

**Review Report**

**To the Board of Directors of Commercial International Bank (Egypt)**

**Introduction**

We have performed a limited review of the accompanying Separate balance sheet of Commercial International Bank (Egypt) S.A.E as of 30 September 2012 and the related Separate statements of income, cash flows and changes in equity for the nine months then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these interim Separate financial statements in accordance with the Central Bank of Egypt's rules issued on 16 December 2008. Our responsibility is to express a conclusion on these interim Separate financial statements based on our limited review.

**Scope of Limited Review**

We conducted our limited review in accordance with Egyptian Standard on Review Engagements No. 2410, "Limited Review of Interim Financial Statements of an Entity Performed by its Separate Auditor." A limited review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters in the bank, and applying analytical and other limited review procedures. A limited review is substantially less in scope than an audit conducted in accordance with Egyptian Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on these interim Separate financial statements.

**Conclusion**

Based on our limited review, nothing has come to our attention that causes us to believe that the accompanying interim Separate financial statements do not present fairly, in all material respects, the Separate financial position of Commercial International Bank- Egypt (S.A.E) as at 30 September 2012 and of its Separate financial performance and its Separate cash flows for the nine months then ended in accordance with the Central Bank of Egypt's rules issued on 16 December 2008 and in the light of the prevailing Egyptian laws and regulations relating to the preparation of these Separate financial statements.

*Auditors*

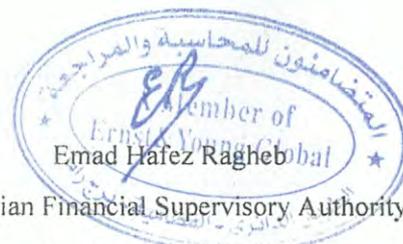


Egyptian Financial Supervisory Authority

Register Number "99"

**KPMG Hazem Hassan**

**Public Accountants & Consultants**



Egypian Financial Supervisory Authority

Register Number "42"

**Allied For Accountaning & Auditing E & Y**

**Public Accountants & Consultants**

Cairo, 13 November 2012

**Separate balance sheet on September 30, 2012**

	Notes	Sep. 30, 2012 EGP	Dec. 31, 2011 EGP
<b>Assets</b>			
Cash and balances with Central Bank	15	3,414,510,382	7,492,064,510
Due from banks	16	8,753,946,065	8,449,298,705
Treasury bills and other governmental notes	17	9,097,411,619	9,213,390,067
Trading financial assets	18	1,773,091,384	561,084,273
Loans and advances to banks	19	987,397,719	1,395,594,609
Loans and advances to customers	20	40,142,585,729	39,669,785,864
Derivative financial instruments	21	145,153,442	146,544,656
<b>Financial investments</b>			
- Available for sale	22	21,041,898,650	15,412,566,069
- Held to maturity	22	4,212,404,153	29,092,920
Investments in subsidiary and associates	23	1,026,452,865	995,595,778
Investment property	24	10,024,686	12,774,686
Other assets	25	2,455,519,536	1,518,509,876
Deferred tax	33	112,650,246	95,141,726
Property, plant and equipment	26	660,851,593	636,775,294
<b>Total assets</b>		<b>93,833,898,069</b>	<b>85,628,219,033</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Due to banks	27	2,085,096,618	3,340,794,517
Due to customers	28	78,533,236,410	71,574,047,530
Derivative financial instruments	21	129,801,534	114,287,990
Other liabilities	30	1,881,047,539	1,313,785,436
Long term loans	29	62,424,153	99,333,376
Other provisions	31	283,540,934	264,625,909
<b>Total liabilities</b>		<b>82,975,147,188</b>	<b>76,706,874,758</b>
<b>Equity</b>			
Issued and paid in capital	32	5,972,275,410	5,934,562,990
Reserves	32	3,075,193,771	1,085,472,868
Reserve for employee stock ownership plan (ESOP)		151,728,838	137,354,419
Retained earnings		1,001,979	15,105,920
<b>Total equity</b>		<b>9,200,199,998</b>	<b>7,172,496,197</b>
Net profit of the period / year after tax		1,658,550,883	1,748,848,078
<b>Total equity and net profit for period / year</b>		<b>10,858,750,881</b>	<b>8,921,344,275</b>
<b>Total liabilities and equity</b>		<b>93,833,898,069</b>	<b>85,628,219,033</b>
<b>Contingent liabilities and commitments</b>			
Letters of credit, guarantees and other commitments	37	13,726,508,703	12,559,603,516

The accompanying notes are an integral part of these financial statements .  
 (Review report attached)

  
**Hisham Ramez Abdel Hafez**  
 Vice Chairman and Managing Director

  
**Hisham Ezz El-Arab**  
 Chairman and Managing Director

**Separate income statement for the period ended on September 30, 2012**

	Notes	Last 3 Months Sep. 30, 2012 EGP	Last 9 Months Sep. 30, 2012 EGP	Last 3 Months Sep. 30, 2011 EGP	Last 9 Months Sep. 30, 2011 EGP
Interest and similar income		2,104,338,417	5,699,585,573	1,391,358,470	3,973,996,549
Interest and similar expense		(1,077,214,951)	(2,878,216,663)	(704,485,193)	(2,028,815,453)
<b>Net interest income</b>	6	<b>1,027,123,466</b>	<b>2,821,368,910</b>	<b>686,873,277</b>	<b>1,945,181,096</b>
Fee and commission income		233,609,821	669,254,710	203,312,802	614,274,291
Fee and commission expense		(28,497,812)	(76,264,667)	(23,342,723)	(64,114,837)
<b>Net income from fee and commission</b>	7	<b>205,112,009</b>	<b>592,990,043</b>	<b>179,970,079</b>	<b>550,159,454</b>
Dividend income	8	305,896	22,050,296	983,506	58,015,412
Net trading income	9	210,793,996	412,179,479	23,390,410	242,418,862
Profit (Losses) from financial investments	22	(6,393,197)	(29,588,934)	783,745	38,015,749
Administrative expenses	10	(340,636,879)	(1,042,206,519)	(313,557,203)	(968,821,954)
Other operating (expenses) income	11	(21,551,240)	(79,177,786)	28,090,690	(50,538,348)
Impairment (charge) release for credit losses	12	(247,335,705)	(406,580,325)	(110,963,329)	(312,228,115)
<b>Net profit before tax</b>		<b>827,418,346</b>	<b>2,291,035,164</b>	<b>495,571,175</b>	<b>1,502,202,156</b>
Income tax expense	13	(222,369,364)	(649,992,799)	(107,268,459)	(320,326,989)
Deferred tax	33 & 13	5,855,549	17,508,518	(10,985,930)	4,835,448
<b>Net profit of the period</b>		<b>610,904,531</b>	<b>1,658,550,883</b>	<b>377,316,786</b>	<b>1,186,710,615</b>
<b>Earning per share</b>	14				
Basic		0.91	2.73	0.54	1.65
Diluted		0.89	2.68	0.53	1.62

*Hisham Ramez*

**Hisham Ramez Abdel Hafez**  
Vice Chairman and Managing Director

*Hisham Ezz El-Arab*

**Hisham Ezz El-Arab**  
Chairman and Managing Director

## Separate cash flow for the period ended on September 30, 2012

	Sep. 30, 2012	Sep. 30, 2011
	EGP	EGP
<b>Cash flow from operating activities</b>		
Net profit before tax	2,291,035,164	1,502,202,156
<b>Adjustments to reconcile net profit to net cash provided by operating activities</b>		
Depreciation	125,184,264	143,036,462
Impairment charge for credit losses	406,580,325	313,855,735
Other provisions charges	90,779,892	1,436,634
Trading financial investments revaluation differences	(108,405,059)	43,856,029
Available for sale and held to maturity investments exchange revaluation differences	(13,580,979)	(45,509,879)
Financial investments impairment charge (release)	7,746,294	(373,389)
Utilization of other provisions	(72,440,607)	(3,119,614)
Other provisions no longer used	(531,054)	(40,284,922)
Exchange differences of other provisions	1,106,792	3,926,263
Profits from selling property, plant and equipment	(3,801,360)	(2,664,190)
Profits from selling financial investments	2,289,009	(93,073,621)
Profits from selling associates	-	(1,873,813)
Exchange differences of long term loans	42,050	459,526
Shares based payments	66,036,546	62,114,443
Investments in subsidiary and associates revaluation	-	(501,696)
Real estate investments impairment charges	-	361,200
<b>Operating profits before changes in operating assets and liabilities</b>	<u>2,792,041,277</u>	<u>1,883,847,324</u>
<b>Net decrease (increase) in assets and liabilities</b>		
Due from banks	(233,475,365)	(4,998,033,002)
Treasury bills and other governmental notes	(43,416,593)	121,265,205
Trading financial assets	(1,103,602,052)	778,449,743
Derivative financial instruments	16,904,759	(25,035,261)
Loans and advances to banks and customers	(471,183,299)	(3,100,295,504)
Other assets	(920,965,971)	34,117,966
Due to banks	(1,255,697,899)	192,787,727
Due to customers	6,959,188,880	6,390,040,278
Other liabilities	(82,730,698)	(382,784,752)
<b>Net cash provided from operating activities</b>	<u>5,657,063,039</u>	<u>894,359,724</u>
<b>Cash flow from investing activities</b>		
Purchase of subsidiary and associates	(30,857,087)	(11,000,000)
Purchases of property, plant and equipment	(161,502,892)	(90,345,592)
Redemption of held to maturity financial investments	-	230,201,187
Purchases of held to maturity financial investments	(4,183,311,233)	(5,000,000)
Purchases of available for sale financial investments	(9,819,261,071)	(3,284,767,960)
Proceeds from selling available for sale financial investments	5,174,787,445	1,794,737,265
Proceeds from selling real estate investments	2,750,000	-
<b>Net cash generated from (used in) investing activities</b>	<u>(9,017,394,838)</u>	<u>(1,366,175,100)</u>

## Separate cash flow for the period ended on September 30, 2012 (Cont.)

	Sep. 30, 2012 EGP	Sep. 30, 2011 EGP
<b>Cash flow from financing activities</b>		
Increase (decrease) in long term loans	(36,951,273)	(33,657,304)
Dividend paid	(806,206,521)	(841,922,204)
Capital increase	37,712,420	33,119,390
<b>Net cash generated from (used in) financing activities</b>	<u>(805,445,374)</u>	<u>(842,460,118)</u>
Net increase (decrease) in cash and cash equivalent	(4,165,777,174)	(1,314,275,494)
Beginning balance of cash and cash equivalent	8,081,134,203	7,778,944,042
<b>Cash and cash equivalent at the end of the period</b>	<u>3,915,357,029</u>	<u>6,464,668,548</u>
<b>Cash and cash equivalent comprise:</b>		
Cash and balances with Central Bank	3,414,510,382	4,585,370,018
Due from banks	8,753,946,065	11,595,011,255
Treasury bills and other governmental notes	9,097,411,619	8,647,963,786
Obligatory reserve balance with CBE	(3,067,529,100)	(2,782,468,103)
Due from banks (time deposits) more than three months	(5,418,197,859)	(8,610,360,531)
Treasury bills with maturity more than three months	(8,864,784,078)	(6,970,847,877)
<b>Total cash and cash equivalent</b>	<u>3,915,357,029</u>	<u>6,464,668,548</u>

**Separate statement of changes in shareholders' equity for the period ended on September 30, 2011**

Sep. 30, 2011	<u>Capital</u>	<u>Legal reserve</u>	<u>General reserve</u>	<u>Retained earnings (losses)</u>	<u>Special reserve</u>	<u>Reserve For A.F.S. investments revaluation diff.</u>	<u>Banking risks reserve</u>	<u>Net profit of the period</u>	<u>Reserve for employee stock ownership plan</u>	<u>Total</u>
										EGP
Beginning balance	5,901,443,600	125,128,337	78,564,646	20,231,298	184,356,569	(18,014,631)	156,992,515	2,010,672,119	149,520,859	8,608,895,311
Capital increase	33,119,390	-	-	-	-	-	-	-	-	33,119,390
Transferred to reserves	-	106,216,559	1,155,710,315	-	1,574,746	-	-	(1,173,875,293)	(89,626,327)	0
Dividend paid	-	-	-	(20,231,298)	-	-	-	(821,690,906)	-	(841,922,204)
Net Profit of The Period	-	-	-	-	-	-	-	1,186,710,615	-	1,186,710,615
Addition from financial investment revaluation	-	-	-	-	-	(350,254,044)	-	-	-	(350,254,044)
Transferred to bank risk reserve	-	-	-	-	-	-	76,166,450	(76,166,450)	-	-
Reserve for employees stock ownership plan (ESOP)	-	-	-	-	-	-	-	-	62,114,443	62,114,443
The Effect of Changing Accounting Policies	-	-	-	15,105,920	-	-	-	(15,105,920)	-	-
Balance at The End of The Period	5,934,562,990	231,344,896	1,234,274,960	15,105,920	185,931,315	(368,268,675)	233,158,965	1,110,544,165	122,008,975	8,698,663,511

**Separate statement of changes in shareholders' equity for the period ended on September 30, 2012**

Sep. 30, 2012	<u>Capital</u>	<u>Legal reserve</u>	<u>General reserve</u>	<u>Retained earnings (losses)</u>	<u>Special reserve</u>	<u>Reserve For A.F.S investments revaluation diff.</u>	<u>Banking risks reserve</u>	<u>Net profit of the period</u>	<u>Reserve for employee stock ownership plan</u>	<u>Total</u>
										EGP
Beginning balance	5,934,562,990	231,344,896	1,234,274,960	15,105,920	185,931,315	(723,070,818)	281,689,619	1,624,150,975	137,354,419	8,921,344,275
Capital increase	37,712,420	-	-	-	-	-	-	-	-	37,712,420
Transferred to reserves	-	87,306,567	794,689,187	-	2,716,747	-	-	(833,050,374)	(51,662,127)	-
Dividend paid	-	-	-	(15,105,920)	-	-	-	(791,100,601)	-	(806,206,521)
Net Profit of The Period	-	-	-	-	-	-	-	1,658,550,883	-	1,658,550,883
Transfer from special reserve	-	61,697,292	8,143,225	1,001,979	(70,842,496)	-	-	-	-	-
Addition from financial investment revaluation	-	-	-	-	-	981,313,278	-	-	-	981,313,278
Transferred to bank risk reserve	-	-	-	-	-	-	(181,708,448)	181,708,448	-	-
Reserve for employees stock ownership plan (ESOP)	-	-	-	-	-	-	-	-	66,036,546	66,036,546
<b>Balance at The End of The Period</b>	<b>5,972,275,410</b>	<b>380,348,755</b>	<b>2,037,107,372</b>	<b>1,001,979</b>	<b>117,805,566</b>	<b>258,242,460</b>	<b>99,981,171</b>	<b>1,840,259,331</b>	<b>151,728,838</b>	<b>10,858,750,881</b>

## Notes to the separate financial statements for the period ended on September 30, 2012

### 1. General information

Commercial International Bank (Egypt) S.A.E. provides retail, corporate and investment banking services in various parts of Egypt through 111 branches, and 44 units employing 4766 employees on the balance sheet date.

Commercial International Bank (Egypt) S.A.E. was formed as a commercial bank under the investment law no. 43 of 1974. The address of its registered head office is as follows: Nile tower, 21/23 Charles de Gaulle Street-Giza. The Bank is listed in the Egyptian stock exchange.

### 2. Summary of 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 years presented, unless otherwise stated.

#### 2.1. Basis of preparation

The separate financial statements have been prepared in accordance with Egyptian financial reporting standards issued in 2006 and its amendments and in accordance with the Central Bank of Egypt regulations approved by the Board of Directors on December 16, 2008.

The separate financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities classified as trading or held at fair value through profit or loss, available for sale investment and all derivatives contracts.

The separate and consolidated financial statements of the Bank and its subsidiaries have been prepared in accordance with the relevant domestic laws and the Egyptian financial reporting standards, the affiliated companies are entirely included in the consolidated financial statements and these companies are the companies that the Bank - directly or indirectly - has more than half of the voting rights or has the ability to control the financial and operating policies, regardless of the type of activity, the Bank's consolidated financial statements can be obtained from the Bank's management. The Bank accounts for investments in subsidiaries and associate companies in the separate financial statements at cost minus impairment loss.

The separate financial statements of the Bank should be read with its consolidated financial statements, for the period ended on September 30, 2012 to get complete information on the Bank's financial position, results of operations, cash flows and changes in ownership rights.

#### 2.2. Subsidiaries and associates

##### 2.2.1. Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Bank has owned directly or indirectly the control 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 or not.

##### 2.2.2. Associates

Associates are all entities over which the Bank has significant influence but do not reach to the extent of control, generally accompanying a shareholding between 20% and 50% of the voting rights.

