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## 2008 in Review

EFG-Hermes today reported consolidated net revenue of EGP2.2 billion<sup>1</sup> and net profit after tax and minority interest of EGP933.5 million for the fiscal year ending December 31, 2008. Total revenue declined 15.3% (FY2007 revenues EGP2.6 billion) while decline in net profit was 27.7% (FY2007 net profits EGP1.29<sup>2</sup>billion).

Please find below a few key performance indicators:

- Fee and commission income declined 5.8% to EGP1.62 million in 2008 down for EGP1.72 billion in 2007;
- Prop. and principal trading contributed a positive EGP352 million in 2007 and a negative EGP84 million in 2008;
- Financial impairment, booked in 4Q08, of EGP105.2 million;
- Substantial decline in margin trading facilities to clients from a peak of USD250 million during the year to approximately USD30 million without meaningful losses resulting in the decline of gross receivables from EGP2.6 billion in 2007 to EGP958 million in 2008;
- As of December 2008, interest earning cash stood at USD500 million, excluding investments in Banque Audi, SODIC, Nile City, seed capital in EFG-Hermes managed funds and shares purchased under the new Management Incentive Scheme or for cancellation.

In the end of 2008, EFG-Hermes has taken measures to reduce total operating expenses going forward. These measures included redundancies, salary reductions for the top 200 employees, the implementation of a new expense policy and the relocation of certain functions to Egypt, all of which should lead to a meaningful decline in operating expense.

## Market Commentary

2008 was a tough year. The foundations of capitalism were shaken to the point of collapse, prompting many governments around the world to reassert their role. The world witnessed some of the largest ever one year declines in asset prices, and witnessed investor optimism shrink, with Emerging Markets being among the hardest hit.

While relatively resilient in the early parts of the year, the myth of "decoupling" from the global economies was shattered as the regional economies and markets became painfully aware of how vulnerable our region is to a combination of unprecedented turmoil in the global credit markets, global economic slowdown, and declining oil prices.

The continuation of the global credit and liquidity crunch through the fourth quarter 2008 and early 2009 increased volatility across all the regional markets but to varying degrees. Equity valuations across all regional markets have dropped on average 52% versus 2007 levels with the hardest hit being the most active and liquid markets in the region including Dubai (down 72.4%), Saudi Arabia (down 56.5%) and

<sup>1</sup> Please refer to table 2 for breakdown

<sup>2</sup> Net profit after tax and minority interest has been restated up to EGP1.29 billion in 2007 up from EGP1.28 million due to a change in accounting policy relating to fair value of property investments; please refer to note 27 in the audited financial statements



Egypt (down 53.9%), with real estate and financial services stocks being hardest hit. Trading volumes also declined in key markets such as Saudi Arabia (down 22.7%) and Dubai (down 19.5%). However, other markets witnessed continued growth over the full year with Egypt and Abu Dhabi up 34.9% and 32.3% respectively and Kuwait ending the year with slightly higher volumes than 2007. These full year figures largely reflect the extraordinary strength of the markets in the first half of 2008 as the second half of the year witnessed accelerating declines across the board. Valuations and volumes traded in 4Q08 declined by an average 52% and 50% versus 4Q07 across all regional markets.

Arguably in 2008, the financial markets witnessed the most severe crisis in decades, however, for EFG-Hermes the game plan has not changed. Amidst this unprecedented market turmoil EFG-Hermes continued to deliver profitability, albeit at lower levels as volumes declined, redemptions increased and investor sentiment became less conducive to either launching new funds or closing Investment Banking deals. Management believes that the Group has the right business model, the right country focus and is looking to solidify the Group's positioning in anticipation of eventual market improvements. In recent months, the Firm has moved aggressively to further improve its structure in the rapidly changing market environment by engaging in initiatives including:

- A deliberate and focused reduction of balance sheet-intensive businesses including a resizing of the margin lending business and the limits on the DVP transactions, the exit of proprietary trading strategies and the closure of the principal trading account;
- Several measures aimed to reduce the overall cost base tackling both operating and non-operating expenses.

Nevertheless, it would be unrealistic to assume that the Firm has not and will not be affected during the coming months as volumes have declined and sentiment has made it difficult to bring any ECM transactions to the market. Having said that, such market conditions allow EFG-Hermes to focus on increasing the efficiency of the Investment Banking operation, upgrading its infrastructure and solidifying its market positioning as it reaps the benefits of strict self regulation and adherence to best practices in corporate governance, a strong and liquid balance sheet and an unparalleled regional footprint.

Table 1: Performance of Markets in the Arab Region

	Activity During Quarter Difference bet. Beginning & ending indices					Indices	Volumes	Indices	Volumes	Indices	Volumes
	4Q07	FY07	3Q08	4Q08	FY08	4Q08 Vs. 4Q07	4Q08 Vs. 4Q07	4Q08 Vs. 3Q08	4Q08 Vs. 3Q08	08 Vs. 07	08 Vs. 07
Egypt	20.73%	51.30%	-26.34%	-32.29%	-53.93%	-53.93%	-54.94%	-32.29%	-38.53%	-53.93%	34.93%
Dubai	39.72%	43.72%	-25.50%	-60.36%	-72.42%	-72.42%	-81.02%	-60.36%	-41.23%	-72.42%	-19.47%
Abu Dhabi	26.00%	51.74%	-21.55%	-39.60%	-47.49%	-47.49%	-79.58%	-39.60%	-61.64%	-47.49%	32.30%
Saudi Arabia	41.17%	39.17%	-20.53%	-35.60%	-55.19%	-56.49%	-40.60%	-35.60%	-6.69%	-56.49%	-22.72%
Kuwait	-2.48%	24.75%	-17.16%	-39.38%	-38.03%	-38.03%	-11.34%	-39.38%	-10.25%	-38.03%	-2.54%
Lebanon	16.06%	26.82%	-15.54%	-31.71%	-21.23%	-21.23%	-34.76%	-31.71%	-68.66%	-21.23%	73.78%
Morocco	-1.46%	26.03%	-12.18%	-12.85%	-57.58%	-57.55%	7.16%	-57.37%	160.18%	-57.55%	-2.48%
Oman	29.74%	61.88%	-25.71%	-35.94%	-40.73%	-39.78%	-67.74%	-35.94%	-51.76%	-39.78%	69.07%
Qatar	15.46%	34.31%	-22.63%	-26.07%	-28.12%	-28.12%	-26.88%	-26.07%	-1.71%	-28.12%	60.62%
<b>Total Average</b>	<b>23.55%</b>	<b>38.98%</b>	<b>-20.78%</b>	<b>-36.34%</b>	<b>-51.21%</b>	<b>-51.57%</b>	<b>-47.74%</b>	<b>-39.07%</b>	<b>-22.62%</b>	<b>-51.70%</b>	<b>-10.41%</b>
<b>Average of Egypt &amp; GCC</b>	<b>25.70%</b>	<b>40.01%</b>	<b>-21.55%</b>	<b>-37.96%</b>	<b>-51.03%</b>	<b>-51.47%</b>	<b>-49.52%</b>	<b>-37.96%</b>	<b>-26.09%</b>	<b>-51.56%</b>	<b>-10.83%</b>
<b>Average for Egypt, UAE &amp; KSA</b>	<b>35.22%</b>	<b>43.50%</b>	<b>-22.42%</b>	<b>-39.48%</b>	<b>-56.54%</b>	<b>-57.14%</b>	<b>-54.81%</b>	<b>-39.48%</b>	<b>-37.80%</b>	<b>-57.28%</b>	<b>-15.82%</b>

Sources: Regional markets and EFG-Hermes



## Business Highlights

- Total revenues declined during 2008 to EGP2.2 billion down from EGP2.6 billion during 2007 predominantly booked through the operations of the Investment Bank; a 15.3% decline compared to declines in equity values in the markets where EFG-Hermes operates in excess of 50%;
- Total revenues booked from the Investment Bank declined 26.6% to EGP1.65 billion in 2008 down from EGP2.25 billion in 2007. Fee and commission income declined only 5.8% reflecting EFG-Hermes' stronger positioning vis-à-vis its regional competitors. Prop trading results moved from a positive EGP352 million in 2007 to a negative EGP84 million in 2008;
- Net operating profit reflecting the Group's core agency based business, declined 20.4% from 2007 to EGP732.2 million and an operating margin of 45.2% declining from 53.5% a year earlier;
- Net profit after tax and minority interest decreased to EGP933.5 million down from EGP1.29 billion in 2007; a 27.7% decrease resulting in a margin of 42.6% compared to 50.6% in 2007 after taking an impairment and write down charge of EGP105.2 million in the fourth quarter;
- After locking in profit over the first half of the year, as markets declined the Principal account booked a net loss of EGP84 million for the full year 2008 compared to a net gain of EGP352 million in 2007 (including EGP121 million gain on the sale of SODIC shares). Between inception during 2H07 and liquidation in October 2008 the Principal account booked a net gain of EGP147 million;
- Regional operations during 2008 accounted for 42.1% of the total fee and commission income up from 34.8% in 2007;
- The Brokerage arms in Egypt and the UAE (on the DFM and ADSM) continued to maintain their number one positions and the Saudi subsidiary continuing to be the #1 independent brokerage company. Furthermore, EFG-Hermes is continuing to integrate the newly acquired Vision Securities (#2 position starting September) and Gulf Brokerage House (renamed EFG-Hermes IFA, #2 position starting September) operations into the platform;
- The Research Department finished the year with a total of 76 companies under coverage versus 60 at the end of 2007. Extensive company, economic and strategy coverage of Egypt, the UAE, Saudi Arabia, Qatar, Kuwait, Oman, Lebanon and Morocco continue to position EFG-Hermes Research as the leading franchise in the region;
- Total assets under management within the Group decreased to USD5.35 billion, USD4.2 billion of which are in listed equities and money market funds and the remainder in private equity. AuMs in listed equities declined since the end of 2007 with 84.5% of the decline as a result of market conditions;
- Total realised incentive fees within Asset Management were non-existent during 4Q08 that was traditionally one of the periods where a sizeable portion of the incentive fees are booked. Total incentive fees booked during 2008 were EGP218.1 million down from EGP379.1 million in 2007;
- During 2008 the Investment Banking Team closed 8 transactions raising USD862 million in equity for its clients and M&A deals for USD720 million compared to 13 transaction in 2007 totaling USD6 billion;
- During 2008, Private Equity launched its first transaction based initiatives, namely Sahara North Baharia, closed Technology Development Fund II and the initial closing of the Horus Tourism Investment Company;
- As at the end of the year, EFG-Hermes' shareholding structure remained dominated by institutional shareholders. The top 50 shareholders own 78.5% and include 33 western institutions.



## Performance

### Total Revenue

Table 2: Breakdown of Total Revenue

Total Revenue (EGP mn)	Full Year 2008		Full Year 2007		Change 2008 Vs. 2007
Total Fee & Commission Revenue	1,620	75.2%	1,720	67.6%	-5.8%
Net Treasury Operations*	113	5.2%	174	6.9%	-35.3%
Net Principal Account & Gain on Investments**	(84)	-3.9%	352	13.8%	-123.9%
<b>Total Revenue From the Investment Bank</b>	<b>1,649</b>	<b>76.5%</b>	<b>2,246</b>	<b>88.2%</b>	<b>-26.6%</b>
Bank Audi	328	15.2%	287	11.3%	14.0%
Sundry Revenue	179	8.3%	12	0.5%	1421.9%
<b>Total Revenue</b>	<b>2,155</b>	<b>100%</b>	<b>2,545</b>	<b>100%</b>	<b>-15.3%</b>

Sums and percentages may not add up exactly due to rounding

\* net of FX losses and interest expense

\*\* no Principal Account in 9M07, major amount is gain on sale of SODIC for EGP121 million; includes unrealised loss on trading investments of EGP37.4 million in FY2008 (EGP7.9 million in FY2007)

Sources: EFG-Hermes audited financial statements and management accounts

Total consolidated revenue booked during 2008 reflected the financial market crisis enveloping all global and regional markets. After booking total consolidated revenues of EGP1.4 billion during 1H08, 2H08 proved more challenging as markets deteriorated. Total net consolidated revenues for the full year reached EGP2.16 billion down 15.3% from 2007 levels. Fee and commission income remained the core contributor to total revenue accounting for 75.2% of total consolidated revenues. The decline in revenues generated from Treasury operations mainly reflects the use of a large portion of the cash balance in the Principal account (until October 2008), and the increased level of margin lending and DVP transactions which peaked during August 2008 and have since been brought down significantly.

