

EFG – Hermes Holding Company
(Egyptian Joint Stock Company)

Consolidated financial statements
for the year ended 31 December 2010
&
Auditor's Report

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Hazem Hassan

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Auditor's Report **To the Board of Directors of the EFG – Hermes Holding Company**

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of EFG – Hermes Holding Company and its subsidiaries which comprise the consolidated balance sheet as at 31 December 2010, and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

These financial statements are the responsibility of Company's management. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Egyptian Accounting Standards and in the light of the prevailing Egyptian laws, management responsibility includes, designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; management responsibility also includes selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Except as discussed in the basis of the opinion paragraph, we conducted our audit in accordance with the Egyptian Standards on Auditing and in the light of the prevailing Egyptian laws. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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



Hazem Hassan

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

Opinion

In our opinion, the consolidated financial statements referred to in the first paragraph above present fairly, in all material respects, the consolidated financial position of the group as of December 31, 2010 and its consolidated results of its operations and its consolidated cash flows for the year then ended in accordance with Egyptian Accounting Standards and comply with applicable Egyptian laws and regulations relating to the preparation of these financial statements.

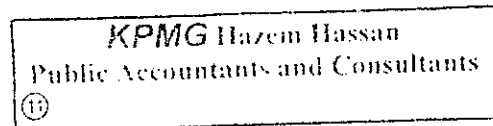
Explanatory paragraph

Without qualifying our opinion, we draw attention to note (35) to the consolidated financial statements which describe the fact that Arab Republic of Egypt recently faced events have a significant impact on the economic sectors in general, most likely to lead to a significant decline in economic activities during the coming periods, so it is likely that the events referred to have an impact on the group's assets and liabilities, as well as business results through future periods.

Currently, it is not possible to quantify this effect on the assets and liabilities of the company, where the impact depends on the expected time of the events referred and their effects.

KPMG Hazem Hassan

Cairo, March 24, 2011



EFG - Hermes Holding Company
(Egyptian Joint Stock Company)

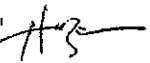
Consolidated balance sheet
as at 31 December 2010

	Note no.	31/12/2010 LE	31/12/2009 LE
Assets			
Cash and due from banks	(4)	10 119 135 577	1 611 733 824
Investments at fair value through profit and loss	(5)	1 085 289 153	975 145 174
Accounts receivables (net)	(6)	777 248 858	631 695 315
Loans and advances	(7)	9 795 643 946	38 959 565
Available -for- sale investments	(8)	2 815 356 135	778 037 826
Financial assets classified as loans and receivables	(9)	5 003 957 400	-
Held-to-maturity investments	(10)	12 164 240 400	-
Investments in associates	(11)	39 175 500	4 729 242 354
Investment property	(12)	163 125 763	178 167 117
Fixed assets (net)	(13)	1 011 791 305	491 898 795
Goodwill and other intangible assets	(14)	2 630 015 297	701 037 040
Other assets	(15)	1 083 586 793	804 772 990
Total assets		46 688 566 127	10 940 690 000
Liabilities			
Due to banks and financial institutions	(16)	590 818 300	91 334 000
Customers' deposits	(17)	33 189 838 116	-
Accounts payables - customers' credit balances		630 496 550	779 945 169
Bonds	(18)	444 993 900	-
Creditors and other credit balances	(19)	1 040 537 853	278 144 782
Current tax liability		357 426 274	54 076 283
Other provisions	(21)	292 262 353	190 851 153
Long term liabilities	(22)	287 378 531	604 250 968
Total liabilities		36 833 751 877	1 998 602 355
Shareholders' equity			
Share capital	(23)	1 913 570 000	1 913 570 000
Legal reserve		956 785 000	956 785 000
Share premium		3 294 067 512	3 294 067 512
Other reserves		441 749 680	577 373 286
Other equity	(22)	-	(607 200 000)
Retained earnings		2 180 900 410	2 049 605 610
Shareholders' equity		8 787 072 602	8 184 201 408
Net profit for the year		700 426 814	551 810 628
Interim dividends	(23)	(774 517 396)	-
Shareholders' equity including net profit for the year		8 712 982 020	8 736 012 036
Non - controlling interests		1 141 832 230	206 075 609
Total shareholders' equity		9 854 814 250	8 942 087 645
Total shareholders' equity and liabilities		46 688 566 127	10 940 690 000

The accompanying notes from page (5) to page (40) are an integral part of these financial statements and are to be read therewith.

Mona Zulficar
Chairperson

Yasser El Mallawany
Executive Managing Director

Auditor's Report "attached" 
Hassan Heikal
Executive Managing Director

EFG - Hermes Holding Company
(Egyptian Joint Stock Company)
Consolidated income statement
for the year ended 31 December, 2010

	Note no.	For the year ended 31/12/2010 LE	For the year ended 31/12/2009 LE
Fee and commission income	(25)	916 958 208	772 037 857
Fee and commission expense		(27 369 650)	-
Net fee and commission income		889 588 558	772 037 857
Securities gains	(11)	888 878 440	112 641 478
Share of profit of associate	(11)	831 600	436 004 934
Foreign currencies differences		189 223 931	1 211 576
Other income	(20)	44 556 806	17 260 483
Noninterest revenue		<u>2 013 079 335</u>	<u>1 339 156 328</u>
Interest and dividends income		1 318 358 451	130 618 379
Interest expense		(789 342 533)	(43 787 909)
Net interest income		<u>529 015 918</u>	<u>86 830 470</u>
Total net revenue		<u>2 542 095 253</u>	<u>1 425 986 798</u>
General administrative expenses		1 172 180 792	708 682 438
Changes in the investments at fair value through profit and loss		7 206 462	7 377 000
Net losses on loans and advances	(7)	20 362 650	-
Other provisions	(21)	32 543 494	53 518 421
Depreciation and amortization	(13),(14)	57 527 179	34 154 707
Changes in the fair value of investment property	(12)	46 104 606	-
Impairment loss on assets	(26)	55 764 135	4 592 315
Total noninterest expenses		<u>1 391 689 318</u>	<u>808 324 881</u>
Net profit before income tax		1 150 405 935	617 661 917
Income tax expense	(27)	(334 688 044)	(19 611 394)
Net profit for the year		<u>815 717 891</u>	<u>598 050 523</u>
Equity holders of the parent		700 426 814	551 810 628
Non - controlling interests		115 291 077	46 239 895
		<u>815 717 891</u>	<u>598 050 523</u>
Earnings per share	(29)	<u>1.72</u>	<u>1.37</u>

The accompanying notes from page (5) to page (40) are an integral part of these financial statements and are to be read

EFG - Hermes Holding Company

(Excluded from Stock Company)

Consolidated statement of changes in equity

for the year ended 31 December 2010

Note no.	Share capital	Legal reserve	Share premium	General reserve	Special reserve	Translation reserve	Fair value reserve	Other reserves		Company's share of items recognized in associate equity	Other reserve	Treasury shares	Net profit for the year	Interim dividends	Non-controlling interests	Total
								LE	LE							
	1 939 320 000	969 560 000	3 345 518 887	158 271	-	5 081 503	(784 971)	5 669 734	(51 314 320)	151 002 914	(607 200 000)	(239 381 358)	933 497 922	-	211 767 624	8 185 749 283
Foreign currencies translation differences	-	-	-	-	-	(1 975 275)	-	-	-	-	-	-	-	-	-	(1 975 275)
Effective portion of changes in fair value of cash flow hedges (net of tax)	-	-	-	-	-	-	(9 216 001)	-	-	-	-	-	-	-	-	(9 216 001)
Company's share of items recognized in associate equity	-	-	-	-	-	-	-	255 009 236	-	255 009 236	-	-	-	-	-	255 009 236
Net changes in the fair value of available-for-sale investments	-	-	-	-	-	-	-	-	(2 330 870)	-	-	(30 528 161)	-	-	-	(2 330 870)
Cumulative adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	151 698 160
Purchasing of treasury shares	-	-	4 768 788	-	-	-	-	-	-	-	-	175 064 356	-	-	-	(2 330 870)
Selling of treasury shares	(25 750 000)	(12 875 000)	(56 220 163)	-	-	-	-	-	-	-	-	94 845 163	-	-	-	(30 528 161)
Annoucing of treasury shares	-	-	-	214 875	74 100 000	-	-	-	-	-	-	-	(933 497 922)	-	-	(30 528 161)
008 dividend payout	-	-	-	-	-	-	-	-	-	-	528 852 563	-	-	-	-	179 833 144
Change in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net profit for the year ended 31 December, 2009	-	-	-	-	-	-	-	-	-	-	-	551 810 628	-	-	-	(330 330 484)
Balance as at 31 December, 2009	1 913 570 000	956 785 000	3 294 067 512	373 146	74 100 000	3 106 228	150 913 189	(3 546 267)	(53 645 190)	406 072 180	(607 200 000)	-	551 810 628	-	46 239 895	598 050 523
Transfer a part of the special reserve to retained earnings	-	-	-	(32 500 000)	-	-	-	-	-	-	-	-	-	-	-	-
Foreign currencies translation differences	-	-	-	-	-	77 728 486	-	-	-	-	-	-	-	-	-	77 728 486
Effective portion of changes in fair value of cash flow hedges (net of tax)	-	-	-	-	-	-	(22 896 120)	-	-	-	-	-	-	-	-	(22 896 120)
Company's share of items recognized in associate equity	-	-	-	-	-	-	-	-	(406 072 180)	(406 072 180)	-	-	-	-	-	(406 072 180)
Net changes in the fair value of available-for-sale investments	-	-	-	-	-	-	197 160 914	-	-	-	-	-	-	-	-	197 160 914
Net income	-	-	-	-	-	-	-	-	-	16 416 281	-	-	-	-	-	16 416 281
Net equity	-	-	-	-	-	-	-	-	-	-	607 200 000	-	-	-	-	607 200 000
Shareholder payments	-	-	-	-	-	-	-	-	34 539 013	-	-	-	-	-	-	34 539 013
Change in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(551 810 628)	-	-	-	(551 810 628)
Net profit for the year ended 31 December, 2010	-	-	-	-	-	-	-	-	-	-	98 794 800	-	-	-	820 465 544	919 260 344
Balance as at 31 December, 2010	1 913 570 000	956 785 000	3 294 067 512	373 146	41 600 000	80 834 714	348 074 103	(36 442 387)	(19 106 177)	16 416 281	-	2 189 900 410	700 426 814	1 141 832 230	9 854 814 250	

