances neither have arrears nor impaired**

The credit quality of loans and Advances that do not have arrears and which are not subject to impairment is assessed by reference to the bank's internal rating.

Rating	Loans and Advances to customers (EGP)		
	Retail	Corporate	Total loans and advances to customers
Performing loans	101,103,978	5,602,088,416	5,703,192,394
Regular watching	---	313,988,601	313,988,601
<b>Total</b>	<b>101,103,978</b>	<b>5,916,077,017</b>	<b>6,017,180,995</b>

**Loans and advances have arrears but are not subject to impairment**

These are loans and facilities with past-due installments but are not subject to impairment, unless Information has otherwise indicated. Loans and facilities to customers which have arrears but are not subject to impairment are analyzed below:

<b>June 30, 2011</b>	<b>Corporates</b> <b>Direct loans (EGP)</b>
Arrears up to 30 days	226,213,706
Arrears from 30 to 60 days	24,262,670
90 days arrears	20,196,489
<b>Total</b>	<b>270,672,865</b>

**Loans and Advances which are individually impaired****Loans and Advances to customers**

At the end of the current reporting period, the carrying amount of loans and facilities, that are assessed to be individually impaired excluding any cash flows expected to arise from the associated guarantees, amounted to thousands EGP 1,080,353.

The following table provides a breakdown of the balance of such loans and facilities which are individually impaired:

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	Corporates
	<u>Total in June 30, 2011</u> <u>Value in EGP thousands</u>
Loans which are individually impaired	992,026

**Restructured loans and Advances:**

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 totaled at the end of the financial year:

<b><u>Loans and advances to customers corporates</u></b>	<b><u>June 30, 2011</u></b> <b><u>Value in EGP thousands</u></b>
Direct loans	59,759
Total	59,759

**3.1.7 Debt instruments, treasury bills and other governmental notes**

The table below presents an analysis of Debt instruments, treasury bills and other governmental notes by rating agency designation at 31 December 2010, based on Standard & Poor's ratings or their equivalent:

Values in EGP thousands

Financial investments	June 30, 2011		June 30, 2010	
	Treasury bills and other Gov. notes	Financial Investments	Treasury bills and other Gov. notes	Financial Investments
AAA	--	206,896	--	250,000
AA- to AA+	--	44,350	--	95,677
A- to A+	--	147,458	--	169,096
Lower than A-	--	175,070	--	232,695
Unrated	876,600	1,090,100	635,100	739,427
Total	876,600	1,663,874	635,100	1,486,895

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**3.1.8 Acquisition of collaterals**

During the current reporting period, the Bank has acquired foreclosed assets in order to settle debts.

Type of asset	Book Value as at June 30, 2011	Book Value as at June 30, 2010
Buildings	---	12,680,000
Movables	13,000,000	2,450,000

Foreclosed assets are classified among "other assets" in the balance sheet. Such assets are sold by the bank, as appropriate.

**3.1.9 Concentration of risks of financial assets exposed to credit risks****(Geographical segments)**

The following table provides a breakdown of the gross amount of the most significant credit risk limits to which the bank is exposed at the end of the current reporting period.

The gross amount of all financial assets is segmented into the geographical regions of the bank's clients:

	Arab Republic of Egypt			Total
	Cairo	Alex and Delta	Upper Egypt	
Treasury bills and other governmental notes	876,700	--	--	876,700
Loans and advances to customers:				
Personal loans	91,712	9,392	--	101,104
Corporate Loans	2,516,481	2,669,038	1,993,257	7,178,776
Available for sale financial investments:				
Debt instruments	1,601,284	--	--	1,601,284
Total	5,086,177	2,678,430	1,993,257	9,757,864

**3.2 MARKET RISKS**

The bank is exposed to market risk represented in volatility in fair value or future cash flows resulted from changes in market prices. Market risk arise from the open positions of interest rates, currency rates and the equity instruments, the management of market risk resulted from trading, non-trading activities are centralized in the market risk department in the bank.

**3.2.1 Foreign exchange rate volatility risk**

The Bank is exposed to foreign exchange rate volatility risk in terms of the financial position and cash flows. The board of directors set limits for foreign exchange risk at the total value of positions at the end of the day and during the day when timely control is exercised.

The following table summarizes the bank's exposure to the risks of fluctuations in foreign exchange rates at the end of the reporting period. This table includes the carrying amounts of the financial instruments in terms of their relevant currencies and in EGP equivalent.



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	Value in thousands				
	EGP	USD	GBP	EUR	Other currencies
<b>Financial assets</b>					
Cash and due from central banks	1,064,126	37,995	73	248	204
Treasury bills and other governmental notes	876,700	--	--	--	--
Due from banks	266	42,644	3,386	18,662	2,114
Trading financial investments	177,652	2,192	--	--	--
Available for sale investments	2,204,796	85,985	--	2,059	--
Held to maturity investments	68,134	2,000	--	--	--
Loans and advances to customers	5,205,045	274,512	3,402	38,163	524
Other financial assets	878,316	15,948	3,005	187	--
<b>Total financial assets</b>	<b>10,475,035</b>	<b>461,276</b>	<b>9,866</b>	<b>59,319</b>	<b>2,842</b>
<b>Financial liabilities</b>					
Due to banks	150,092	40,600	--	--	500
Customers deposits	7,578,578	306,482	6,761	37,200	2,313
Other loans	288,967	65,191	--	14,430	--
Other provisions	483,513	35,736	61	5,405	--
Other financial liabilities	420,953	22,845	3,047	2,244	391
<b>Total financial liabilities</b>	<b>8,922,103</b>	<b>470,854</b>	<b>9,869</b>	<b>59,279</b>	<b>3,204</b>
Net balance	<b>1,552,932</b>	<b>(9,578)</b>	<b>(3)</b>	<b>40</b>	<b>(362)</b>

**3.2.2 Interest rate risk**

The bank is exposed to impact of fluctuations in the levels of interest rates prevailing in the market that is the cash flow risk of interest rate represented in the volatility of future cash flow of a financial instrument due to change in the interest rate of the mentioned instrument. Whereas the interest rate is fair value risk is the risk of fluctuations in the value of the financial instrument due to changes in interest rates in the market.

The interest margin may rise due to these changes but still the profits may decrease if unexpected movements occur. The board of directors sets limits for the level of difference in the re-pricing of interest rate that the bank can maintain and Risk department in the bank daily monitors this.