### Operating Revenues

Highlighting the weakness of the end of 2008, the 4Q08 total operating revenue is similar to revenue levels witnessed during the low quarters of 2005 and 2006. The sharp decrease in values traded as well as a noticeable decline in interest from both regional and international clients led directly to a lack of incentive fees and a decline in volumes executed on all regional markets. Fee and commission revenue booked by the Investment Bank (excluding treasury operations and Prop. Account) reached EGP158 million in 4Q08 down from EGP422 million in 3Q08, EGP1.18 billion in 1H08 and EGP768 million during 4Q07 (of which EGP330.2 million were incentive fees). The sharp decline echoes the year-on-year declines in regional market values and volumes in 4Q08 of around 38% and 26% respectively which led to overall lower volumes executed in spite of EFG-Hermes' increased market shares. In addition, the lack of incentive fees that are usually booked during 4Q08 and the loss incurred as a result of the closure of the Principal trading account totaling EGP123 million (excluding impairment and write downs) materially impacted the 4Q08 figures.

On an annual basis, the total operating revenues for 2008 reflect the stellar market conditions that prevailed during the first part of the year as well as the Firm's ability to grow its core business. Operating revenues for the full year decreased 25.8% to EGP1.54 billion in spite of booking a net loss of EGP84 million on the Principal account during the year. Excluding the Principal account for 2007 and 2008 and the restatement resulting from the change in accounting policy mentioned above, operating revenues for 2008 declined 5.8% to EGP1.62 billion.



Table 3: Contribution of the Different Divisions to Operating Revenue on an Annual Basis

Division Revenues (EGP mn)	Full Year 2008		Full Year 2007		Change 2008vs. 2007
Brokerage: Egypt	545	33.6%	434	25.3%	25.4%
Brokerage: UAE	150	9.2%	137	8.0%	9.1%
Brokerage: Saudi Arabia	35	2.2%	9	0.5%	307.6%
Brokerage: Oman	21	1.3%	-	-	-
Brokerage: Kuwait	40	2.5%	-	-	-
Asset Management: Egypt	89	5.5%	194	11.3%	-54.2%
Asset Management: Regional	403	24.9%	317	18.4%	27.4%
Private Equity	105	6.5%	177	10.3%	-40.7%
Investment Banking: Egypt	200	12.3%	362	21.1%	-44.8%
Investment Banking: UAE	32	2.0%	89	5.2%	-63.6%
<b>Total Fee &amp; Commission Revenue</b>	<b>1,620</b>	<b>100%</b>	<b>1,720</b>	<b>100%</b>	<b>-5.8%</b>
Prop. Account & Gain (or loss) on Investments*	(84)	-5.5%	352	17.0%	-123.9%
<b>Total</b>	<b>1,536</b>	<b>-</b>	<b>2,072</b>	<b>-</b>	<b>-25.8%</b>

Sums and percentages may not add up exactly due to rounding

\* excluding Treasury Operations; no major Principal Account until 3Q07, EGP121 million relates to sale of SODIC in 2007

Sources: EFG-Hermes audited financial statements and management accounts

Table 4: Contribution of the Different Divisions to Operating Revenue on Quarterly Basis

Division Revenues (EGP mn)	3Q08		4Q08		4Q07		Change 4Q08vs. 4Q07	Change 4Q08vs. 3Q08
Brokerage: Egypt	133	31.5%	49	30.7%	112	14.6%	-56.6%	-63.4%
Brokerage: UAE	36	8.5%	15	9.3%	69	9.0%	-78.8%	-59.2%
Brokerage: Saudi Arabia	12	2.8%	3	1.9%	8	1.0%	-60.0%	-74.7%
Brokerage: Oman	7	1.7%	5	3.2%	-	-	-	-27.1%
Brokerage: Kuwait	24	5.7%	16	10.0%	-	-	-	-33.8%
Asset Management: Egypt	14	3.3%	6	3.8%	132	17.3%	-95.4%	-56.7%
Asset Management: Regional	77	18.2%	40	25.5%	260	33.8%	-84.4%	-47.5%
Private Equity	22	5.2%	24	15.3%	32	4.2%	-25.2%	10.0%
Investment Banking: Egypt	66	15.6%	-	-	155	20.1%	-	-
Investment Banking: UAE	31	7.3%	0	0.2%	-	-	-	-98.7%
<b>Total Fee &amp; Commission Revenue</b>	<b>422</b>	<b>100%</b>	<b>158</b>	<b>100%</b>	<b>768</b>	<b>100%</b>	<b>-79%</b>	<b>-62%</b>
Prop. Account & Gain (or loss) on Investments*	(194)	-85.1%	(123)	-347.7%	171	18.2%	-172.0%	-36.6%
<b>Total</b>	<b>228</b>	<b>-</b>	<b>35</b>	<b>-</b>	<b>939</b>	<b>100%</b>	<b>-96%</b>	<b>-84%</b>

Sums and percentages may not add up exactly due to rounding

\* excluding Treasury Operations; no major Principal Account until 3Q07, EGP121 million relates to sale of SODIC in 2007

Sources: EFG-Hermes audited financial statements and management accounts

In general revenue booked by Brokerage increased over 2007 levels. Expansion to new regional markets, either through physical presence or remotely, as well as continued expansion of retail client business has helped maintain volumes executed and market shares during the latter part of the year. As executions by institutional clients and HNWI fell to all time lows, this expansion of the business was crucial in limiting the decline in operating revenues during 2H08.

Continuing the Group's regionalisation and geographic expansion operations during 2008, regional operations accounted for 42.1% of the total fee and commission income, up from 34.8% a year earlier.



Hereunder is an analysis of the company's main operational divisions:

## Brokerage

Despite increasing signs of the global financial difficulties, the regional markets witnessed continued rallies during the first part of the year as the theory of de-coupling of emerging markets from developed markets took hold. Unfortunately, the theory proved wrong and global emerging markets, including the MENA markets, succumbed to the downturn, giving up all of the recent gains in just a few months during the later part of the year. The selling frenzy that ensued combined with the collapse or near collapse of many of the largest global financial institutions severely dampened sentiment across all regional markets with values traded dropping to levels not witnessed over the past 4 to 5 years. Having said that, although values traded have dropped on average of around 50% during 2008 (4Q08 versus 4Q07) across the MENA markets, the bulk of the decline was valuation related rather than a decline in volumes traded which have, in a number of regional markets, actually increased over 2007 levels.

During these softening market conditions EFG-Hermes managed to retain its leadership positions across all the markets in which it operates due to its widespread distribution platform, its varied client base and most importantly its strict internal policies, procedures and compliance that have helped minimise losses due to client bankruptcies or delayed settlement. Furthermore, the Group's positioning across several markets has ensured that the risk of operating in a mono-market is mitigated and has paid-off.

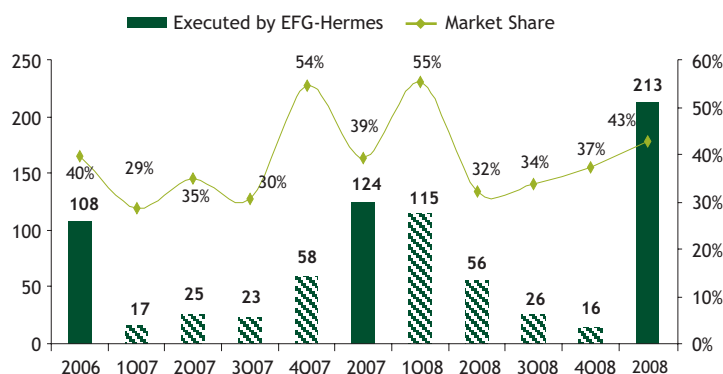
The Brokerage Division ended the year in the #1 position in all the markets in which it operates, excluding the two recent additions of Oman and Kuwait where the firm has climbed to the #2 position in just a few months in spite of introducing more stringent policies and processes to integrate the subsidiaries into the platform. It is worth noting that EFG-Hermes IFA (Kuwait) climbed to the #1 position during February 2009. Trading continued through the year on markets where the Firm has no physical presence with the process becoming more instilled and the revenues booked growing.

### Egypt

Despite a 54% decline in the index on the Egyptian Stock Exchange and a 34.9% increase in volumes traded during 2008, the value traded by EFG-Hermes' Brokerage arms increased 71.4% over 2007 levels to reach EGP213 billion over the year. This was reflected in the increase in net brokerage commissions by around 120%. Capitalising on its domination of the market during the early part of the year and the prevalent market conditions during 4Q08 that allowed it to solidify its position in the market, EFG-Hermes brokerage arms executed around 43% of the total market in 2008 remaining by far the #1 broker on the EGX. The success of the Group's strategy in adding retail brokerage, whether through call centres, branches or online, to the business model since 2007 carried it through the period when institution sales retreated. This has paid off with the firm being able to maintain its leadership of the market despite trading being dominated by retail activity during the latter part of the year.

On the operational level, Brokerage in Egypt continued to increase its client base, including among other issues opening branches. During 2008, EFG-Hermes opened 3 retail branches around Cairo that provide customer service activity to the retail clients.

Figure 5: EFG-Hermes Executions and Share of Total Market Executions



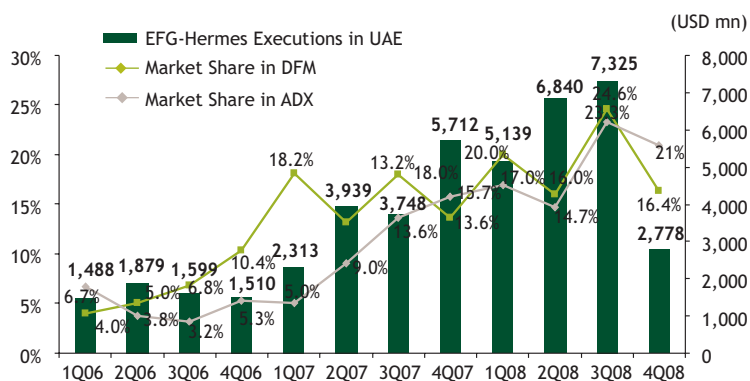
Sources: EGX and EFG-Hermes



Revenue from brokerage activity in Egypt increased 25.4% over 2007 levels to EGP545 million constituting 33.6% of the Group's consolidated fee and commission revenue.

## UAE

Figure 6: Progression of Volumes Executed and Share of Total Market Executions



Sources: DFM, ADX and EFG-Hermes

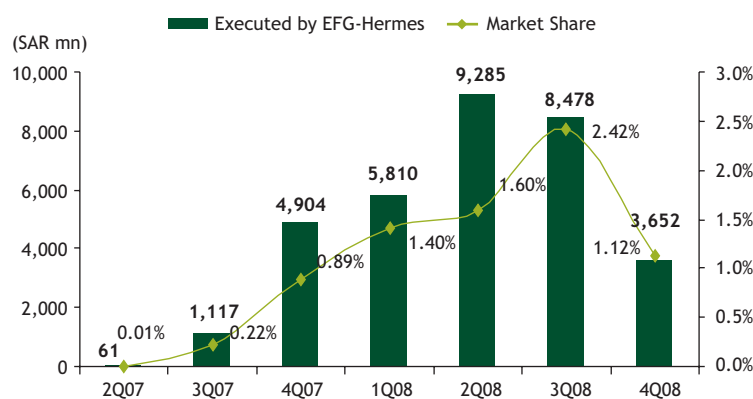
Brokerage in the UAE continued its position as the #1 broker in the country as value executed by EFG-Hermes increased 40.5% over 2007 levels to USD22.1 billion compared to traded values decreasing 72.4% and 47.5% on the DFM and the ADX respectively over the same period. Over the year, EFG-Hermes' market shares on both the DFM and ADX peaked during 3Q08 to around 24% on each market. Overall, the market share for the full year 2008 was 19.1% of the executions on the DFM and 17.6% on the ADX. EFG-Hermes was able to increase its market share lead over its closest competitors over the year as the general global financial crisis impacted the Group's key competitors to varying degrees. EFG-Hermes is increasingly executing on the DIFX as volumes and liquidity on the exchange slowly picks up. Total executions for 2008 on the exchange reached USD317.1 million. Although not a significant contributor to revenues in the UAE, trading on the DIFX completes the spectrum of services offered by EFG-Hermes by covering all the exchanges in the country.