(23)

conform to the general ordinary assembly meeting of the holding company held on 14 June, 2010.

accompanying notes from page (5) to page (40) are an integral part of these financial statements and are to be read therewith.

EFG - Hermes Holding Company
(Egyptian Joint Stock Company)
Consolidated cash flows statement
for the year ended 31 December, 2010

	For the year ended 31/12/2010 LE	For the year ended 31/12/2009 LE
Cash flows from operating activities		
Net profit before income tax	1 150 405 935	617 661 917
Adjustments to reconcile net profit to net cash provided by operating activities		
Depreciation and amortization	57 750 479	34 154 707
Provisions formed	64 789 694	53 518 421
Provisions used	(27 802 799)	(28 616 192)
Provisions no longer needed	(2 548 603)	(1 583 288)
Losses (gains) on sale of fixed assets	253 790	(472 881)
Gains on sale of available -for- sale investments	(6 076 040)	(15 210 680)
Gains on sale of investments in associates	(801 164 804)	-
Gains on sale of unquoted assets ready for sale	(16 420 250)	-
Gains on selling Investment in Real Property held for sale	(13 975 500)	-
Changes in the fair value of investments at fair value through profit and loss	7 179 462	7 377 000
Changes in the fair value of investment property	46 104 606	-
Impairment loss on assets	55 762 598	4 592 315
Foreign currency translation differences	130 750 994	(13 304 710)
Share of profit of associates	-	(436 004 934)
Operating profit before changes in working capital	645 009 562	222 111 675
Decrease in other assets	191 888 085	247 377 522
Increase (decrease) in creditors and other credit balances	149 678 642	(191 767 852)
Change in loans and advances	(1 167 468 300)	-
Change in customers' deposits	3 550 177 416	-
Increase in accounts receivables	(58 164 099)	(10 599 359)
Increase in accounts payables	(149 001 351)	(173 264 367)
Increase in investments at fair value through profit and loss	(175 093 767)	(366 509 992)
Change in financial assets (over 3 months)	667 188 600	-
Income tax paid	(32 476 064)	(135 686 180)
Net cash provided from (used in) operating activities	<u>3 621 738 724</u>	<u>(408 338 553)</u>
Cash flows from investing activities		
Payments to purchase fixed assets	(33 452 131)	(40 604 616)
Proceeds from sale of fixed assets	647 566	578 242
Payments for projects under construction	(66 422 470)	(104 630 153)
Proceeds from redemption treasury bills	-	520 037 696
Proceeds from sale of available -for- sale investments	1 247 401 701	110 711 638
Payments to purchase available -for- sale investments	(614 691 223)	(261 291 956)
Proceeds from sale of investments in subsidiaries and associates	3 860 512 223	-
Payments to purchase investments in subsidiaries and associates	(3 309 229 642)	(15 608 414)
Payments to purchase Real Property held for sale	(31 063 252)	-
Proceeds from sale Real Property held for sale	13 975 500	-
Increase in long term lending	(12 085 881)	(38 959 565)
Purchase of financial instruments held to maturity	(1 295 700 900)	-
Purchase of financial instruments classified as loans and receivables	(243 937 200)	-
Proceeds from sale of non -current assets held for sale	8 229 000	-
Net cash (used in) provided from investing activities	<u>(475 816 709)</u>	<u>170 232 872</u>
Cash flows from financing activities		
Purchasing of treasury shares	-	(30 528 161)
Proceeds from sale of treasury shares	-	179 833 144
Proceeds from bonds	444 993 900	-
Changes in retained earnings	(33 016 306)	115 947 433
Increase (decrease) in bank overdraft	36 279 835	(298 486)
Paid dividends	(1 211 593 360)	(259 541 628)
Payments to long term loans	(112 328 065)	(37 514 000)
Change in non-controlling interests	920 400	-
Changes in reserves	(28 620 150)	(11 520 000)
Net cash used in financing activities	<u>(903 363 746)</u>	<u>(43 621 698)</u>
Net change in cash and cash equivalents during the year	2 242 558 269	(281 727 379)
Cash from acquisition of subsidiaries	4 537 383 060	2 947 718
Cash and cash equivalents at the beginning of the year	1 611 733 824	1 890 513 485
Cash and cash equivalents at the end of the year (note no. 28)	<u>8 391 675 153</u>	<u>1 611 733 824</u>

Non cash transactions:

For the purpose of preparing the cash flows statement:

An amount of LE 283 328 271 has been transferred from projects under construction to payments to purchase fixed assets. This amount was excluded from both items.

The accompanying notes from page (5) to page (40) are an integral part of these financial statements and are to be read therewith.

EFG- Hermes Holding Company
(Egyptian Joint Stock Company)
Notes to the consolidated financial statements
for the year ended 31 December 2010

1- Description of business

1-1 Legal status

- EFG - Hermes Holding Company -Egyptian Joint Stock Company- was founded in pursuance of decree No. 106 of 1984.
- The company's extraordinary general meeting held on July 22, 1997 resolved to adjust the company's status and convert it in pursuance to the provisions of law No. 95/1992 and its executive regulation.
- EFG – Hermes is the leading investment bank in the Arab world and market leader in securities brokerage, investment banking, asset management, private equity and research.

1-2 Purpose of the company

- The company's purpose is participation in the companies establishment which issue securities or in increasing their share capitals.
- The company's extraordinary meeting held on March 14, 2004 decided to add the Custody Activity to the purpose of the company.
- The company obtained the approval of Capital Market Authority on February 5, 2007 to execute the Marginal Trading Activity.
- EFG-Hermes Group has been converted from an investment bank to a universal bank as a result of the acquisition of Credit Libanais SAL (the Bank) group.

1-3 Acquisition of the Credit Libanais SAL (the Bank)

- On August 17, 2010 EFG-Hermes Holding Company agreed with the major shareholder of Credit Libanais SAL (the Bank) to purchase 14 228 000 shares a controlling stack in Credit Libanais SAL (the Bank) for an amount of USD 542 million and a Call Option for an additional 25 % of the Bank's shares. The call option will be exercisable over the next two years, at the terms including pricing same as those applicable to the initial acquisition.
- The company has obtained the approval of the Central Bank Of Lebanon for the acquisition transaction and the transfer of title has been completed on November 8, 2010.
- On December 30, 2010 the company has obtained the approval of the Central Bank of Lebanon on the purchase of another 686 918 of Credit Libanais S.A.L (the Bank) Shares .
- Credit Libanais SAL (the Bank) has several subsidiaries, so the consolidated financial statements of the company for the year ended December 31, 2010 include the accounts of Credit Libanais SAL and its subsidiaries and affiliates from the acquisition date as detailed below:

Company	% of control
Credit Libanais Investment Bank SAL	99.84
Lebanese Islamic Bank SAL	99.82
Credit International SA	87.47
Cedar's Real Estate SAL	99.92
Soft Management SAL	46.99
Hermes Tourism & Travel SAL	99.99
Liberty Restaurant SARL (under liquidation)	99.20
Crédit Libanais d'Assurances et de Réassurances SAL	66.97
Business Development Center SARL	98.6
Capital Real Estate SAL	98.00
Liberty Tower SAL	99.89
Credilease SAL	99.24
Collect SAL	44.93

- All subsidiaries were incorporated in Lebanon except for Credit International SA, which was incorporated in Senegal.