The following table summarizes the extent of the bank's exposure to the risk of fluctuations in interest rates that includes the book value of financial instruments divided based on the price of re-pricing dates or maturity dates whichever is sooner:

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At the end of June 30, 2011	Value in EGP thousands						total
	Up to 1 month	More than 1 month up to 3 months	More than 3 months up to 1 year	More than 1 year up to 3 years	More than 3 years	Interest free	
<b>Financial assets</b>							
Cash and due from central banks	--	--	--	--	--	1,053,466	1,053,466
Due from banks	322,770	45,736	19,416	--	244,346	58,548	690,816
Treasury bills and other governmental notes	(112,000)	100,000	888,700	--	--	--	876,700
Trading financial investments	--	--	190,737	--	--	--	190,737
Loans and advances to customers	62,664	815,081	2,642,036	784,527	2,975,572	--	7,279,880
Available for sale investments	--	--	--	343,783	1,257,502	578,917	2,180,202
Held to maturity investments	--	--	50,652	--	11,938	17,482	80,072
Other financial assets	--	--	5,583	643,449	--	--	649,032
<b>Total financial assets</b>	273,434	960,817	3,797,124	1,771,759	4,489,358	1,708,413	13,000,905
<b>Financial liabilities</b>							
Due to banks	389,260	3,582	--	--	--	93	392,935
Customers deposits	1,755,478	1,812,575	1,053,555	444,803	1,000,000	3,768,723	9,835,134
Other loans	--	--	22,640	503,121	276,851	--	802,612
Other provisions	--	--	--	--	23,398	--	23,398
Other financial liabilities	--	--	--	108,962	--	--	108,962
<b>Total financial liabilities</b>	2,144,738	1,816,157	1,076,195	1,056,886	1,300,249	3,768,816	11,163,041
Net balance	(1,871,304)	(855,340)	2,720,929	714,873	3,189,109	(2,060,403)	1,837,864

**3.3 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 fulfill commitments to lend.

**Liquidity Risk Management Process**

The processes of liquidity risk control carried by Assets and Liabilities management department in the bank include the following:

- The daily funding is managed by monitoring and controlling the future cash flows to ensure the ability to fulfill all obligations and requirements. This includes replenishment of funds as they

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mature or is borrowed by customers. The bank maintains an active presence in the global money markets to ensure achievement of this target.

- Maintaining a portfolio of highly marketable assets, which can easily be liquidated to meet any interruption in cash flows.
- Monitoring liquidity ratios compared to the internal requirements of the bank and the Central Bank of Egypt's requirements.
- Management of concentration and profile the debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week, and month respectively. The starting point for these projections is represented in the analysis of the contractual maturities of financial liabilities and expected collection dates of financial assets.

Assets and Liabilities management department controls the unmatched medium term assets management, the level and type of the unutilized portion of loans' commitments, the extent of utilizing debit current accounts advances and the impact of contingent liabilities such as letters of guarantees and letters of credit.

Financing approach

Liquidity resources are reviewed by a separate team from treasury department of the bank to provide a wide variety of currencies, geographical regions, resources, products, and maturities.

Assets available to meet all liabilities and cover loan commitments include cash, balances with central Banks, balances due from Banks, treasury bills and other governmental notes, and loans and facilities to Banks and clients. Maturity term of percentage of loans to clients that are maturing within a year is extended in the normal course of the Bank's business. Moreover, some debt instruments, treasury bills and other governmental notes are pledged to cover liabilities. The Bank has the ability to meet unexpected net cash flows through selling securities, and finding other financing sources.

Off balance sheet items

At the end of June 30, 2011	Up to 1 year	More than 1 year and less than 5 years	More than 5 years	total
Letters of guarantee	779,596	428,402	10,788	1,218,786
Letters of credit(import)	884,732	--	--	884,732
Letters of credit(export-confirmed)	7,245	--	--	7,245
Shipping documents (export)	166,552	--	--	166,552
Outstanding forward contracts	184,214	--	--	184,214
Capital commitments resulting from acquisition of available for sale investments and investments in subsidiaries and associated companies	124,994	123,915	--	248,909
Total	2,147,333	552,317	10,788	2,710,438

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**3.3 Fair value of financial assets and liabilities****Financial instruments not measured at fair value**

The following table summarizes the carrying amount and fair value of financial assets and liabilities that are not stated in the balance sheet at fair value:

	<b>Book value EGP</b>	<b>Fair value EGP</b>
<b><u>Financial Assets</u></b>		
Due from banks	690,816,101	690,816,101
Loans and advances to customers	7,279,880,337	7,279,880,337
Financial investments:		
Equity instruments available for sale	578,917,767	578,917,767
Held to maturity	80,072,133	81,008,829
<b><u>Financial liabilities</u></b>		
Due to banks	392,934,743	392,934,743
Customer's deposits	9,835,134,267	9,835,134,267
Other loans	802,612,545	802,612,545

**Due from Banks:**

The carrying amount of variable interest rate placements and deposits for one day represents its fair value.

**Loans and advances to banks**

Loans and advances to banks are represented in loans other than deposits with banks.

The expected fair value for loans and advances represents the discounted value of future cash flows expected to be collected. Cash flows are discounted by adopting the current market rate to determine the fair value.

**Loans and advances 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**

Investments in financial securities in the previous table include only held to maturity bearing assets. Available for sale assets are assessed at fair value with the exception of equity instruments which the bank has been unable to evaluate their fair value to a reliable extent. The fair value of financial assets held to maturity is determined based on market rates or prices obtained from brokers. If these data are unavailable then the fair value is assessed by applying the financial markets' rates for negotiable financial securities with similar credit features, maturity dates as well as similar rates.

**Due to other banks and customers**

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.

### **3.4 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.
- To safeguard the Bank's ability to continue as an ongoing concern so that it can continue to provide returns for shareholders and stakeholders.
- To maintain a strong capital base to support the development 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.

Central bank Of Egypt requires the following:

- Hold the minimum level of the issued and paid up capital of LE500 Million.
- Maintaining a percentage between capital elements and asset and contingent liabilities elements weighted by risk equals to or exceeds 10%. The numerator of the capital adequacy ratio consists of the following two tiers:

#### **Tier One:**

Represented in basic capital which consists of paid-in-capital (after deducting the book value of treasury shares), retained profits and reserves from profit appropriation with the exception of general banking risk reserve less any goodwill previously recognized or any carried over losses.