Brokerage in the UAE has become the regional hub into which brokerage operations in the lower GCC reports. Accordingly, since the acquisition of the Omani brokerage operations the team in the UAE has been responsible for the integration of the new firm, instilling the procedures and processes that will bring the operations up to the EFG-Hermes standard.

Brokerage operations out of the UAE have increased 9.1% over 2007 to reach the equivalent of EGP150 million and constituted 9.2% of the Group's total consolidated fee and commission income.

## Saudi Arabia

Figure 7: Progression of Volumes Executed and Share of Total Market Executions



Sources: TADAWUL and EFG-Hermes



The Saudi market was one of the worst affected regional markets during 2008 with both the trading values and volumes declining drastically. The main index dropped 56.5% over the year coupled with a 22.7% drop in volumes traded. Market cap/GDP fell to 52.7% as at the end of the year down from 133% a year earlier.

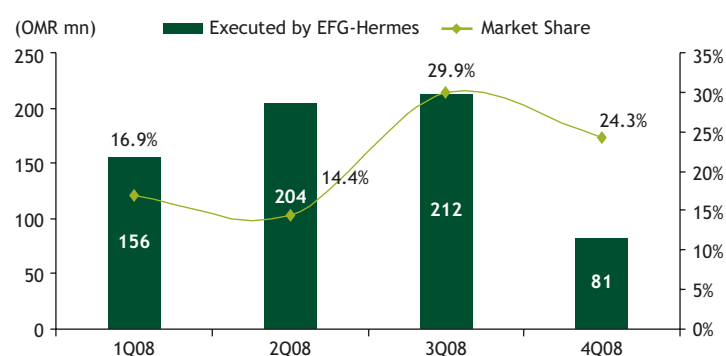
Over 2008 EFG-Hermes executed SAR27.2 billion worth of trades on Tadawul with an average market share of 1.6% over the year. Business in the Kingdom picked up, albeit during challenging market conditions, with the Group's market share solidifying it as the #1 non-bank broker on the Exchange. It must be noted that the drop in EFG-Hermes' market share during 4Q08 reflects the increased activity on the part of the pure retail clients, a segment which the Group is not yet firmly entrenched.

During 3Q08 the Capital Market Authority began allowing foreign participation in the market through swaps and participation notes. EFG-Hermes KSA received approval to conduct this business during August 2008 and began offering the product, named Abwab, to clients starting October 2008. General market turmoil and uncertainty across the globe has dampened the volumes that were expected. However, EFG-Hermes with its institutional client base and an established presence in the KSA is well positioned to capture the increased business once meaningful foreign inflows resume.

Brokerage in Saudi Arabia has locked in the equivalent of EGP35 million in agency fees, corresponding to 2.2% of the Group's consolidated fee income. The Saudi operation has also begun to book Asset Management revenue (EGP5.4 million in 2008) after the launch of the Saudi Fund in the latter part of June 2008.

## Oman

Figure 8: Progression of Volumes Executed and Share of Total Market Executions



Sources: Oman Stock Exchange and EFG-Hermes

During 2Q08 EFG-Hermes acquired a majority managing stake in a brokerage firm in Oman, Vision Securities, for a total consideration of USD15.3 million. At the time of acquisition the Company averaged 9.2% market share (18.4% of total market executions), excluding EFG-Hermes business that was channeled through other brokers until the acquisition was completed. Since then, Vision Securities has climbed to the number two position on the Muscat Stock Exchange.

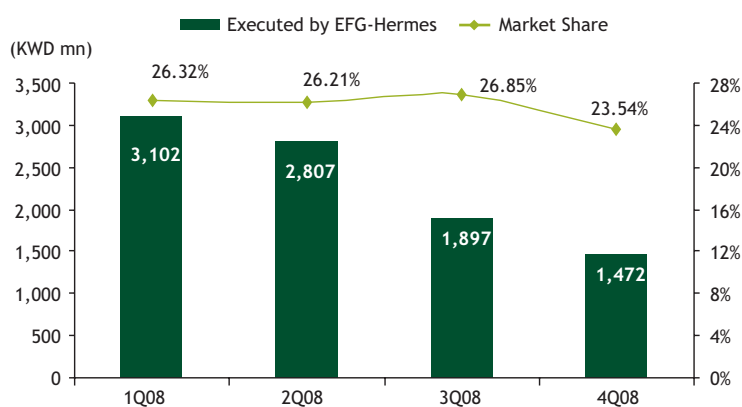
Since the acquisition EFG-Hermes continues to integrate Vision Securities' operations, incorporating the company into the Group's platform and introducing Compliance procedures and workflow. As EFG-Hermes began channeling its client business in Oman through Vision Securities, the Company's share of total market executions increased to 29.9% in 3Q08 and 24.3% in 4Q08 despite EFG-Hermes Compliance Department limiting trading on all accounts that did not have proper EFG-Hermes level of documentation.

The portion consolidated from Vision Securities' activities recorded the equivalent of EGP21 million in agency fees, corresponding to 1.3% of the Group's consolidated operating revenues during 2008.



## Kuwait

Figure 9: Progression of Volumes Executed and Share of Total Market Executions



Sources: Kuwait Stock Exchange and EFG-Hermes

During August 2008 EFG-Hermes acquired a controlling management stake in Gulf Brokerage Company in Kuwait in the middle of August 2008 for a total consideration of USD125 million. Since the acquisition, the Company has been renamed EFG-Hermes IFA and the integration process is well under way. Over 2008, EFG-Hermes IFA averaged 25.4% of the markets total executions ending the year in second position overall and has since climbed to the #1 position in February 2009.

The portion consolidated from the Kuwaiti subsidiary in 2008 is the equivalent of EGP40 million corresponding to 2.5% of the Group's total operating revenues for the year.

## Other Regional Markets

Trading on markets where EFG-Hermes has no physical presence began in 2007 with the introduction of the "trading a region" concept into Brokerage rather than trading separate markets. The main markets where EFG-Hermes executed significant business without being on the ground were Oman, Kuwait and Qatar. With the acquisition of local operations in Oman in April 2008 and another in Kuwait in August 2008, the markets which the Team focused on shifted to Qatar, Jordan, Morocco and Bahrain. The bulk of the activity and hence the commissions is due to executions on the Qatari stock exchange.

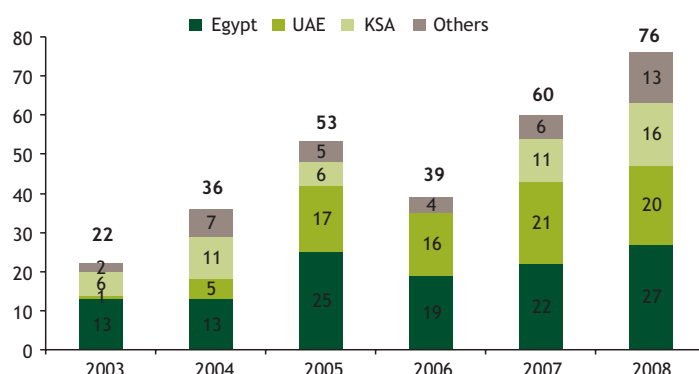
## Online Brokerage

EFG-Hermes' online brokerage portal, introduced towards the end of 1H07, has been steadily growing, especially in Egypt. Values trades through the portal increased by 167.3% over the year to reach USD2.3 billion; 76% of which is Egypt based and which has more than tripled over the year. Today around 7,000 customers actively use EFG-Hermes' online portal up from around 3,000 as at the end of 2007. Online services have been introduced into Saudi Arabia during the latter part of 2008 but executions through the portal there so far remain minimal



## Research

Figure 10: Development Active\* Research Coverage



\* active coverage defined as at least one note published in the past 6 months  
Source: EFG-Hermes

The Research Division increased its stock under coverage to 76 stocks at the end of 2008 up from 60 at the end of 2007. Overall, the number and frequency of reports have increased markedly through the second half of the year.

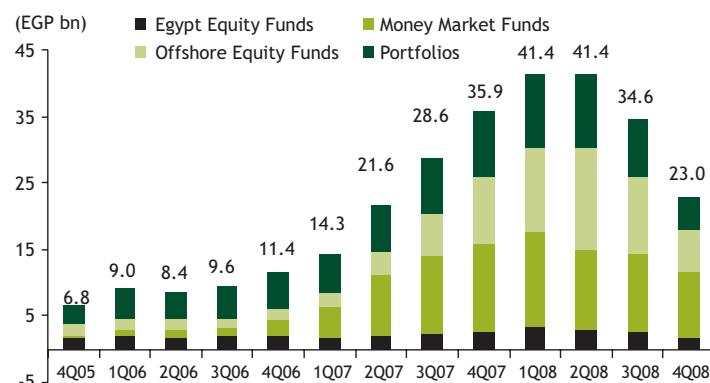
Expanding coverage of stocks to maintain EFG-Hermes' regional leadership remains at the heart of the Division's strategy. Extensive company, economic and strategy coverage of Egypt, the UAE, Saudi Arabia, Qatar, Kuwait, Lebanon, Morocco and Oman continue to position EFG-Hermes Research as the leading franchise in the region. It is worth noting that due to market requirements in the Kingdom, all research published in Saudi Arabia is distributed simultaneously in both English and Arabic, a key differentiating factor for the firm.

Over the year the Team introduced the Saudi Yearbook along the lines of the annually published Egypt and UAE Yearbooks. The Strategy Team in cooperation with EFG-Hermes' Sales Team introduced a Focus List in 3Q08 which is regularly reviewed and which contains the Firm's top stock picks for the given period.

Confirming EFG-Hermes' continuous publication of high quality dependable research, the firm was ranked the overall #1 research house for a second year running in the MENA region in a poll conducted by Euromoney Magazine and published in its August 2008 issue. Over 2009 the role of the Research Division will be key to maintaining the Group's reputation and client base during challenging market conditions.

## Asset Management

Figure 11: Development of Listed Assets under Management (totals in EGP billions)



Source: EFG-Hermes

2008 was a particularly difficult year for the MENA markets. The MSCI Arabia and the MSCI Egypt indices declined by 55% and 54% respectively. Assets under management peaked during 2Q08 at USD7.73 billion



(of which 29% were in money market and fixed income funds). However, the year ended with the assets under management falling sharply to USD4.2 billion down from USD6.5 billion at the end of 2007, a 35.8% decline. Of the year-on-year decline 84.5% is due to market effect. The net cash outflows totaled USD361.8 million with the bulk coming from the money market funds run out of Egypt which had a net cash outflow of USD806.5 million. On a geographic basis the change in assets under management over the year is considerably different. Assets under management run on a regional level have declined by a total of USD700 million as a result of the acute market related decline (USD1.4 billion) which marginalised the net cash inflows over the year. Within the Egypt only mandates, the bulk of the 39.5% decline (USD1 billion) to USD2.5 billion over the year was predominantly as a result of net cash outflows from money market funds.