2- Basis of preparation

2-1 Statement of compliance

These consolidated financial statements have been prepared in accordance with the Egyptian Accounting Standards and relevant Egyptian laws and regulations.

2-2 Basis of measurement

- The consolidated financial statements are prepared on the historical cost basis, except for the following assets and liabilities which are measured as fair value:
 - Derivative financial instruments.
 - Financial instruments at fair value through profit and loss.
 - Available-for-sale financial assets.
- The determination of fair values of financial instruments traded in active markets is based on quoted market prices. For financial instruments where there is no quoted price, fair value is determined by using valuation techniques. Valuation techniques include net present value technique, the discounted cash flow method and comparison to similar instruments for which market observable prices exist.

2-3 Functional and presentation currency

These consolidated financial statements are presented in Egyptian pounds (LE) which is the Company's functional currency.

2-4 Use of estimates and judgments

The preparation of financial statements in conformity with Egyptian Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in the following notes:

- Note (21) – other provisions.
- Note (24) – contingent liabilities, valuation of financial instruments.
- Note (15-3) – recognition of deferred tax assets and liabilities.

2-5 Financial assets and liabilities

Recognition and derecognition:

The Group initially recognizes loans and advances, deposits, debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities are initially recognized on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which all the risks and rewards of ownership of the financial asset are transferred.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

Offsetting

Financial assets and liabilities are set-off and the net amount is presented in the financial position when, and only when, the Group has a legal right to set-off the amounts or intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

3- Significant accounting policies applied

The accounting policies set out below have been applied consistently with those applied in the previous period presented in these consolidated financial statements and applied consistently by Group's entities.

3-1 Basis of consolidation

The consolidated financial statements include the following companies:

3-1-1 Subsidiaries

- The consolidated financial statements include all subsidiaries that are controlled by the parent company and which the management intends to continue to control. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.
- Intragroup balances and transactions, including income, expenses and dividends, are eliminated in full. Profits and losses resulting from intragroup transactions that are recognized in assets, such as inventory and fixed assets, are eliminated in full. Intragroup losses may indicate an impairment that requires recognition in the consolidated financial statements. EAS 24 Income Taxes applies to temporary differences that arise from the elimination of profits and losses resulting from intragroup transactions.
- Non - controlling interests shall be presented in the consolidated balance sheet within equity, separately from the parent shareholder's equity. Non - controlling interests in the profit or loss of the group shall also be separately disclosed.
- A parent loses control when it loses the power to govern the financial and operating policies of an investee so as to obtain benefit from its activities.

3-1-2 Associates

Investments in associates are stated at equity method. Under the equity method the investment in associates is initially recognize at cost and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the associates after the date of acquisition. Distributions received from associates reduce the carrying amount of the investment.

Losses of an associate in excess of the Company's interest in that associate (which includes any long-term interests that, in substance, form part of the Company's net investment in the associate) are not recognized, unless the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of the acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

3-2 Translation of the foreign currencies transactions

The holding company and some of its subsidiaries maintain their books of accounts in Egyptian Pound. Transactions denominated in foreign currencies are recorded at the prevailing exchange rate at the date of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the prevailing exchange rates at that date. The foreign currencies exchange differences arising on the settlement of transactions and the translation at the balance sheet date are recognized in the income statement.

3-3 Translation of the foreign subsidiaries' financials

As at the balance sheet date the assets and liabilities of these consolidated subsidiaries are translated to Egyptian Pound at the prevailing rate as at the year end, and the shareholders' equity accounts are translated at historical rates, where as the income statement items are translated at the average exchange rate prevailing during the year of the consolidated financial statements. Currency translation differences are recorded in the shareholders' equity section of the balance sheet as translation reserves adjustments.

3-4 Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financial and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments. Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognized directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognized in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognized in equity is transferred to the carrying amount of the

asset when it is recognized. In other cases the amount recognized in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Fair value hedges

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The hedged item also is stated at fair value in respect of the risk being hedged, with any gain or loss being recognized in profit or loss.

3-5 Fixed assets depreciation

Fixed assets are stated at historical cost and presented in the balance sheet net of accumulated depreciation and impairment (Note 3-10). Depreciation is charged to the income statement over the estimated useful-life of each asset using the straight-line method. The following are the estimated useful lives, for each class of assets, for depreciation calculation purposes:

	Estimated useful life
- Buildings	33.3 - 40 years
- Office furniture, equipment & electrical appliances	2-16.67 years
- Computer equipment	3.33 - 5 years
- Transportation means	3.33 - 8 years

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the property and equipment. All other expenditure is recognized in the income statement as an expense as incurred.

3-6 Projects under construction

Projects under construction are recognized initially at cost. Cost includes all expenditures directly attributable to bringing the asset to a working condition for its intended use. Property and equipment under construction are transferred to property and equipment caption when they are completed and are ready for their intended use.

3-7 Intangible assets

3-7-1 Goodwill

Goodwill (positive and negative) represents amounts arising on acquisition of subsidiaries, associates. Goodwill (positive and negative) represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired at acquisition date.

- Positive goodwill is stated at cost less impairment losses (note 3-10).
- While negative goodwill arose from business combinations after applying International Financial Reporting Standards (IFRS3) will be recognized directly in the income statement.
- Goodwill resulting from further acquisitions after control is obtained is determined on the basis of the cost of the additional investment and the carrying amount of net assets at the date of acquisition, accordingly, no fair value adjustments would be recognized.

3-7-2 Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortization and impairment losses (note 3-10). Amortization is recognized in the income statement on a straight – line basis over the estimated useful lives of intangible assets.

The following are the estimated useful lives, for each class of assets, for amortization calculation purposes:

	Estimated useful life	
- Research and development expenses	3	years
- Key money	10	years
- License and franchise	5	years
- Software	3	years

3-7-3 Subsequent expenditure

Subsequent expenditure on capitalized intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

3-8 Treasury bills

Treasury bills are recorded at nominal value and the unearned income is recorded under the item of "creditors and other credit balances". Treasury bills are presented on the balance sheet net of the unearned income.

3-9 Investments

3-9-1 Investments at fair value through profit and loss

An instrument is classified as at fair value through income statement if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through income statement if the Company manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognized in income statement when incurred. Financial instruments at fair value through income statement are measured at fair value, and changes therein are recognized in income statement.

3-9-2 Available-for-sale financial investments

Available-for-sale financial investments are valued at fair value, with any resultant gain or loss being recognized in equity, except for impairment losses which is recognized in the income statement. When these investments are derecognized, the cumulative gain or loss previously recognized directly in equity is recognized in the income statement. The fair value of investments available for sale, identifies based on quoted price of the exchange market at the balance sheet date, investments that are not quoted, and whose fair value can not be measured reliably, are stated at cost less impairment loss.

3-9-3 Held-to-maturity investments

Held-to-maturity investments are bought with the ability and intention to hold until maturity. They are stated in the statement of financial position at their amortized cost, after taking into account any discount or premium on acquisition, less provision for impairment value. Differences between amortized cost and redemption price are prorated over the period of the securities.

3-9-4 Financial assets classified as loans and receivables

These are securities which are bought directly from the issuer with the ability and intention to hold for more than one year. They are stated in the statement of financial position at their amortized cost, less provision for impairment value. Differences between amortized cost and redemption price are prorated over the period of the securities.

3-9-5 Investment property

Investment property is recorded at fair value, any gain or loss arising from a change in the fair value of investment property shall be recognized in profit or loss for the period in which it arises.

3-10 Impairment

3-10-1 Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognized previously in equity is transferred profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and available-for-sale financial assets that are debt securities, the reversal is recognized in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in equity.

3-10-2 Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in profit or loss.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3-11 Cash and cash equivalents

For the purpose of preparing the cash flow statement, cash and cash equivalent are represented in the cash on hand, cheques under collection and due from banks and financial institutions maturing within one year from the date of the financial statements.

3-12 Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, Interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

3-13 Other assets

Other assets are recognized at cost less impairment losses (note 3-10).

3-14 Provisions

Provisions are recognized when the group has a legal or constructive obligation as a result of a past event and it's probable that a flow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Provisions are reviewed at the balance sheet date and amended (when necessary) to represent the best current estimate.

3-15 Legal reserve

The Company's Statutes provides for deduction of a sum equal to 5% of the annual net profit for formation of the legal reserve. Such deduction will be ceased when the total reserve reaches an amount equal to half of the company's issued capital and when the reserve falls below this limit, it shall be necessary to resume the deduction.

3-16 Share capital

3-16-1 Repurchase of share capital

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a change in equity.

Repurchased shares are classified as treasury stock and presented as a deduction from total equity.

3-16-2 Dividends

Dividends are recognized as a liability in the year in which they are declared.