#### **Tier Two**

Supplementary Capital consists of equivalent of the general risks provision related to creditworthiness bases issued by the Central Bank Of Egypt and not exceeding 1.25% of the total risk weighted assets and contingent liabilities, subordinated loans / deposits' term which exceed 5 years (with amortization of 20% of their value each year of the last five years of their term) and 45% of the increase between fair value and book value of financial investments available for sale, held to maturity and associates and subsidiaries.

When calculating the total numerator of the capital adequacy ratio it should be taken into consideration that the supplementary capital does not exceed in any way the basic capital and that subordinated loans (deposits) do not exceed half of the basic capital.

Asset at risk are weighted ranging from zero up to 100% classified in accordance with the nature of the debit side of each asset, to reflect the related credit risks, while taking into consideration cash collaterals. Same treatment is applied on off- balance amounts after making adjustments to reflect the contingent nature and probable losses of these amounts.

The bank has complied with all local capital requirements at June 30, 2011; the following table summarizes the components of basic and supplementary capital and capital adequacy ratios as at 30/6/2011 comparing with 30/6/2010

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<b>Capital</b>	<b>June 30, 2011</b>	<b>June 30, 2010</b>
Tier one (Basic capital)	1,440,000	1,200,000
Share capital (in net after excluding treasury shares)	--	--
Legal reserve	754	98,754
Other reserves	26,061	56,781
Retained profits	28,221	170,221
Total basic capital	1,495,036	1,525,756
Tier two (Supplementary capital)	--	--
Equivalent to general risks provisions	116,321	118,206
45% of the increase in the fair value over book value of held to maturity financial investment an investments in subsidiaries and associated companies	--	--
Total supplementary capital	116,321	118,206
Total capital	1,611,357	1,643,962
Risk weighted assets and contingent liabilities :		
Balance sheet's assets	9,093,377	10,011,009
Contingent liabilities	583,266	450,497
Total risk weighted assets and contingent liabilities	9,676,643	10,461,506
Capital adequacy ratio (%)	<b>%16,65</b>	<b>%15,72</b>

**4. The significant accounting estimates and assumptions**

The bank applies estimates and assumptions, which affect the amounts of assets and liabilities to be disclosed within the following financial year. Estimates and assumptions are continuously assessed based on historical experience and other factors as well, including the expectations of future events, which are considered reasonable in the light of available information and surrounding circumstances.

**(A) Impairment loss on loans and advances**

The bank reviews the loans and advances portfolio on at least a quarterly basis to assess impairment. The bank applies personal judgment when determine the necessity of recording the impairment charges to the income statement so as to know if there is any reliable data which refer to the existence of a measurable decline in the expected future cash flows of the loans portfolio even before being acquainted with the decline at the level of each loan in the portfolio. These evidences may include observable data, which refer to the occurrence of a negative change in the ability of a portfolio of borrowers to repay the bank, or local or economic circumstances related to default in the bank's assets. On scheduling future cash flows, the management use estimates based on prior experience of losses of assets with credit risk characteristics in the presence of objective evidences that refer to impairment similar to those included in the portfolio. The method and assumptions used in estimating the amount and timing of future cash flows are reviewed on a regular basis to minimize any differences between estimated and actual losses based on expertise.

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**(B) Impairment in equity instruments investments available for sale**

The bank determine impairment in equity's instruments' investments available for sale when there is a significant or prolonged decline in their fair value below their cost.

Determining whether the decrease is significant or prolonged depends on personal judgment. To reach this judgment the bank estimates- among other factors- the usual volatility of the share price. Additionally, there could be impairment if there is evidence on the existence of deterioration in the financial position of the invested company or in its operating and financing cash flows or if there is deterioration in the industry's or sector's performance or in case of changes in technology.

**(C) The fair value of derivatives**

The fair values of financial instruments, which are not listed in active markets, is identified by applying valuation methods. When such methods are used to identify fair value, they are tested and reviewed periodically by qualified personnel who are independent of the body that prepared them.

**(D) Financial investments held - to- maturity**

The non-derivative financial assets with payments and maturity dates that are fixed or determinable are classified as financial investments held to maturity, and this classification requires to a great extent the application of personal judgment and to reach such decision the bank evaluates the intention and ability to hold these investments until maturity. If the bank fails to hold these investments until maturity date, with the exception of very special cases such as selling an insignificant amount near maturity, then these investments, which were classified held to maturity, should be reclassified available for sale investments. Consequently, these investments shall be measured by fair value and not by amortized cost in addition to suspension of classifying any investments under the mentioned item.

**(E) Income taxes**

The bank records the liabilities of the expected results of tax examination according to estimates of the probability of the emergence of additional taxes. When there is, a variance between the final result of taxes and the amounts previously recorded then these variances will affect the income tax and deferred tax provision for the year in which the variance has been identified.

**5. Net Interest Income**

	<u>30 June 2011</u>	<u>30 June 2010</u>
	<u>EGP</u>	<u>EGP</u>
<b><u>Interest From Loans and Similar Income:</u></b>		
Loans and Facilities for Customers	555,847,600	616,301,986
Treasury Bills and Bonds	229,704,824	210,970,175
Deposits and Current Accounts	39,397,837	12,480,471
Other	3,934,214	
	828,884,475	839,752,632
<b><u>Cost of Deposit and Similar Costs:</u></b>		
Deposits and Current Accounts:		
Banks	(46,022,327)	(55,064,442)
Customers	(533,480,840)	(448,166,835)
Other loans	(1,929,726)	(45,443,512)
	(581,432,893)	(548,674,789)
<b>Net</b>	<b>247,451,582</b>	<b>291,077,843</b>

**Notes to the Unconsolidated Financial Statements**

For the year ended 30 June 2011

**6. Net Income From Fees and Commissions**

	<b>30 June 2011</b>	<b>30 June 2010</b>
	<b>EGP</b>	<b>EGP</b>
<b>Fees and commissions income:</b>		
Fees and commission related to credit	89,091,591	78,699,179
Custody Fees	4,310,947	3,388,924
Other Fees	5,295,764	24,945,679
	98,698,302	107,033,782
<b>Fees and Commissions Expenses:</b>		
Other fees paid	(5,094,293)	(3,237,218)
<b>Net</b>	<b>93,604,009</b>	<b>103,796,564</b>

**7. Dividend Income**

	<b>30 June 2011</b>	<b>30 June 2010</b>
	<b>EGP</b>	<b>EGP</b>
Available For Sale Investment	5,848,185	9,575,000
Associated and Subsidiary companies	8,819,090	10,879,073
	<b>14,667,275</b>	<b>20,454,073</b>