Over the year the breakdown of assets under management became more skewed to those with a regional focus rather than the mandates that are Egypt centric. As at the end of the year 40% of the assets under management were in funds and portfolios with a regional focus up from 36.6% a year earlier. The major growth in the regional business came from the managed funds including the EFG-Hermes MEDA Fund and the MENA Opportunities Fund which now represent roughly 29% of AUMs up from 26% a year earlier.

On the Business Development side, the Team launched several differentiated products that expanded the spectrum of funds offered by EFG-Hermes.

On the performance side, the funds managed by EFG-Hermes continue to outperform their peers, whether in Egypt or regionally. The MENA Opportunities Fund received the "Best Newcomer" award from Terrapin's Hedge Funds World during 2Q08. Over the year, the EFG-Hermes MEDA Fund's overall size dropped due to the pronounced decline in the NAV, it ended the year -42.1% outperforming all regional peers by at least 500 basis points and outperforming the MSCI Arabian Markets Index by 12.9%. The MENA Opportunities Fund had increased to USD1 billion in the early part of the year but ended at USD644 million with the bulk of the decline emanating from the market. As market conditions continued to deteriorate into the fourth quarter, the Team adjusted the investment strategy in both Funds accordingly.

The EFG-Hermes Saudi Arabia Equity Fund launched on 17th June 2008 ended the year beating all other Saudi-specific funds in the region and outperforming the MSCI Saudi Arabia Domestic Index by 80 bps.

The outperformance of the relevant MSCI indices was also echoed in the performance of the EFG-Hermes Egypt Fund which ended the year outperforming the MSCI Egypt Index by 10%.

Revenues of the Asset Management business decreased 3.2% to the equivalent of EGP494 million in 2008 from EGP511 million the previous year. Total realised incentive fees during 2008 were EGP218.1 million compared to EGP379.1 million in 2007. Asset Management revenues contributed 30.5% to the Group's consolidated fee and commission income.

## Investment Banking

Coming off a spectacular year in 2007, the Investment Banking Team encountered a tougher market during 2008. The execution of deals became increasingly difficult as the year progressed with the Egyptian market being impacted in May after the Government's May 5th decisions relating to energy subsidies and free zones. The slowdown then spread to the rest of the region during the summer, with the markets essentially closing as the global financial crisis set in over the late summer months. Nevertheless, Investment Banking sealed eight deals during the year, raising USD862 million in equity for its clients and closing USD720 million worth of M&A transactions, down from thirteen transactions during 2007 worth a total of USD6 billion.

Despite the difficult market conditions, the Team fared well on a relative basis, booking EGP217 million of total revenue. The revenue booked was a result of a number of high profile transactions. The simultaneous and unprecedented closing of two significantly large initial public offerings during May 2008 on the Cairo & Alexandria Stock Exchange attested to the Group's distribution and placement capabilities not only in the region but also its penetration of a large base of investors and fund managers in the West with investment portfolios earmarked for the region. The first of the IPOs was the USD273 million IPO of Maridive Oil Services. The second equity offering, comprising of both a local equity offering on EGX and a GDR offering on LSE, was a USD343 million IPO of Palm Hills Development. Backed by very strong Western and Gulf institutional demand as well as retail demand from Egypt, Maridive was nearly 30 times oversubscribed while Palm Hills was around 17 times oversubscribed. The Group's strong performance continued into 3Q08 with a large private placement in the UAE (Gulf Housing Solutions – USD141 million), a private placement (Maridive & Oil Services – USD156 million) and an M&A transaction in Egypt (Tarek Nour Holding – USD70 million) in Egypt. The latter transaction was the first transaction to be listed on NILEX, the nascent Egyptian equivalent of AIM. As market conditions



began to deteriorate towards the end of 3Q08 and into the fourth quarter, activity within the Investment Banking division began to markedly slow down. However, the Team managed to advise on the acquisition of Forall Confezioni S.p.A (an Italian retail network and brand owner) by Arafa Holding. The significance of this deal was not its size (Euro25 million) but that it was a cross border acquisition for a repeat client and hence attests to the Group's ability to maintain its client base as well as ensure a continued deal flow.

Revenues booked by the Investment Banking Division during 2008 represent a 48.6% decline over 2007 levels to EGP232 million contributing 14.3% to the Group's consolidated revenues.

## Private Equity

The target for 2008 was to transform the Private Equity business into a regional play rather than an Egypt focused operation, scale the business and substantially increase the funds under management through 2009 and 2010, a task that was deemed achievable during the first half of 2008.

On the organisational level, new leadership for the Division was brought in during the year and physical presence established in the UAE to cater to the expected growth in the regional business.

On the operational level, although the funds under management increased marginally from around USD890 million as at yearend 2007 to USD1.15 billion as at the yearend 2008, the Division was transformed preparing a solid foundation for increased business if and when market conditions improve.

With the regionalisation of the business, Horus III completed its first GCC investment during 3Q08 and the increased regional presence and network is evident in the Division's current pipeline. The Division has also changed direction to include transaction based funds and during 1Q08 Private Equity sealed a USD105 million transaction in the oil & gas field Sahara North Bahariya ("SNB") into a new SPV and has seeded the transaction for USD20 million. The SNB deal is important as it was the first time for EHPE to raise and manage equity on transactional basis parallel to the traditional structured fund management model.

Although the aim was to launch several funds during the latter part of the year, the Team closed only two funds; namely the Technology Development Fund II at EGP215 million and the initial closing of the Horus Tourism Investment Company for around USD200 million.

The turmoil in the financial markets across the world and the pursuant credit crunch has created dislocation in the market and an associated volatility during 4Q08 which rendered deal-making difficult. Investors became short-term focused and strong preferences towards liquidity in turn harming appetite for long-term locked-up asset classes like private equity. Given such market conditions, EHPE adopted a much more conservative stance on the Fund deployment under existing funds as valuation parameters are shifting down to Funds' advantage and working with the pipeline of opportunities.

Due to the lack of any sizable exits locking in success fees as was the case in 2007, Private Equity revenues declined 40.7% to EGP105 million in 2008 corresponding to 6.5% of the Group's total consolidated operating revenues. It is worth noting that the annuity-type income that Private Equity provides on a quarterly basis is very important to the Group as a whole, especially in the prevailing market conditions.

## Principal & Proprietary Trading

The separate Principal and Prop. trading accounts were started during the latter part of 2007. With USD200 million earmarked for the activity Management continually tracked the accounts on a weekly basis. With the downturn of the market in Egypt in May/June 2008, Management began the gradual liquidation of the accounts that ended in October 2008.

During the first half of the year, the Principal and Prop. trading accounts booked<sup>3</sup> a total of EGP233.9 million in revenues. This was more than offset by the loss of EGP194.3 million in 3Q08 and a further EGP139 million in 4Q08 as the positions were wound down. As a result, over 2008 the accounts lost a total of EGP84 million compared to total revenue of EGP231 million (excluding the SODIC investment) in 2007. Accordingly, between its inception and liquidation the Principal Account has booked a net gain of EGP147 million.

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<sup>3</sup> Amounts includes unrealised gain of EGP11.2 million in 1H08, unrealised loss of EGP138.9 million in 3Q08 and unrealised loss of EGP37.4 million in FY2008



## Operating Expenses

Table 12: Comparative Operating Expenses and Margins

(EGP mn)	2008	2007	% Change
<b>Operating Revenue</b> <i>(agency business &amp; principal trading)</i>	<b>1,620</b>	<b>1,720</b>	<b>-5.8%</b>
<b>Operating Expenses</b>	<b>887</b>	<b>799</b>	<b>11.1%</b>
<i>Net Operating Margin</i>	<i>45.2%</i>	<i>53.5%</i>	

Sources: EFG-Hermes audited financial statements and management accounts

Operating expenses have increased 11.1% over 2007 levels to EGP887.5 million, which due to softening market conditions has not been matched by an equivalent increase in operating revenues. The major expense components that increased over the year relate to employee expense, marketing and events planning, third party fees and utilities and office expenses.

In addition to the growth of business in its core markets over the early part of 2008, EFG-Hermes's geographic expansion warranted an increase in the number of employees within the Group peaking at 942 people (178 of which are blue collars) in November 2008 up from 720 in January 2008. Additions came across all lines of business and geographic locations. Despite that the fully loaded employee expenses, including bonuses, remained at the same level of 2007 at EGP552 million. A total of EGP202.2 million were paid in bonuses reflecting a 35.5% decline over what was paid in 2007 and only 96.7% of what was accrued over the 9M08. As the Management Deal expired for several key players at the end of 2007, the employee costs reflect the remainder of the previous deal and a portion of the renewed contracts. Fully loaded employee expenses account for 62.2% of total operating expenses down from 69.21% in 2007 mainly as a result of growth of other expense items and accordingly remained in the vicinity of 31 to 34% of operating revenues.

Although the Group's core business hinges on human capital and the ability to hire and retain the very best, Management has been prudent in the current downturn in reviewing staffing needs in order to maintain an efficient workforce. In addition, some cost savings have been achieved through relocation of select staff back to Cairo from the higher cost locations in the Gulf region.

The largest expense item after employee expenses during 2008 relates to third party expenses that recorded EGP52.4 million, the bulk of which were expensed during 3Q and 4Q08 at the Holding Company level and relate mostly to the universal bank project and legal fees related to the acquisitions in Kuwait and Oman. The expense grew over threefold since 2007 and constituted 6.4% of total operating expenses and 3.5% of total operating revenues in 2008 up from 1.98% and 0.9% the previous year.

Marketing and events expense in 2008 increased 1.7 times over 2007 to reach EGP51.5 million increasing to 5.8% of total operating expenses and 3.2% of total consolidated operating revenues up from 3.8% and 1.8% respectively in 2007. The major cost component of this expense remains EFG-Hermes' annual One-on-One Conference. Additional conferences targeting the various client categories and counterparts were also sponsored during the year. Other major items within this category were journal and TV advertising. Given the current market conditions, Management has reigned in all conference sponsoring with the exception of EFG-Hermes' own One-on-One Conference and during 2009, all journal advertising is to be limited to those for regulatory disclosure and on a very limited basis, if required, for the launch of retail based products.

Utilities and office expenses increase 82.2% over 2007 levels to reach EGP50 million as the Group opened offices in new markets including Kuwait, Oman and Lebanon and branches across Cairo and Saudi Arabia. This expense increased to 5.6% of total operating expenses and 3.1% of total operating revenues during 2008.

Travel expenses increased 37.6% over 2007 levels to reach EGP45.6 million in 2008, only slightly higher relative to total operating expenses and revenues versus the previous year. Major cost saving is expected in this area during 2009.



By virtue of the nature of the business and operating across several countries telecommunication expenses remain a large portion of total operating expenses. Total communication expenses, reached EGP35.3 million in 2008 up from EGP23.3 million in 2007 representing 4% of operating expenses and 2.2 % of operating revenues.

During 2008 EFG-Hermes spent a total of EGP15 million on charitable causes through the EFG-Hermes Foundation as approved by the Group's general assembly meeting during April 2008.

On the surface net operating profit<sup>4</sup> in 2008 decreased 20.4% over 2007 levels to EGP732.7 million resulting in a net operating margin of 45.2% down from 53.5% in 2007. However, only EGP218.1 million relate to incentive fees in 2008 compared to EGP379.1 million a year earlier. We note that excluding incentive fees (in order to understand the underlying efficiency of the business without market impact), net operating profits generated during 2008 have decreased to EGP514.5 million down from EGP541.4 million the previous year reflecting net operating margins of 31.8% and 31.5% respectively.

## Other Revenues

The major components of Other Revenues are the consolidated portion of EFG-Hermes' 27.87% ownership stake in Banque Audi Saradar and the net income from treasury operations. However, during 3Q08 revenues resulting from fair value adjustments also contributed to the total non-agency business revenues.

Despite the cancellation of the transaction combining EFG-Hermes and Banque Audi during 3Q08, total consolidated revenues from the stake remains sizeable and has returned to constitute 15.2% of the total revenue. During 2008 revenue consolidated from Banque Audi reached EGP327.6 million, a 14% increase over 2007.