The acquisition method of accounting is used to account for the purchase of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed, plus any costs directly related to the acquisition. The excess of the cost of an acquisition over the Bank share of the fair value of the identifiable net assets acquired is recorded as goodwill. A gain on acquisition is recognized in profit or loss if there is an excess of the Bank's share of the fair value of the identifiable net assets acquired over the cost of the acquisition.

The cost method is applied to account for investments in subsidiaries and associates, whereby, investments are recorded based on the acquisition cost including any goodwill, deducting any impairment losses, and dividends are recorded in the income statement in the adoption of the distribution of these profits and evidence of the Bank right to collect them.

#### 2.3. Segment reporting

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

#### 2.4. Foreign currency translation

##### 2.4.1. Functional and presentation currency

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

#### 2.4.2. Transactions and balances in foreign currencies

The Bank maintains its accounting records in Egyptian pound. Transactions in foreign currencies during the period are translated into the Egyptian pound using the prevailing exchange rates on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the end of reporting period at the prevailing exchange rates. Foreign exchange gains and losses resulting from settlement and translation of such transactions and balances are recognized in the income statement and reported under the following line items:

- Net trading income from held-for-trading assets and liabilities.
- Other operating revenues (expenses) from the remaining assets and liabilities.

Changes in the fair value of investments in debt instruments; which represent monetary financial instruments, denominated in foreign currencies and classified as available for sale assets are analyzed into valuation differences resulting from changes in the amortized cost of the instrument, differences resulting from changes in the applicable exchange rates and differences resulting from changes in the fair value of the instrument.

Valuation differences resulting from changes in the amortized cost are recognized and reported in the income statement in 'income from loans and similar revenues' whereas differences resulting from changes in foreign exchange rates are recognized and reported in 'other operating revenues (expenses)'. The remaining differences resulting from changes in fair value are deferred in equity and accumulated in the 'revaluation reserve of available-for-sale investments'.

Valuation differences resulting from the non-monetary items include gains and losses of the change in fair value of such equity instruments held at fair value through profit and loss, as for recognition of the differences of valuation resulting from equity instruments classified as financial investments available for sale within the fair value reserve in equity.

#### 2.5. Financial assets

The Bank classifies its financial assets in the following categories:

- Financial assets designated at fair value through profit or loss.
- Loans and receivables.
- Held to maturity investments.
- Available for sale financial investments.

Management determines the classification of its investments at initial recognition.

##### 2.5.1. Financial assets at fair value through profit or loss

This category has two sub-categories:

- Financial assets held for trading.
- Financial assets designated at fair value through profit and 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 short 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 making. Derivatives are also categorized as held for trading unless they are designated as hedging instruments.

Financial instruments, other than those held for trading, are classified as financial assets designated at fair value through profit and loss if they meet one or more of the criteria set out below:

- When the designation eliminates or significantly reduces measurement and recognition inconsistencies that would arise from measuring financial assets or financial liabilities, on different bases. Under this criterion, an accounting mismatch would arise if the debt securities issued were accounted for at amortized cost, because the related derivatives are measured at fair value with changes in the fair value recognized in the income statement. The main classes of financial instruments designated by the Bank are loans and advances and long-term debt issues.
- Applies to groups of financial assets, financial liabilities or combinations thereof that are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and where information about the groups of financial instruments is reported to management on that basis.
- Relates to financial instruments containing one or more embedded derivatives that significantly modify the cash flows resulting from those financial instruments, including certain debt issues and debt securities held.

Any financial derivative initially recognized at fair value can't be reclassified during the holding period. Re-classification is not allowed for any financial instrument initially recognized at fair value through profit and loss.

### 2.5.2. Loans and advances

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

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

### 2.5.3. 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 till maturity. If the Bank has to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale unless in necessary cases subject to regulatory approval.

### 2.5.4. 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 are applied in respect to all financial assets:

Debt securities and equity shares intended to be held on a continuing basis, other than those designated at fair value, are classified as available-for-sale or held-to-maturity. Financial investments are recognized on trade date, when the group enters into contractual arrangements with counterparties to purchase securities.

Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit and 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 when the Bank transfers substantially all risks and rewards of the ownership. Financial liabilities are derecognized when they are extinguished, that is, when the obligation is discharged, cancelled or expired.

Available-for-sale, held-for-trading and financial assets designated at fair value through profit and loss are subsequently measured at fair value. Loans, receivables and held-to-maturity investments are subsequently measured at amortized cost.

Gains and losses arising from changes in the fair value of the 'financial assets designated at fair value through profit or loss' are recognized in the income statement in 'net income from financial instruments designated at fair value'. Gains and losses arising from changes in the fair value of available for sale investments are recognized directly in equity, until the financial assets are either sold or become impaired. When available-for-sale financial assets are sold, the cumulative gain or loss previously recognized in equity is recognized in profit or loss.

Interest income is recognized on available for sale debt securities using the effective interest method, calculated over the asset's expected life. Premiums and discounts arising on the purchase are included in the calculation of effective interest rates. Dividends are recognized in the income statement when the right to receive payment has been 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 measures fair value using valuation models. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation models commonly used by market participants. If the Bank has not been able to estimate the fair value of equity instruments classified available for sale, value is measured at cost less any impairment in value.

Available for sale investments that would have met the definition of loans and receivables at initial recognition may be reclassified out to loans and advances or financial assets held to maturity. In all cases, when the Bank has the intent and ability to hold these financial assets in the foreseeable future or till maturity. The financial asset is reclassified at its fair value on the date of reclassification, and any profits or losses that have been recognized previously in equity, are treated based on the following:

- If the financial asset has a fixed maturity, gains or losses are amortized over the remaining life of the investment using the effective interest rate method. In case of subsequent impairment of the financial asset, the previously recognized unrealized gains or losses in equity are recognized directly in the profits and losses.
- In the case of financial asset which has infinite life, any previously recognized profit and loss in equity will remain until the sale of the asset or its disposal, in the case of impairment of the value of the financial asset after the re-classification, any gain or loss previously recognized in equity is recycled to the profits and losses.
- If the Bank adjusts its estimates of payments or receipts of a financial asset that in return adjusts the carrying amount of the asset (or group of financial assets) to reflect the actual cash inflows, the carrying value is recalculated based on the present

value of estimated future cash flows at the effective yield of the financial instrument and the differences are recognized in profit and loss.

- In all cases, if the Bank re-classifies financial asset in accordance with the above criteria and increases its estimate of the proceeds of future cash flow, this increase adjusts the effective interest rate of this asset only without affecting the investment book value.

## **2.6. Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a legally enforceable right to offset the recognized amounts and there is an intention to be settled on a net basis.

Agreements of repos & reverse repos are shown by the net in the financial statement in treasury bills and other governmental notes.

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

Derivatives are recognized initially, and subsequently, at fair value. Fair values of exchange traded derivatives are obtained from quoted market prices. Fair values of over-the-counter derivatives are obtained using valuation techniques, including discounted cash flow models and option pricing models. Derivatives are classified as assets when their fair value is positive and as liabilities when their fair value is negative.

Embedded derivatives in other financial instruments, such as 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 and loss. These embedded derivatives are measured at fair value with changes in fair value recognized in income statement unless the Bank chooses to designate the hybrid contract as at fair value through net trading income through profit and loss.

The timing method of recognition in profit and loss, of any gains or losses arising from changes in the fair value of derivatives, depends on whether the derivative is designated as a hedging instrument, and the nature of the item being hedged. The Bank designates certain derivatives as:

- Hedging instruments of the risks associated with fair value changes of recognized assets or liabilities or firm commitments (fair value hedge).
- Hedging of risks relating to future cash flows attributable to a recognized asset or liability or a highly probable forecast transaction (cash flow hedge)
- Hedge accounting is used for derivatives designated in a hedging relationship when the following criteria are met.

At the inception of the hedging relationship, the Bank documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge, and on ongoing basis, the Bank documents whether the hedging instrument is expected to be highly effective in offsetting changes in fair values of the hedged item attributable to the hedged risk.

### **2.7.1. Fair value hedge**

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recognized in profit and loss immediately together with any changes in the fair value of the hedged asset or liability that is 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' line item of the income statement. Any ineffectiveness is recognized in profit and loss in 'net trading income'.

When the hedging instrument is no longer qualified for hedge accounting, the adjustment to the carrying amount of a hedged item, measured at amortized cost, arising from the hedged risk is amortized to profit and loss from that date using the effective interest method.

### **2.7.2. Derivatives that do not qualify for hedge accounting**

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognized immediately in the income statement. These gains and losses are reported in 'net trading income', except where derivatives are managed in conjunction with financial instruments designated at fair value, in which case gains and losses are reported in 'net income from financial instruments designated at fair value'.

## **2.8. Interest income and expense**

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

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit

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

Once loans or debts are classified as nonperforming or impaired, the revenue of interest income will not be recognized and will be recorded off balance sheet, and are recognized as income subsequently based on a cash basis according to the following:

- When all arrears are collected for consumer loans, personnel mortgages and micro-finance loans.
- When calculated interest for corporate are capitalized according to the rescheduling agreement conditions until paying 25% from rescheduled payments for a minimum performing period of one year, if the customer continues to perform, the calculated interest will be recognized in interest income (interest on the performing rescheduling agreement balance) without the marginalized before the rescheduling agreement which will be recognized in interest income after the settlement of the outstanding loan balance.

## **2.9. Fee and commission income**

Fees charged for servicing a loan or facility that is measured at amortized cost, are recognized as revenue as the service is provided. Fees and commissions on non-performing or impaired loans or receivables cease to be recognized as income and are rather recorded off balance sheet. These are recognized as revenue, on a cash basis, only when interest income on those loans is recognized in profit and loss, at that time, fees and commissions that represent an integral part of the effective interest rate of a financial asset, are treated as an adjustment to the effective interest rate of that financial asset.

Commitment fees and related direct costs for loans and advances where draw down is probable are deferred and recognized as an adjustment to the effective interest on the loan once drawn. Commitment fees in relation to facilities where draw down is not probable are recognized at the maturity of the term of the commitment.

Fees are recognized on the debt instruments that are measured at fair value through profit and loss on initial recognition and syndicated loan fees received by the Bank are recognized when the syndication has been completed and the Bank does not hold any portion of it or holds a part at the same effective interest rate used for the other participants portions.

Commission and fee arising from negotiating, or participating in the negotiation of a transaction for a third party such as the arrangement of the acquisition of shares or other securities and the purchase or sale of properties are recognized upon completion of the underlying transaction in the income statement .

Other management advisory and service fees are recognized based on the applicable service contracts, usually on accrual basis. Financial planning fees related to investment funds are recognized steadily over the period in which the service is provided. The same principle is applied for wealth management; financial planning and custody services that are provided on the long term are recognized on the accrual basis also.

## **2.10. Dividend income**

Dividends are recognized in the income statement when the right to collect it is declared.

## **2.11. Sale and repurchase agreements**

Securities may be lent or sold according to a commitment to repurchase (Repos) are reclassified in the financial statements and deducted from treasury bills balance. Securities borrowed or purchased according to a commitment to resell them (Reverse Repos) are reclassified in the financial statements and added to treasury bills balance. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest rate method.

## **2.12. Impairment of financial assets**

### **2.12.1. Financial assets carried at amortised cost**

The Bank assesses on 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 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/s') and that loss event/s 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 ( e.g, equity ratio, net income percentage of sales).
- Violation of the conditions of the loan agreement such as non-payment.
- 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 or deterioration of the creditworthiness of the borrower.

The objective evidence of impairment loss for a group of financial assets is observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, for instance an increase in the default rates for a particular banking product.

The Bank estimates the period between a losses occurring and its identification for each specific portfolio. In general, the periods used vary between three months to twelve 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.
- If the Bank determines that an objective evidence of financial asset impairment exist that is 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.

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 be reflected together with changes in related observable data from period to period (e.g. changes in unemployment rates, property prices, payment status, or other indicative factors 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.

#### **2.12.2. Available for sale investments**

The Bank assesses on each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets classify under available for sale is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. During periods start from first of January 2009, the decrease consider significant when it became 10% from the book value of the financial instrument and the decrease consider to be extended if it continues for period more than 9 months, and if the mentioned evidences become available then any cumulative gains or losses previously recognized in equity are recognized in the income statement , in respect of available for sale equity securities, impairment losses previously recognized in profit and loss are not reversed through the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement to the extent of previously recognized impairment charge from equity to 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 do not include real estate assets which the Bank exercised its work through or those that have owned by the Bank as settlement of debts. The accounting treatment is the same used with property, plant and equipment.

#### 2.14. Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

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

Buildings	20 years.
Leasehold improvements	3 years, or over the period of the lease if less
Furniture and safes	5 years.
Typewriters, calculators and air-conditions	8 years
Transportations	5 years
Computers and core systems	3/10 years
Fixtures and fittings	3 years

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

Gains and losses on disposals are determined by comparing the selling proceeds with the asset carrying amount and charged to other operating expenses in the income statement.

#### 2.15. Impairment of non-financial assets

Assets that have an indefinite useful life are not amortized -except goodwill- 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. Assets are tested for impairment with reference to the lowest level of cash generating unit(s). A previously recognized impairment loss relating to a fixed asset may be reversed in part or in full when a change in circumstances leads to a change in the estimates used to determine the fixed asset's recoverable amount. The carrying amount of the fixed asset will only be increased up to the amount that the original impairment not been recognized.

#### 2.16. Leases

The accounting treatment for the finance lease is complied with law 95/1995, if the contract entitles the lessee to purchase the asset at a specified date and predefined value, 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.

##### 2.16.1. Being lessee

Finance lease contract recognizes the lease cost, including the cost of maintenance of the leased assets in the income statement for the period in which they occurred. If the Bank decides to exercise the right to purchase the leased asset the leased assets are capitalized and included in 'property, plant and equipment' and depreciated over the useful life of the expected remaining life of the asset in the same manner as similar assets.

Operating lease payments leases are accounted for on a straight-line basis over the periods of the leases and are included in 'general and administrative expenses'.

##### 2.16.2. Being lessor

For finance lease, assets are recorded in the property, plant and equipment in the balance sheet and amortized over the expected useful life of this asset in the same manner as similar assets. Lease income is recognized on the basis of rate of return on the lease in addition to an amount corresponding to the cost of depreciation for the period. The difference between the recognized rental income and the total finance lease clients' accounts is transferred to the in the income statement until the expiration of the lease to be reconciled with a net book value of the leased asset. Maintenance and insurance expenses are charged to the income statement when incurred to the extent that they are not charged to the tenant.

In case there is objective evidence that the Bank will not be able to collect the of financial lease obligations, the finance lease payments are reduced to the recoverable amount.

For assets leased under operating lease it appears in the balance sheet under property, plant and equipment, and depreciated over the expected useful life of the asset in the same way as similar assets, and the lease income recorded less any discounts given to the lessee on a straight-line method over the contract period.

#### **2.17. Cash and cash equivalents**

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

#### **2.18. Other provisions**

Provisions for restructuring costs and legal claims are recognized when the Bank has present legal or constructive obligations as a result of past events; where it is more likely than not that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated.

In case of similar obligations, the related cash outflow should be determined in order to settle these obligations as a group. The provision is recognized even in case of minor probability that cash outflow will occur for an item of these obligations.

When a provision is wholly or partially no longer required, it is reversed through profit or loss under other operating income (expenses).

Provisions for obligations, other than those for credit risk or employee benefits, due within more than 12 months from the balance sheet date are recognized based on the present value of the best estimate of the consideration required to settle the present obligation on the balance sheet date. An appropriate pretax discount rate that reflects the time value of money is used to calculate the present value of such provisions. For obligations due within less than twelve months from the balance sheet date, provisions are calculated based on undiscounted expected cash outflows unless the time value of money has a significant impact on the amount of provision, then it is measured at the present value.

#### **2.19. Share based payments**

The Bank applies an equity-settled, share-based compensation plan. The fair value of equity instruments recognized as an expense over the vesting period using appropriate valuation models, taking into account the terms and conditions upon which the equity instruments were granted. The vesting period is the period during which all the specified vesting conditions of a share-based payment arrangement are to be satisfied. Vesting conditions include service conditions, performance conditions and market performance conditions are taken into account when estimating the fair value of equity instruments on the date of grant. On each balance sheet date the number of options that are expected to be exercised are estimated. Recognizes estimate changes, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

#### **2.20. Income tax**

Income tax on the profit and loss for the period and deferred tax are 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 on 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 on 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.

#### **2.21. Borrowings**

Borrowings are recognized initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortized cost also 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.

#### **2.22. Dividends**

Dividends on ordinary shares and profit sharing are recognized as a charge of equity upon the general assembly approval. Profit sharing includes the employees' profit share and the Board of Directors' remuneration as prescribed by the Bank's articles of incorporation and the corporate law.

#### **2.23. Comparatives**

Comparative figures have been adjusted to conform with changes in the presentation of the current period where necessary.