**8. Net Trading Income**

	<b>30 June 2011</b>	<b>30 June 2010</b>
	<b>EGP</b>	<b>EGP</b>
Profit (losses) from foreign exchange	24,571,209	23,294,106
Profit (losses) from revaluing trading assets & liabilities in foreign currencies	594,490	183,368
Profit (losses) from interest rate swap contracts	6,986	0
Profit (losses) from currencies swap contracts revaluation	300,458	0
Profit arising from sale of trading investments	9,624,585	1,023,824
Valuation differences of trading investments	14,571,340	2,802,974
	<b>49,669,068</b>	<b>27,304,272</b>

**9. Administrative expenses**

	<b>30 June 2011</b>	<b>30 June 2010</b>
	<b>EGP</b>	<b>EGP</b>
Staff Cost		
-Salaries and Wages	(111,635,822)	(98,116,904)
-Social insurance	(4,496,245)	(3,910,738)
Pension costs		
-Defined contribution scheme	(16,223,683)	(15,210,819)
-Other Administrative expenses	(94,657,239)	(84,354,728)
	<b>(227,012,989)</b>	<b>(201,593,189)</b>



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For the year ended 30 June 2011

**10. Other operating income (expenses)**

	<u>30 June 2011</u>	<u>30 June 2010</u>
	<u>EGP</u>	<u>EGP</u>
(loss)Profit resulting from revaluation of foreign currency balances of assets and liabilities of monetary nature other than those held for trading or originally classified at fair value through profit and loss	(575,386)	6,976,978
Profits arising from selling of Equipment and Fixed assets	784,250	425,825
Valuation differences of assets acquired by bank	0	(1,182,900)
Miscellaneous services income	3,636,908	3,868,995
Correspondents custody income	152,559	634,051
Collected Telex, Swift, Postage, Printed matters & Photocopy	6,835,620	6,307,994
Legal service income	80,935	169,264
Miscellaneous income	4,573,566	41,771,949
Miscellaneous expenses	(6,151,411)	(3,257,756)
	<u>9,337,041</u>	<u>55,714,400</u>

**11. Return (Losses) Of Impairment From Loans**

	<u>30 June 2011</u>	<u>30 June 2010</u>
	<u>EGP</u>	<u>EGP</u>
Loans and overdrafts for customers	(46,000,000)	(15,262,875)
Held to maturity financial investments	3,477,866	0
	<u>(42,522,134)</u>	<u>(15,262,875)</u>

**12. Income Tax expense**

	<u>30 June 2011</u>	<u>30 June 2010</u>
	<u>EGP</u>	<u>EGP</u>
Tax	(31,785,185)	(43,591,174)
	<u>(31,785,185)</u>	<u>(43,591,174)</u>

**13. Earnings Per Share**

	<u>30 June 2011</u>	<u>30 June 2010</u>
	<u>EGP</u>	<u>EGP</u>
Net profit for the year	161,406,788	302,853,475
Board member's bonus	(3,300,000)	(5,500,000)
Staff Profit Sharing	(16,320,000)	(28,400,000)
Shareholder's Share in Profit	<u>141,786,788</u>	<u>268,953,475</u>
Average number of shares	144,000,000	120,000,000
Earnings Per Share	0.98	2.24

**Notes to the Unconsolidated Financial Statements**

For the year ended 30 June 2011

**14. CASH AND DUE FROM CENTRAL BANK OF EGYPT**

	<u>30 June 2011</u>	<u>30 June 2010</u>
	<u>EGP</u>	<u>EGP</u>
Cash on hand	20,833,677	19,200,080
Due from Central Bank of Egypt (mandatory reserve)	1,032,632,805	552,568,058
	<u>1,053,466,482</u>	<u>571,768,138</u>
Nonbearing interest balances	<u>1,053,466,482</u>	<u>571,768,138</u>

**15. DUE FROM BANKS**

	<u>30 June 2011</u>	<u>30 June 2010</u>
	<u>EGP</u>	<u>EGP</u>
Current accounts	38,997,563	40,093,787
Deposits	651,818,538	746,797,791
	<u>690,816,101</u>	<u>786,891,578</u>
Central Bank	240,487,566	234,446,090
Local banks	21,173,238	36,967,912
Foreign banks	429,155,297	515,477,576
	<u>690,816,101</u>	<u>786,891,578</u>
Nonbearing interest balances	58,548,563	58,822,787
Fixed bearing balances	632,267,538	728,068,791
	<u>690,816,101</u>	<u>786,891,578</u>
Current Balances	<u>690,816,101</u>	<u>786,891,578</u>

**16. Treasury Bills And Other Governmental Notes**

	<u>30 June 2011</u>	<u>30 June 2010</u>
	<u>EGP</u>	<u>EGP</u>
Treasury Bills And Other Governmental Notes	939,174,397	610,265,221
Treasury Bills (REPO)	(112,000,000)	0
	<u>827,174,397</u>	<u>610,265,221</u>
Treasury Bills And Other Egyptian Governmental Notes	<u>827,174,397</u>	<u>610,265,221</u>
<b><u>Represented in:</u></b>		
91 days Maturity	100,000,000	269,575,000
182 days Maturity	244,800,000	79,525,000
364 days Maturity	643,900,000	286,000,000
<b><u>Subtract:</u></b>		
Unearned income	(49,525,603)	(24,834,779)
<b>Total (1)</b>	<u>939,174,397</u>	<u>610,265,221</u>
REPOS		
REPOS	(112,000,000)	--
<b>Total (2)</b>	<u>(112,000,000)</u>	<u>--</u>
<b>Total (1+2)</b>	<u>827,174,397</u>	<u>610,265,221</u>

**17. Trading Financial Assets**

	<u>30 June 2011</u>	<u>30 June 2010</u>
	<u>EGP</u>	<u>EGP</u>
<b>Investment Funds:</b>		
Investment in EDBE first fund	22,735,754	25,437,954
Arab investment bank fund	--	10,029,470
Man Ahl Guaranteed Future 3 <sup>RD</sup> fund	13,085,242	11,669,465
<b>Investments Portfolios managed by others</b>	<u>154,916,582</u>	<u>160,889,159</u>
	<u>190,737,578</u>	<u>208,026,048</u>
<b>Represented in:</b>		
Listed in stock market	154,916,582	160,889,159
Unlisted in stock market	35,820,996	47,136,889
	<u>190,737,578</u>	<u>208,026,048</u>

According to the Central Bank of Egypt decision on 13.06.2011, financial assets held for trading which no longer the purpose of the acquisition is the sale or repurchase in the near future (although it may be acquired or incurred originally for the purpose of selling or repurchasing in the near future) have been reclassified to financial assets available for sale by the fair value as at the reclassification date as the bank has the intention and ability to hold for the foreseeable future. Hence reclassification has been made for the following items: International Agricultural Crops by amount of EGP 259,104, Citadel Capital by amount of EGP 40,959,641 and Olympic Group by amount of EGP 5,555,063.