3-17 Revenue recognition

3-17-1 Gain (loss) on sale of investments

Gain (loss) resulting from sale of investments are recognized on transaction date and measured by the difference between cost and selling price less selling commission and expenses. In case of derecognizing of investments in associate, the difference between the carrying amount and the sum of both the consideration received and cumulative gain or loss that had been recognized in shareholders' equity shall be recognized in profit or loss.

3-17-2 Dividend income

Dividend income is recognized when declared.

3-17-3 Custody fee

Custody fees are recognized when the service is provided and the invoice is issued.

3-17-4 Interest income and expenses

Interest income and expenses are recognized in the income statement under "Interest income" item or "Interest expenses" by using the effective interest rate of all instruments bearing interest other than those classified held for trading or which have been classified when at inception fair value through profits and losses.

3-17-5 Fee and commission income

Fee related to servicing the loan or facility are recognized within the income when performing the service while the fees and commissions related to non-performing or impaired loans are not recognized, instead, they are to be recorded in marginal records off the balance sheet. Then they are recognized within the income pursuant to the cash basis when the interest income is recognized. As for fees which represent an integral part of the actual return on the financial assets, they are treated as an amendment to the rate of actual return.

3-17-6 Brokerage commission

Brokerage commission resulting from purchase of and sale of securities operations in favor of clients are recorded when operation is implemented and the invoice is issued.

3-17-7 Management fee

Management fee is calculated as determined by the management contract of each investment fund & portfolio and recorded on accrual basis.

3-17-8 Incentive fee

Incentive fee is calculated based on certain percentages of the annual return realized by the fund and portfolio, however these incentive fee will not be recognized until revenue realization conditions are satisfied and there is adequate assurance of collection.

3-18 Long term lending

Long term lending is recognized at cost net of any impairment loss. The group evaluates the loans at the balance sheet date, and in case of impairment in the redeemable value of the loan the loan is reduced by the value of impairment loss which is recognized in income statement.

3-19 Expenses

3-19-1 Employees' pension

The Company contributes to the government social insurance system for the benefit of its personnel in accordance with the social insurance law. Under this law, the employees and the employers contribute into the system on a fixed percentage-of-salaries basis. The Company's liability is confined to the amount of its contribution. Contributions are charged to income statement using the accrual basis of accounting.

3-19-2 Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Taxation is provided for in accordance with the fiscal regulations of the respective countries in which the Company and its subsidiaries operate.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3-20 Earnings per share

The company presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

3-21 Profit sharing to employees

The holding company pays 10% of its cash dividends as profit sharing to its employees provided that it will not exceed total employees annual salaries. Profit sharing is recognized as a dividend distribution through equity and as a liability when approved by the Company's shareholders.

3-22 Loans and advances to customers and related provision

Loans and advances to customers are stated at principal together with interest earned at the statement of financial position date, and after deduction of unrealized interest and provisions on sub-standard, doubtful and bad debts. These provisions are reviewed periodically by the management of the Bank, using criteria that are consistent with those of the preceding year. Specific provision for credit losses is determined by assessing each case individually.

Provisions for doubtful and bad debts are set up to cover any possible losses in principal and interest in the existing portfolio of loans and advances to customers and contingent accounts.

The level of provision to be constituted is based on the difference between the book value and the present value of the expected future cash flows after taking into consideration the realizable value of the guarantees provided. This provision charge is accounted in the statement of income. No general provisions are requested on the loan portfolio apart from the "Reserve for general banking risks".

Provisions on doubtful accounts are written back to income only when the debt is restructured or repayment effectively resumed. Provision charges and provisions written back are recorded under "Net losses on loans and advances", in the statement of income.

Doubtful and bad loans and advances are written-off from the statement of financial position and are recorded as memorandum accounts when all possible means of collection recourses have been exhausted, and the possibility if any future recovery is considered to be remote.

3-23 Unrealized interest on sub-standard, doubtful and bad debts

Interest on non performing loans and advances are only recognized in the statement of income upon realization. Interest receivable from sub-standard, doubtful and bad loans is reserved and deducted directly from the loan accounts at the year-end.

Interests are transferred to the "unrealized interest" account for every loan considered by the management as doubtful in the short run and transferred to the "non ordinary loans" account in accordance with the Lebanon Central Bank Circular N° 58.

3-24 Assets acquired in satisfaction of loans (unquoted assets ready for sale)

Real estate property acquired through the enforcement of security over loans and advances to customers is measured at cost less any accumulated impairment losses. The acquisition of such assets is regulated by the Lebanon Banking Authorities which require the liquidation of these assets within 2 years from acquisition. In case of default of liquidation the Group's lead regulator requires an appropriation from the yearly net income to a special reserve that is reflected under equity. This reserve

can neither be distributed nor considered as an equity component while calculating the ratios set according to applicable laws, regulations and decisions.

3-25 Due from banks and other financial institutions

These are stated at cost less any amounts written off and provision for impairment where necessary.

3-26 Customers' deposits

All money market and customer deposits are carried at cost including interest, less amounts repaid.

3-27 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the group and accordingly did not recorded in the statement of financial position.

3-28 Reserves for general banking risks

In compliance with the Lebanon Central Bank regulations and effective year 1996, Lebanese banks should appropriate from net profit for the year a minimum of 0.2% and a maximum of 0.3% from the total risk weighted assets and off balance sheet items based on rates specified by the Central Bank of Lebanon for any unspecified risks. The consolidated ratio should not be less than 1.25% of these risks at the end of the tenth financial year and 2% at the end of the twentieth financial year.

This reserve is not available for distribution, and is constituted in Lebanese weighted assets and off balance sheet items.

3-29 Allowances for credit losses

Specific impairment for credit losses is determined by assessing each case individually. This method applies to classified loans and advances and the factors taken into consideration when estimating the allowance for credit losses including the counterparty's credit limit, the counterparty's ability to generate cash flows sufficient to settle his advances and the value of collateral and potential repossession.

3-30 Segment reporting

A segment is a distinguishable component of the group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subjected to risks and rewards that are different from those of other segments. The group's primary format for segment reporting is based on business segment.

EFG - Hermes Holding Company
Notes to the consolidated financial statements
for the year ended 31/12/2010 (Cont'd)

4- Cash and due from banks

	31/12/2010	31/12/2009
	LE	LE
Cash on hand	168 591 103	1 147 416
Central Bank of Lebanon *		
- Demand deposits	739 354 200	--
- Time deposits	2 990 430 300	--
Other Central Banks		
- Demand deposits	47 486 400	--
Cheques under collection	825 391	526 795
Banks - current accounts (net)	869 429 911	956 645 345
Banks - demand deposits	520 570 845	5 608 683
Banks - time deposits	4 777 490 527	647 805 585
Accrued interest	4 956 900	--
Balance	<u>10 119 135 577</u>	<u>1 611 733 824</u>
	=====	=====

* Current accounts with Central Bank of Lebanon include non-interest earning cash compulsory reserves in Lebanese Pounds computed on the basis of 25% and 15% of the average weekly sight and term customers' deposits in Lebanese Pounds in accordance with Lebanon banking regulations.

5- Investments at fair value through profit and loss

Trading investment :

	31/12/2010	31/12/2009
	LE	LE
Mutual Fund certificates	910 004 395	757 112 691
Equity securities	63 252 281	171 715 218
Debt securities	112 032 477	46 317 265
Balance	<u>1 085 289 153</u>	<u>975 145 174</u>
	=====	=====

6- Accounts receivables

	31/12/2010	31/12/2009
	LE	LE
Accounts receivables (net)	776 868 466	709 416 855
Other brokerage companies (net)	380 392	(77 721 540)
Balance	<u>777 248 858</u>	<u>631 695 315</u>
	=====	=====

7- **Loans and advances**

		31/12/2010	31/12/2009
		LE	LE
Loans and advances to customers	(7-1)	9 639 212 700	--
Loans and advances to related parties	(7-2)	105 385 800	--
Other loans		51 045 446	38 959 565
Balance		<u>9 795 643 946</u>	<u>38 959 565</u>
		=====	=====

7-1 **Loans and advances to customers**

	31/12/2010			
	Gross Amount LE	Unrealized Interest LE	Impairment allowance LE	Carrying Amount LE
Regular retail customers				
Cash collateral	406 699 800	--	--	406 699 800
Mortgage loans	3 999 017 100	--	--	3 999 017 100
Personal loans	1 792 763 700	--	--	1 792 763 700
Credit cards	211 894 800	--	--	211 894 800
Other	56 803 500	--	--	56 803 500
Regular corporate customers				
Corporate	2 853 899 100	--	--	2 853 899 100
Classified retail customers				
Watch	57 996 900	--	--	57 996 900
Substandard	82 761 900	(30 084 600)	--	52 677 300
Doubtful	150 945 600	(71 093 100)	(70 270 200)	9 582 300
Bad	27 498 900	(17 979 000)	(9 519 900)	--
Classified corporate customers				
Watch	138 734 700	--	--	138 734 700
Substandard	38 500 800	(11 001 900)	--	27 498 900
Doubtful	264 681 300	(90 979 200)	(157 540 500)	16 161 600
Bad	38 399 400	(23 080 200)	(15 319 200)	--
Accrued interest receivable	15 483 000	--	--	15 483 000
Balance	<u>10 136 080 500</u>	<u>(244 218 000)</u>	<u>(252 649 800)</u>	<u>9 639 212 700</u>
	=====	=====	=====	=====