### 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 rewards and minimize potential adverse effects on the Bank's financial performance. The most important types of financial risks are credit risk, market risk, liquidity risk and other operating risks. 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 analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by 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

###### 3.1.1.1. Loans and advances to banks and customers

In measuring credit risk of loans and facilities to banks and customers at a counterparty level, the Bank reflects three components (i) the 'probability of default' by the client or counterparty on its contractual obligations (ii) current exposures to the counterparty and its likely future development, from which the Bank derive the 'exposure at default'; and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

These credit risk measurements, which reflect expected loss (the 'expected loss model') are required by the Basel committee on banking regulations and the supervisory practices (the Basel committee), and are embedded in the Bank's daily operational management. The operational measurements can be contrasted with impairment allowances required under EAS 26, which are based on losses that have been incurred on the balance sheet date (the 'incurred loss model') rather than expected losses (note 3.1).

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.

<u>Bank's rating</u>	<u>Description of the grade</u>
1	Performing loans
2	Regular watching
3	Watch list
4	Non-performing loans

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.

###### 3.1.1.2. Debt instruments and treasury and other bills

For debt instruments and bills, external rating such as standard and poor's rating or their equivalents are used 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:

#### **3.1.2.1. Collateral**

The Bank sets 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.

#### **3.1.2.2. 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 with positive fair value), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Bank requires margin deposits from counterparties.

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

#### **3.1.2.3. 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.

#### **3.1.2.4. 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 system described in Note 3.1.1 focus on the credit-quality mapping from the lending and investment activities perspective. Conversely, for only financial reporting purposes impairment losses are recognized for that has been incurred on the balance sheet date when there is an objective evidence of impairment. Due to the different methodologies applied, the amount of incurred impairment losses in balance sheet 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 reported in balance sheet at the end of the period is derived from each of the four internal credit risk ratings. However, the majority of the impairment provision is usually driven by the last two rating degrees. The following table illustrates the proportional distribution of loans and advances reported in the balance sheet for each of the four internal credit risk ratings of the Bank and their relevant impairment losses:

Bank's rating	September 30, 2012		December 31, 2011	
	<u>Loans and advances</u> (%)	<u>Impairment provision</u> (%)	<u>Loans and advances</u> (%)	<u>Impairment provision</u> (%)
1-Performing loans	<b>91.22</b>	<b>38.68</b>	91.13	42.26
2-Regular watching	<b>4.52</b>	<b>7.54</b>	4.32	4.70
3-Watch list	<b>0.87</b>	<b>3.02</b>	1.74	3.70
4-Non-Performing loans	<b>3.39</b>	<b>50.76</b>	2.81	49.34

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

- Cash flow difficulties experienced by the borrower or debtor
- 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 due to economic, legal reasons and financial difficulties facing the borrower
- Deterioration of the collateral value
- Deterioration of 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 circumstances require. Impairment provisions on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date, and are applied to all significant accounts individually. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account. Collective impairment provisions are provided portfolios of homogenous assets by using the available historical loss experience, experienced judgment and statistical techniques.

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

In addition to the four categories of the Bank's internal credit ratings indicated in note 3.1.1, management classifies loans and advances based on more detailed subgroups in accordance with the CBE regulations. Assets exposed to credit risk in these categories are classified according to detailed rules and terms depending heavily on information relevant to the customer, his activity, financial position and his repayment track record. The Bank calculates required provisions for impairment of assets exposed to credit risk, including commitments relating to credit on the basis of rates determined by CBE. In case, the provision required for impairment losses as per CBE credit worthiness rules exceeds the required provisions by the application used in balance sheet preparation in accordance with EAS. That excess shall be debited to retained earnings and carried to the general banking risk reserve in the equity section. Such reserve is always adjusted, on a regular basis, by any increase or decrease so, that reserve shall always be equivalent to the amount of increase between the two provisions. Such reserve is not available for distribution.

Below is a statement 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	Categorization	Provision %	Internal rating	Categorization
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 debts	100%	4	Non performing loans

### 3.1.5. Maximum exposure to credit risk before collateral held

	Sep. 30, 2012 EGP	Dec. 31, 2011 EGP
<b>In balance sheet items exposed to credit risk</b>		
Treasury bills and other governmental notes	13,901,411,619	10,653,390,067
<b>Trading financial assets:</b>		
- Debt instruments	1,592,362,470	353,860,497
Gross loans and advances to banks	1,010,429,247	1,433,545,112
Less: Impairment provision	(23,031,528)	(37,950,503)
<b>Gross loans and advances to customers</b>		
<b>Individual:</b>		
- Overdraft	1,296,403,790	952,982,877
- Credit cards	626,093,787	575,672,905
- Personal loans	3,519,350,673	2,659,469,004
- Mortgages	468,660,480	419,990,050
- Other loans	27,332,786	40,265,000
<b>Corporate:</b>		
- Overdraft	4,427,522,406	4,239,213,684
- Direct loans	23,189,058,615	24,265,367,037
- Syndicated loans	8,680,829,780	8,245,001,963
- Other loans	67,546,303	101,625,796
Unamortized bills discount	(25,958,695)	(45,231,397)
Impairment provision	(1,681,975,488)	(1,419,409,102)
Unearned interest	(452,278,707)	(365,161,953)
Derivative financial instruments	145,153,442	146,544,656
<b>Financial investments:</b>		
- Debt instruments	24,740,662,249	14,898,586,881
- Investments in subsidiary and associates	1,026,452,865	995,595,778
<b>Total</b>	<b>82,536,026,094</b>	<b>68,113,358,352</b>
<b>Off balance sheet items exposed to credit risk</b>		
Financial guarantees	2,241,414,061	2,219,596,241
Customers acceptances	661,324,423	542,833,642
Letter of credit	1,392,293,147	753,154,858
Letter of guarantee	11,672,891,133	11,263,615,016
<b>Total</b>	<b>15,967,922,764</b>	<b>14,779,199,757</b>

The above table represents the Bank Maximum exposure to credit risk on September 30, 2012, before taking account of any held coll. For assets recognized on balance sheet, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above 50.01% of the total maximum exposure is derived from loans and advances to banks and customers while investments in debt instruments represents 31.90%.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk resulting from both its loans and advances portfolio and debt instruments based on the following:

- 95.73% of the loans and advances are concentrated in the top two grades of the internal credit risk rating system.
- 96.61% of loans and advances portfolio are considered to be neither past due nor impaired.
- Loans and advances assessed individually are valued EGP 1,470,223,419.
- The Bank has implemented more prudent processes when granting loans and advances during the financial period ended on September 30, 2012.
- 94.41% of the investments in debt Instruments are Egyptian sovereign instruments.

**3.1.6. Loans and advances**

Loans and advances are summarized as follows:

	Sep.30, 2012		Dec.31, 2011	
	EGP		EGP	
	<u>Loans and advances to customers</u>	<u>Loans and advances to banks</u>	<u>Loans and advances to customers</u>	<u>Loans and advances to banks</u>
Neither past due nor impaired	39,956,582,856	979,959,747	39,842,142,236	1,403,385,688
Past due but not impaired	906,461,845	-	478,696,381	-
Individually impaired	1,439,753,919	30,469,500	1,178,749,699	30,159,424
<b>Gross</b>	<b>42,302,798,620</b>	<b>1,010,429,247</b>	<b>41,499,588,316</b>	<b>1,433,545,112</b>
<b>Less:</b>				
Impairment provision	1,681,975,488	23,031,528	1,419,409,102	37,950,503
Unamortized bills discount	25,958,695	-	45,231,397	-
Unearned interest	452,278,707	-	365,161,953	-
<b>Net</b>	<b>40,142,585,729</b>	<b>987,397,719</b>	<b>39,669,785,864</b>	<b>1,395,594,609</b>

Impairment provision losses for loans and advances reached EGP 1,705,007,016.

During the period the Bank's total loans and advances increased by 0.89% .

In order to minimize the propable exposure to credit risk, the Bank focuses more on the business with large enterprises,banks or retail customers with good credit rating or sufficient collateral.

**Net loans and advances to customers and banks:**

Sep. 30, 2012	Individual					Corporate				EGP	
	<u>Overdrafts</u>	<u>Credit cards</u>	<u>Personal loans</u>	<u>Mortgages</u>	<u>Other loans</u>	<u>Overdraft</u>	<u>Direct loans</u>	<u>Syndicated loans</u>	<u>Other loans</u>	<u>Total loans and advances to customers</u>	<u>Total loans and advances to banks</u>
Grades:											
Performing loans	1,219,794,029	591,189,407	3,374,538,612	452,185,608	1,080,000	4,021,442,736	19,897,365,866	8,258,091,595	61,864,472	37,877,552,325	971,089,530
Regular watching	32,867,836	11,084,094	23,909,789	-	24,123,802	95,501,853	1,550,556,539	89,646,577	101,656	1,827,792,146	-
Watch list	14,193,693	3,176,318	17,572,422	-	-	18,205,406	273,923,148	-	-	327,070,988	-
Non-performing loans	19,511,097	2,244,945	24,804,497	1,287,156	823,710	81,020,542	391,263,569	66,858,062	594,095	588,407,673	16,308,189
<b>Total</b>	<b>1,286,366,655</b>	<b>607,694,764</b>	<b>3,440,825,320</b>	<b>453,472,764</b>	<b>26,027,512</b>	<b>4,216,170,538</b>	<b>22,113,109,122</b>	<b>8,414,596,234</b>	<b>62,560,223</b>	<b>40,620,823,132</b>	<b>987,397,719</b>
Dec. 31, 2011											
Grades:											
Performing loans	914,099,870	504,245,089	2,520,780,760	405,378,706	257,257	3,864,636,142	21,076,435,294	7,751,395,350	94,689,384	37,131,917,853	1,377,362,064
Regular watching	9,461,536	10,798,843	28,278,387	-	37,241,095	136,980,065	1,496,193,485	58,210,281	5,101,102	1,782,264,794	2,456,187
Watch list	8,206,398	3,278,950	11,356,577	-	-	22,334,115	646,624,356	-	101,526	691,901,922	-
Non-performing loans	837,459	15,059,805	22,550,809	2,735,047	1,172,716	47,607,968	255,316,129	128,767,666	47,046	474,094,645	15,776,358
<b>Total</b>	<b>932,605,263</b>	<b>533,382,687</b>	<b>2,582,966,533</b>	<b>408,113,753</b>	<b>38,671,068</b>	<b>4,071,558,290</b>	<b>23,474,569,264</b>	<b>7,938,373,297</b>	<b>99,939,058</b>	<b>40,080,179,214</b>	<b>1,395,594,609</b>

**Loans and advances past due but not impaired:**

Loans and advances less than 90 days past due are not considered impaired, unless there is an objective evidence of impairment.

Sep.30, 2012	Individual					Corporate				EGP
	<u>Overdrafts</u>	<u>Credit cards</u>	<u>Personal loans</u>	<u>Mortgages</u>	<u>Total</u>	<u>Overdraft</u>	<u>Direct loans</u>	<u>Syndicated loans</u>	<u>Total</u>	
Past due up to 30 days	279,604,128	139,213,519	5,819,075	700,995	425,337,718	12,356,928	129,910,042	121,394,836	263,661,807	
Past due 30 - 60 days	33,291,793	11,743,280	1,874,410	91,626	47,001,109	4,339,659	28,907,641	1,536,444	34,783,744	
Past due 60-90 days	14,258,763	3,873,199	1,799,980	110,400	20,042,342	87,934,346	27,700,772	7	115,635,125	
<b>Total</b>	<b>327,154,684</b>	<b>154,829,998</b>	<b>9,493,466</b>	<b>903,021</b>	<b>492,381,169</b>	<b>104,630,933</b>	<b>186,518,455</b>	<b>122,931,288</b>	<b>414,080,676</b>	

Dec.31, 2011	Individual					Corporate				EGP
	<u>Overdrafts</u>	<u>Credit cards</u>	<u>Personal loans</u>	<u>Mortgages</u>	<u>Total</u>	<u>Overdraft</u>	<u>Direct loans</u>	<u>Syndicated loans</u>	<u>Total</u>	
Past due up to 30 days	200,977,939	106,509,301	3,509,689	1,211,276	312,208,205	-	103,500,085	-	103,500,085	
Past due 30-60 days	9,825,529	11,474,221	1,830,630	94,499	23,224,879	9,880,139	8,077,826	-	17,957,965	
Past due 60-90 days	8,564,505	3,984,099	1,263,730	59,511	13,871,845	6,689,585	1,243,817	-	7,933,402	
<b>Total</b>	<b>219,367,973</b>	<b>121,967,621</b>	<b>6,604,049</b>	<b>1,365,286</b>	<b>349,304,929</b>	<b>16,569,724</b>	<b>112,821,728</b>	<b>-</b>	<b>129,391,452</b>	

**Individually impaired loans**

Loans and advances individually assessed without taking into consideration cash flows from guarantees are totaled EGP 1,470,223,419.

The breakdown of the gross amount of individually impaired loans and advances by product, along with the fair value of related collateral held by the Bank, are as follows:

Sep.30, 2012	Individual					Corporate				EGP
	<u>Overdrafts</u>	<u>Credit cards</u>	<u>Personal loans</u>	<u>Mortgages</u>	<u>Other loans</u>	<u>Overdraft</u>	<u>Direct loans</u>	<u>Syndicated loans</u>	<u>Other loans</u>	
<b>Individually impaired loans</b>	<b>24,733,639</b>	<b>8,938,901</b>	<b>86,919,394</b>	<b>11,630,631</b>	<b>1,231,910</b>	<b>230,348,085</b>	<b>927,532,500</b>	<b>174,360,770</b>	<b>4,527,589</b>	<b>1,470,223,419</b>

Dec.31, 2011	Individual					Corporate				EGP
	<u>Overdrafts</u>	<u>Credit cards</u>	<u>Personal loans</u>	<u>Mortgages</u>	<u>Other loans</u>	<u>Overdraft</u>	<u>Direct loans</u>	<u>Syndicated loans</u>	<u>Other loans</u>	
Individually impaired loans	17,378,259	52,101,360	86,197,008	11,020,824	1,411,998	157,287,411	557,310,686	326,074,653	126,924	1,208,909,123

**Loans and advances restructured**

Restructuring activities include rescheduling arrangements, obligatory management programs, modification and deferral of payments. The application of restructuring policies are based on indicators or criteria of credit performance of the borrower that is based on the personal judgment of the management, indicate that payment will most likely continue. Restructuring is commonly applied to term loans, specially customer loans. Renegotiated loans totaled at the end of the period

	Sep.30, 2012	Dec.31, 2011
<b>Loans and advances to customer</b>		
Corporate		
- Direct loans	<u>3,076,316,000</u>	2,780,557,000
<b>Total</b>	<u>3,076,316,000</u>	2,780,557,000

**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 end of financial period, based on Standard & Poor's ratings or their equivalent:

**Sep.30, 2012**

	EGP			
	<u>Treasury bills and other gov. notes</u>	<u>Trading financial debt instruments</u>	<u>Non-trading financial debt instruments</u>	<u>Total</u>
AAA	-	-	1,082,823,074	<b>1,082,823,074</b>
AA- to AA+	-	-	110,686,002	<b>110,686,002</b>
A- to A+	-	-	221,771,130	<b>221,771,130</b>
Lower than A-	-	-	905,323,166	<b>905,323,166</b>
Unrated	9,097,411,619	1,592,362,470	22,420,058,878	<b>33,109,832,967</b>
<b>Total</b>	<b>9,097,411,619</b>	<b>1,592,362,470</b>	<b>24,740,662,249</b>	<b>35,430,436,338</b>

**3.1.8. Concentration of risks of financial assets with credit risk exposure**
**3.1.8.1. Geographical sectors**

Following is a breakdown of the Bank's main credit exposure at their book values categorized by geographical region at the end of the current period.

The Bank has allocated exposures to regions based on the country of domicile of its counterparties.