The total fair value losses that would have been recognized if they were not reclassified TO available for sale investments amounted to EGP 25,878,085 as follows: International Agricultural Crops for EGP 16,468 - Citadel Capital for EGP 24,862,454 and Olympic Group for EGP 999,162.

**18. loans and overdrafts for customers**

	<u>30 June 2011</u>	<u>30 June 2010</u>
	<u>EGP</u>	<u>EGP</u>
Discounted documents	59,082,493	65,731,938
Loans to customers	<u>7,220,797,844</u>	<u>7,478,723,431</u>
	7,279,880,337	7,544,455,369
<b>Subtract:</b>		
Loans Provision	(838,085,196)	(763,725,423)
	<u>6,441,795,141</u>	<u>6,780,729,946</u>

**Notes to the Unconsolidated Financial Statements**

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**Loans Provisions Analysis:**

	<b>30 June 2011</b>			<b>30 June 2010</b>		
	<b>Specific Provisions</b>	<b>Collective Provisions</b>	<b>Total</b>	<b>Specific Provisions</b>	<b>Collective Provisions</b>	<b>Total</b>
	<b>EGP</b>	<b>EGP</b>	<b>EGP</b>	<b>EGP</b>	<b>EGP</b>	<b>EGP</b>
Balance at the beginning of the year	629,941,839	133,783,584	763,725,423	595,191,969	141,521,003	736,712,972
Formed during the year	46,000,000	---	46,000,000	15,262,875	---	15,262,875
Collections from loans previously written-off	---	10,103,656	10,103,656	11,000,000	2,653,567	13,653,567
Transferred from (to) specific provision	38,081,937	(38,081,937)	---	9,212,582	(9,212,582)	---
Transferred from (to) other provisions	15,316,883	---	15,316,883	---	(757,118)	(757,118)
Foreign currency revaluation difference	16,177,386	2,400,342	18,577,728	(210,444)	(421,286)	(631,730)
Used Provision during the year	(15,638,494)	---	(15,638,494)	(515,143)	---	(515,143)
Balance at the end of the year	<b>729,879,551</b>	<b>108,205,645</b>	<b>838,085,196</b>	<b>629,941,839</b>	<b>133,783,584</b>	<b>763,725,423</b>

**19. Financial Investment**

	<u>30 June 2011</u>	<u>30 June 2010</u>
	<u>EGP</u>	<u>EGP</u>
<b>a. Available for sale investment</b>		
<u>Debt instruments-fair value:</u>		
Listed in stock market	1,601,284,409	1,162,005,909
Unlisted in stock market	--	316,862,655
<u>Equity instruments-fair value:</u>		
Listed in stock market	157,458,263	130,282,191
Unlisted in stock market	421,459,504	509,433,971
<b>Total available for sale investment</b>	<u>2,180,202,176</u>	<u>2,118,584,726</u>
<b>b. Held to maturity investment</b>		
<u>Debt instruments at cost:</u>		
Listed in stock market	50,652,082	---
Unlisted in stock market	11,938,000	8,026,815
Investment fund	17,482,051	22,691,585
	<u>80,072,133</u>	<u>30,718,400</u>
<b>Total held to maturity investment</b>	<u>2,260,274,309</u>	<u>2,149,303,126</u>
Current balances	629,551,237	582,375,271
Non-current balances	1,630,723,072	1,566,927,855
	<u>2,260,274,309</u>	<u>2,149,303,126</u>
Fixed interest debt instruments	1,236,958,090	974,977,885
Variable interest debt instruments	426,916,401	511,917,494
	<u>1,663,874,491</u>	<u>1,486,895,379</u>

Export Development Bank Of Egypt (S.A.E.)  
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**Profit (losses) from financial investment**

	<u>30 June 2011</u>	<u>30 June 2010</u>
	<u>EGP</u>	<u>EGP</u>
Profit from selling available for sale investment	433,397	8,637,708
(Losses) from impairment of available for sale stocks	(40,113,768)	(59,447,635)
Profit from selling investment in subsidiaries and associates	86,428,614	115,683,328
Profit from selling treasury bonds	1,110,683	527,000
Profit from selling held to maturity investment	--	237,000
	<u>47,858,926</u>	<u>65,637,401</u>

**20. Financial investment in subsidiaries and associated companies**

	<u>30 June 2011</u>	<u>%</u>	<u>30 June 2010</u>	<u>%</u>
	<u>EGP</u>		<u>EGP</u>	
<b>a. <u>Participations in subsidiaries companies' capital</u></b>				
Egypt capital holding company	374,981,250	99,99	199,990,000	99,99
Egyptian company for exports guarantee	176,382,811	70,55	176,381,800	70,55
<b>b. <u>Participations in associated companies' capital</u></b>				
Philae company for floating hotels	--	--	1,516,666	27,50
	<u>551,364,061</u>		<u>377,888,466</u>	
<b><u>Represented in:</u></b>				
Financial investments listed in stock market	--		--	
Financial investments unlisted in stock market	551,364,061		377,888,466	
	<u>551,364,061</u>		<u>377,888,466</u>	

Reclassification of investments in associated companies to financial investments available for sale occurs when the bank loses effective influence on them through loss of ability to participate in the financial and operative policies or when a change occurs at the level of absolute or relative ownership or that The Bank loses the effective influence as per a contractual agreement.

The following companies were re-classified due to the last sale operations conducted by The Bank for its shares related to a number of its contributions: The Egyptian Tourism Development Company was amounted to EGP 4 214, The Touristic Investment Company (Sahl Hashish) was amounted to EGP 4 345, The Egyptian Company for Tourism and Services (Safir) was amounted to EGP 10 053.