7-2 Loans and advances to related parties

	31/12/2010	31/12/2009
	LE	LE
Regular Retail loans	5 226 000	--
Regular Corporate loans	100 159 800	--
Balance	<u>105 385 800</u>	<u>--</u>
	=====	=====

8- Available - for- sale investments

	31/12/2010	31/12/2009
	LE	LE
Lebanese Treasury bills	885 128 400	--
Corporate debt securities	18 298 800	--
Preferred shares	171 795 000	--
Equity securities	1 717 389 135	778 037 826
Accrued interest receivable	22 744 800	--
Balance	<u>2 815 356 135</u>	<u>778 037 826</u>
	=====	=====

9- Financial assets classified as loans and receivables

	31/12/2010	31/12/2009
	LE	LE
Certificates of deposit issued by Central Bank of Lebanon	4 897 257 300	--
Accrued interest receivable	106 700 100	--
Balance	<u>5 003 957 400</u>	<u>--</u>
	=====	=====

10- Held-to-maturity investments

	31/12/2010	31/12/2009
	LE	LE
Lebanese government treasury bills and Eurobonds	11 782 145 700	--
Certificates of deposit issued by local banks	91 689 000	--
Other debt instruments	87 445 800	--
Accrued interest receivable	202 959 900	--
Balance	<u>12 164 240 400</u>	<u>--</u>
	=====	=====

11- Investments in associates

	Ownership	31/12/2010	31/12/2009
	%	LE	LE
Bank Audi Sal – Lebanon *	-	--	4 729 242 354
Agence Générale de Courtage d'Assurance SAL	25.86	23 782 200	--
Credit Card Management SAL	28.96	8 357 700	--
International Payment Network SAL	18.68	5 643 300	--
Net Commerce SAL	19.10	916 500	--
Hermes Rent a Car SAL	27.47	425 100	--
Liberty Executive Center SAL	6.27	50 700	--
Balance		<u>39 175 500</u>	<u>4 729 242 354</u>
		=====	=====

* On January 21,2010 the company and its subsidiaries sold the entire investment in Audi Bank – Lebanon (an associate – 29.16%) which was represented in 10 037 182 shares with share price of US \$ 91 each, the consolidated selling gain amounted to LE 739 403 104 after eliminating the effects of the equity method applied in the accounting for the investment.

12- Investment property

Investment property amounted LE 163 125 763 as at 31 December, 2010 , include the following;

- LE 132 062 511 represents the fair value of the area owned by EFG – Hermes Holding Company in Nile City Building (an amount of LE 46 104 606 represent the changes in its fair value has been charged to the income statement during the current year)
- LE 31 063 252 represents the fair value of the area owned by EFG – Hermes UAE Limited in the Index Tower.

13- Fixed assets

Particular	Land & Buildings LE	Leasehold Improvements LE	Office furniture, equipment & electrical Appliances LE	Computer Equipment LE	Vehicles LE	Projects Under Construction* LE	Total LE
Balance as at 1/1/2010	112 701 228	16 686 347	92 525 365	55 827 576	12 178 091	311 851 122	601 769 729
Additions through acquisition of subsidiaries	405 923 600	123 888 977	153 670 949	525 223	6 093 668	10 298 000	700 400 417
Additions	420 561 537	22 988 558	38 244 122	22 890 196	2 718 373	83 342 017	590 744 803
Disposals	(118 966 600)	(2 253 547)	(13 526 510)	(270 698)	(2 045 162)	(364 799 773)	(501 862 290)
Foreign currency translation difference	11 804 872	3 662 199	8 250 235	1 401 435	272 165	18 900	25 409 806
Total cost as at 31/12/2010	832 024 637	164 972 534	279 164 161	80 373 732	19 217 135	40 710 266	1 416 462 465
Accumulated depreciation as at 1/1/2010	10 571 456	4 548 728	49 122 831	37 130 532	8 497 387	--	109 870 934
Accumulated depreciation through acquisition of subsidiaries	54 017 000	102 467 704	88 666 885	467 232	3 264 500	--	248 883 321
Depreciation	8 654 591	9 784 378	25 841 320	11 502 344	1 899 523	--	57 682 156
Disposals' accumulated depreciation	(11 673 600)	(1 461 801)	(6 720 676)	(259 428)	(1 847 562)	--	(21 963 067)
Foreign currency translation difference	1 499 629	2 844 826	4 709 486	996 829	147 046	--	10 197 816
Accumulated depreciation as at 31/12/2010	63 069 076	118 183 835	161 619 846	49 837 509	11 960 894	--	404 671 160
Carrying amount as at 31/12/2010	768 955 561	46 788 699	117 544 315	30 536 223	7 256 241	40 710 266	1 011 791 305
Carrying amount as at 31/12/2009	102 129 772	12 137 619	43 402 534	18 697 044	3 680 704	311 851 122	491 898 795

* Projects under construction are represented in the following :

	31/12/2010 LE	31/12/2009 LE
Preparation of new headquarters of the group in Smart Village - Egypt *	1 856 584	219 371 737
Preparation of alternate headquarters in emergency - Egypt	--	7 934 846
Office spaces in Egypt	16 038 147	17 650 000
New headquarters - United Arab Emirates	--	61 811 787
Preparation of alternate headquarters in emergency - United Arab Emirates	6 756 590	5 082 752
New headquarters – Syrian Arab Republic	778 745	--
Others	15 280 200	--
Balance	<u>40 710 266</u>	<u>311 851 122</u>

* An amount of LE 283 328 271 has been transferred from projects under construction to fixed assets due to relocating the headquarters of the company and its subsidiaries to the new headquarters in Smart Village during May 2010, also the the preparation of alternate headquarters in emergency – Egypt has been completed.

14- Goodwill and other intangible assets

		31/12/2010 LE	31/12/2009 LE
Goodwill	(14-1)	2 607 144 507	698 899 943
Other intangible assets	(14-2)	22 870 790	2 137 097
Balance		<u>2 630 015 297</u>	<u>701 037 040</u>

14-1 Goodwill is relating to the acquisition of the following subsidiaries:

		31/12/2010 LE	31/12/2009 LE
Flemming CIIC group (S.A.E) – Egypt		63 483 756	63 483 756
Vision Securities Co. (LLC) – Oman		66 039 857	66 039 857
EFG- Hermes IFA Financial Brokerage Company (KSC) - Kuwait		567 776 330	567 776 330
IDEAVELOPERS – Egypt		1 600 000	1 600 000
EFG- Hermes Jordan		8 639 218	--
Credit Libanais SAL *		1 899 605 346	--
Balance		<u>2 607 144 507</u>	<u>698 899 943</u>

* The financial statements of Credit Libanias SAL group have been consolidated based on the book value of the acquired assets and liabilities, and accordance with the Egyptian Accounting Standards, the Company enjoys 12 months (ending August 2011) to determine the fair value of an acquiree's Credit Libanais SAL (the Bank) identifiable assets and liabilities. The Company is in the process of determining this fair value exercise and adjust accordingly.

14-2 Other intangible assets are represented in the following :

	31/12/2010	31/12/2009
	LE	LE
Key Money	191 100	--
Licenses & Franchise	4 398 830	2 101 650
Research & Development	18 162 300	--
Software	118 560	35 447
	<hr/>	<hr/>
Balance	22 870 790	2 137 097
	=====	=====

15- Other assets

		31/12/2010	31/12/2009
		LE	LE
Deposits with others	(15-1)	52 181 539	30 244 626
Downpayments to suppliers		2 320 838	13 363 669
Prepaid expenses		48 955 566	21 987 187
Employees' advances		20 212 443	20 532 306
Accrued revenues		20 295 785	41 058 212
Taxes withheld by others		74 172 009	62 613 068
Unrealized swap losses (gains)		46 126	(1 871 508)
Payments for investments	(15-2)	22 464 700	32 518 600
Receivables - sale of investments		72 974 948	68 062 677
Infra Egypt fund		2 856 785	--
Perching Brokerage		2 415 752	5 366 842
Settlement Guarantee Fund		24 377 487	24 109 233
Unquoted assets - Ready for sale acquired in satisfaction of loans		166 502 700	--
Due from EFG- Hermes Employee Trust		408 962 440	412 195 612
Due from Ara inc. company		6 961 205	11 117 294
Due from related parties		8 899 800	--
Re-insurance accrued commission		12 944 100	--
Deferred tax assets	(15-3)	8 284 836	3 587 988
Sundry debtors		128 254 938	64 900 683
		<hr/>	<hr/>
Accumulated impairment		1 084 083 997	809 786 489
		(497 204)	(5 013 499)
		<hr/>	<hr/>
Net		1 083 586 793	804 772 990
		=====	=====

15-1 The balance of deposits with others includes an amount of LE 20 804 500 in the name of the subsidiaries, Financial Brokerage Group Company and Hermes Securities Brokerage Company which represents the blocked deposits for Same Day Trading Operations Settlement takes place in the Egyptian Stock Exchange. Both companies are not entitled to use the amounts without prior approval from Misr Clearance Company , in addition to an amount of LE 23 458 500 (equivalent to LBP 6 015 million) represents share capital blocked with the Ministry of Finance of Lebanon.