<b>Sep.30, 2012</b>	<u>Cairo</u>	<u>Alex, Delta and Sinai</u>	<u>Upper Egypt</u>	EGP <u>Total</u>
Treasury bills and other governmental notes	13,901,411,619	-	-	<b>13,901,411,619</b>
<b>Trading financial assets:</b>				
- Debt instruments	1,592,362,470	-	-	<b>1,592,362,470</b>
Gross loans and advances to banks	1,010,429,247	-	-	<b>1,010,429,247</b>
Less: Impairment provision	(23,031,528)	-	-	<b>(23,031,528)</b>
<b>Gross loans and advances to customers</b>				
<b>Individual:</b>				
- Overdrafts	868,422,260	304,581,730	123,399,800	<b>1,296,403,790</b>
- Credit cards	466,806,827	132,687,380	26,599,580	<b>626,093,787</b>
- Personal loans	2,349,120,913	922,869,140	247,360,620	<b>3,519,350,673</b>
- Mortgages	377,220,810	78,515,420	12,924,250	<b>468,660,480</b>
- Other loans	18,098,816	9,233,970	-	<b>27,332,786</b>
<b>Corporate:</b>				
- Overdrafts	3,592,711,096	731,165,340	103,645,970	<b>4,427,522,406</b>
- Direct loans	17,173,091,175	5,423,393,640	592,573,800	<b>23,189,058,615</b>
- Syndicated loans	8,229,442,040	451,387,740	-	<b>8,680,829,780</b>
- Other loans	55,847,163	11,699,140	-	<b>67,546,303</b>
Unamortized bills discount	(25,958,695)	-	-	<b>(25,958,695)</b>
Impairment provision	(1,681,975,488)	-	-	<b>(1,681,975,488)</b>
Unearned interest	(343,578,307)	(107,423,300)	(1,277,100)	<b>(452,278,707)</b>
Derivative financial instruments	145,153,442	-	-	<b>145,153,442</b>
<b>Financial investments:</b>				
- Debt instruments	24,740,662,249	-	-	<b>24,740,662,249</b>
- Investments in subsidiary and associates	1,026,452,865	-	-	<b>1,026,452,865</b>
<b>Total</b>	<b>73,472,688,974</b>	<b>7,958,110,200</b>	<b>1,105,226,920</b>	<b>82,536,026,094</b>

**3.1.8.2. Industry sectors**

The following table analysis the Group's main credit exposure at their book value categorized by the Bank customers activities.

Sep.30, 2012	<u>Financial institutions</u>	<u>Manufacturing</u>	<u>Real estate</u>	<u>Wholesale and retail trade</u>	<u>Government sector</u>	<u>Other activities</u>	<u>Individual</u>	EGP <u>Total</u>
Treasury bills and other governmental notes	-	-	-	-	13,901,411,619	-	-	13,901,411,619
<b>Trading financial assets:</b>								
- Debt instruments	-	-	-	-	1,592,362,470	-	-	1,592,362,470
Gross loans and advances to banks	1,010,429,247	-	-	-	-	-	-	1,010,429,247
Less: Impairment provision	(23,031,528)	-	-	-	-	-	-	(23,031,528)
<b>Gross loans and advances to customers</b>								
<b>Individual:</b>								
- Overdrafts	-	-	-	-	-	-	1,296,403,790	1,296,403,790
- Credit cards	-	-	-	-	-	-	626,093,787	626,093,787
- Personal loans	-	-	-	-	-	-	3,519,350,673	3,519,350,673
- Mortgages	-	-	-	-	-	-	468,660,480	468,660,480
- Other loans	-	-	-	-	-	-	27,332,786	27,332,786
<b>Corporate:</b>								
- Overdrafts	36,599,200	1,232,518,800	1,323,948,146	409,831,760	12,203,070	1,412,421,430	-	4,427,522,406
- Direct loans	979,572,880	10,126,908,950	285,813,750	256,387,520	901,035,210	10,639,340,305	-	23,189,058,615
- Syndicated loans	152,520,770	3,681,532,310	606,803,780	-	138,888,890	4,101,084,030	-	8,680,829,780
- Other loans	-	52,164,862	-	-	-	15,381,441	-	67,546,303
Unamortized bills discount	(25,958,695)	-	-	-	-	-	-	(25,958,695)
Impairment provision	(111,506,753)	(701,233,507)	(35,792,077)	(18,561,100)	(10,954,669)	(664,218,092)	(139,709,290)	(1,681,975,489)
Unearned interest	(9,457,326)	(227,226,048)	-	(10,300)	-	(183,415,363)	(32,169,670)	(452,278,707)
Derivative financial instruments	145,153,442	-	-	-	-	-	-	145,153,442
<b>Financial investments:</b>								
- Debt instruments	1,472,280,204	-	-	-	23,268,382,045	-	-	24,740,662,249
- Investments in subsidiary and associates	1,026,452,865	-	-	-	-	-	-	1,026,452,865
<b>Total</b>	<b>4,653,054,306</b>	<b>14,164,665,367</b>	<b>2,180,773,599</b>	<b>647,647,880</b>	<b>39,803,328,634</b>	<b>15,320,593,751</b>	<b>5,765,962,556</b>	<b>82,536,026,094</b>

**3.2. Market risk**

Market risk represented as fluctuations in fair value or future cash flow, including foreign exchange rates and commodity prices, interest rates, credit spreads and equity prices will reduce the Bank's income or the value of its portfolios. the Bank separates exposures to market risk into trading or non-trading portfolios.

Market risks are measured, monitored and controlled by the market risk management department. In addition, regular reports are submitted to the Asset and Liability Management Committee (ALCO), Board Risk Committee and the heads of each business unit.

Trading portfolios include positions arising from market-making, position taking and others designated as marked-to-market. Non-trading portfolios include positions that primarily arise from the interest rate management of the group's retail and commercial banking assets and liabilities, financial investments designated as available for sale and held-to-maturity.

**3.2.1. Market risk measurement techniques**

As part of the management of market risk, the Bank undertakes various hedging strategies. the Bank also enters into interest rate swaps to match the interest rate risk associated with the fixed-rate long-term debt instrument and loans to which the fair value option has been applied .

**3.2.1.1. Value at Risk**

The Bank applies a "Value at Risk" methodology (VaR) to its trading and non-trading portfolios, to estimate the market risk of positions held and the maximum losses expected under normal market conditions, based upon a number of assumptions for various changes in market conditions.

VaR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the 'maximum' amount the Bank might lose, but only to a certain level of confidence (95%). There is therefore a specified statistical probability (5%) that actual loss could be greater than the VaR estimate. The VaR model assumes a certain 'holding period' until positions can be closed ( 1 Day). The Bank is assessing the historical movements in the market prices based on volatilities and correlations data for the past five years. The use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

As VaR constitutes an integral part of the Bank's market risk control regime, the Market Risk Management set Soft VaR Limits, which have been approved by the ALCO, and are monitored and reported on a daily basis to the Senior Management. In addition, monthly limits compliance is reported to the ALCO.

The Bank has developed the internal models used to calculate VaR and are not approved yet by the central bank as the regulator is still applying Basel I in parallel basis with the standardized market risk approach in Basel II.

**3.2.1.2. Stress tests**

Stress tests provide an indication of the potential size of losses that could arise under extreme market conditions. Therefore, bank computes on a daily basis Stress VaR, combined with Normal VaR to capture the abnormal movements in financial markets and to give more comprehensive picture of risk. The results of the stress tests are reviewed by the ALCO on a monthly basis and the Board Risk Committee on a quarterly basis.

**3.2.2. Value at risk (VaR) Summary**

EGP

Total VaR by risk type	Sep.30, 2012			Dec.31, 2011		
	<u>Medium</u>	<u>High</u>	<u>Low</u>	<u>Medium</u>	<u>High</u>	<u>Low</u>
Foreign exchange risk	37,332	110,378	8,863	275,822	798,293	22,715
<b>Interest rate risk</b>	<b>39,055,173</b>	<b>82,099,623</b>	<b>16,876,159</b>	<b>19,970,380</b>	<b>25,574,668</b>	<b>15,047,233</b>
- For non trading purposes	34,374,679	72,429,892	13,629,090	9,752,494	11,883,218	7,638,408
- For trading purposes	4,680,494	9,669,731	3,247,069	13,919,605	16,474,199	11,866,315
Equities risk	303,849	368,507	245,739	1,659,204	1,762,596	1,488,630
Investment fund	346,294	402,004	283,750	921,509	1,057,998	798,571
<b>Total VaR</b>	<b>39,114,930</b>	<b>82,161,567</b>	<b>16,933,149</b>	<b>20,406,187</b>	<b>26,002,691</b>	<b>15,490,695</b>

**Trading portfolio VaR by risk type**

Trading portfolio VaR by risk type	Sep.30, 2012			Dec.31, 2011		
	<u>Medium</u>	<u>High</u>	<u>Low</u>	<u>Medium</u>	<u>High</u>	<u>Low</u>
Foreign exchange risk	37,332	110,378	8,863	275,822	798,293	22,715
<b>Interest rate risk</b>						
- For trading purposes	4,680,494	9,669,731	3,247,069	13,919,605	16,474,199	11,866,315
Equities risk	303,849	368,507	245,739	1,659,204	1,762,596	1,488,630
Investment fund	346,294	402,004	283,750	921,509	1,057,998	798,571
<b>Total VaR</b>	<b>4,755,000</b>	<b>6,229,309</b>	<b>3,591,955</b>	<b>14,382,231</b>	<b>15,076,004</b>	<b>13,832,710</b>

**Non trading portfolio VaR by risk type**

Non trading portfolio VaR by risk type	Sep.30, 2012			Dec.31, 2011		
	<u>Medium</u>	<u>High</u>	<u>Low</u>	<u>Medium</u>	<u>High</u>	<u>Low</u>
Interest rate risk						
- For non trading purposes	34,374,679	72,429,892	13,629,090	9,752,494	11,883,218	7,638,408
<b>Total VaR</b>	<b>34,374,679</b>	<b>72,429,892</b>	<b>13,629,090</b>	<b>9,752,494</b>	<b>11,883,218</b>	<b>7,638,408</b>

The aggregate of the trading and non-trading VaR results does not constitute the Bank's VaR due to correlations and consequent diversification effects between risk types and portfolio types.

**3.2.3. Foreign exchange risk**

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

Sep.30, 2012	<u>EGP</u>	<u>USD</u>	<u>EUR</u>	<u>GBP</u>	<u>Other</u>	Equivalent EGP <u>Total</u>
<b>Financial assets</b>						
Cash and balances with Central Bank	2,876,688,934	367,839,974	101,432,107	22,332,239	46,217,128	<b>3,414,510,382</b>
Due from banks	12,782,513	5,583,582,442	2,706,205,580	395,170,280	56,205,250	<b>8,753,946,065</b>
Treasury bills and other governmental notes	6,503,325,000	3,351,035,610	-	-	-	<b>9,854,360,610</b>
Trading financial assets	1,662,718,763	94,577,328	-	-	15,795,293	<b>1,773,091,384</b>
Gross loans and advances to banks	2,381,220	1,000,728,637	7,319,389	-	-	<b>1,010,429,247</b>
Gross loans and advances to customers	24,578,152,111	16,820,964,619	856,935,829	30,319,120	16,426,941	<b>42,302,798,620</b>
Derivative financial instruments	32,318,968	106,893,842	5,940,632	-	-	<b>145,153,442</b>
Financial investments						
- Available for sale	19,775,420,976	1,266,477,674	-	-	-	<b>21,041,898,650</b>
- Held to maturity	4,212,404,153	-	-	-	-	<b>4,212,404,153</b>
Investments in subsidiary and associates	990,803,550	35,649,315	-	-	-	<b>1,026,452,865</b>
<b>Total financial assets</b>	<b><u>60,646,996,187</u></b>	<b><u>28,627,749,441</u></b>	<b><u>3,677,833,538</u></b>	<b><u>447,821,639</u></b>	<b><u>134,644,612</u></b>	<b><u>93,535,045,418</u></b>
<b>Financial liabilities</b>						
Due to banks	1,161,320,870	897,500,308	26,232,550	42,891	-	<b>2,085,096,618</b>
Due to customers	48,626,906,930	26,001,272,306	3,350,215,589	438,693,918	116,147,666	<b>78,533,236,410</b>
Derivative financial instruments	22,361,844	103,093,728	4,345,962	-	-	<b>129,801,534</b>
Long term loans	58,205,078	3,650,423	568,652	-	-	<b>62,424,153</b>
<b>Total financial liabilities</b>	<b><u>49,868,794,722</u></b>	<b><u>27,005,516,765</u></b>	<b><u>3,381,362,754</u></b>	<b><u>438,736,808</u></b>	<b><u>116,147,666</u></b>	<b><u>80,810,558,716</u></b>
<b>Net on-balance sheet financial position</b>	<b><u>10,778,201,465</u></b>	<b><u>1,622,232,676</u></b>	<b><u>296,470,784</u></b>	<b><u>9,084,831</u></b>	<b><u>18,496,946</u></b>	<b><u>12,724,486,702</u></b>

**3.2.4. Interest rate risk**

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but profit may decrease in the event that unexpected movements arise. The Board sets limits on the gaps of interest rate repricing that may be undertaken, which is monitored by bank's Risk Management Department.

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

<b>Sep.30, 2012</b>	<b><u>Up to1 Month</u></b>	<b><u>1-3 Months</u></b>	<b><u>3-12 Months</u></b>	<b><u>1-5 years</u></b>	<b><u>Over 5 years</u></b>	<b><u>Non- Interest Bearing</u></b>	<b><u>Total</u></b>
<b>Financial assets</b>							
Cash and balances with Central Bank	-	-	-	-	-	3,414,510,382	<b>3,414,510,382</b>
Due from banks	3,760,546,245	4,433,027,403	352,489,454	-	-	207,882,963	<b>8,753,946,065</b>
Treasury bills and other governmental notes*	(3,133,400,000)	3,420,101,770	9,567,658,840	-	-	-	<b>9,854,360,610</b>
Trading financial assets	164,933,625	-	-	1,285,463,802	306,898,668	15,795,289	<b>1,773,091,384</b>
Gross loans and advances to banks	260,811,373	187,390,977	562,226,896	-	-	-	<b>1,010,429,247</b>
Gross loans and advances to customers	24,056,133,263	9,128,070,068	4,830,824,310	3,546,458,739	741,312,241	-	<b>42,302,798,620</b>
Derivatives financial instruments (including IRS notional amount)	545,869,048	202,983,456	1,126,455,004	3,248,740,030	374,471,238	112,834,474	<b>5,611,353,251</b>
Financial investments							
- Available for sale	481,151,759	677,437,415	2,779,261,927	13,201,713,009	3,461,290,687	441,043,852	<b>21,041,898,650</b>
- Held to maturity	-	215,000	23,189,349	4,188,999,804	-	-	<b>4,212,404,153</b>
Investments in subsidiary and associates	-	-	-	-	-	1,026,452,865	<b>1,026,452,865</b>
<b>Total financial assets</b>	<b><u>26,136,045,314</u></b>	<b><u>18,049,226,089</u></b>	<b><u>19,242,105,781</u></b>	<b><u>25,471,375,384</u></b>	<b><u>4,883,972,835</u></b>	<b><u>5,218,519,825</u></b>	<b><u>99,001,245,227</u></b>
<b>Financial liabilities</b>							
Due to banks	1,230,189,250	-	-	-	-	854,907,368	<b>2,085,096,618</b>
Due to customers	25,401,299,201	12,438,421,473	8,075,109,546	20,212,336,423	512,545,425	11,893,524,342	<b>78,533,236,410</b>
Derivatives financial instruments (including IRS notional amount)	2,048,357,336	2,622,258,209	102,371,121	185,405,687	530,169,299	107,439,690	<b>5,596,001,344</b>
Long term loans	6,819,529	23,476,624	20,871,000	11,257,000	-	-	<b>62,424,153</b>
<b>Total financial liabilities</b>	<b><u>28,686,665,316</u></b>	<b><u>15,084,156,305</u></b>	<b><u>8,198,351,668</u></b>	<b><u>20,408,999,111</u></b>	<b><u>1,042,714,724</u></b>	<b><u>12,855,871,400</u></b>	<b><u>86,276,758,524</u></b>
<b>Total interest re-pricing gap</b>	<b><u>(2,550,620,002)</u></b>	<b><u>2,965,069,784</u></b>	<b><u>11,043,754,113</u></b>	<b><u>5,062,376,273</u></b>	<b><u>3,841,258,110</u></b>	<b><u>(7,637,351,576)</u></b>	<b><u>12,724,486,702</u></b>

\* After deducting Repos.

### 3.3. Liquidity risk

Liquidity risk is the risk that the Bank does not have sufficient financial resources to meet its obligations arises from its financial liabilities as they fall due or to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill lending commitments.

**3.3.1. Liquidity risk management process**

the Bank's liquidity management process, is carried by the assets and Liabilities Management Department and monitored independently by the Risk Management Department, which includes: Projecting cash flows by major currency under various stress scenarios and considering the level of liquid assets necessary in relation thereto:

- The Bank maintains an active presence in global money markets to enable this to happen.
- Maintaining a diverse range of funding sources with back-up facilities.
- Monitoring balance sheet liquidity and advances to core funding ratios against internal and Central Bank of Egypt regulations.
- Managing the concentration and profile of debt maturities.
- Monitoring and reporting takes the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those assets projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets. Bank's Risk Management Department also monitors unmatched medium-term

**3.3.2. Funding approach**

Sources of liquidity are regularly reviewed jointly by the Bank's Assets & Liabilities Management Department and Consumer Banking to maintain a wide diversification within currencies, geographical area, depositors, products and tenors.

**3.3.3. Non-derivative cash flows**

The table below presents the undiscounted cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities and the maturities assumption for non contractual products are based on there behavior studies.