**21. Intangible assets**

	<u>30 June 2011</u>	<u>30 June 2010</u>
	<u>EGP</u>	<u>EGP</u>
Net book value at the beginning of the year	4,259,107	9,398,696
Additions	25,272,635	--
Amortization	(11,464,238)	(5,139,589)
Net book value at the end of the year	<u>18,067,504</u>	<u>4,259,107</u>

Export Development Bank Of Egypt (S.A.E.)  
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For the year ended 30 June 2011

**22. Other assets**

	<u>30 June 2011</u>	<u>30 June 2010</u>
	<u>EGP</u>	<u>EGP</u>
Accrued revenues	92,838,608	85,016,797
Prepaid expenses	7,511,849	3,340,558
Advances for purchase of fixed assets	55,451,555	32,719,273
Acquired assets (Net)	394,198,752	383,685,393
Insurances and trusts	947,870	951,014
Miscellaneous debt balances	98,083,864	98,434,227
	<u>649,032,498</u>	<u>604,147,262</u>

Valuation of the assets acquired by the bank in settlement of debts is recorded in accordance with the related Central Bank of Egypt regulations. In case the assets' fair value falls below the value at which such assets have been acquired by the bank on the balance sheet date, the difference is charged to other expenses in the income statement. In case of an increase in the fair value, such increase is recognized in the income statement to the extent of revaluation losses recognized in the income statement for previous financial periods.

Accrued revenues are represented in:

	<u>30 June 2011</u>	<u>30 June 2010</u>
	<u>EGP</u>	<u>EGP</u>
Accrued income for medium term loans	34,759,780	42,538,287
Accrued income for due from banks	488,836	176,087
Accrued income for financial investments	57,589,992	42,302,423
	<u>92,838,608</u>	<u>85,016,797</u>

**23. FIXED ASSETS (NET)**

Particulars	Land	Premises	Computers	Vehicles	Fixture and improvements	Equipment	Furniture	Others	Total
	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP
Cost at the beginning of the year	14,273,911	98,619,387	40,521,319	7,909,590	81,808,865	5,527,468	4,500,133	3,828,526	256,989,199
Additions during the year	--	--	--	1,002,050	15,526,034	317,261	514,127	446,822	17,806,294
Disposals during the year	--	--	--	2,428,570	133,422	2,244	--	430	2,564,666
<b>Cost at the end of the year (1)</b>	<u>14,273,911</u>	<u>98,619,387</u>	<u>40,521,319</u>	<u>6,483,070</u>	<u>97,201,477</u>	<u>5,842,485</u>	<u>5,014,260</u>	<u>4,274,918</u>	<u>272,230,827</u>
Accumulated depreciation at the beginning of the year	--	24,549,782	24,652,165	4,779,573	45,294,498	3,115,670	1,934,472	1,487,187	105,813,347
Depreciation charged for the year	--	2,463,102	1,341,298	1,279,642	11,086,470	333,107	340,840	105,473	16,949,932
Accumulated depreciation for disposals	--	--	--	2,406,970	133,422	2,224	--	430	2,543,066
<b>Accumulated depreciation at the end of the year (2)</b>	<u>--</u>	<u>27,012,884</u>	<u>25,993,463</u>	<u>3,652,245</u>	<u>56,247,546</u>	<u>3,446,533</u>	<u>2,275,312</u>	<u>1,592,230</u>	<u>120,220,213</u>
<b>Net book value at the end of the year (1-2)</b>	<u>14,273,911</u>	<u>71,606,503</u>	<u>14,527,856</u>	<u>2,830,825</u>	<u>40,953,931</u>	<u>2,395,952</u>	<u>2,738,948</u>	<u>2,682,688</u>	<u>152,010,614</u>
Net book value at the beginning of the year	14,273,911	74,069,605	15,869,154	3,130,017	36,514,367	2,411,798	2,565,661	2,341,339	151,175,852

Others Fixed Assets are represented in (Net):

	<u>30 June 2011</u>	<u>30 June 2010</u>
	<u>EGP thousands</u>	<u>EGP thousands</u>
Type writers and calculators	52	88
Safe boxes	2,631	2,253
Total	<u>2,683</u>	<u>2,341</u>

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**24. Due to banks**

	<u>30 June 2011</u>	<u>30 June 2010</u>
	<u>EGP</u>	<u>EGP</u>
Current Accounts	93,068	93,788
Deposits	392,841,675	564,704,885
	<u>392,934,743</u>	<u>564,798,673</u>
Local Banks	154,174,743	493,608,673
Foreign Banks	238,760,000	71,190,000
	<u>392,934,743</u>	<u>564,798,673</u>
Non Bearing Interest Balances	93,068	93,788
Fixed Bearing Interest Balances	392,841,675	564,704,885
	<u>392,934,743</u>	<u>564,798,673</u>
Current Accounts	<u>392,934,743</u>	<u>564,798,673</u>

**25. Customers Deposits**

	<u>30 June 2011</u>	<u>30 June 2010</u>
	<u>EGP</u>	<u>EGP</u>
Demand Deposits	1,781,049,204	986,177,519
Time Deposits	4,456,229,675	4,088,945,422
Saving deposits and certificates of deposit	3,429,275,371	3,338,591,777
Other Deposits	168,580,017	339,166,323
	<u>9,835,134,267</u>	<u>8,752,881,041</u>
Nonbearing interest balances	3,768,723,071	744,796,332
Floating Bearing interest balances	2,253,551,108	2,863,694,287
Fixed bearing interest balances	3,812,860,088	5,144,390,422
	<u>9,835,134,267</u>	<u>8,752,881,041</u>