EFG-Hermes continues to have a positive net cash position despite a continuing trend of decreasing free funds that are left to Treasury to manage due to the use in both acquisitions and in running the business. Interest expense and bank charges remain covered by the interest income and quasi interest income earned on cash balances and money market operations and the difference in payments on the NDF contracts hedging both the investment in Banque Audi and the cash balances in foreign currency. Nevertheless, Treasury operations continued to support the Group's bottom line profitability, whether directly through revenue generation or aversion of genuine FX losses that could have occurred if the EGP had continued to depreciate against the USD as it did during the first half of the year.

The positive financing cost in 2008 of EGP122.7 million is a result of netting out all the interest income, interest expenses and bank charges and is down from EGP208.2 million in 2007. It must be noted that as the Principal Account has been liquidated since October 2008 and volumes have shrunk due to the downturn of financial markets, funds available to the Treasury Department have increased.

The EGP: USD exchange rate began the year at EGP5.52: 1USD. However, the EGP began to appreciate until the rate hit EGP5.29: 1USD. Due the unavailability of NDF contracts at the beginning of the year, EFG-Hermes realised FX losses on the USD based assets. By the third quarter of 2008, EFG-Hermes was able to fully hedge its USD positions after which the financial crisis hit and the USD began another wave of appreciation against all major currencies including the Euro and GBP. Given such movements EFG-Hermes managed to lock in a total FX gain of EGP22.1 million during 4Q08 by correctly positioning the firm. For the full year EFG-Hermes booked a net FX loss of EGP9.9 million in 2008 compared to EGP33.8 million loss in 2007.

Netting out the FX loss from the revenue of Treasury operations results in a total of EGP112.8 million in 2008 constituting 5.2% of total revenue, down from EGP174.4 million during 2007.

During 3Q08 EFG-Hermes revalued its real estate investment in Nile City. The 5,209 sq. metres owned were revalued at EGP34,200/metre and resulted in net revaluation gains of EGP90 million.

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<sup>4</sup> based on fee and commission income only



## Other Expenses

In addition to the annual depreciation and amortisation charge of approximately EGP25 million, other expenses include a provision expense for EGP42.3 million covering potential deferred liabilities. Another major expense during 2008 was EGP105.2 million of financial asset impairment predominantly covering declines in seed capital in EFG-Hermes managed funds.

Including the above expenses, net profit before taxes and minority interest in 2008 decreased 32.2% versus the previous year to EGP1.09 billion resulting in a margin of 49.3% down from 62.5% in 2007.

## Balance Sheet

EFG-Hermes's balance sheet remains strong, liquid and unleveraged in spite of the use of approximately USD200 million during 2008 for acquisitions (including Gulf Brokerage House in Kuwait and Vision Securities in Oman), seeding EFG-Hermes funds (Horus Tourism Investment Co. and SNB among others) as well as beginning the construction of the Group's new headquarters.

The balance sheet still carries high levels of cash and cash equivalents for a total of EGP3 billion<sup>5</sup> as at the end of December 2008 even after major acquisitions during the year of both operations and permises. EFG-Hermes' Treasury Department continued to maintain a rate of return above that earned on money market operations.

The available for sale investments declined to EGP704.2 million at the end of 2008 down from EGP1.4 billion the previous year, mainly as a result of the decline in the market valuation of the Group's stake in SODIC to EGP175.7 million as at the end of 2008 down from EGP 942 million as at the end of 2007. As EFG-Hermes seeded several of its new funds during the year, EGP196.2 million of the available for sale investments in 2008 represent the increase in EFG-Hermes' core business generators.

Total receivables and payables resulting from operations resulted in a net payable to clients of EGP481.7 million incurred mainly due to the normal course of business concentrated within the Brokerage Division. It should be noted that gross receivables declined from EGP2.6 billion in 2007 to EGP958 million in 2008 not only as a result of contraction in market volumes but also as EFG-Hermes reduced its margin trading facilities to clients from a peak of USD250 million to approximately USD30 million.

The growth in property, plant and equipment over the year to EGP3761.1 million up from EGP160.9 million at the beginning of the year relates mainly to the continued work on EFG-Hermes' new Egypt premises, the new premises in the UAE and the disaster recovery site.

The increase over the year of the total, current and non-current, amounts relating to the EFG-Hermes Employee Trust from EGP79.9 million at the end of 2007 to EGP305.8 million at the end of 2008 reflects the renewal of the Management Deal for the people whose contracts expired at the end of 2007 and vested until the end of 2008. On a related note, EFG-Hermes purchased a total of 25 million treasury shares over the period from 29th September 2008 to the end of the year. Before the yearend, EFG-Hermes transferred a total of 14,392,772 shares to the Employee Trust Fund at the cost plus carry. At the end of December 2008 the treasury shares reported on the balance sheet for a total of EGP239.4 million correspond to a total of 10,607,228 shares.

Goodwill on the balance sheet increased to EGP699.5 million at the end of 2008, up from EGP63.5 million at the yearend 2007. This increase was mainly due to the consolidation of the Omani subsidiary, Vision Securities (EGP66 million), in 2Q08 and the Kuwaiti subsidiary, Gulf Brokerage (EGP568 million), during 3Q08.

On the liability side, the Group continues to carry very little bank debt. The only debt outstanding at the yearend 2008 is a total of EGP128.8 million, being the soft loans from IFC and DEG, which are down from EGP189.9 million a year earlier.

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<sup>5</sup> Includes a total of EGP593 million of money market funds (EGP159 million), treasury bonds (EGP213 million) and Weather Capital bonds (EGP221 million) reported within trading investments



## Taxes

The effective tax rate for the year 2008 decreased substantially to 10%, down from 13.1% in 2007 as revenues emanating from outside Egypt and from non-taxable entities increased. Furthermore, the Firm continues to administer tax management at the level of the Group as a whole as well as optimising balance sheet management revenues.

## Profitability

Net profit after tax and minority interest decreased 27.7% to EGP933.5 million in 2008 down from EGP1.29 billion in 2007. The decline in net profit after tax and minority interest is greater than the decline in total consolidated revenues as a result of the surge in several operating expense items including employee expenses, events planning and travel during the first half of the year, all of which are budgeted to decline in 2009. Net profit margin also declined over the year falling to 43.3% in 2008 down from 50.7% in 2007. Having said that, the most important issue on the financial side is that despite the initial hike in operating costs and the dwindling business levels during the latter part of the year the operations of the Investment Bank remained profitable with net operating margins in the vicinity of 50%. On the operational side, the Group has so far successfully navigated the difficult financial markets, relying on its internal policies relating to corporate governance, client documentation and operating procedures (including margin calls) to emerge with no calculable losses whether to clients or the Firm. Such a performance highlights the Group's leadership position within the regional investment banks.

## Recommended Dividend Payout

The Board of Directors is recommending the distribution of EGP 0.5/share in dividend. The total dividend bill proposed is EGP188.6 million, representing 20.2% of the consolidated net profit after tax and minority interest. EFG-Hermes will look at buybacks and cancellation of shares as an alternative form of dividend.

## Corporate Social Responsibility

Since its inception during 2007, the EFG-Hermes Foundation has been at the helm of implementing the Group's corporate social responsibility projects, with all projects sponsored or funded mostly being channeled through it. The Foundation, set up and operating as an independent organization, spent most of 2007 testing the water by sponsoring and funding several projects until a clear important mission was identified and followed. The mission chosen is to assist people in overcoming the financial, educational and health-related challenges facing our society as well as supporting innovative and sustainable programs that increase the opportunities for those most in need to make a positive change in their local communities. Over 2008, EFG-Hermes has directed a total of EGP15 million to the Foundation as was approved by the Board of Directors and the Company's general assembly earlier in the year.

The Foundation's main project is an integrated development project for poverty alleviation in Ezbet Yacoub – Beni Sweif named Ro'ya. The project represents a new holistic approach towards poverty alleviation. Instead of just looking to meet the immediate needs of the villagers, it goes further and tries to tackle the root of their challenges by providing them with a steady source of income and basic education on how to manage their affairs. The project, which began in May 2008, is the first of its kind in the area of comprehensive rural development, includes the construction of 370 safe and environmentally-friendly homes, a community service center that is run by the villagers and which will include a bakery, a clinic, a dairy production facility, a computer training facility for youth, and a center for children with special needs. So far 34 newly built homes were handed over to the residents, and work has begun on the introduction of a sewerage system within the village as a whole. The project has created hundreds of jobs and trained over 50 youths of different vocations.



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In this earnings release EFG-Hermes may make forward looking statements, including, for example, statements about management's expectations, strategic objectives, growth opportunities and business prospects. Such forward looking statements by their nature may involve a number of risks, uncertainties and assumptions that could cause actual results or events to differ materially from those expressed or implied by these statements. Examples may include financial market volatility; actions and initiatives taken by current and potential competitors; general economic conditions; and the effect of current, pending and future legislation, regulations and regulatory actions. Furthermore, forward looking statements contained in this document that reference past trends or activities should not be taken as a representation that such trends or activities will continue. EFG-Hermes does not undertake any obligation to update or revise any forward looking statements. Accordingly, readers are cautioned not to place undue reliance on forward looking statements, which speak only as of the date on which they are made.

This document is provided for informational purposes only. It does not constitute an offer to sell or a solicitation of an offer to buy any securities or interests described within it ("Investments") in any jurisdiction. We strongly advise potential investors to seek financial guidance when determining whether an investment is appropriate to their needs.

EFG-Hermes Holding SAE has its address at 58 El Tahrir Street, Dokki, Giza and has an issued capital of EGP 1,939,320,000.

المجموعة المالية هيرميس القابضة شركة مساهمة 58 شارع التحرير - الدقي - الجيزة رأس المال المصدر: 1,939,320,000 جم

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**Stock Exchange & Symbol:**

Cairo: HRHO.CA

London: HRHOq.L

**Bloomberg:** EFGH

**Reuters pages:** EFGS .HRMS .EFGI .HFISMCAP .HFIDOM

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**EFG – Hermes Holding Company**  
**(Egyptian Joint Stock Company)**

**Consolidated financial statements**  
**for the year ended 31 December 2008**  
**&**  
**Auditor's Report**



## Hazem Hassan

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

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 2008 , 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 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 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.

***Basis of Opinion***

Revenues and shareholders' equity include approximately LE 327.6 million and LE 39.3 million respectively representing the Company's share in the net profit and the changes in shareholders' equity of Bank Audi SAL (a foreign associate) which were computed based on the associate's financial statements have not yet been audited by the auditors of the Bank in Lebanon.

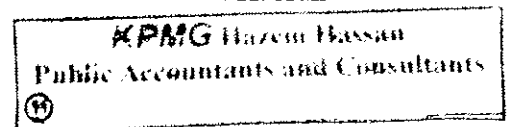
***Opinion***

In our opinion, except for the effects of such adjustments on the company's revenues and shareholders' equity, if any, as might have been determined to be necessary had we been able to obtain the audited financial statements of that associate, 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, 2008 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.