<b>Sep.30, 2012</b>	<b><u>Up to</u></b> <b><u>1 month</u></b>	<b><u>One to three</u></b> <b><u>months</u></b>	<b><u>Three months</u></b> <b><u>to one year</u></b>	<b><u>One year to</u></b> <b><u>five years</u></b>	<b><u>Over five</u></b> <b><u>years</u></b>	<b><u>Total</u></b> <b><u>EGP</u></b>
<b>Financial liabilities</b>						
<b>Due to banks</b>	2,085,096,618	-	-	-	-	2,085,096,618
<b>Due to customers</b>	11,144,513,450	10,663,210,052	20,726,235,098	34,782,590,385	1,216,687,425	78,533,236,410
<b>Long term loans</b>	6,819,529	23,476,624	20,871,000	11,257,000	-	62,424,153
<b>Total liabilities (contractual and non contractual maturity dates)</b>	<b><u>13,236,429,597</u></b>	<b><u>10,686,686,676</u></b>	<b><u>20,747,106,098</u></b>	<b><u>34,793,847,385</u></b>	<b><u>1,216,687,425</u></b>	<b><u>80,680,757,180</u></b>
<b>Total financial assets (contractual and non contractual maturity dates)</b>	<b><u>9,208,427,151</u></b>	<b><u>13,204,270,949</u></b>	<b><u>21,681,177,202</u></b>	<b><u>35,898,301,962</u></b>	<b><u>13,397,714,710</u></b>	<b><u>93,389,891,975</u></b>
<b>Dec.31, 2011</b>	<b><u>Up to</u></b> <b><u>1 month</u></b>	<b><u>One to three</u></b> <b><u>months</u></b>	<b><u>Three months</u></b> <b><u>to one year</u></b>	<b><u>One year to</u></b> <b><u>five years</u></b>	<b><u>Over five</u></b> <b><u>years</u></b>	<b><u>Total</u></b> <b><u>EGP</u></b>
<b>Financial liabilities</b>						
<b>Due to banks</b>	3,340,794,517	-	-	-	-	3,340,794,517
<b>Due to customers</b>	12,876,722,334	8,576,616,724	17,868,791,406	30,859,028,066	1,392,889,000	71,574,047,530
<b>Long term loans</b>	125,931	1,521,504	82,756,941	14,929,000	-	99,333,376
<b>Total liabilities (contractual and non contractual maturity dates)</b>	<b><u>16,217,642,782</u></b>	<b><u>8,578,138,228</u></b>	<b><u>17,951,548,347</u></b>	<b><u>30,873,957,066</u></b>	<b><u>1,392,889,000</u></b>	<b><u>75,014,175,423</u></b>
<b>Total financial assets (contractual and non contractual maturity dates)</b>	<b><u>14,753,504,167</u></b>	<b><u>11,100,069,868</u></b>	<b><u>20,844,934,425</u></b>	<b><u>28,478,165,923</u></b>	<b><u>10,614,870,781</u></b>	<b><u>85,791,545,163</u></b>

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, due from CBE and due from banks, treasury bills, other government notes, loans and advances to banks and customers.

In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. In addition, debt instrument and treasury bills and other governmental notes have been pledged to secure liabilities. The Bank would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources such as asset-backed markets.

### 3.3.4. Derivative cash flows

#### Derivatives settled on a net basis

the Bank's derivatives that will be settled on a net basis include:

**Foreign exchange derivatives:** exchange traded options and over-the-counter (OTC), exchange traded forwards currency options.

**Interest rate derivatives:** interest rate swaps, forward rate agreements, OTC and exchange traded interest rate options, other interest rate contracts and exchange traded futures.

The table below analyses the Bank's derivative undiscounted financial liabilities that will be settled on a net basis into maturity groupings based on the remaining period of the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows:

Sep.30, 2012						EGP
	<u>Up to 1 month</u>	<u>One to three months</u>	<u>Three months to one year</u>	<u>One year to five years</u>	<u>Over five years</u>	<u>Total</u>
<b>Liabilities</b>						
<b>Derivatives financial instruments</b>						
- Foreign exchange derivatives	7,936,408	6,509,765	7,915,672	-	-	22,361,844
- Interest rate derivatives	-	79,786	1,261,468	8,294,449	97,803,988	107,439,691
<b>Total</b>	<b>7,936,408</b>	<b>6,589,551</b>	<b>9,177,139</b>	<b>8,294,449</b>	<b>97,803,988</b>	<b>129,801,535</b>

#### Off balance sheet items

Sep.30, 2012				EGP
	<u>Up to 1 year</u>	<u>1-5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Letters of credit, guarantees and other commitments	10,354,945,486	2,833,165,183	538,398,034	13,726,508,703
<b>Total</b>	<b>10,354,945,486</b>	<b>2,833,165,183</b>	<b>538,398,034</b>	<b>13,726,508,703</b>

### 3.4. Fair value of financial assets and liabilities

#### 3.4.1. Financial instruments not measured at fair value

The table below summarizes the book value and fair value of those financial assets and liabilities not presented on the Bank's balance sheet at their fair value.

	<u>Book value</u>		<u>Fair value</u>	
	Sep.30, 2012	Dec.31, 2011	Sep.30, 2012	Dec.31, 2011
<b>Financial assets</b>				
Due from banks	8,753,946,065	8,449,298,705	8,753,946,065	8,449,298,705
Gross loans and advances to banks	1,010,429,247	1,433,545,112	1,010,429,247	1,433,545,112
<b>Gross loans and advances to customers</b>				
- Individual	5,937,841,516	4,648,379,836	5,937,841,516	4,648,379,836
- Corporate	36,364,957,104	36,851,208,480	36,364,957,104	36,851,208,480
<b>Financial investments</b>				
Held to Maturity	4,212,404,153	29,092,920	4,212,404,153	29,092,920
<b>Total financial assets</b>	<b>56,279,578,085</b>	<b>51,411,525,053</b>	<b>56,279,578,085</b>	<b>51,411,525,053</b>
<b>Financial liabilities</b>				
Due to banks	2,085,096,618	3,340,794,517	2,085,096,618	3,340,794,517
Due to customers	78,533,236,410	71,574,047,530	78,533,236,410	71,574,047,530
Long term loans	62,424,153	99,333,376	62,424,153	99,333,376
<b>Total financial liabilities</b>	<b>80,680,757,181</b>	<b>75,014,175,423</b>	<b>80,680,757,181</b>	<b>75,014,175,423</b>

#### Due from banks

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

**Loans and advances to banks**

Loans and advances to banks represented in loans do not considering bank placing. The expected fair value of the loans and advances represents the discounted value of future cash flows expected to be collected. Cash flows are discounted using the current market rate to determine fair value.

**Loans and advances to customers**

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

**Financial Investments**

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

**Due to other banks and customers**

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 maturity date.

**3.5 Capital management**

For capital management purposes, the Bank's capital includes total equity as reported in the balance sheet plus some other elements that are managed as capital. The Bank manages its capital to ensure that the following objectives are achieved:

- Compliance with the legally imposed capital requirements in Egypt.
- Protecting the Bank's ability to continue as a going concern and enabling it to generate yield for shareholders and other parties dealing with the bank.
- Maintaining a strong capital base to enhance growth of the Bank's operations.

Capital adequacy and the use of regulatory capital are monitored on a daily basis by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee as implemented by the banking supervision unit in the Central Bank of Egypt. The required data is submitted to the Central Bank of Egypt on a quarterly basis.

**Central Bank of Egypt requires the following:**

- Maintaining EGP 500 million as a minimum requirement for the issued and paid-in capital.
- Maintaining a minimum level of capital adequacy ratio of 10%, calculated as the ratio between total value of the capital elements, and the risk-weighted assets and contingent liabilities of the Bank.

**Tier one:**

Tier one, comprised of paid-in capital (after deducting the book value of treasury shares), retained earnings and reserves resulting from the distribution of profits except the banking risk reserve and deducting previously recognized goodwill and any retained losses

**Tier two:**

Represents the gone concern capital which comprised of general risk provision according to the impairment provision guidelines issued by the Central Bank of Egypt for to the maximum of 1.25% risk weighted assets and contingent liabilities, subordinated loans with more than five years to maturity (amortizing 20% of its carrying amount in each year of the remaining five years to maturity) and 45% of the increase in fair value than book value for available for sale, held to maturity, subsidiaries and associates investments.

When calculating the numerator of capital adequacy ratio, the rules set limits of total tier 2 to no more than tier 1 capital and also limits the subordinated to no more than 50% of tier1.

Assets risk weight scale ranging from zero to 100% based on the counterparty risk to reflect the related credit risk scheme, taking into consideration the cash collaterals. Similar criteria are used for off balance sheet items after adjusting it to reflect the nature of contingency and the potential loss of those amounts. The Bank has complied with all local capital adequacy requirements for the current year.

The table below summarizes the compositions of teir 1, teir 2 and the capital adequacy ratio .

	Sep.30, 2012	Dec.31, 2011
	EGP	EGP
<b>Tier 1 capital</b>		<u>Restated</u>
Share capital (net of the treasury shares)	5,972,275,410	5,934,562,990
General reserves	2,037,107,372	2,054,761,908
Legal reserve	380,348,755	318,651,462
Other reserve	203,497,861	(474,528,224)
Retained Earnings	1,001,979	-
<b>Total qualifying tier 1 capital</b>	<u>8,594,231,377</u>	<u>7,833,448,136</u>
<b>Tier 2 capital</b>		
General risk provision	715,306,558	692,087,775
45% of the Increase in fair value than the book value for available for sale investments	116,209,107	-
<b>Total qualifying tier 2 capital</b>	<u>831,515,665</u>	<u>692,087,775</u>
<b>Total capital 1+2</b>	<u>9,425,747,041</u>	<u>8,525,535,911</u>
<b>Risk weighted assets and contingent liabilities</b>		
Risk weighted assets	52,420,128,622	50,175,824,604
Contingent liabilities	4,804,395,997	5,191,197,357
<b>Total</b>	<u>57,224,524,619</u>	<u>55,367,021,961</u>
<b>Capital adequacy ratio (%)</b>	16.47%	15.40%

#### 4. Critical accounting estimates and judgments

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

##### 4.1. Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on monthly basis a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Bank, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows differs by +/-5%

##### 4.2. Impairment of available-for-sale equity investments

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

##### 4.3. Fair value of derivatives

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (as models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

#### 4.4 Held-to-Maturity investments

The non-derivative financial assets with fixed or determinable payments and fixed maturity are being classified held to maturity. This requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity it will be required to reclassify the entire category as available for sale. The investments would therefore be measured at fair value not amortized cost.

### 5. Segment analysis

#### 5.1. By business segment

The Bank is divided into main business segments on a worldwide basis:

- Corporate banking – incorporating direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products
- Investment banking – incorporating financial instruments Trading, structured financing, Corporate leasing, and merger and acquisitions advice.
- Retail banking – incorporating private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages;
- Others – Include other banking business, such as Assets Management.
- Transactions between the business segments are on normal commercial terms and conditions.

	<u>Corporate banking</u>	<u>SME's</u>	<u>Investment banking</u>	<u>Retail banking</u>	<u>EGP Total</u>
<b>Sep.30, 2012</b>					
Revenue according to business segment	2,336,172,008	525,570,177	(146,976,317)	1,201,723,467	3,916,489,335
Expenses according to business segment	<u>(745,716,574)</u>	<u>(213,940,238)</u>	<u>(17,217,279)</u>	<u>(648,580,080)</u>	<u>(1,625,454,171)</u>
Profit before tax	1,590,455,433	311,629,940	(164,193,596)	553,143,387	2,291,035,164
Tax	<u>(409,712,554)</u>	<u>(80,278,077)</u>	-	<u>(142,493,650)</u>	<u>(632,484,281)</u>
Profit for the period	<u>1,180,742,880</u>	<u>231,351,862</u>	<u>(164,193,596)</u>	<u>410,649,737</u>	<u>1,658,550,883</u>
Total assets	80,403,464,724	2,481,713,582	1,539,094,995	9,409,624,768	93,833,898,069
<b>Dec.31, 2011</b>					
Revenue according to business segment	2,226,050,418	597,635,091	(75,724,924)	1,278,100,557	4,026,061,142
Expenses according to business segment	<u>(777,096,428)</u>	<u>(255,290,741)</u>	<u>(25,181,851)</u>	<u>(788,714,940)</u>	<u>(1,846,283,960)</u>
Profit before tax	1,448,953,990	342,344,350	(100,906,775)	489,385,617	2,179,777,182
Tax	<u>(273,777,928)</u>	<u>(64,684,236)</u>	-	<u>(92,466,940)</u>	<u>(430,929,104)</u>
Profit for the period	<u>1,175,176,062</u>	<u>277,660,114</u>	<u>(100,906,775)</u>	<u>396,918,677</u>	<u>1,748,848,078</u>
Total assets	74,621,790,612	2,143,523,905	1,533,773,854	7,329,130,662	85,628,219,033
<b>5.2. By geographical segment</b>					
	<u>Cairo</u>	<u>Alex, Delta &amp; Sinai</u>	<u>Upper Egypt</u>	<u>EGP Total</u>	
<b>Sep.30, 2012</b>					
Revenue according to geographical segment	3,128,134,956	671,011,226	117,343,153	3,916,489,335	
Expenses according to geographical segment	<u>(1,280,056,989)</u>	<u>(281,653,306)</u>	<u>(63,743,876)</u>	<u>(1,625,454,171)</u>	
Profit before tax	1,848,077,967	389,357,920	53,599,277	2,291,035,164	
Tax	<u>(510,197,431)</u>	<u>(107,489,739)</u>	<u>(14,797,111)</u>	<u>(632,484,281)</u>	
Profit for the period	<u>1,337,880,536</u>	<u>281,868,181</u>	<u>38,802,166</u>	<u>1,658,550,883</u>	
Total assets	83,962,486,644	9,401,722,014	469,689,411	93,833,898,069	
<b>Dec.31, 2011</b>					
Revenue according to geographical segment	3,056,055,933	835,887,927	134,117,282	4,026,061,142	
Expenses according to geographical segment	<u>(1,335,361,487)</u>	<u>(405,117,905)</u>	<u>(105,804,568)</u>	<u>(1,846,283,960)</u>	
Profit before tax	1,720,694,446	430,770,022	28,312,714	2,179,777,182	
Tax	<u>(340,172,340)</u>	<u>(85,159,580)</u>	<u>(5,597,184)</u>	<u>(430,929,104)</u>	
Profit for the year	<u>1,380,522,106</u>	<u>345,610,442</u>	<u>22,715,530</u>	<u>1,748,848,078</u>	
Total assets	75,287,082,794	9,812,046,055	529,090,184	85,628,219,033	

**6 . Net interest income**

	Last 3 Months Sep.30, 2012 EGP	Last 9 Months Sep.30, 2012 EGP	Last 3 Months Sep.30, 2011 EGP	Last 9 Months Sep.30, 2011 EGP
<b>Interest and similar income</b>				
- Banks	29,616,571	104,050,174	38,500,804	102,590,982
- Clients	903,307,049	2,626,760,127	754,445,886	2,123,523,354
	<u>932,923,620</u>	<u>2,730,810,301</u>	<u>792,946,690</u>	<u>2,226,114,336</u>
Treasury bills and bonds	1,132,631,676	2,830,035,080	540,778,954	1,604,543,755
Reverse repos	-	17,423,270	16,878,617	16,878,617
Financial investments in held to maturity and available for sale debt instruments	38,783,121	121,287,738	40,415,279	126,217,167
Other	-	29,184	338,930	242,674
<b>Total</b>	<u>2,104,338,417</u>	<u>5,699,585,573</u>	<u>1,391,358,470</u>	<u>3,973,996,549</u>
<b>Interest and similar expense</b>				
- Banks	41,481,926	133,167,241	39,045,449	135,986,386
- Clients	931,798,563	2,517,419,736	658,666,333	1,882,904,097
	<u>973,280,489</u>	<u>2,650,586,977</u>	<u>697,711,782</u>	<u>2,018,890,483</u>
Financial instruments purchased with a commitment to re-sale (Repos)	103,012,386	225,237,340	6,327,620	7,414,985
Other	922,076	2,392,346	445,791	2,509,985
<b>Total</b>	<u>1,077,214,951</u>	<u>2,878,216,663</u>	<u>704,485,193</u>	<u>2,028,815,453</u>
<b>Net interest income</b>	<u>1,027,123,466</u>	<u>2,821,368,910</u>	<u>686,873,277</u>	<u>1,945,181,096</u>

**7 . Net income from fee and commission**

	Last 3 Months Sep.30, 2012 EGP	Last 9 Months Sep.30, 2012 EGP	Last 3 Months Sep.30, 2011 EGP	Last 9 Months Sep.30, 2011 EGP
<b>Fee and commission income</b>				
Fee and commissions related to credit	108,131,288	329,257,531	107,768,064	310,016,893
Custody fee	10,121,741	32,094,491	6,157,630	31,377,422
Other fee	115,356,792	307,902,688	89,387,108	272,879,976
<b>Total</b>	<u>233,609,821</u>	<u>669,254,710</u>	<u>203,312,802</u>	<u>614,274,291</u>
<b>Fee and commission expense</b>				
Other fee paid	28,497,812	76,264,667	23,342,723	64,114,837
<b>Total</b>	<u>28,497,812</u>	<u>76,264,667</u>	<u>23,342,723</u>	<u>64,114,837</u>
<b>Net income from fee and commission</b>	<u>205,112,009</u>	<u>592,990,043</u>	<u>179,970,079</u>	<u>550,159,454</u>