15-2 Payments for investments are represented in the following:

	31/12/2010	31/12/2009
	LE	LE
EFG- Hermes Mutual Funds Co.	10 000 000	10 000 000
Financial Group for Real Estate Co.	250 000	250 000
EFG-Hermes Securitization Company	5 000 000	5 000 000
Arab Visual Company	3 749 500	3 749 500
Egyptian Company for Funds Investments	400 200	--
IDEAVELOPERS	25 000	10 479 100
AAW company for infrastructure	3 040 000	3 040 000
	<u>22 464 700</u>	<u>32 518 600</u>
	=====	=====

15-3 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

(A) Deferred tax	31/12/2010		31/12/2009	
	Assets	Liabilities	Assets	Liabilities
	LE	LE	LE	LE
Fixed assets depreciation	--	3 836 086	--	1 772 304
Expected claims provision	3 114 649	--	3 033 049	--
Impairment loss on assets	4 009 430	--	3 893 400	--
Previous years losses forward	882 479	--	--	--
Company's share in affiliate's profits	--	2 498 233	--	2 454 724
Total deferred tax assets / liabilities	<u>8 006 558</u>	<u>6 334 319</u>	<u>6 926 449</u>	<u>4 227 028</u>
	=====	=====	=====	=====
Net deferred tax assets	<u>1 672 239</u>		<u>2 699 421</u>	
	=====		=====	

(B) Deferred tax recognized directly in equity

	31/12/2010	31/12/2009
	LE	LE
Changes in fair value of cash flow hedges	6 612 597	888 567
	=====	=====

16- Due to banks and financial institutions

	31/12/2010	31/12/2009
	LE	LE
Current deposits of banks	127 038 600	--
Time deposits	74 685 000	--
Financial institutions	332 658 300	--
Long term borrowing (16-1)	53 956 000	91 334 000
Accrued interest payable	2 480 400	--
	<hr/>	<hr/>
Balance	590 818 300	91 334 000
	<hr/> <hr/>	<hr/> <hr/>

16-1 Long term borrowings

- A- On December 28, 2005, a loan agreement has been signed with International Finance Corporation "IFC" whereby the company is entitled to obtain long term loan with an amount of US\$ 20 million with an applied annual floating interest rate in order to finance regional expansion of the company. The loan will be repaid on 10 equal semi-annual installments with an amount of US\$ 2 million for each installment and the first installment was due on May 15, 2007 and the last installment will due on November 15, 2011 and the interest is due on May 15, and November 15 and the first interest was due on November 15, 2006. The loan agreement provides for that some of the company's subsidiaries will guarantee the loan repayment through an irrevocable unconditional guarantee and the company got the full amount of the loan amounted to US\$ 20 million on September 3, 2006. The company paid US\$ 16 million which represents 8 installments accordingly, the loan balance amounted to US\$ 4 million (equivalent to LE 23 220 000) as at December 31, 2010 (this amount will due within one year)
- B- On December 29, 2005 a loan agreement has been signed with the Foundation of (DEG)- DEUTSCHE INVESTITIONS- UND ENTWICKLUNGSGESELLSCHAFT MBH whereby the company is entitled to obtain a long term loan with an amount of Euro 10 million with a variable annual interest rate in order to finance the regional expansion of the company. The loan will be repaid on 10 equal semi- annual installments with an amount of one million Euro per installment. The first installment was due on May 15, 2008 and the last installment will due on November 15, 2012 and the interest is due on May 15, November 15 each year. The first interest was due on November 15, 2006.
- The loan agreement provides for that some of the company's subsidiaries will guarantee the loan repayment through an irrevocable unconditional guarantee. The company has obtained the full amount of the loan amounted Euro 10 million on September 17, 2006. The company has paid Euro 6 million accordingly, the loan balance as of December 31, 2010 amounted Euro 4 million (equivalent to LE 30 736 000).
- The current portion (the amount that will due within one year) of the loan amounts to Euro 2 million (equivalent to LE 15 368 000).

17- Customers' deposits

	31/12/2010	31/12/2009
	LE	LE
Deposits from customers (private sector):		
- Saving accounts	20 179 672 500	--
- Term deposits	7 325 217 900	--
- Current accounts	3 020 807 016	--
	<u>30 525 697 416</u>	<u>--</u>
Deposits from customers (public sector):		
- Term deposits	948 160 200	--
- Current accounts	440 505 000	--
	<u>1 388 665 200</u>	<u>--</u>
Other	39 760 500	--
	<u>31 954 123 116</u>	<u>--</u>
Accrued interest payable	180 082 500	--
	<u>32 134 205 616</u>	<u>--</u>
Deposits from related parties:		
Long term saving accounts	308 279 400	--
Short term saving accounts	100 545 900	--
Long term deposits	639 038 400	--
Accrued interest payable	7 768 800	--
	<u>1 055 632 500</u>	<u>--</u>
Balance	<u>33 189 838 116</u>	<u>--</u>
	=====	=====

18- Bonds

On November 11, 2010 Credit Libanais SAL has issued US.\$ 75 000 000 6.75% Subordinated Bonds due January 15, 2018 at an issue price of 100% of their principal amount. The bonds have been fully underwritten. The net proceeds from the sale of Bonds will be used for general corporate purposes, and the obligation of the issuer in respect of the Bonds constitutes direct, unsecured and general obligation of the issuer. The Arranger of the offering is Credit Libanais Investment Bank SAL (an affiliate) and the Bonds will not be listed on any stock exchange.

19- Creditors and other credit balances

	31/12/2010	31/12/2009
	LE	LE
Margins held against documentary credits	67 895 100	--
Technical reserve for insurance companies	110 514 300	--
Interbranch reconciling items	7 144 800	--
Revaluation of assets acquired in satisfaction of loans	19 390 800	--
Social Insurance Association	603 651	524 675
Unearned revenues	10 802 770	5 667 833
Accrued interest & commission	22 007 637	418 869
Suppliers	97 459	1 656 372
Accrued expenses	314 666 274	167 569 890
Clients' coupons- Custody Activity	8 716 618	18 568 157
Clients' payments under subscription	518 765	25 038 985
Industry Modernization Center	8 423 928	12 635 893
Dividends payable	22 336 201	19 678 875
Due to related parties	15 235 000	15 235 000
Creditors – purchase of investment *	142 116 605	--
Sundry creditors	290 067 945	11 150 233
Balance	<u>1 040 537 853</u>	<u>278 144 782</u>

* The balance is represented in the equivalent of US.\$ 24 481 758 the value of acquisition of 2.9358 % of Credit Libanais S.A.L (the Bank) which has not been paid till December 31, 2010.

20- Other income

Other income presented in the income statement includes an equivalent amount of:

- LE 16 424 100 represents gains on sale of non current assets held for sale.
- LE 13 975 500 represents gains on selling investment in real property held for sale.

21- Other provisions

		31/12/2010	31/12/2009
		LE	LE
Expected claims provision	(21-1)	199 618 031	169 148 844
Servance pay provision	(21-1)	91 969 622	21 702 309
Other provisions		674 700	--
Balance		<u>292 262 353</u>	<u>190 851 153</u>

21-1

	Expected claims provision LE	Severance pay provision LE	Total LE
Balance at the beginning of the year	169 148 844	21 702 309	190 851 153
Acquisition of subsidiaries	29 146 000	52 481 800	81 627 800
Formed during the year	30 418 779	20 869 815	51 288 594
Foreign currency differences	907 950	2 999 396	3 907 346
Amounts used during the year	(28 603 542)	(4 841 098)	(33 444 640)
Provision no longer needed	(1 400 000)	(1 242 600)	(2 642 600)
Balance at the end of the year	<u>199 618 031</u>	<u>91 969 622</u>	<u>291 587 653</u>

22- Long term liabilities

	31/12/2010	31/12/2009
	LE	LE
Excepted consideration to be paid (liability) *	--	603 350 000
Preferred shareholders in subsidiaries **	286 425 000	--
Other liabilities	953 531	900 968
	<hr/>	<hr/>
Balance	287 378 531	604 250 968
	=====	=====

* EFG – Hermes Regional Investments Ltd. – a wholly owned subsidiary - entered through the parent company, EFG- Hermes Holding Company into call/ put option agreement with a minority shareholder of a subsidiary, during December 2010 the parties cancelled the call and put option agreement.