*Hazem Hassan*

KPMG Hazem Hassan

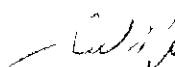
Cairo, February 26, 2009




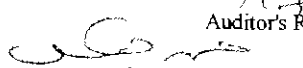
**EFG - Hermes Holding Company**  
**(Egyptian Joint Stock Company)**  
**Consolidated balance sheet**  
**as at 31 December 2008**

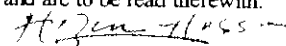
	Note No.	31/12/2008 LE	31/12/2007 LE
<b>Current assets</b>			
Cash on hand and with banks			
Cash on hand		1 066 791	811 528
Cheques under collection		204 769	36 386 148
Banks - current accounts	(24)	724 798 518	1 245 714 032
Banks - call accounts		17 946 716	-
Banks - time deposits	(20,24)	1 147 061 501	2 131 341 189
Saving certificates		-	4 800 000
Total cash on hand and with banks		<u>1 891 078 295</u>	<u>3 419 052 897</u>
Treasury bills	(4)	520 037 696	26 560 066
Trading investments	(5)	690 588 550	1 385 438 489
Accounts receivables (net of accumulated impairment)		476 137 971	2 588 139 213
Due from EFG- Hermes Employee Trust (current tranche)	(19)	72 422 903	44 293 601
Due from related parties		12 667 362	120 494 492
Other brokerage companies		137 635 119	(285 480 549)
Other debit balances	(6)	516 943 843	306 364 471
Total current assets		<u>4 317 511 739</u>	<u>7 604 862 680</u>
<b>Non - current assets</b>			
Fixed assets (net)	(9)	168 422 643	135 218 649
Projects under construction	(10)	207 644 611	25 693 616
Available -for- sale investments	(11)	704 666 828	1 422 647 434
Investments in subsidiaries & associates	(12)	4 040 280 838	3 748 946 226
Investment property	(13)	178 167 117	88 198 020
Settlement Guarantee Fund	(14)	31 324 099	14 113 833
Due from EFG- Hermes Employee Trust (non-current tranche)	(19)	233 345 392	35 632 706
Intangible assets	(15)	699 450 213	63 483 756
Total non - current assets		<u>6 263 301 741</u>	<u>5 533 934 240</u>
Total assets		<u>10 580 813 480</u>	<u>13 138 796 920</u>
<b>Current liabilities</b>			
Banks - overdraft		300 118	-
Accounts receivables - credit balances		957 861 846	2 626 964 332
Creditors and other credit balances	(7)	511 451 534	633 513 957
Due to related parties		15 235 000	-
Provisions	(8)	153 171 660	169 220 497
Current tranche of long term loans	(17)	37 732 000	58 651 500
Total current liabilities		<u>1 675 752 158</u>	<u>3 488 350 286</u>
<b>Shareholders' equity</b>			
Share capital	(19)	1 939 320 000	1 939 320 000
Legal reserve		980 337 393	973 176 967
Share premium		3 345 518 887	3 337 714 692
Reserves		3 263 897	1 024 857 486
Other equity	(18)	(607 200 000)	-
Retained earnings		1 616 624 918	751 128 194
Shareholders' equity		<u>7 277 865 095</u>	<u>8 026 197 339</u>
Deduct : Treasury shares	(19)	(239 381 358)	-
Net profit for the year		7 038 483 737	8 026 197 339
Shareholders' equity including net profit for the year		<u>933 497 922</u>	<u>1 291 185 845</u>
Minority interest		7 971 981 659	9 317 383 184
		213 767 624	119 459 026
Total shareholders' equity		<u>8 185 749 283</u>	<u>9 436 842 210</u>
<b>Non - current liabilities</b>			
Long term loans	(17)	91 116 000	131 256 000
Deferred tax liabilities	(27)	20 089 322	81 441 707
Long term liabilities	(18)	608 106 717	906 717
Total non - current liabilities		<u>719 312 039</u>	<u>213 604 424</u>
Total shareholders' equity and liabilities		<u>10 580 813 480</u>	<u>13 138 796 920</u>

The accompanying notes from page (5) to page (27) are an integral part of these financial statements and are to be read therewith.

  
Mona Zulficar  
Chairperson

  
Yasser El Mallawany  
Executive Managing Director

  
Hassan Heikal  
Executive Managing Director

  
Auditor's Report "attached"

**EFG - Hermes Holding Company**  
**(Egyptian Joint Stock Company)**  
**Consolidated income statement**  
**for the year ended 31 December, 2008**

	Note No.	For the year ended 31/12/2008 LE	For the year ended 31/12/2007 LE
Income from fees, commission & management of investments		1 620 116 866	1 719 572 065
Share of profit of associate - Bank Audi - Lebanon	(3-1-2)	327 609 411	287 479 983
Interest income	(24)	187 144 208	246 278 029
Dividend income		22 906 638	18 625 980
Unrealized gains on investment property	(13)	89 969 097	9 945 487
Gains on sale of fixed assets		2 247 013	197 163
Other income	(8)	86 480 665	1 599 243
<b>Total revenues</b>		<b>2 336 473 898</b>	<b>2 283 697 950</b>
<b>Deduct/(Add):</b>			
General administrative expenses		887 466 681	799 061 780
Finance costs		64 459 817	38 075 907
Provisions	(8)	42 322 970	109 419 539
Fixed assets depreciation	(9)	25 620 682	18 446 737
Losses (gains) on sale of investments		69 538 629	( 341 247 836)
Unrealized loss on trading investments		37 429 155	7 877 807
Impairment loss on assets	(23)	105 215 638	4 350 608
Foreign currencies differences		9 883 407	33 785 980
<b>Total expenses</b>		<b>1 241 936 979</b>	<b>669 770 522</b>
<b>Net profit before income tax</b>		<b>1 094 536 919</b>	<b>1 613 927 428</b>
Income tax expense	(26)	( 101 420 625)	( 210 794 395)
<b>Net profit for the year</b>		<b>993 116 294</b>	<b>1 403 133 033</b>
<b>Attributable to:</b>			
Equity holders of the parent		933 497 922	1 291 185 845
Minority interest		59 618 372	111 947 188
		<b>993 116 294</b>	<b>1 403 133 033</b>
<b>Earnings per share</b>	(28)	<b>2.43</b>	<b>3.33</b>

The accompanying notes from page (5) to page (27) are an integral part of these financial statements and are to be read therewith.

**EFG - Hermes Holding Company**  
**(Excluding Joint Stock Company)**  
**Consolidated statement of changes in equity**  
**for the year ended 31 December 2008**

Note No.	Share capital	Legal reserve	Shares premium	Reserves						Company's share of items recognized in associate equity	Other equity	Retained earnings	Treasury shares	Net profit for the year	Total				
				General reserve		Translation reserve		Fair value reserve								Hedging reserve		Cumulative adjustments	
				LE	LE	LE	LE	LE	LE							LE	LE	LE	LE
	1 939 320 000	972 183 497	3 335 470 459	158 271	1 335 374	658 119 420	-	-	39 970 323	-	364 211 969	119 854 430	701 441 537	7 983 642 432					
	-	-	2 244 233	-	-	-	-	-	-	-	-	19 854 430	-	22 098 663					
	-	-	-	-	9 791 847	-	-	-	-	-	-	-	-	9 791 847					
	-	-	-	-	-	68 504 120	-	-	-	-	-	-	-	68 504 120					
	-	-	-	-	-	-	-	-	43 735 637	-	-	-	-	43 735 637					
	-	-	-	-	-	206 781 927	-	-	-	-	-	-	-	206 781 927					
	-	993 470	-	-	-	-	-	5 626 055	-	-	-	-	-	5 626 055					
	-	-	-	-	-	-	-	-	-	-	386 916 225	-	(701 943 437)	(314 033 842)					
	1 939 320 000	973 176 967	3 337 714 692	158 271	11 127 221	864 901 347	68 504 120	(3 539 433)	83 705 960	-	751 128 194	-	1 281 240 358	1 281 240 358					
	-	-	-	-	-	-	-	-	-	-	-	-	9 945 487	9 945 487					
	1 939 320 000	973 176 967	3 337 714 692	158 271	11 127 221	864 901 347	68 504 120	(3 539 433)	83 705 960	-	751 128 194	-	1 291 185 845	9 317 383 184					
	-	-	-	-	(6 045 718)	-	(62 834 386)	-	-	-	-	-	-	16 045 718					
	-	-	-	-	-	-	-	-	(39 252 280)	-	-	-	-	162 834 386					
	-	-	-	-	-	(865 886 318)	-	-	-	-	-	-	-	1 39 252 280					
	-	-	-	-	-	-	-	(47 774 887)	-	-	-	-	-	1 865 686 318					
	-	-	7 804 195	-	-	-	-	-	-	-	-	15 641 931 958	-	1 47 774 887					
	-	7 160 426	-	-	-	-	-	-	-	-	-	324 812 400	-	1 564 193 958					
	-	-	-	-	-	-	-	-	-	-	855 446 724	-	11 291 185 845	332 616 795					
	-	-	-	-	-	-	-	-	1 607 200 000	-	-	-	-	1 418 528 695					
	1 939 320 000	980 337 393	3 345 518 887	158 271	5 081 503	( 784 971)	5 669 714	(51 314 320)	44 453 680	( 607 200 000)	1 616 624 918	( 239 381 358)	933 497 922	933 497 922					

The accompanying notes from page (5) to page (27) 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, 2008**

	For the year ended 31/12/2008 LE	For the year ended 31/12/2007 LE
<b>Cash flows from operating activities</b>		
Net profit before income tax	1 094 536 919	1 613 927 428
<b>Adjustments to reconcile net profit to net cash provided by operating activities</b>		
Fixed assets depreciation	25 620 682	18 446 737
Goodwill impairment	-	1 176 358
Provisions	42 322 970	109 419 539
Amounts used from provisions no longer needed	( 18 171 580)	( 7 334 142)
provisions no longer needed	( 45 946 931)	-
Gains on sale of fixed assets	( 2 247 013)	( 197 163)
Gains on sale of available -for- sale investments	( 191 768 760)	( 138 778 878)
Unrealized loss on trading investments	37 429 155	7 877 807
Unrealized gains on investment property	( 89 969 097)	( 9 945 487)
Impairment loss on assets	105 215 638	4 350 608
Bad debts expense	1 431 852	31 380
Foreign currency translation differences	19 786 179	( 19 501 962)
Share of profit of associates - Bank Audi - Lebanon	( 327 609 411)	( 287 479 983)
Income tax paid	( 148 814 691)	( 118 781 784)
Operating profit before changes in working capital	<u>501 815 912</u>	<u>1 173 210 458</u>
Decrease (increase ) to other debit balances	10 692 294	( 373 182 227)
(Decrease) increase in creditors and other credit balances	( 172 506 970)	396 727 426
Decrease (increase) in accounts receivables -(debit balances)	2 156 032 823	( 1 902 184 796)
(Decrease) increase in accounts receivables - (credit balances)	( 1 737 933 005)	1 282 230 369
Decrease ( increase ) to due from related parties	228 631 227	( 2 432 480 938)
( Decrease ) increase in due to related parties	( 59 920 441)	2 365 778 984
Decrease (increase) in trading investments	1 392 464 242	( 1 361 428 889)
Increase in EFG- Hermes Employee Trust (current tranche)	( 28 129 302)	( 6 433 661)
(Increase) decrease in EFG- Hermes Employee Trust (non - current tranche)	( 245 487 573)	71 583 347
(Increase) decrease to other brokerage companies- Mistr clearance	( 450 132 501)	918 440 301
(Decrease) increase in long term loans - current tranche	<u>( 20 919 500)</u>	<u>16 961 500</u>
Net cash provided from operating activities	<u>1 574 607 206</u>	<u>149 221 874</u>
<b>Cash Flows from Investing Activities</b>		
Payments to purchase fixed assets	( 36 992 865)	( 91 521 562)
Proceeds from sale of fixed assets	4 779 070	234 184
Payments for projects under construction	( 181 950 995)	( 9 062 216)
Payments to purchase / proceeds from redemption treasury bills	( 520 037 696)	22 588 102
Payments to purchase available -for- sale investments	( 2 055 962 780)	( 1 696 311 958)
Payments to purchase investments in subsidiaries and associates	( 903 491 630)	( 386 228 820)
Proceeds from sale of available -for- sale investments	1 489 616 409	1 393 207 419
Proceeds from sale of investments in subsidiaries and associates	55 904 629	3 946 113
Payments to increase companies' share in Settlement Guarantee Fund	( 11 565 107)	( 3 020 755)
Net cash used in investing activities	<u>( 2 159 700 965)</u>	<u>( 766 169 493)</u>
<b>Cash flows from financing activities</b>		
Increase in paid - to capital	-	229 928 692
Purchases of treasury shares	( 564 193 958)	-
Proceeds from sale of treasury shares	324 812 600	22 098 663
(Decrease) increase in retained earnings	( 105 482 002)	336 071 282
Increase in bank overdraft	300 118	-
Paid dividends	( 552 511 214)	( 339 329 994)
Decrease in long term loans	( 40 128 502)	( 54 383 567)
Changes in reserves	( 70 829 660)	85 630 150
Net cash (used to) provided from financing activities	<u>( 1 008 032 618)</u>	<u>280 015 226</u>
Net change in cash and cash equivalents during the year	( 1 593 126 377)	( 336 932 393)
Cash from acquisition of subsidiaries	38 591 709	-
Cash and cash equivalents at the beginning of the year	<u>3 445 612 963</u>	<u>3 782 545 356</u>
Cash and cash equivalents at the end of the year	<u>1 891 078 295</u>	<u>3 445 612 963</u>
<b>Cash &amp; cash equivalents are represented in:</b>		
Cash on hand	1 066 791	811 528
Cheques under collection	204 769	36 386 148
Banks- current accounts	724 798 518	1 245 714 032
Banks - Call accounts	17 946 716	-
Banks- time deposits	1 147 061 501	2 131 341 189
Saving certificates	-	4 800 000
Treasury bills	520 037 696	26 560 066
Treasury bills (more than 3 months)	<u>( 520 037 696)</u>	<u>-</u>
	<u>1 891 078 295</u>	<u>3 445 612 963</u>
<b>Non cash transactions</b>		
For the purpose of preparing the cash flows statement:		
- An amount of LE 12 882 083 has been transferred from payments for purchase of investments to available-for-sale investments. This amount was excluded from both items.		
- An amount of LE 607 200 000 was eliminated from other equity item and long term liabilities item (Note No. 18).		