**8 . Dividend income**

	Last 3 Months Sep.30, 2012 EGP	Last 9 Months Sep.30, 2012 EGP	Last 3 Months Sep.30, 2011 EGP	Last 9 Months Sep.30, 2011 EGP
Trading securities	-	578,098	104,202	542,195
Available for sale securities	305,896	21,472,198	879,304	44,200,491
Subsidiaries and associates	-	-	-	13,272,726
<b>Total</b>	<u>305,896</u>	<u>22,050,296</u>	<u>983,506</u>	<u>58,015,412</u>

**9 . Net trading income**

	Last 3 Months Sep.30, 2012 EGP	Last 9 Months Sep.30, 2012 EGP	Last 3 Months Sep.30, 2011 EGP	Last 9 Months Sep.30, 2011 EGP
Profit (losses) from foreign exchange	57,259,128	168,111,451	58,288,520	231,411,891
Profit (losses) from revaluations of trading assets and liabilities in foreign currencies	569,356	938,646	(756,224)	5,362,010
Profit (Loss) from forward foreign exchange deals revaluation	(6,488,648)	(2,842,838)	(1,044,592)	13,949,272
Profit (Loss) from interest rate swaps revaluation	(281,400)	1,088,676	(41,632,133)	(55,709,034)
Profit (Loss) from currency swap deals revaluation	(849,314)	(1,930,445)	2,499,386	3,059,848
Trading debt instruments	160,620,615	247,201,455	7,388,194	45,819,826
Trading equity instruments	(35,741)	(387,466)	(1,352,741)	(1,474,951)
<b>Total</b>	<u>210,793,996</u>	<u>412,179,479</u>	<u>23,390,410</u>	<u>242,418,862</u>

<b>10 . Administrative expenses</b>	<b>Last 3 Months Sep.30, 2012 EGP</b>	<b>Last 9 Months Sep.30, 2012 EGP</b>	<b>Last 3 Months Sep.30, 2011 EGP</b>	<b>Last 9 Months Sep.30, 2011 EGP</b>
<b>Staff costs</b>				
- Wages and salaries	159,744,309	486,492,167	145,847,592	440,759,541
- Social insurance	6,345,867	24,143,888	5,617,031	19,109,609
- Other benefits	5,828,418	24,719,504	9,054,474	28,665,471
Other administrative expenses	<u>168,718,285</u>	<u>506,850,960</u>	<u>153,038,105</u>	<u>480,287,333</u>
<b>Total</b>	<u><b>340,636,879</b></u>	<u><b>1,042,206,519</b></u>	<u><b>313,557,203</b></u>	<u><b>968,821,954</b></u>
<b>11 . Other operating (expenses) income</b>	<b>Last 3 Months Sep.30, 2012 EGP</b>	<b>Last 9 Months Sep.30, 2012 EGP</b>	<b>Last 3 Months Sep.30, 2011 EGP</b>	<b>Last 9 Months Sep.30, 2011 EGP</b>
Profits (Losses) from non-trading assets and liabilities revaluation	6,184,843	14,162,597	2,899,396	(57,062,560)
Profits (losses) from selling property, plant and equipment	2,167,564	3,801,360	2,512	2,664,190
Release (charges) of other provisions	(4,055,727)	(40,248,839)	37,443,604	38,503,180
Others	<u>(25,847,920)</u>	<u>(56,892,904)</u>	<u>(12,254,822)</u>	<u>(34,643,158)</u>
<b>Total</b>	<u><b>(21,551,240)</b></u>	<u><b>(79,177,786)</b></u>	<u><b>28,090,690</b></u>	<u><b>(50,538,348)</b></u>
<b>12 . Impairment (charge) release for credit losses</b>	<b>Last 3 Months Sep.30, 2012 EGP</b>	<b>Last 9 Months Sep.30, 2012 EGP</b>	<b>Last 3 Months Sep.30, 2011 EGP</b>	<b>Last 9 Months Sep.30, 2011 EGP</b>
Loans and advances to customers	(247,335,705)	(406,580,325)	(110,963,329)	(313,855,735)
Held to maturity financial investments	-	-	-	1,627,620
<b>Total</b>	<u><b>(247,335,705)</b></u>	<u><b>(406,580,325)</b></u>	<u><b>(110,963,329)</b></u>	<u><b>(312,228,115)</b></u>
<b>13 . Adjustments to calculate the effective tax rate</b>	<b>Last 3 Months Sep.30, 2012 EGP</b>	<b>Last 9 Months Sep.30, 2012 EGP</b>	<b>Last 3 Months Sep.30, 2011 EGP</b>	<b>Last 9 Months Sep.30, 2011 EGP</b>
Profit before tax	827,418,346	2,291,035,164	495,571,175	1,502,202,156
* Tax settlement for prior years	-	(50,000,000)	-	-
Profit after settlement	827,418,346	2,241,035,164	495,571,175	1,502,202,156
Tax rate	25.00%	24.98%	From 20% to 25%	From 20% to 25%
<b>Income tax based on accounting profit</b>	<u>206,854,587</u>	<u>559,758,791</u>	<u>173,724,342</u>	<u>375,050,539</u>
Add / (Deduct)				
Non-deductible expenses	2,742,878	6,277,368	9,188,067	9,865,996
Tax exemptions	(16,900,511)	(52,847,067)	(72,996,798)	(99,821,065)
Effect of provisions	<u>23,816,861</u>	<u>69,295,190</u>	<u>8,338,778</u>	<u>30,396,071</u>
<b>Income tax</b>	<u><b>216,513,815</b></u>	<u><b>582,484,282</b></u>	<u><b>118,254,389</b></u>	<u><b>315,491,541</b></u>
<b>Effective tax rate</b>	<b>26.17%</b>	<b>25.99%</b>	<b>23.86%</b>	<b>21.00%</b>
<i>* Potential tax claims for the year ended on December.31, 2011</i>				
<b>14 . Earning per share</b>	<b>Last 3 Months Sep.30, 2012 EGP</b>	<b>Last 9 Months Sep.30, 2012 EGP</b>	<b>Last 3 Months Sep.30, 2011 EGP</b>	<b>Last 9 Months Sep.30, 2011 EGP</b>
Net profit for the period available for distribution	610,904,531	1,840,259,331	362,775,677	1,110,544,165
Board member's bonus	(9,163,568)	(27,603,890)	(5,441,635)	(16,658,162)
Staff profit sharing	<u>(61,090,453)</u>	<u>(184,025,933)</u>	<u>(36,277,568)</u>	<u>(111,054,417)</u>
<b>Profits shareholders' Stake</b>	<u><b>540,650,510</b></u>	<u><b>1,628,629,508</b></u>	<u><b>321,056,474</b></u>	<u><b>982,831,586</b></u>
Number of shares	<u>597,227,541</u>	<u>597,227,541</u>	<u>597,227,541</u>	<u>597,227,541</u>
<b>Basic earning per share</b>	<b>0.91</b>	<b>2.73</b>	<b>0.54</b>	<b>1.65</b>
By issuance of ESOP earning per share will be:				
Number of shares including ESOP shares	<u>607,996,362</u>	<u>607,159,965</u>	<u>605,395,098</u>	<u>606,032,553</u>
<b>Diluted earning per share</b>	<b>0.89</b>	<b>2.68</b>	<b>0.53</b>	<b>1.62</b>

**15. Cash and balances with Central Bank**

	Sep.30, 2012	Dec.31, 2011
	EGP	EGP
Cash	1,491,659,699	1,891,659,489
<b>Obligatory reserve balance with CBE</b>		
- Current accounts	<u>1,922,850,683</u>	<u>5,600,405,021</u>
<b>Total</b>	<u><b>3,414,510,382</b></u>	<u><b>7,492,064,510</b></u>
<b>Non-interest bearing balances</b>	<u><b>3,414,510,382</b></u>	<u><b>7,492,064,510</b></u>

**16. Due from banks**

	Sep.30, 2012	Dec.31, 2011
	EGP	EGP
Current accounts	268,219,106	197,047,111
Deposits	<u>8,485,726,959</u>	<u>8,252,251,594</u>
<b>Total</b>	<u><b>8,753,946,065</b></u>	<u><b>8,449,298,705</b></u>
Central banks	3,068,177,007	3,031,574,198
Local banks	414,542,712	155,171,707
Foreign banks	<u>5,271,226,346</u>	<u>5,262,552,800</u>
<b>Total</b>	<u><b>8,753,946,065</b></u>	<u><b>8,449,298,705</b></u>
Non-interest bearing balances	207,882,963	149,987,713
Fixed interest bearing balances	<u>8,546,063,102</u>	<u>8,299,310,992</u>
<b>Total</b>	<u><b>8,753,946,065</b></u>	<u><b>8,449,298,705</b></u>
Current balances	<u>8,753,946,065</u>	<u>8,449,298,705</u>
<b>Total</b>	<u><b>8,753,946,065</b></u>	<u><b>8,449,298,705</b></u>

**17. Treasury bills and other governmental notes**

	Sep.30, 2012	Dec.31, 2011
	EGP	EGP
91 Days maturity	5,090,701,770	1,866,250,000
182 Days maturity	3,389,784,640	2,559,925,000
364 Days maturity	6,177,874,200	6,861,223,570
Unearned interest	<u>(756,948,991)</u>	<u>(634,008,503)</u>
<b>Total 1</b>	<u><b>13,901,411,619</b></u>	<u><b>10,653,390,067</b></u>
Repos - treasury bills	<u>(4,804,000,000)</u>	<u>(1,440,000,000)</u>
<b>Total 2</b>	<u><b>(4,804,000,000)</b></u>	<u><b>(1,440,000,000)</b></u>
<b>Net</b>	<u><b>9,097,411,619</b></u>	<u><b>9,213,390,067</b></u>

**18. Trading financial assets**

	Sep.30, 2012	Dec.31, 2011
	EGP	EGP
<b>Debt instruments</b>		
- Governmental bonds	<u>1,592,362,470</u>	<u>353,860,497</u>
<b>Total</b>	<u><b>1,592,362,470</b></u>	<u><b>353,860,497</b></u>
<b>Equity instruments</b>		
- Foreign company shares	15,795,289	18,677,035
- Mutual funds	<u>164,933,625</u>	<u>188,546,741</u>
<b>Total</b>	<u><b>180,728,914</b></u>	<u><b>207,223,776</b></u>
<b>Total financial assets for trading</b>	<u><b>1,773,091,384</b></u>	<u><b>561,084,273</b></u>

**19 . Loans and advances to banks**

	Sep.30, 2012	Dec.31, 2011
	EGP	EGP
Time and term loans	1,010,429,247	1,433,545,112
Less: Impairment provision	<u>(23,031,528)</u>	<u>(37,950,503)</u>
<b>Total</b>	<b><u>987,397,719</u></b>	<b><u>1,395,594,609</u></b>
Current balances	973,027,993	1,304,111,350
Non-current balances	<u>14,369,726</u>	<u>91,483,259</u>
<b>Total</b>	<b><u>987,397,719</u></b>	<b><u>1,395,594,609</u></b>

**Analysis for impairment provision of loans and advances to banks**

	Sep.30, 2012	Dec.31, 2011
	EGP	EGP
Bgining balance	37,950,503	2,694,538
Charge (release) during the period	(16,218,628)	34,736,518
Write off during the period	-	-
Exchange revaluation difference	<u>1,299,653</u>	<u>519,447</u>
<b>Ending balance</b>	<b><u>23,031,528</u></b>	<b><u>37,950,503</u></b>

**20 . Loans and advances to customers**

	Sep.30, 2012	Dec.31, 2011
	EGP	EGP
<b>Individual</b>		
- Overdraft	1,296,403,790	952,982,877
- Credit cards	626,093,787	575,672,905
- Personal loans	3,519,350,673	2,659,469,004
- Mortgages	468,660,480	419,990,050
- Other loans	<u>27,332,786</u>	<u>40,265,000</u>
<b>Total 1</b>	<b><u>5,937,841,516</u></b>	<b><u>4,648,379,836</u></b>
<b>Corporate</b>		
- Overdraft	4,427,522,406	4,239,213,684
- Direct loans	23,189,058,615	24,265,367,037
- Syndicated loans	8,680,829,780	8,245,001,963
- Other loans	<u>67,546,303</u>	<u>101,625,796</u>
<b>Total 2</b>	<b><u>36,364,957,104</u></b>	<b><u>36,851,208,480</u></b>
<b>Total Loans and advances to customers (1+2)</b>	<b><u>42,302,798,620</u></b>	<b><u>41,499,588,316</u></b>
<b>Less:</b>		
Unamortized bills discount	(25,958,695)	(45,231,397)
Impairment provision	(1,681,975,488)	(1,419,409,102)
Unearned interest	<u>(452,278,707)</u>	<u>(365,161,953)</u>
<b>Net loans and advances to customers</b>	<b><u>40,142,585,729</u></b>	<b><u>39,669,785,864</u></b>
<b>Distributed to</b>		
Current balances	16,419,769,703	17,307,625,654
Non-current balances	<u>23,722,816,026</u>	<u>22,362,160,210</u>
<b>Total</b>	<b><u>40,142,585,729</u></b>	<b><u>39,669,785,864</u></b>

## Analysis for impairment provision of loans and advances to customers

Sep.30, 2012	<u>Overdraft</u>	<u>Credit cards</u>	<u>Personal loans</u>	<u>Individual</u>		<u>Other loans</u>	<u>Total</u>
				<u>Real estate loans</u>			
Beginning balance	20,377,614	42,290,218	76,502,471	11,876,297		1,593,932	152,640,532
Charged (Released) during the period	(10,340,480)	201,110	2,040,464	3,311,418		(288,657)	(5,076,145)
Write off during the period	-	(26,837,297)	(17,582)	-		-	(26,854,879)
Recoveries from written off debts	-	2,744,992	-	-		-	2,744,992
Ending balance	<u>10,037,134</u>	<u>18,399,024</u>	<u>78,525,353</u>	<u>15,187,715</u>		<u>1,305,274</u>	<u>123,454,501</u>

Sep.30, 2012	<u>Overdraft</u>	<u>Direct loans</u>	<u>Corporate</u>		<u>Other loans</u>	<u>Total</u>
			<u>Syndicated loans</u>			
Beginning balance	167,655,394	790,797,773	306,628,666		1,686,738	1,266,768,571
Charged (Released) during the period	43,511,714	270,803,149	113,339,973		220,262	427,875,098
Write off during the period	-	-	(154,721,287)		-	(154,721,287)
Recoveries from written off debts	-	12,982,351	-		-	12,982,351
Exchange revaluation difference	184,760	1,366,221	986,194		3,079,081	5,616,256
Ending balance	<u>211,351,868</u>	<u>1,075,949,493</u>	<u>266,233,546</u>		<u>4,986,081</u>	<u>1,558,520,989</u>

Dec.31, 2011	<u>Overdraft</u>	<u>Credit cards</u>	<u>Personal loans</u>	<u>Individual</u>		<u>Other loans</u>	<u>Total</u>
				<u>Real estate loans</u>			
Beginning balance	6,948,242	42,119,828	71,459,209	8,888,164		13,400,430	142,815,873
Charged (Released) during the period	13,429,372	5,306,910	6,589,871	2,988,133		(11,806,498)	16,507,788
Write off during the period	-	(8,858,433)	(2,273,609)	-		-	(11,132,042)
Recoveries from written off debts	-	3,721,913	727,000	-		-	4,448,913
Ending balance	<u>20,377,614</u>	<u>42,290,218</u>	<u>76,502,471</u>	<u>11,876,297</u>		<u>1,593,932</u>	<u>152,640,532</u>

Dec.31, 2011	<u>Overdraft</u>	<u>Direct loans</u>	<u>Corporate</u>		<u>Other loans</u>	<u>Total</u>
			<u>Syndicated loans</u>			
Beginning balance	149,208,018	759,961,827	200,640,880		2,561,291	1,112,372,016
Charged (Released) during the period	17,175,711	154,370,230	100,360,788		(874,553)	271,032,176
Write off during the period	-	(144,805,506)	-		-	(144,805,506)
Recoveries from written off debts	-	11,291,492	-		-	11,291,492
Exchange revaluation difference	1,271,665	9,979,730	5,626,998		-	16,878,393
Ending balance	<u>167,655,394</u>	<u>790,797,773</u>	<u>306,628,666</u>		<u>1,686,738</u>	<u>1,266,768,571</u>

**21 . Derivative financial instruments**
**21.1 . Derivatives**

The Bank uses the following financial derivatives for non hedging purposes.