** In August 2004, Credit Libanais SAL (the Bank) issued 1,600,000 cumulative “Series A” preferred shares for an aggregate amount of USD 50 million with a seven-year term expiring on 10 August 2011. The issue was affected at a nominal value of LBP 10,000 for each preferred share, while the aggregate share premium amounted to of LBP 59.37 billion. Preferred shares earn an annual fixed dividend to be paid to holders out of the distributable consolidated profits of the Group, in an amount equivalent to 7.5 % of the total amount of the preferred shares issued. The Bank has the right, in its sole discretion, to redeem the Series A preferred shares, in whole but not in part, on the fifth anniversary of the issue date, at the issue price plus accrued and unpaid dividends and an early redemption premium equivalent to 50% of the value of the annual fixed dividends that would have been payable until the expiry of the term of the Series A preferred shares. As part of its risk management policy, the Bank has established a special purpose investment account (the “Sinking Fund Account”), which is funded on an annual basis in each of the first seven years following the issue date of the Series A preferred shares (assuming no early redemption) with proceeds generated from the annual consolidated profits in amounts equal to one-seventh or 14.285% of the total amount of the Series A preferred shares.

23- Share capital

- The company's authorized capital amounts LE 3 200 million and issued and paid in capital amounts LE 1 913 570 000 distributed on 382 714 000 shares of par value LE 5 per share, after the reduction approved by the company's extraordinary general assembly in its session held on April 7, 2009 from LE 1 939 320 000 to LE 1 913 570 000 through cancelling 5 150 000 shares of treasury shares.
- The general assembly of the holding company held on 14 June, 2010 declared interim dividends with total amount of LE 774 517 396.

24- Contingent liabilities

- The company guarantees its subsidiaries – Financial Brokerage Group and Hermes Securities Brokerage against the credit facilities granted from banks and each of EFG- Hermes Brokerage – UAE for the purpose of issuance of the letters of guarantee amounting to AED 203 670 000 (equivalent to LE 322 002 270) and EFG- Hermes KSA against the credit facilities granted from banks amounting to SAR 50 million (equivalent to LE 77 400 000).
- The company has executed C-SWAP contracts to cover its needs of foreign currencies with the banks which will be settled according to specific rates for the foreign currencies implied in such contracts. The mentioned contract is as follows:

Transaction date	Transaction	Amount	Currency	Expiry date
9/12/2010	Selling Euro	Euro 4 000 000	Buying US.\$	10/1/2011

- Hermes Corporate Finance Company (a subsidiary – 99.37%) issued by a bank a letter of guarantee with an amount of LE 292 500 in favor of Egyptian Electricity Authority. The issuer bank has blocked the company's time deposit which amounts LE 321 749 on December 31, 2010 as a margin for this letter of guarantee.

- Credit Libanais SAL (the Bank) (a subsidiary – 63.739%) has the following off-balance sheet assets and liabilities :

Off-Balance sheet items :

	31/12/2010
	LE
Financing commitments given to financial institutions	29 854 500
Engagements to customers	2 541 087 900
Guarantees given to customers	279 879 600
Restricted and non – restricted fiduciary accounts	88 190 700
Commitments of signature received from financial intermediaries	2 176 200
Other commitments received	19 659 346 200
Assets under management	2 290 629 900

25- Incentive fee revenue

Due to inadequate assurance concerning the revenue recognition conditions and collection of the incentive fee on managing investment funds and portfolios, the assets management companies (subsidiaries) deferred the recognition of Incentive Fee with an amount of LE 1 256 540 till December 31, 2010 versus an amount of LE 3 148 604 till December 31, 2009 as no revenues are recognized if there are any uncertainties regarding the recovery of the consideration due.

Subsidiary's name	For the year ended	
	31/12/2010	31/12/2009
	LE	LE
Egyptian Portfolio Management Group Company	925 271	3 124 735
Hermes Fund Management	331 269	--
EFG – Hermes Financial Management (Egypt) Ltd	--	23 869
Total	<u>1 256 540</u>	<u>3 148 604</u>
	=====	=====

26- Impairment loss on assets

	For the year ended	
	31/12/2010	31/12/2009
	LE	LE
Impairment loss on accounts receivables & debit accounts	8 392 245	4 592 315
Impairment loss on available –for– sale investments	47 371 890	--
Total	<u>55 764 135</u>	<u>4 592 315</u>
	=====	=====

27- Income tax expense

	For the year ended	
	31/12/2010	31/12/2009
	LE	LE
Current income tax	333 643 447	20 542 536
Deferred tax	1 044 597	(931 142)
Total	<u>334 688 044</u>	<u>19 611 394</u>
	=====	=====

28- Cash and cash equivalents

For the purpose of preparing the cash flows statement, cash and cash equivalents are represented in the following :

	31/12/2010	31/12/2009
	LE	LE
Cash and due from banks	10 119 135 577	1 611 733 824
Due to banks and financial institutions	(590 818 300)	--
Less: Assets – maturity more than one year	(1 136 642 124)	--
Cash and cash equivalents	<u>8 391 675 153</u>	<u>1 611 733 824</u>

29 - Earnings per share

	For the year ended	
	31/12/2010	31/12/2009
	LE	LE
Net profit for the year	700 426 814	551 810 628
Employees share	(37 748 996)	(23 404 251)
Board of directors remuneration	(5 224 500)	(4 936 500)
Net	<u>657 453 318</u>	<u>523 469 877</u>
Weighted average number of shares	<u>382 714 000</u>	<u>382 869 804</u>
Earnings per share	<u>1.72</u>	<u>1.37</u>
	=====	=====

30- Related party transactions

General administrative expenses item includes an amount of LE 2 195 320 which represents consultation fees provided to the company by Zulficar & Partners Co. which Mona Zulficar (Chairperson of the Company) participates in its management.

31- Segment reporting

Segment information is presented in respect of the Group's business segments. The primary format, business segment, is based on the Group's management and internal reporting structure. Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment. The revenue & expense and assets & liabilities analyses in the table below are based on the type of business activities and services that are distinguishable component.

For the year ended December 31, 2010

	Investment banking	Commercial banking	Elimination	Total
	LE	LE	LE	LE
Fee and commission income	819 641 758	97 316 450	--	916 958 208
Fee and commission expense	--	(27 369 650)	--	(27 369 650)
Net fee and commission income	819 641 758	69 946 800	--	889 588 558
Securities gains	819 874 890	69 003 550	--	888 878 440
Share of profit of associate	--	831 600	--	831 600
Foreign currencies differences	174 147 331	15 076 600	--	189 223 931
Other income	12 274 556	32 282 250	--	44 556 806
Noninterest revenue	1 825 938 535	187 140 800	--	2 013 079 335
Interest and dividends income	196 724 829	1 122 652 300	(1 018 678)	1 318 358 451
Interest expense	(54 164 167)	(726 002 200)	(9 176 166)	(789 342 533)
Net interest income	142 560 662	396 650 100	(10 194 844)	529 015 918
Total net revenue	1 968 499 197	583 790 900	(10 194 844)	2 542 095 253
Total noninterest expenses	(1 091 731 968)	(299 957 350)	--	(1 391 689 318)
Net profit before income tax	876 767 229	283 833 550	(10 194 844)	1 150 405 935
Income tax expense	(290 601 694)	(44 086 350)	--	(334 688 044)
Net profit	586 165 535	239 747 200	(10 194 844)	815 717 891
Total assets	10 409 004 950	37 681 168 200	(1 401 607 023)	46 688 566 127
Total liabilities	1 702 797 811	34 829 601 300	301 352 766	36 833 751 877
Shareholders' equity	8 706 207 139	2 851 566 900	(1 702 959 789)	9 854 814 250
Total equity and liabilities	10 409 004 950	37 681 168 200	(1 401 607 023)	46 688 566 127

32- Tax status

- The competent tax inspectorate examined the parent company's books for the period till year 2004 and disputed points have been agreed upon before the Internal Committee.
- As to years 2005/2008, the competent tax inspectorate inspected parent company's books and the company was notified by form no. (19) , which

was objected thereon on the due date and the disputed items have been transferred to the Internal Committee with Large Taxpayers Center and as to year 2009, the company's books have not been inspected yet .

- As to salaries tax, the parent company's books had been examined till the year 2004 and all the disputed points have been agreed upon before the Internal Committee and the years 2005/2009 have not been inspected yet.
- As to stamp tax, the parent company's books had been examined from year 1998 till 31/7/2006 and the disputed points had been transferred to Appeal Committee, and the period from 1/8/2006 till 31/12/2009 have not been inspected yet.