The accompanying notes from page (5) to page (27) 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 2008**

**1- General**

**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.

**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.

**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.

**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 (8) – provisions.
- Note (20) – Contingent liabilities.
- Note (20,21) – valuation of financial instruments
- Note (27) – recognition of deferred tax liabilities.

### 3- Significant accounting policies applied

The accounting policies set out below have been applied consistently with those applied in the previous year presented in these consolidated financial statements and applied consistently by Group's entities. Certain corresponding figures have been reclassified to conform with the current year presentation (note no. 33).

#### 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.
- Minority interests shall be presented in the consolidated balance sheet within equity, separately from the parent shareholder's equity. Minority 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 faire 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:

	<b>Estimated useful life</b>
- Buildings	33.3 years
- Office furniture, equipment & electrical appliances	2-16.67 years
- Computer equipment	3.33 - 5 years
- Transportation means	3.33 - 4 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.

#### **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 Investment property**

- Investment property is recorded at cost. Any decline in the fair value (impairment) is charged to income statement.
- The accounting policy has been changed during this period in order to be measured by fair value on the balance sheet date and 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, current accounts, call accounts, time deposits with banks, saving certificates and treasury bills maturing within 3 months or less from its acquisition date.

### **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 debit balances**

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

### **3-14 Provisions**

Provisions are recognized when the Company 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 stopped 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 Revenues recognition**

#### **3-17-1 Gains (losses) from sale of investments**

Gains (losses) resulted from sale of investments are recognized on transaction date and measured by the difference between cost and selling price less selling commission and expenses.

#### **3-17-2 Dividend income**

Dividend income is recognized when declared.

#### **3-17-3 Custody fees**

Custody fees is recognized when provide service and issue invoice.

#### **3-17-4 Interest income**

Interest income is recognized on accrual basis.

#### **3-17-5 Brokerage commission**

Brokerage commission resulting from purchase of and sale of securities operations in favor of clients are recorded according to the accrual basis (when the invoice is issued).

#### **3-17-6 Management fee**

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

#### **3-17-7 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 Expenses**

#### **3-18-1 Borrowing costs**

Borrowing costs are recognized as expenses in the income statement when incurred based on the effective interest rate.

#### **3-18-2 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.

**3-18-3 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.

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.

**3-19 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.

**3-20 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.

**4- Treasury Bills**

	<b>31/12/2008</b>	<b>31/12/2007</b>
	<b>LE</b>	<b>LE</b>
Treasury Bills 365 days maturity	570 000 000	--
Treasury Bills 91 days maturity	--	26 594 419
	<hr/>	<hr/>
	570 000 000	26 594 419
Unearned income	(49 962 304)	(34 353)
	<hr/>	<hr/>
Net	520 037 696	26 560 066
	<hr/> <hr/>	<hr/> <hr/>

**5- Trading investments**

	<b>31/12/2008</b>	<b>31/12/2007</b>
	<b>LE</b>	<b>LE</b>
Treasury bonds	213 435 000	61 816 280
Mutual fund certificates	159 028 066	1 061 361 702
Shares	97 244 462	82 253 285
Bonds	220 881 022	180 007 222
	<hr/>	<hr/>
Balance	690 588 550	1 385 438 489
	<hr/> <hr/>	<hr/> <hr/>

**6- Other debit balances**

	<b>31/12/2008</b>	<b>31/12/2007</b>
	<b>LE</b>	<b>LE</b>
Deposits with others *	191 737 739	11 365 615
Downpayments to suppliers	12 293 192	35 567 057
Prepaid expenses	22 304 339	7 044 899
Employees' advances	19 438 445	15 054 611
Accrued revenues	45 064 804	43 916 028
Taxes withheld by others	50 147 101	44 890 517
Unrealized swap losses	4 406 858	827 200
Payments for purchase of investments	43 323 848	56 165 931
Perching Brokerage	10 136 556	40 204 952
Due from Ara inc. company	20 403 885	--
Horus Tourism Investment Company Limited	13 800 000	--
Asset derivatives – hedge agreements	4 800 000	7 210 000
Sundry debtors	82 069 029	44 141 523
	<hr/>	<hr/>
Accumulated impairment	(2 981 953)	(23 862)
	<hr/>	<hr/>
Net	516 943 843	306 364 471
	<hr/> <hr/>	<hr/> <hr/>

\* The balance of deposits with others includes:

- US\$ 30 million (equivalent to LE165 600 000) represents the cash deposit as a guarantee at one of the financial institution for the purpose of execution of the non-deliverable forward sale transactions to hedge the risk of currency rate fluctuations related to its assets (note no 21).
- LE 20.52 million in the name of the subsidiaries, Financial Brokerage Group Company and Hermes Securities Brokerage Company represents the blocked deposit for same Day Trading Operations Settlement which takes place in the Egyptian Stock Exchange. Both companies are not entitled to use this amount without prior approval from Misr Clearance Company.

**7- Creditors and other credit balances**

	<b>31/12/2008</b>	<b>31/12/2007</b>
	<b>LE</b>	<b>LE</b>
Tax Authority	151 982 121	153 060 113
Social Insurance Association	290 634	219 396
Unearned revenues	9 199 379	60 401 264
Interest & commission payable	926 465	1 790 023
Suppliers	1 587 553	1 360 000
Accrued expenses	270 030 376	310 966 999
Clients' coupons- Custody Activity	23 699 349	14 797 419
Industry Modernization Center	17 127 201	27 379 460
Credit balances -- proceeds from clients under subscription	73 753	40 532 600
Dividends payable	10 603 203	10 558 636
Sundry creditors	25 931 500	12 448 047
	<hr/>	<hr/>
Balance	511 451 534	633 513 957
	<hr/> <hr/>	<hr/> <hr/>

**8- Provisions**

	<b>Expected liabilities provision LE</b>	<b>Severance pay provision LE</b>	<b>Total LE</b>
Balance at the beginning of the year	164 334 223	4 886 274	169 220 497
Provision through acquisition of subsidiaries	--	5 481 936	5 481 936
Formed during the year	35 441 493	6 881 477	42 322 970
Foreign currency differences	--	83 021	83 021
Amounts used during the year	(17 465 938)	(523 895)	(17 989 833)
Provisions no longer needed *	(45 946 931)	--	(45 946 931)
	<hr/>	<hr/>	<hr/>
Balance at the end of the year	136 362 847	16 808 813	153 171 660
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

\* Provisions no longer needed are recorded in other income item.

**9- Fixed assets**

Particular	Land LE	Buildings LE	Lease hold improvements LE	Office furniture, equipment & electrical appliances	Computer equipment	Vehicles LE	Total LE
				LE	LE		
Balance as at 1/1/2008	5 360 000	80 569 688	2 154 862	44 821 120	44 245 021	8 896 319	186 047 010
Acquisition of subsidiaries	--	--	--	11 433 242	--	--	11 433 242
Additions	--	15 202 701	6 064 627	29 109 660	6 259 560	2 172 997	58 809 545
Disposals	--	--	--	(4 111 174)	(10 345)	--	(4 121 519)
Foreign currency translation difference	--	(1 660 148)	--	(694 255)	(520 370)	(30 441)	(2 905 214)
Total cost as at 31/12/2008	5 360 000	94 112 241	8 219 489	80 558 593	49 973 866	11 038 875	249 263 064
Accumulated depreciation as at 1/1/2008	--	5 101 820	1 740 609	22 937 401	16 028 440	5 031 977	50 840 247
Accumulated depreciation through acquisition of subsidiaries	--	--	--	6 208 262	--	--	6 208 262
Depreciation	--	2 648 496	288 169	10 718 708	9 982 118	1 983 191	25 620 682
Disposals' accumulated depreciation	--	--	--	(1 587 877)	(1 584)	--	(1 589 461)
Foreign currency translation difference	--	(16 062)	--	(189 135)	(30 532)	(3 580)	(239 309)
Accumulated depreciation as at 31/12/2008	--	7 734 254	2 028 778	38 087 359	25 978 442	7 011 588	80 840 421
Carrying amount as at 31/12/2008	5 360 000	86 377 987	6 190 711	42 471 234	23 995 424	4 027 287	168 422 643

**10- Projects under construction**

The balance of projects under construction presented in the balance sheet with an amount of LE 207 644 611 as at December 31, 2008, represents an amount of LE 16 million being the value of 4000 square meter in the Smart Village designated to establish the Company's new headquarters (under construction) and an amount of LE 117 914 530 represents the value of establishments attached thereon and an amount of LE 6 915 653 represents the value of preparation of alternative quarter to be used in emergency cases and an amount of LE 66 814 428 (the equivalent amount of US.\$ 12 104 063) represents the payment to acquire an office space in United Arab Emirates.

**11- Available - for- sale investments**

	<b>31/12/2008</b>	<b>31/12/2007</b>
	<b>LE</b>	<b>LE</b>
Quoted investments	187 396 188	1 063 048 457
Non - quoted investments	517 270 640	359 598 977
Balance	<u>704 666 828</u>	<u>1 422 647 434</u>

**12- Investments in subsidiaries & associates**

	<b>Ownership</b>	<b>31/12/2008</b>	<b>31/12/2007</b>
	<b>%</b>	<b>LE</b>	<b>LE</b>
Arab Visual Company *	74.99	3 749 500	3 749 500
Bank Audi Sal – Lebanon **	27.87	3 993 421 850	3 716 787 840
EFG- Hermes Holding - Lebanon *	100	153 713	153 713
EFG- Hermes Lebanon *	99	27 705 775	27 705 775
Financial Group for Real Estate *	100	250 000	250 000
Middle East North Africa Financial Investments ***	100	--	299 398
EFG- Hermes Mutual Funds *	100	10 000 000	--
EFG- Hermes Securitization*	100	5 000 000	--
Balance		<u>4 040 280 838</u>	<u>3 748 946 226</u>

\* The investee companies have not started their activities and no financial statements have been issued.

\*\* The ownership percentage is computed based on the voting ordinary shares, the investment is listed in Lebanon and London Stock Exchanges. The market value of the investment amounted to the equivalent of LE 2 811 560 134 as at December 31, 2008.

\*\*\* The company's financial statements were consolidated as it has started its activities at the beginning of the year 2008.

**13- Investment property**

The balance of investment property presented in the balance sheet as at December 31, 2008 with an amount of LE 178 167 117 represents the value of the area owned by the company in Nile City Building.