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**26. Other loans**

<i>Particulars</i>	<i>Maturity date</i>	<i>Rate %</i>	<i>Balances as of 30/06/2011(EGP)</i>	<i>Balances as of 30/06/2010(EGP)</i>
European Investment Bank loan-1 (Contributions)	31/10/2013	--	10,892,596	10,892,596
European Investment Bank loan-2 (Contributions)	31/10/2013	--	12,311,064	11,746,350
European Investment Bank loan	15/3/2013	%0.4600	48,035,147	68,747,638
National Investment Bank loan (Seventh)	30/6/2012	%6	1,000,000	2,000,000
National Investment Bank loan (Eighth)	30/6/2011	%6	--	18,333,333
National Investment Bank loan (Ninth)	30/6/2012	%6	15,833,333	31,666,667
National Investment Bank loan (Tenth)	30/6/2013	%6	45,000,000	67,500,000
National Investment Bank loan (Eleventh)	30/6/2014	%6	75,000,000	100,000,000
National Investment Bank loan (Twelfth)	30/6/2015	%6	100,000,000	125,000,000
Commercial International Bank (ASDP)	9/7/2013	--	41,241,071	46,303,929
European Investment Bank loan - 2 \$	15/9/2016	%0.71	45,244,444	51,017,987
European Investment Bank loan - 2 EURO	15/9/2016	%1.573	124,527,390	119,156,718
Arab Trade Financing Program	15/6/2012	%1.45631	104,457,500	28,476,000
Wells Fargo Bank Loan	11/2/2011	--	--	284,760,000
Arab investment company (TAIC)	26/7/2010	--	--	113,904,000
Arab international bank	21/7/2013	%2.8031	179,070,000	--
			<u>802,612,545</u>	<u>1,079,505,218</u>
Current Balances			212,307,827	602,478,127
Non-current Balances			590,304,718	477,027,091
			<u>802,612,545</u>	<u>1,079,505,218</u>

**27. Other liabilities**

	<i>30 June 2011 EGP</i>	<i>30 June 2010 EGP</i>
Accrued Interest	57,913,450	48,705,063
Prepaid Revenues	1,670,058	4,625,216
Accrued Expenses	20,309,253	7,731,829
Accrued Taxes and Insurances	7,438,564	4,934,360
Dividend Payable	105,388	154,005,388
Sundry Credit Balances	21,525,439	45,071,969
	<u>108,962,152</u>	<u>265,073,825</u>

**28. Other Provisions**

**30 June 2011**

	<i>Balance at the beginning of the year EGP</i>	<i>Transferred from(to) loans provision EGP</i>	<i>Transferred from other resources EGP</i>	<i>Foreign currencies revaluation differences EGP</i>	<i>Provision used during the year EGP</i>	<i>Balance at the end of the year EGP</i>
Provisions for assets reverted to bank in settlement of debts	2,193,320	--	786,343	--	(2,979,663)	--
Provision for claims	27,918,846	(15,061,599)	--	1,378	(212,692)	12,645,933
Provision for contingent liabilities	10,563,175	(255,285)	--	444,521	--	10,752,411
	<u>40,675,341</u>	<u>(15,316,884)</u>	<u>786,343</u>	<u>445,899</u>	<u>(3,192,355)</u>	<u>23,398,344</u>



**Notes to the Unconsolidated Financial Statements**

For the year ended 30 June 2011

**30 June 2010**

	<i>Balance at the beginning of the year</i>	<i>Transferred from(to) loans provision</i>	<i>Transferred from other resources</i>	<i>Foreign currencies revaluation differences</i>	<i>Provision used during the year</i>	<i>Balance at the end of the year</i>
	<i>EGP</i>	<i>EGP</i>	<i>EGP</i>	<i>EGP</i>	<i>EGP</i>	<i>EGP</i>
Provisions for assets reverted to bank in settlement of debts	---	---	2,193,320	---	---	2,193,320
Provision for claims	29,918,348	---	---	498	(2,000,000)	27,918,846
Provision for contingent liabilities	10,022,523	757,117	---	(216,465)	---	10,563,175
	<u>39,940,871</u>	<u>757,117</u>	<u>2,193,320</u>	<u>(215,967)</u>	<u>(2,000,000)</u>	<u>40,675,341</u>

**29. Deferred Taxes Liabilities**

Deferred income tax was fully calculated on the deferred tax difference according to balance sheet Method using a tax rate of 20% for the current financial year.

Deferred tax asset and liabilities are offset against each other to the extent this is a legally enforceable right when the deferrals belong to the same tax entity.

	<u>30 June 2011</u>	<u>30 June 2010</u>
	<u>EGP</u>	<u>EGP</u>
<u>Balances of Assets and Liabilities Deferred Taxes :</u>		
Deferred Taxes Liabilities Balances:		
Fixed assets	7,782,373	7,921,568
Taxes Differences (Special reserve)	2,535,754	2,535,754
	<u>10,318,127</u>	<u>10,457,322</u>

**30. Capital and Reserves**

**30.1 Capital**

The authorized capital amounted to LE. 2,000,000,000. The issued and paid up capital amounted to LE. 1,440,000,000 as of June 30, 2011, distributed over 144,000,000 common shares with a par value of EGP 10 each.

An increase of the issued and paid up capital by amount of 240,000,000 EGP to reach amount of 1,440,000,000 EGP has been approved by the General Assembly Meeting On 29/09/2010, such increase took place from reserves and the retained earnings as of 30/6/2010. And on 9/12/2010, the trade on stocks took place in the Stock Market; such increase has been recorded in the Central Bank of Egypt on 16/1/2011.

**30.2 Reserves**

In accordance with the Bank's statute, a 10% of annual net profit is transferred to the legal reserve; such transfer is possible to be ceased when the legal reserve reaches 50% of issued capital.

Reserves on 30 June 2011 represented as following:

**Notes to the Unconsolidated Financial Statements**

For the year ended 30 June 2011

	<u>30 June 2011</u>	<u>30 June 2010</u>
	<u>EGP</u>	<u>EGP</u>
General banking risk reserve	20,537,124	20,537,124
Banking risk reserve – acquired assets	4,799,222	--
Legal reserve	753,554	98,753,554
Fair value reserve-available for sale investment	(30,583,868)	4,834,251
Special reserve	35,118,940	35,118,940
Capital reserve	1,125,485	1,125,485
	<u>31,750,457</u>	<u>160,369,354</u>
<u>Reserves are as follows:</u>		
<b>A - General Banking Risk Reserve</b>		
- Beginning balance	20,537,124	--
- Transferred from retained earnings	--	20,537,124
	<u>20,537,124</u>	<u>20,537,124</u>
CBE regulations require that general Banking risk reserve shall be formed to meet unexpected risks. This reserve is not matter of distribution unless obtaining CBE approval.		
<b>B - Legal Reserve</b>		
- Beginning balance	98,753,554	45,426,559
- Transferred from retained earnings	(98,000,000)	53,326,995
	<u>753,554</u>	<u>98,753,554</u>
<b>C - Special Reserve</b>		
- Beginning balance	35,118,940	2,440,170
- Transferred from retained earnings	--	12,678,770
	<u>35,118,940</u>	<u>35,118,940</u>
<b>D - Capital Reserve</b>		
- Beginning balance	1,125,485	699,660
- Transferred from retained earnings	--	425,825
	<u>1,125,485</u>	<u>1,125,485</u>
<b>E - Fair value reserve - available for sale investment</b>		
- Beginning balance	4,834,251	(77,325,517)
- Transferred from retained earnings	(35,418,119)	82,159,768
	<u>(30,583,868)</u>	<u>4,834,251</u>