33- Group's entities

The parent company owns the following subsidiaries:

	Direct ownership	Indirect ownership
	%	%
Financial Brokerage Group	99.76	0.04
Egyptian Fund Management Group	88.51	11.49
Egyptian Portfolio Management Group	66.33	33.67
Hermes Securities Brokerage	97.58	2.42
Hermes Fund Management	89.95	10.05
Hermes Corporate Finance	99.37	0.53
EFG - Hermes Advisory Inc.	100	--
EFG- Hermes Financial Management (Egypt) Ltd.	100	--
EFG – Hermes Promoting & Underwriting	99.88	--
Bayonne Enterprises Ltd.	--	100
EFG- Hermes Fixed Income	99	1
EFG- Hermes Private Equity (Egypt)	96.3	3.7
EFG- Hermes Private Equity (BVI)	1.59	63.41
EFG- Hermes Brokerage – UAE Ltd.	--	90
Flemming CIIC Holding	100	--
Flemming Mansour Securities	--	99.33
Flemming CIIC Securities	--	96
Flemming Corporate Finance	--	74.92
EFG- Hermes UAE Ltd.	100	--
EFG- Hermes Holding - Lebanon	100	--
EFG- Hermes KSA	73.1	26.9
October Property Development Ltd.	94.10	--
EFG- Hermes Lebanon	99	0.97
Mena Opportunities Management Limited	--	66.5
EFG- Hermes Mena (Caymen) Holding	--	100
Mena (BVI) Holding Ltd.	--	66.5
EFG – Hermes Mena Securities Ltd.	--	100
Mena Financial Investments W.L.L	--	100

	Direct ownership	Indirect ownership
	%	%
EFG – Hermes Qatar LLC	100	--
Vision Securities Company LLC	--	51
EFG- Hermes Regional Investment Ltd.	100	--
Offset Holding KSC	--	50
EFG- Hermes IFA Financial Brokerage	--	45
IDEAVELOPERS	--	52
EFG- Hermes CB Holding Limited	--	100
EFG- Hermes Global CB Holding Limited.	100	--
EFG – Hermes Orient Advisory Inc.	--	70
EFG – Hermes Syria LLC	--	69.33
Sindyay Syria LLC	--	96.81
Talas & Co. LLP	--	96.81
EFG – Hermes Jordan	100	--
Mena Long-Term Value Feeder Holdings Ltd	--	100
Mena Long-Term Value Master Holdings Ltd	--	90
Mena Long-Term Value Management Ltd	--	90
EFG – Hermes CL Holding SAL	--	100
Credit Libanais SAL “the Bank”	--	63.739
Credit Libanais Investment Bank SAL	--	63.64
Lebanese Islamic Bank SAL	--	63.62
Credit International SA	--	55.76
Cedar’s Real Estate SAL	--	63.69
Soft Management SAL	--	29.95
Hermes Tourism & Travel SAL	--	63.73
Liberty Restaurant SARL	--	63.23
Crédit Libanais d’Assurances et de Réassurances SAL	--	42.69
Business Development Center SARL	--	62.85
Capital Real Estate SAL	--	62.46
Liberty Tower SAL	--	63.67
Credilease SAL	--	63.25
Collect SAL	--	28.64
EFG – Hermes Investment Funds Co.	99.998	--

34- Financial instruments and management of related risks:

The Company's financial instruments are represented in the financial assets and liabilities. Financial assets include cash balances with banks, investments and debtors while financial liabilities include loans and creditors. Note (no. 2) of notes to financial statements includes significant accounting policies applied regarding basis of recognition and measurement of the important financial instruments and related revenues and expenses by the company to minimize the consequences of such risks.

34-1 Market risk:

Market risk is defined as the potential loss in both on and off balance sheet positions resulting from movements in market risk factors such as foreign exchange rates, interest rates, and equity prices.

Market risk is represented in the factors which affect values, earnings and profits of all securities negotiated in stock exchange or affect the value, earning and profit of a particular security.

According to the company's investment policy, the following procedures are undertaken to reduce the effect of this risk.

- Performing the necessary studies before investment decision in order to verify that investment is made in potential securities.
- Diversification of investments in different sectors and industries.
- Performing continuous studies required to follow up the company's investments and their development.

34-2 Foreign currencies risk

- The foreign currencies exchange risk represents the risk of fluctuation in exchange rates, which in turn affects the company's cash inflows and outflows as well as the value of its assets and liabilities in foreign currencies.
- As disclosed in note (3-2) the company has used the prevailing exchange rates to revalue monetary assets and liabilities at the balance sheet date.
- As disclosed in note no. (24) the company has executed Currency SWAP agreements and Hedge agreement to cover its needs of foreign currencies and meet the risks of exchange rate and interest rates related thereto.

34-3 Risk management

In the ordinary course of business, the group is exposed to a variety of risks, the most important of which are liquidity risk, interest rate risk, currency risk, credit risk and market risk. These risks are identified, measured and monitored through various control mechanisms in order to price facilities and products on a risk adjusted basis and to prevent undue risk concentrations.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

34-4 Credit risk

Credit risk is the risk of a person or an organization defaulting in the repayment of their obligations to the Group in respect of the terms and conditions of the credit facilities granted to them by the Group. The management minimizes this risk by spreading its loan portfolio over all economic sectors and by adopting appropriate procedures and controls to evaluate the quality of the credit facilities granted and the creditworthiness of the borrowers. The credit risk of connected accounts is monitored on a united basis. In addition, the effective credit appraisal procedure for examining applications for credit facilities followed by the Group, adopts as the main criteria the repayment capability and obtaining sufficient collateral. The continuous monitoring of credit accounts and the timely preventive action further minimize, to a large extent, the exposure to credit risk. Note 7 of this report shows the distribution of loan portfolio by nature of facility, by economic sector.

34-5 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind and monitors future cash flows and liquidity on daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of high marketable and diverse assets that can be easily liquidated in the event of an unforeseen interpretation of cash flow. In addition, the Group maintains statutory deposits with the Central Banks.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and to the Group in specific. The Group maintains a solid ratio of high liquid net assets in foreign currencies to deposits and commitments in foreign currencies taking markets conditions into consideration.

34-6 Interest rate risk

Interest rate risk stems from the sensitivity of earnings to future movements in interest rates applied on assets and liabilities.

The Group's management closely monitors interest rate fluctuations on a continuous basis and ensures that assets and liabilities are matched and re-priced in a timely manner. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or are re-priced in a given period. The most important source of interest rate risk derives from the lending, funding and investing activities, where fluctuations in interest rates are reflected in interest margins and earnings.

34-7 Equity price risk

Equity price risk is the risk that the value of a portfolio will fall as a result of change in stock prices. Risk factors underlying this type of market risk are a whole range of various equity (and index) prices corresponding to different markets (and currencies/maturities), in which the Group holds equity-related positions.

The Group sets tight limits on equity exposures and the types of equity instruments that traders are allowed to take positions in. Nevertheless, depending on the complexity of financial instruments, equity risk is measured in first cash terms, such as the market value of a stock/index position, and also in price sensitivities, such as sensitivity of the value of a portfolio to changes in the underlying asset price. These measures are applied to an individual position and/or a portfolio of equity products.

34-8 Operational risk

Operational risk is the risk of direct or indirect loss due to an event or action causing failure of technology, process infrastructure, personnel, and other risks having an operational risk impact. The Group seeks to minimize actual or potential losses from operational risk failure through a framework of policies and procedures that identify, assess, control, manage, and report those risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

34-9 Fair value of financial instruments

The fair value of the financial instruments do not substantially deviated from their book value at the balance sheet date. According to the valuation basis applied, in accounting policies to the assets and liabilities

34-10 Derivative financial instruments and hedge accounting

- Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value, according to the valuation basis applied, in accounting policies to derivative financial instruments, (note no. 3-4).
- In accordance with an arrangement between the subsidiary, EFG Hermes MENA Securities Limited Co. and its customers ("the customers"), the Company from time to time enters into fully paid Shares Swap Transaction Contracts ("the Contracts") with the customers. Under the Contracts the customers pay to the Company a pre-determined price, which is essentially the market price at the trade date, in respect of certain reference securities.

In return for such shares swap transactions the Company pays to the customers the mark to market price of the reference securities at a pre-determined date (normally after one year). However, the Contracts can be terminated at any time by either of the parties, which shall be the affected party.

In order to hedge the price risks with respect to the reference securities under the Contracts, the Company enters into back-to-back fully paid Share Swap Transaction Contracts with other subsidiaries, MENA Financial Investments W.L.L. ("MENA-F") and EFG-Hermes KSA.

Accordingly, the Shares Swap Transactions are measured at fair value based on underlying reference securities under the Contracts.

35- Subsequent events to balance sheet date

Arab Republic of Egypt recently faced events have a significant impact on the economic sectors in general, most likely to lead to a significant decline in economic activities during the coming periods, so it is likely that the events referred to have an impact on the group's assets and liabilities and the remedial value, as well as business results through future periods.

Currently, it is not possible to quantify this effect on the assets and liabilities of the company, where the impact depends on the expected time of the events referred and their effects.

36- Corresponding figures

Certain corresponding figures have been reclassified to conform with the current year presentation.