Forward contracts represents commitments of buying foreign and local currencies including unexecuted spot transactions. Future contracts for foreign currencies and/or interest rates represents contractual commitments to receive or pay net on the basis of change in foreign exchange rates or interest rates, and/or buying or selling foreign currencies or financial instruments in a future date with a fixed contractual price under active financial market.

Credit risk is considered low, and future interest rate contracts represents future exchange rate contracts negotiated for case by case, these contracts requires financial settlements of any differences in contractual interest rates and prevailing market interest rates on future interest rates on future dates based on contractual amount (nominal value) pre agreed upon.

Foreign exchange and/or interest rate swap represents commitments to exchange cash flows, resulting from these contracts exchange of currencies or interest (fixed rate versus variable rate for example) or both (meaning foreign exchange and interest rate contracts) contractual amounts are not exchanged except for some foreign exchange contracts.

Credit risk is represented in the expected cost of foreign exchange contracts that takes place if other parties default to fulfill their liabilities. This risk is monitored continuously through comparisons of fair value and contractual amount, and to control the outstanding credit risk, The Bank evaluates other parties using the same methods as in borrowing activities.

Options contracts in foreign currencies and/or interest rates represents contractual agreements for the buyer (issuer) to seller (holder) as a right not an obligations whether to buy (buy option) or to sell (sell option) at a certain day or within certain period for a certain amount in foreign currency or interest rate. Options contracts are either traded in the market or negotiated between The Bank and one of its clients (Off balance sheet). The Bank exposed to credit risk for purchased options contracts only and in the line of its book costs which represent its fair value.

The contractual value for some derivatives options considered a base to compare the realized financial instruments on the balance sheet, but it didn't provide indicator on the projected cash flows of the fair value for current instruments, those amounts doesn't reflect credit risk or interest rate risk.

Derivatives in The Banks benefit represent (assets) conversely it represents (liabilities) as a result of the changes in foreign exchange prices or interest rates related to these derivatives. Contractual / expected total amounts of financial derivatives can fluctuate from time to time and also the range through which the financial derivatives can be in benefit of The Bank or conversely against its benefit and the total fair value of the financial derivatives in assets and liabilities. hereunder are the fair values of the booked financial derivatives.

**21.1.1 . For trading derivatives**

	Sep.30, 2012			Dec.31, 2011		
	<u>Notional amount</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Notional amount</u>	<u>Assets</u>	<u>Liabilities</u>
<b>Foreign derivatives</b>						
- Forward foreign exchange contracts	2,058,132,547	11,873,533	5,532,031	1,324,589,420	14,828,172	5,643,831
- Currency swap	1,229,156,989	9,259,788	5,644,166	1,408,305,712	54,023,412	13,909,846
- Options	2,190,013,287	11,185,647	11,185,647	509,022,896	2,251,502	2,251,502
<b>Total 1</b>		<u>32,318,969</u>	<u>22,361,844</u>		<u>71,103,086</u>	<u>21,805,179</u>
<b>Interest rate derivatives</b>						
- Interest rate swaps	890,639,559	14,514,811	9,610,110	1,124,316,614	15,667,505	11,842,172
<b>Total 2</b>		<u>14,514,811</u>	<u>9,610,110</u>		<u>15,667,505</u>	<u>11,842,172</u>
Commodity	-	-	-	128,045,173	870,385	870,385
<b>Total 3</b>		<u>-</u>	<u>-</u>		<u>870,385</u>	<u>870,385</u>
<b>Total assets (liabilities) for trading derivatives (1+2+3)</b>		<u>46,833,779</u>	<u>31,971,954</u>		<u>87,640,976</u>	<u>34,517,736</u>

**21.1.2 . Fair value hedge**
**Interest rate derivatives**

- Governmental debit instruments hedging	530,169,300	-	97,803,987	524,775,300	-	78,514,812
- Customers deposits hedging	4,045,390,950	98,319,663	25,594	3,661,135,640	58,903,680	1,255,442
<b>Total 4</b>		<u>98,319,663</u>	<u>97,829,581</u>		<u>58,903,680</u>	<u>79,770,254</u>
<b>Total financial derivatives (1+2+3+4)</b>		<u>145,153,442</u>	<u>129,801,534</u>		<u>146,544,656</u>	<u>114,287,990</u>

**21.2 . Hedging derivatives**
**21.2.1 . Fair value hedge**

The Bank uses interest rate swap contracts to cover part of the risk of potential decrease in fair value of its fixed rate governmental debt instruments in foreign currencies. Net derivative value resulting from the related hedging instruments is EGP 97,803,987 at the end of September, 2012 against EGP 78,514,812 at the end of December, 2011, Resulting in net loss form hedging instruments at the end of September, 2012 EGP 19,289,175 against net loss EGP 78,514,812 at the end of December, 2011. Gains arises from the hedge items at the end of September, 2012 reached EGP 18,531,879 against profits arises EGP 77,848,826 at the end of December, 2011.

The Bank uses interest rate swap contracts to cover part of the risk of potential decrease in fair value of its fixed rate customers deposits in foreign currencies. Net derivative value resulting from the related hedging instruments is EGP 98,294,069 at the end of September, 2012 against EGP 57,648,238 at the end of December, 2011, Resulting in net profits form hedging instruments at the end of September, 2012 EGP 40,645,831 against net profit EGP 58,450,867 at the end of December, 2011. Losses arises from the hedged items at the end of September , 2012 reached EGP 39,527,447 against losses EGP 57,855,943 at the end of December, 2011.

**22 . Financial investments**

	Sep.30, 2012	Dec.31, 2011
	EGP	EGP
<b>Available for sale</b>		
- Listed debt instruments	20,555,770,596	14,533,886,080
- Listed equity instruments	83,292,173	79,748,671
- Unlisted instruments	<u>402,835,881</u>	<u>798,931,318</u>
<b>Total</b>	<u>21,041,898,650</u>	<u>15,412,566,069</u>
<b>Held to maturity</b>		
- Listed debt instruments	4,142,149,036	1,580,420
- Unlisted instruments	<u>70,255,117</u>	<u>27,512,500</u>
<b>Total</b>	<u>4,212,404,153</u>	<u>29,092,920</u>
<b>Total financial investment</b>	<u>25,254,302,803</u>	<u>15,441,658,989</u>
- Actively traded instruments	23,598,619,088	13,301,628,105
- Not actively traded instruments	<u>1,655,683,715</u>	<u>2,140,030,884</u>
<b>Total</b>	<u>25,254,302,803</u>	<u>15,441,658,989</u>
Fixed interest debt instruments	23,473,295,800	12,978,748,170
Floating interest debt instruments	<u>1,267,366,449</u>	<u>1,919,838,711</u>
<b>Total</b>	<u>24,740,662,249</u>	<u>14,898,586,881</u>

	<u>Available for sale</u>	<u>Held to maturity</u>	<b>Total</b>
	<u>financial</u>	<u>financial</u>	
	<u>investments</u>	<u>investments</u>	EGP
Beginning balance on Jan.01, 2011	13,605,347,030	289,151,745	13,894,498,775
Addition	4,535,816,258	5,000,000	4,540,816,258
Deduction (selling - redemptions)	(2,135,258,815)	(271,802,813)	(2,407,061,627)
Exchange revaluation differences	55,264,416	5,116,368	60,380,784
Profit (losses) from fair value difference	(647,348,588)	-	(647,348,588)
Impairment (charges) release	<u>(1,254,232)</u>	<u>1,627,620</u>	<u>373,388</u>
Ending Balance	<u>15,412,566,069</u>	<u>29,092,920</u>	<u>15,441,658,989</u>
<b>Beginning balance on Jan.01, 2012</b>	<b>15,412,566,069</b>	<b>29,092,920</b>	<b>15,441,658,989</b>
<b>Addition</b>	<b>9,819,261,071</b>	<b>4,183,311,233</b>	<b>14,002,572,303</b>
<b>Deduction (selling - redemptions)</b>	<b>(5,177,076,453)</b>	<b>-</b>	<b>(5,177,076,453)</b>
<b>Exchange revaluation differences</b>	<b>13,580,979</b>	<b>-</b>	<b>13,580,979</b>
<b>Profit (losses) from fair value difference</b>	<b>1,000,838,218</b>	<b>-</b>	<b>1,000,838,218</b>
<b>Impairment (charges) release</b>	<b>(27,271,234)</b>	<b>-</b>	<b>(27,271,234)</b>
<b>Ending Balance</b>	<b><u>21,041,898,650</u></b>	<b><u>4,212,404,153</u></b>	<b><u>25,254,302,803</u></b>

**22.1 . Profit (Losses) from financial investments**

	Last 3 Months Sep.30, 2012 EGP	Last 9 Months Sep.30, 2012 EGP	Last 3 Months Sep.30, 2011 EGP	Last 9 Months Sep.30, 2011 EGP
Profit (Loss) from selling available for sale financial instruments	(10,710,281)	(2,289,009)	783,745	37,395,134
Impairment release (charges) of available for sale equity instruments	4,319,733	(27,864,837)	-	(1,254,232)
Impairment release (charges) of available for sale debt instruments	-	593,603	-	-
Profit (Loss) from selling investments in subsidiaries and associates	-	-	-	1,873,813
Profit (Loss) from selling held to maturity debt investments	(2,649)	(28,691)	-	1,034
	<u>(6,393,197)</u>	<u>(29,588,934)</u>	<u>783,745</u>	<u>38,015,749</u>

**23 . Investments in subsidiary and associates**
**Sep.30, 2012**

	<u>Company's country</u>	<u>Company's assets</u>	<u>Company's liabilities (without equity)</u>	<u>Company's revenues</u>	<u>Company's net profit</u>	<u>Investment book value</u>	<u>Stake %</u>
<b>Subsidiaries</b>	EGP						EGP
- CI Capital Holding	Egypt	587,687,601	243,232,410	91,641,954	1,769,639	867,656,000	99.98
<b>Associates</b>							
- Commercial International Life Insurance	Egypt	1,639,033,942	1,581,605,369	613,926,799	(4,608,448)	49,020,250	45
- Corplease	Egypt	1,557,042,640	1,376,887,603	211,407,321	7,764,344	67,527,300	40
- Haykala for investment	Egypt	3,804,941	196,722	180,000	123,322	600,000	40
- Egypt Factors	Egypt	221,569,122	170,032,778	11,148,650	(2,419,985)	35,649,315	39
- International Co. for Security and Services (Falcon)	Egypt	88,046,871	75,028,118	71,303,861	632,845	6,000,000	40
<b>Total</b>		<u>4,097,185,117</u>	<u>3,446,983,000</u>	<u>999,608,585</u>	<u>3,261,717</u>	<u>1,026,452,865</u>	

**Dec.31, 2011**

	<u>Company's Country</u>	<u>Company's Assets</u>	<u>Company's Liabilities (without equity)</u>	<u>Company's Revenues</u>	<u>Company's Net Profit</u>	<u>Investment book value</u>	<u>Stake %</u>
<b>Subsidiaries</b>	EGP						EGP
- CI Capital Holding	Egypt	494,679,584	152,092,327	87,475,153	(37,629,469)	867,656,000	99.98
<b>Associates</b>							
- Commercial International Life Insurance	Egypt	1,532,549,363	1,469,720,530	108,295,223	791,813	44,520,250	45
- Corplease	Egypt	1,418,875,386	1,271,498,831	162,014,580	6,762,407	60,000,000	40
- Haykala for Investment	Egypt	3,595,277	307,737	270,000	103,358	600,000	40
- Egypt Factors	Egypt	179,815,258	165,064,735	18,440,302	(6,533,187)	18,819,528	39
- International Co. for Security and Services (Falcon)	Egypt	62,511,444	46,751,684	71,809,412	(2,721,265)	4,000,000	40
<b>Total</b>		<u>3,692,026,312</u>	<u>3,105,435,844</u>	<u>448,304,670</u>	<u>(39,226,343)</u>	<u>995,595,778</u>	

**24 . Investment property \***

	Sep.30, 2012	Dec.31, 2011
	EGP	EGP
Appartment no. 70 in the third floor building 300 meters elgomhoria st. Port said	-	750,000
338.33 meters on a land and building the property number 16 elmakrizi st. Heliopolis	<b>700,000</b>	700,000
Villa number 113 royal hills 6th of october	-	2,000,000
Land area with 1468.85 meters elsaidi basin -markaz nabrouh eldakahlia	<b>1,121,965</b>	1,121,965
Land and a bulding in elmansoura elnahda street 766.3 meters	<b>3,463,000</b>	3,463,000
Agricultural area 1 feddan 14t and 17.25 shares near el azazi fakous elsharkia	<b>222,000</b>	222,000
Agricultral area - markaz shebin eldakahlia	<b>4,517,721</b>	4,517,721
<b>Total</b>	<b>10,024,686</b>	12,774,686

\* Including non rigestred by EGP 6,561,686 which were acquired against settlement of the debts mentioned above.

**25 . Other assets**

	Sep.30, 2012	Dec.31, 2011
	EGP	EGP
Accrued revenues	<b>1,478,358,540</b>	898,844,761
Prepaid expenses	<b>83,533,405</b>	75,649,940
Advances to purchase of fixed assets	<b>120,033,177</b>	103,989,488
Accounts receivable and other assets	<b>767,413,481</b>	433,844,754
Assets acquired as settlement of debts	<b>6,180,933</b>	6,180,933
<b>Total</b>	<b>2,455,519,536</b>	1,518,509,876

**26 . Property, plant and equipment**

	Sep.30, 2012							Total
	Land	Premises	IT	Vehicles	Fitting -out	Machines and equipment	Furniture and furnishing	
	EGP							
Beginning gross assets (1)	60,575,261	423,794,894	741,229,919	46,898,333	267,239,246	256,827,447	106,136,591	<b>1,902,701,691</b>
Additions (deductions) during the period	-	4,677,018	50,212,605	4,320,978	74,031,154	10,770,777	5,248,031	<b>149,260,563</b>
<b>Ending gross assets (2)</b>	<b>60,575,261</b>	<b>428,471,912</b>	<b>791,442,524</b>	<b>51,219,311</b>	<b>341,270,400</b>	<b>267,598,224</b>	<b>111,384,622</b>	<b>2,051,962,254</b>
Accu.depreciation at beginning of the period (3)	-	161,870,230	576,418,710	25,815,491	240,994,064	188,525,308	72,302,594	<b>1,265,926,397</b>
Current period depreciation	-	14,218,637	51,768,996	4,179,068	26,671,040	21,078,101	7,268,422	<b>125,184,264</b>
<b>Accu.depreciation at end of the period (4)</b>	<b>-</b>	<b>176,088,867</b>	<b>628,187,706</b>	<b>29,994,559</b>	<b>267,665,104</b>	<b>209,603,409</b>	<b>79,571,016</b>	<b>1,391,110,661</b>
<b>Ending net assets (2-4)</b>	<b>60,575,261</b>	<b>252,383,045</b>	<b>163,254,818</b>	<b>21,224,752</b>	<b>73,605,296</b>	<b>57,994,815</b>	<b>31,813,606</b>	<b>660,851,593</b>
<b>Beginning net assets (1-3)</b>	<b>60,575,261</b>	<b>261,924,664</b>	<b>164,811,209</b>	<b>21,082,842</b>	<b>26,245,182</b>	<b>68,302,139</b>	<b>33,833,997</b>	<b>636,775,294</b>
<b>Depreciation rates</b>		<b>%5</b>	<b>%20</b>	<b>%20</b>	<b>%33.3</b>	<b>%33.3</b>	<b>%20</b>	

Net fixed assets value on the balance sheet date includes EGP 22,690,231 non registered assets while their registrations procedures are in process.