**14- Settlement Guarantee Fund**

The Settlement Guarantee Fund balance presented in the balance sheet as at December 31, 2008 with an amount of LE 31 324 099 represents the Brokerage Companies' shares in the Settlement Guarantee Fund according to its statute.

**15- Intangible assets**

	<b>31/12/2008</b>	<b>31/12/2007</b>
	<b>LE</b>	<b>LE</b>
Goodwill	697 299 943	63 483 756
Other intangible assets	2 150 270	-
Balance	<u>699 450 213</u>	<u>63 483 756</u>

15-1 Goodwill is relating to the acquisition of the following subsidiaries:

	<b>31/12/2008</b>	<b>31/12/2007</b>
	<b>LE</b>	<b>LE</b>
Flemming CHC group (S.A.E) - Egypt	63 483 756	63 483 756
Vision Securities Co. (LLC) - Oman	66 039 857	-
EFG- Hermes IFA Financial Brokerage Company (KSC) - Kuwait	567 776 330	-
Balance	<u>697 299 943</u>	<u>63 483 756</u>

15-2 Other intangible assets are represented in brokerage license acquired by Vision Securities Co. (one of company's subsidiaries - 51%) from Oman Capital Market Authority.

**16- European Investment Bank Contract**

According to the contract signed between EFG- Hermes - Holding Company and the European Investment Bank dated March 1, 2001, EFG- Hermes Holding Company purchases investments in its name in favor of the bank in a range of 5 Million Euro for each investment individually. The total amount of these investments is limited to 25 Million Euro and the participation of European Investment Bank is limited to 50% of total investment. This contract is valid until August 30, 2013. The company has sold the investments in the bank's favor during the year 2006.

**17- Long term loans**

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 was 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 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 4 installments which equivalent to US\$ 8 Million accordingly, the loan balance amounted to US\$ 12 million (the equivalent amount of LE 66 240 000) as at December 31, 2008.

- The current portion (the amount that will due within one year) of that loan amounts to US\$ 4 million (the equivalent amount of LE 22 080 000).
- B- On January 4, 2002, a loan contract has been signed with the Foundation of (DEG)- DEUTSCHE INVESTITIONS- UND ENTWICKLUNGSGESELLSCHAFT MBH. The said contract provides for that EFG- Hermes Holding Company borrows a long term loan with amount of EURO 15 million with an applied annual floating interest rate. The loan principal is to be repaid on 12 semi annual installments of 1.25 million EURO each. The first installment was due on May 15, 2003 and the loan interest is due semi annually on May 15, and November 15, The Company is committed to render some guarantees to the lender as stipulated by the contract. On July 4, 2002 the company has received an amount of EURO 10 420 000 , and EURO 4 580 000 on December 24, 2002 representing the full amount of the mentioned loan. The company has paid the full amount of the loan.
- C- 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 was 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 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 one million Euro on May 15, 2008 and November 15, 2008 accordingly, the loan balance as of December 31, 2008 amounted Euro 8 million (the equivalent amount of LE 62 608 000).
- The current portion (the amount that will due within one year) of the loan amounts to Euro 2 million (the equivalent amount of LE 15 652 000).

**18- Long term liabilities**

	<b>31/12/2008</b>	<b>31/12/2007</b>
	<b>LE</b>	<b>LE</b>
Excepted consideration to be paid ( liability) *	607 200 000	--
Other liabilities	906 717	906 717
	<hr/>	<hr/>
Balance	608 106 717	906 717
	<hr/> <hr/>	<hr/> <hr/>

\* EFG – Hermes Regional Investments Ltd. – subsidiary - entered – through the parent company - EFG- Hermes Holding Company- into call/ put option agreement with a minority shareholder who holds 35% interest in a subsidiary company. As per the agreement, the options are exercisable throughout the period from March 1<sup>st</sup>, 2010 to February 28<sup>th</sup>, 2013. The call option’s exercise price is US\$ 130 million whereas the put option’s exercise price is US\$ 110 million (equivalent to LE 607 200 000 as at 31 December 2008), both options carry an annual interest 7%.

In line with EAS 25 requirements the Group has accounted for the present value of the put option as a financial liability with a corresponding debt to equity using the Present Access Method of accounting. Changes in the fair value of the put option are recognized in equity whereas changes in the present value of the financial liability are recognized in the income statement.

**19- Share capital**

- The company’s authorized capital amounted LE 3 200 million and issued and paid in capital amounted LE 1 939 320 000 distributed on 387 864 000 shares of par value LE 5 per share.
- During the current year the company has purchased a number of 25 million treasury shares with an amount of LE 564 193 958 with percentage of 6.45% from the issued shares and at the end of year the company has changed these shares to 12.5 million Global Depository Receipts (GDR) and the company has transferred the ownership of 7 196 386 Global Depository Receipts (GDR) to EFG-Hermes Employee Trust (equivalent to 14 392 772 local shares). Accordingly the Global Depository Receipts (GDR) retained by the company are 5 303 614 GDR (equivalent to 10 607 228 local shares) with percentage of 2.73% and at cost of LE 239 381 358.

**20- Contingent liabilities**

- The company guarantees its subsidiaries – Financial Brokerage Group, 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 322 million (equivalent to LE 483 966 000) and EFG- Hermes KSA for the purpose of issuance of the letter of guarantee amounting to SAR 50 million (equivalent to LE 73 550 000) and US\$ 40 million (equivalent to LE 220 800 000).
- 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 contracts are as follows:

Transaction date	Transaction	Amount	Currency	Expiry date
4/12/2008	Selling Euro	Euro 8 000 000	Buying US\$	5/1/2009
29/12/2008	Selling US\$	US\$ 36 055 500	Buying Euro	28/1/2009
30/12/2008	Selling US\$	US\$ 4 982 120	Buying GBP	28/1/2009

- 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 564 810 on December 31, 2008 as a margin for this letter of guarantee.

**21- Cash flow hedge agreements**

On February 13, 2008 the Holding Company has entered into a Non-Deliverable Forward Sale Transaction with a bank for a total US\$ 500 million to hedge the risk of currency rate fluctuations related to the investment in Bank Audi -Lebanon – associate – for a total amount of US\$ 453 194 880 (equivalent to LE 2 596 806 662). On November 13, 2008 the contract has been adjusted as follows:

Maturity date	Contract amount	Contra currency
Less than three months	US\$ 300 million	EGP

**22- 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 no amount till December 31, 2008 versus LE 170 839 678 till December 31, 2007 as no revenues are recognized if there are any uncertainties regarding the recovery of the consideration due.

Subsidiary's Name	For the year ended	
	31/12/2008	31/12/2007
	LE	LE
EFG- Hermes Financial Management (Egypt) Ltd.	--	100 610 468
Egyptian Portfolio Management Group Company	--	33 743 526
Hermes Fund Management Co.	--	2 042 989
EFG- Hermes – UAE Ltd.	--	34 442 695
Total	--	170 839 678

**23- Impairment loss on assets**

	For the year ended	
	31/12/2008	31/12/2007
	LE	LE
Impairment loss on accounts receivables & debit accounts	31 194 912	771 619
Impairment loss on available –for– sale investments	74 020 726	2 902 248
Impairment loss on investments in subsidiaries	--	676 741
Total	105 215 638	4 350 608

**24- Related party transactions**

- Interest income item presented in the income statement includes an amount of LE 4 691 651 represents the interest income on time deposits placed at Bank Audi – Egypt which is owned by Bank Audi - Lebanon (one of company's associates – 27.87%).
- Current accounts with banks item presented in the balance sheet includes an amount of LE 29 319 623 represents the current accounts with Bank Audi- Egypt which is owned by Bank Audi - Lebanon (one of company's associates- 27.87%).
- Time deposits item presented in the balance sheet includes an amount of LE 141 224 228 representing the time deposits placed at Bank Audi – Egypt which is owned by Bank Audi - Lebanon (one of company's associates – 27.87%).

**25. Reconciliation of effective tax rate**

	<b>31/12/2008</b>	
	<b>LE</b>	<b>LE</b>
Profit before tax		1 094 536 918
Tax rate		20%
Income tax using the domestic corporate tax rate		<u>218 907 384</u>
Non deductible expenses	3 832 270	
Tax exemptions	(60 197 560)	
Effect of provisions	2 174 953	
Fixed assets depreciation	(722 575)	
Capital losses	(64 620)	
Non taxable income included in income statements	(16 867 439)	
Deferred tax reconciliation	(37 720 650)	
Total tax differences		<u>(109 565 621)</u>
Income tax according to tax return		<u>109 341 763</u>
Effective tax rate		<u>9.99%</u>

**26- Income tax**

	<b>For the year ended</b>	
	<b>31/12/2008</b>	<b>31/12/2007</b>
	<b>LE</b>	<b>LE</b>
Current income tax	109 341 763	143 535 640
Deferred tax	(7 921 138)	67 258 755
Total	<u>101 420 625</u>	<u>210 794 395</u>

**27- Deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

Deferred tax	31/12/2008		31/12/2007	
	Assets LE	Liabilities LE	Assets LE	Liabilities LE
Fixed assets depreciation	--	1 795 091	--	1 065 352
Capital gain	--	42 705	--	32 728
Expected claims provision	3 579 636	--	3 402 727	--
Impairment of assets	3 588 536	--	698 417	--
Company's share of affiliated and subsidiaries profit	--	24 004 265	--	67 318 741
Total deferred tax assets (liabilities)	<u>7 168 162</u>	<u>25 842 061</u>	<u>4 101 144</u>	<u>68 416 821</u>
Deferred tax recognized directly in equity:		1 415 433		17 126 030
Net deferred tax liabilities		<u>20 089 322</u>		<u>81 441 707</u>

**28- Earnings per share**

	For the year ended	
	31/12/2008 LE	31/12/2007 LE
Net profit for the year	933 497 922	1 291 185 845
Weighted average number of shares	384 018 071	387 802 532
Earning per share	<u>2.43</u>	<u>3.33</u>

**29- Changes in accounting policy**

During the current year the company decided to change the accounting policy of investments property to be measured by fair value instead of cost, according to Egyptian Accounting Standard No.5, the comparative figures as at December 31, 2007 are restated as follows:

	Before restatement LE	Adjustments LE	Restated LE
Investment property	78 252 533	9 945 487	88 198 020
Net profit for 2007	1 281 240 358	9 945 487	1 291 185 845
Earnings per share	3.30	0.03	3.33

**30. Tax status**

- The competent tax inspectorate has examined the parent company's books for the period till year 2004 and disputed points have been agreed upon before the internal committee and the settlement procedures are currently taking place.
- As to years 2005/2007 the parent company has submitted its tax return and paid the tax due according to the tax law No. 91 for 2005.
- As to salaries tax, the parent company's books have been examined till the year 2004 and all the disputed points have been agreed upon before the internal committee and the settlement procedures are currently taking place. As to years 2005/2007 have not been inspected as yet.
- As to stamp tax, the parent company's books have been examined from year 1998 till 31/7/2006 and the disputed points has been transferred to appeal committee.

**31- Group's entities**

EFG- Hermes Holding company, 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	72.5	27.5
October Property Development Ltd.	94.10	--
Financial Group for Real Estate	100	--

	Direct ownership	Indirect ownership
	%	%
EFG- Hermes Lebanon	99	0.5
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
EFG – Hermes Qatar LLC	51	--
Vision Securities Company LLC	--	51
EFG- Hermes Regional Investment Ltd.	100	--
Offset Holding KSC	--	50
EFG- Hermes IFA Financial Brokerage	--	45

**32- 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.

**32-1 Market risk:**

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.

### **32-2 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. (20,21) 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.

### **32-3 Financial instruments' fair value**

The financial instruments' fair value 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, which included in the notes to the financial statements, note No. (12) of the notes to financial statements disclose the fair values of investments, which are reported at cost.

### **32-4 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.

**33- Corresponding figures**

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