**Notes to the Unconsolidated Financial Statements**

For the year ended 30 June 2011

**E - Retained earnings**

- Beginning balance	170,221,262	74,683,594
- Net profit of the year	161,406,788	302,853,475
- Previous year dividends	--	(153,900,000)
- Transferred to banking risk reserve	--	(20,537,124)
- Transferred to legal reserve	--	(28,362,151)
- Transferred to capital reserve	--	(425,825)
- Transferred to special reserve	--	(12,678,770)
- The effect of change in accounting policies	--	8,588,063
- Capital increase	(142,000,000)	--
	<u>189,628,050</u>	<u>170,221,262</u>

**31. Shareholders' Dividends**

Dividends are recognized when the general assembly of shareholders approves them. Dividends include the Employees' profit share and the board of directors' remuneration by deducting from the retained earnings as of June 30, 2011.

**32. Cash and cash equivalent**

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

	<u>30 June 2011</u>	<u>30 June 2010</u>
	<u>EGP</u>	<u>EGP</u>
Cash and due from central bank of Egypt	20,833,677	19,200,080
Due from banks	662,770,606	766,474,771
Treasury bills and other governmental notes	100,000,000	269,575,000
	<u>783,604,283</u>	<u>1,055,249,851</u>

**33. Contingent liabilities and commitments****A) Legal claims**

There are a number of existing cases filed against the bank in 30/6/2011 without provision as it's not expected to make any losses from it.

**B) Capital commitments**

The capital commitments for the financial investment reached on the date of financial position L.E. 248,909 thousands as follows:

	Investment value	Paid	(In EGP Thousands) Remaining
Available for sale financial investments	320,702	196,787	123,915
Financial investments in associates co.	499,975	374,981	124,994
Total	<u>820,677</u>	<u>571,768</u>	<u>248,909</u>

**Notes to the Unconsolidated Financial Statements**

For the year ended 30 June 2011

**C) Loans, facilities and guarantees commitments**

	<u>30 June 2011</u>	<u>30 June 2010</u>
	<u>EGP</u>	<u>EGP</u>
Letters of guarantee	1,218,785,701	1,168,497,246
Letters of credit (import)	884,732,153	802,830,953
Letters of credit (export-confirmed)	7,245,435	29,133,074
Shipping documents (export)	166,551,878	145,569,771
Outstanding forward contracts	184,213,806	206,823,534
	<u>2,461,528,973</u>	<u>2,352,854,578</u>

**34. Related party transactions**

A number of Banking transactions are entered into with related parties in the normal course of business. These include loans, deposits, and foreign currency transactions.

Related party transactions are represented as follows:

	<u>30 June 2011</u>	<u>30 June 2010</u>
	<u>EGP</u>	<u>EGP</u>
<b><u>Shareholders:</u></b>		
<u>Assets</u>		
Due from banks	79,354,888	119,454,689
<u>Liabilities</u>		
Due to banks	--	28,476,000
Long term loans	236,833,333	344,500,000
<u>Board of directors benefits</u>		
Wages and short term benefits	14,491,475	11,901,091

**35. Tax status**

- The Bank is subject to law No. 95 of 1983 and its amendments, so it is exempted from corporate tax for five years starting from the subsequent year to the startup of operations, which was February 3, 1985. Therefore, starting from the year 1990/1991, the Bank was subjected to corporate tax.
- The Bank's branch at 10<sup>th</sup> of Ramadan City started its activity during 1989/1990, and obtained an approval of ten years tax exemption for the branch starting January 1, 1990.

**Notes to the Unconsolidated Financial Statements**

For the year ended 30 June 2011

- The Bank's branch at 6<sup>th</sup> of October City started its activity during 1997, and obtained an approval of ten years tax exemption for the branch starting July 1, 1997 till June 30, 2007.
- The Bank has paid all of its Corporate & Movable Taxes up to June 30, 2005 based on a mutual final agreement with the Tax Authority (Large Taxpayer Center), as to years 2005/2006, 2006/2007 have been examined resulted in null as to corporate tax & other tax bases have been transferred to internal committee.
- An amount of EGP 37 million represents the paid tax is eligible to the bank according to the decision of the dispute settlement committee which stated that the bank has the right not to be subjected to corporate tax on capital issuance premium of year 1997.
- The Stamp Tax has been examined till 31/12/2005 for the majority of bank branches and the remaining branches are under examination. The Bank has paid all stamp taxes as per Taxes claims.

**36. Mutual Funds**

**A. Export Development Bank of Egypt first mutual fund (The Expert fund).**

The fund is one of banking activities authorized under the capital market law No. 95 for the year 1992 and its executive regulations, HC for securities and investment is managing this fund, the fund certificates reached 1million certificate at foundation worth of L.E.100 million, out of these, 50 thousand of the certificates were allocated to the bank to undertake the funds' activity (with L.E. 100 nominal value).

The number of the outstanding certificates on the date of financial position was 911,180 certificates as the number of owned certificates by the bank reached 437,573 certificates. The redemption value per certificate as of June 30, 2011 amounted to L.E. 63.44 and according to the funds' management contract and its prospectus, the bank shall obtain fee and commission for supervision on the fund and other managerial services rendered by the bank, total commissions as at 30 June 2011 including well performance commission amounted to L.E.894, 295.66 presented under the item of "fee and commission income/other fees" caption in the income statement.

**B. Export Development Bank of Egypt Second Monetary fund.**

The fund is one of banking activities authorized under the capital market law No. 95 for the year 1992 and its executive regulations, Delta Rasmala Securities is managing this fund, the fund certificates Reached 2,867,466 certificates at foundation worth of L.E. 286,746,600, out of these, 143,400 of the certificates were allocated to the bank to undertake the funds' activity (with L.E. 100 nominal value). The number of the outstanding certificates on the date of financial position was 5,230,577 as the number of owned certificates by the bank reached 104,612 certificates. The redemption value per certificate as of June 30,2011 amounted to L.E. 144.0761, total commissions amounted to L.E. 4,442,808.42 as at 30 June 2011 Presented under the item of "fee and commission income/other fees" caption in the income statement

  
**Maged Fahmy Attiya**

Chairman