**27 . Due to banks**

	Sep.30, 2012	Dec.31, 2011
	EGP	EGP
Current accounts	945,096,618	493,794,517
Deposits	1,140,000,000	2,847,000,000
<b>Total</b>	<b>2,085,096,618</b>	<b>3,340,794,517</b>
Central banks	57,940,927	46,941,713
Local banks	1,165,157,478	2,905,759,685
Foreign banks	861,998,213	388,093,119
<b>Total</b>	<b>2,085,096,618</b>	<b>3,340,794,517</b>
Non-interest bearing balances	854,907,368	398,317,328
Fixed interest bearing balances	1,230,189,250	2,942,477,189
<b>Total</b>	<b>2,085,096,618</b>	<b>3,340,794,517</b>
Current balances	945,096,618	493,794,517
Non-current balances	1,140,000,000	2,847,000,000
<b>Total</b>	<b>2,085,096,618</b>	<b>3,340,794,517</b>

**28 . Due to customers**

	Sep.30, 2012	Dec.31, 2011
	EGP	EGP
Demand deposits	18,053,607,339	17,048,122,359
Time deposits	23,860,028,103	24,532,817,359
Certificates of deposit	24,184,120,048	18,819,931,329
Saving deposits	11,032,174,650	9,484,866,150
Other deposits	1,403,306,270	1,688,310,333
<b>Total</b>	<b>78,533,236,410</b>	<b>71,574,047,530</b>
Corporate deposits	37,276,297,952	37,227,665,007
Individual deposits	41,256,938,458	34,346,382,523
<b>Total</b>	<b>78,533,236,410</b>	<b>71,574,047,530</b>
Non-interest bearing balances	11,893,524,342	10,855,512,526
Fixed interest bearing balances	66,639,712,068	60,718,535,004
<b>Total</b>	<b>78,533,236,410</b>	<b>71,574,047,530</b>
Current balances	51,906,493,377	50,607,367,855
Non-current balances	26,626,743,033	20,966,679,675
<b>Total</b>	<b>78,533,236,410</b>	<b>71,574,047,530</b>

**29 . Long term loans**

	Interest rate %	Maturity date	Maturing through next year	Balance on Sep.30, 2012	Balance on Dec.31, 2011
			EGP	EGP	EGP
Financial Investment & Sector Cooperation (FISC)	3.5 - 5.5 depends on maturity date	3-5 years	8,539,683	10,365,079	13,697,721
Support to Private Sector Industry Environmental Protection II (KFW)	9 - 10.5	2012	568,652	568,652	3,285,048
Agricultural Research and Development Fund (ARDF)	3.5 - 5.5 depends on maturity date	3-5 years	40,955,000	47,840,000	78,570,000
Social Fund for Development (SFD)	3 months T/D or 9% which more		-	-	167,326
Spanish Cooperation Microfinance Fund (SCMF)	0.5	2012	3,650,421	3,650,421	3,613,282
<b>Total</b>			<b>53,713,757</b>	<b>62,424,153</b>	<b>99,333,376</b>

**30 . Other liabilities**

	Sep.30, 2012	Dec.31, 2011
	EGP	EGP
Accrued interest payable	475,865,027	263,654,637
Accrued expenses	208,069,498	162,930,130
Accounts payable	418,151,147	345,917,454
Income tax	649,992,799	446,414,136
Other credit balances	128,969,068	94,869,079
<b>Total</b>	<b>1,881,047,539</b>	<b>1,313,785,436</b>

**31 . Other provisions**

Sep.30, 2012	<u>Beginning balance</u>	<u>Charged amounts</u>	<u>Exchange revaluation difference</u>	<u>Utilized amounts</u>	<u>Reversed amounts</u>	<u>Ending balance</u>
						EGP
Provision for income tax claims	6,909,685	-	-	-	-	6,909,685
Provision for legal claims	35,171,959	9,102,411	11,311	(8,658,067)	(531,054)	35,096,560
Provision for contingent	210,103,042	13,577,900	1,090,833	-	-	224,771,775
* Provision for other claim	12,441,223	68,099,583	4,648	(63,782,540)	-	16,762,914
<b>Total</b>	<b>264,625,909</b>	<b>90,779,894</b>	<b>1,106,792</b>	<b>(72,440,607)</b>	<b>(531,054)</b>	<b>283,540,934</b>
Dec.31, 2011	<u>Beginning balance</u>	<u>Charged amounts</u>	<u>Exchange revaluation difference</u>	<u>Utilized amounts</u>	<u>Reversed amounts</u>	<u>Ending balance</u>
						EGP
Provision for income tax claims	6,909,685	-	-	-	-	6,909,685
Provision for legal claims	33,150,547	2,021,413	-	-	-	35,171,959
Provision for contingent	256,708,900	-	2,321,223	(178,971)	(48,748,110)	210,103,042
Provision for other claim	13,469,799	2,196,294	8,397	(3,233,267)	-	12,441,223
<b>Total</b>	<b>310,238,930</b>	<b>4,217,707</b>	<b>2,329,620</b>	<b>(3,412,238)</b>	<b>(48,748,110)</b>	<b>264,625,909</b>

\* Provision for other claim formed on September 30, 2012 amounted to 18,099,583 EGP to face the potential risk of banking operations and an amount of 50,000,000 EGP to face potential tax claims against amount 2,196,294 EGP on December 31, 2011 to face the potential risk of banking operations.

**32 . Equity**
**32.1 . Capital**

The authorized capital reached EGP 20 billion according to the extraordinary general assembly decision on March 17, 2010.

Issued and Paid in Capital reached EGP 5,972,275,410 to be divided on 597,227,541 shares with EGP 10 par value for each share based on:

- Increase issued and Paid up Capital by amount EGP 25,721,800 on April 21, 2010 in according to Board of Directors decision on November 11,2009 by issuance of first trench for E.S.O.P program.
- Increase issued and Paid up Capital by amount EGP 2,950,721,800 on July 15, 2010 according to Board of Directors decision on May 12 ,2010 by distribution of one share for every outstanding share by capitalizing on the General Reserve and part of the Legal Reserve.
- Increase issued and Paid up Capital by amount EGP 33,119,390 on July 31, 2011 in according to Board of Directors decision on November 10,2010 by issuance of second trench for E.S.O.P program.
- Increase issued and Paid up Capital by amount EGP 37,712,420 on April 9, 2012 in according to Board of Directors decision on December 22,2011 by issuance of third trench for E.S.O.P program.

The Extraordinary General Assembly approved in the meeting of June 26, 2006 to activate a motivating and rewarding program for the Bank's employees and managers through Employee Share Ownership Plans (ESOP) by issuing a maximum of 5% of issued and paid-in capital at par value ,through 5 years starting year 2006 and delegated the Board of Directors to establish the rewarding terms and conditions and increase the paid in capital according to the program.

The Extraordinary General Assembly approved in the meeting of April 13,2011 continue to activate a motivating and rewarding program for The Bank's employees and managers through Employee Share Ownership Plans (ESOP) by issuing a maximum of 5% of issued and paid-in capital at par value ,through 5 years starting year 2011 and delegated the Board of Directors to establish the rewarding terms and conditions and increase the paid in capital according to the program.

Dividend deducted from shareholders' equity in the Year that the General Assembly approves the dispersment the shareholders of this dividend, which includes staff profit share and remuneration of the Board of Directors stated in the law.

**32.2 . Reserves**

According to The Bank status 5% of net profit is to increase legal reserve until it reaches 50% of The Bank's issued and paid in capital. Central Bank of Egypt concurrence for usage of special reserve is required.

**33 . Deferred tax**

Deferred tax assets and liabilities are attributable to the following:

	<b>Sep.30, 2012</b>	Dec.31, 2011
	<u>Assets (Liabilities)</u>	<u>Assets (Liabilities)</u>
	EGP	EGP
Fixed assets (depreciation)	<b>(8,260,086)</b>	(12,780,032)
Other provisions (excluded loan loss, contingent liabilities and income tax provisions)	<b>10,371,895</b>	9,522,636
Other investments impairment	<b>76,694,845</b>	69,148,702
Reserve for employee stock ownership plan (ESOP)	<b>33,843,592</b>	29,250,420
<b>Total</b>	<b><u>112,650,246</u></b>	<b><u>95,141,726</u></b>

**34 . Share-based payments**

According to the extraordinary general assembly meeting on June 26, 2006, The Bank launched new Employees Share Ownership Plan (ESOP) scheme and issued equity-settled share-based payments. Eligible employees should complete a term of 3 years of service in The Bank to have the right in ordinary shares at face value (right to share) that will be issued on the vesting date, otherwise such grants will be forfeited. Equity-settled share-based payments are measured at fair value at the grant date, and expensed on a straight-line basis over the vesting period (3 years) with corresponding increase in equity based on estimated number of shares that will eventually vest (True up model). The fair value for such equity instruments is measured using of Black-Scholes pricing model.

Details of the rights to share outstanding during the period are as follows:

	<b>Sep.30, 2012</b>	Dec.31, 2011
	<u>No. of shares</u>	<u>No. of shares</u>
Outstanding at the beginning of the period	<b>12,676,036</b>	10,550,825
Granted during the period	<b>7,208,355</b>	5,844,356
Forfeited during the period	-	(407,206)
Exercised during the period	<b>(3,771,242)</b>	(3,311,939)
<b>Outstanding at the end of the period</b>	<b><u>16,113,149</u></b>	<b><u>12,676,036</u></b>

Details of the outstanding tranches are as follows:

<b>Maturity date</b>	EGP	EGP	<b>No. of shares</b>
	<u>Exercise price</u>	<u>Fair value</u>	
2013	10	21.70	3,084,838
2014	10	21.25	5,844,356
2015	10	9.98	7,183,955
<b>Total</b>			<b><u>16,113,149</u></b>

The fair value of granted shares is calculated using Black-Scholes pricing model with the following:

	<u>6th tranche</u>	<u>5th tranche</u>
Exercise price	10	10
Current share price	18.7	31.15
Expected life (years)	3	3
Risk free rate %	16.15%	11.60%
Dividend yield%	5.35%	3.21%
Volatility%	38%	34%

Volatility is calculated based on the daily standard deviation of returns for the last three years.

**35 . Reserves and retained earnings**

	Sep.30, 2012	Dec.31, 2011
	EGP	EGP
Legal reserve	380,348,755	231,344,896
General reserve	2,037,107,372	1,234,274,960
Retained earnings (losses)	1,001,979	15,105,920
Special reserve	117,805,566	185,931,315
Reserve for A.F.S investments revaluation difference	258,242,460	(723,070,818)
Banking risks reserve	99,981,171	281,689,619
<b>Total</b>	<b>2,894,487,302</b>	<b>1,225,275,892</b>

**35.1 . Banking risks reserve**

	Sep.30, 2012	Dec.31, 2011
	EGP	EGP
Beginning balance	281,689,619	156,992,515
Transferred from profits	(181,708,448)	124,697,104
<b>Ending balance</b>	<b>99,981,171</b>	<b>281,689,619</b>

**35.2 . Legal reserve**

	Sep.30, 2012	Dec.31, 2011
	EGP	EGP
Beginning balance	231,344,896	125,128,337
Transfer from special reserve	61,697,292	-
Transferred from previous year profits	87,306,567	106,216,559
<b>Ending balance</b>	<b>380,348,755</b>	<b>231,344,896</b>

**35.3 . Reserve for A.F.S investments revaluation difference**

	Sep.30, 2012	Dec.31, 2011
	EGP	EGP
Beginning balance	(723,070,818)	(18,014,631)
Unrealized gains (losses) from A.F.S investment revaluation	981,313,278	(705,056,187)
<b>Ending balance</b>	<b>258,242,460</b>	<b>(723,070,818)</b>

**35.4 . Retained earnings (losses)**

	Sep.30, 2012	Dec.31, 2011
	EGP	EGP
Beginning balance	15,105,920	20,231,298
Dividend previous year	(15,105,920)	(20,231,298)
Transferred from special reserve	1,001,979	-
The effect of changing accounting policies	-	15,105,920
<b>Ending balance</b>	<b>1,001,979</b>	<b>15,105,920</b>

**36 . Cash and cash equivalent**

	Sep.30, 2012	Dec.31, 2011
	EGP	EGP
Cash and balances with Central Bank	3,414,510,382	7,492,064,510
Due from banks	8,753,946,065	8,449,298,705
Treasury bills and other governmental notes	9,097,411,619	9,213,390,067
Obligatory reserve balance with CBE	(3,067,529,100)	(3,014,779,811)
Due from banks (time deposits) more than three months	(5,418,197,859)	(5,237,471,784)
Treasury bills with maturity more than three months	(8,864,784,078)	(8,821,367,485)
<b>Total</b>	<b>3,915,357,029</b>	<b>8,081,134,202</b>

**37 . Contingent liabilities and commitments**
**37.1 . Legal claims**

There are a number of existing cases filed against the bank on September.30, 2012 without provision as it's not expected to make any from it.

**37.2 . Capital commitments**
**37.2.1 . Financial investments**

The capital commitments for the financial investments reached on the date of financial position EGP 55,350,422 as follows:

	<u>Investments value</u>	<u>Paid</u>	<u>Remaining</u>
	EGP	EGP	EGP
Available for sale financial investments	123,098,064	45,997,621	77,100,443

**37.2.2 . Fixed assets and branches constructions**

The value of commitments for the purchase of fixed assets contracts and branches constructions that have not been implemented till the date of financial statement amounted to EGP 14,774,091.

**37.3 . Letters of credit, guarantees and other commitments**

	Sep.30, 2012	Dec.31, 2011
	EGP	EGP
- Letters of guarantee	11,672,891,133	11,263,615,016
- Letters of credit (import and export)	1,392,293,147	753,154,858
- Customers acceptances	661,324,423	542,833,642
<b>Total</b>	<b>13,726,508,703</b>	<b>12,559,603,516</b>

**38 . Mutual funds**
**Osoul fund**

- The Bank established an accumulated return mutual fund under license no.331 issued from capital market authority on February 22, CI Assets Management Co.- Egyptian joint stock co - manages the fund.
- The number of certificates issued reached 34,869,498 with redeemed value EGP 6,580,920,357.
- The market value per certificate reached EGP 188.73 on September 30, 2012.
- The Bank portion got 840,634 certificates with redeemed value EGP 158,652,854.

**Isthmar fund**

- CIB bank established the second accumulated return mutual fund under license no.344 issued from capital market authority on February 26, 2006. CI Assets Management Co.- Egyptian joint stock co - manages the fund.
- The number of certificates issued reached 2,426,752 with redeemed value EGP 156,962,319.
- The market value per certificate reached EGP 64.68 on September 30, 2012.
- The Bank portion got 194,744 certificates with redeemed value EGP 12,596,042.

**Aman fund ( CIB and Faisal Islamic Bank Mutual Fund)**

- The Bank and Faisal Islamic Bank established an accumulated return mutual fund under license no.365 issued from capital market authority on July 30, 2006. CI Assets Management Co.- Egyptian joint stock co - manages the fund.
- The number of certificates issued reached 839,271 with redeemed value EGP 39,160,385 .
- The market value per certificate reached EGP 46.66 on September 30, 2012.
- The Bank portion got 71,943 certificates with redeemed value EGP 3,356,860.

**Hemaya fund**

- CIB bank established an accumulated return mutual fund under license no.585 issued from financial supervisory Authority on June 23, 2010. CI Assets Management Co.- Egyptian joint stock co - manages the fund.
- The number of certificates issued reached 427,820 with redeemed value EGP 49,712,684.
- The market value per certificate reached EGP 116.20 on September 30, 2012.
- The Bank portion got 50,000 certificates with redeemed value EGP 5,810,000.

**Thabat fund**

- CIB bank established an accumulated return mutual fund under license no.613 issued from financial supervisory authority on September 13, 2011. CI Assets Management Co.- Egyptian joint stock co - manages the fund.
- The number of certificates issued reached 977,841 with redeemed value EGP 109,567,084.
- The market value per certificate reached EGP 112.05 on September 30, 2012.
- The Bank portion got 52,404 certificates with redeemed value EGP 5,871,868.

**39 . Transactions with related parties**

All banking transactions with related parties are conducted in accordance with the normal banking practices and regulations applied to all other customers without any discrimination.

**39.1 . Loans, advances, deposits and contingent liabilities**

	EGP
Loans and advances	674,991,384
Deposits	243,161,433
Contingent liabilities	119,709,137

**39.2 Other transactions with related parties**

	<u>Income</u>	<u>Expenses</u>
	EGP	EGP
International Co. for Security & Services	1,017,928	49,738,269
Corplease Co.	49,988,534	39,044,587
Commercial International Life Insurance Co.	2,573,720	1,868,725
Commercial International Brokerage Co.	8,715,269	4,865,720
Dynamics Company	966,706	595,649
Egypt Factors	7,059,592	5,576,880
CI Assets Management	100,441	33,975
Commercial International Capital Holding Co.	1,096,486	110,346
Haykala for Investment	11,604	1,079
CI Capital Researches	6,275	705

**40 . Tax status**

The Bank's corporate income tax position has been examined and settled with the tax authority from the start up of operations up to the end of year 1984.

Corporate income tax for the years from 1985 up to 2000 were paid according to the tax appeal committee decision and the disputes are under discussion in the court of law.

The Bank's corporate income tax position has been examined and settled with the tax authority from Year 2001 up to Year 2004.

Corporate income tax for the years 2005-2006 has been examined from the tax authority and paid.

The Bank pays salary tax according to concerning domestic regulations and laws, and the disputes are under discussion in the court of law.

The Bank pay stamp duty tax according to concerning domestic regulations and laws, and the disputes are under discussion in the court of law .

**41 . Main currencies positions**

	<b>Sep.30, 2012</b>	Dec.31, 2011
	<u>In thousand EGP</u>	<u>In thousand EGP</u>
Egyptian pound	<b>(91,970)</b>	8,068
US dollar	<b>57,614</b>	24,134
Sterling pound	<b>2,014</b>	408
Japanese yen	<b>19</b>	(53)
Swiss franc	<b>76</b>	118
Euro	<b>18,235</b>	7,481