

Allied for Accounting & Auditing E&Y  
Chartered Accountants & Consultants

Zarouk & Co. RODL  
Chartered Accountants & Consultants

ALWATANY BANK OF EGYPT (S.A.E)  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
31 DECEMBER 2011  
TOGETHER WITH AUDITORS' REPORT

Translation of Auditors' report  
Originally issued in Arabic

**Opinion**

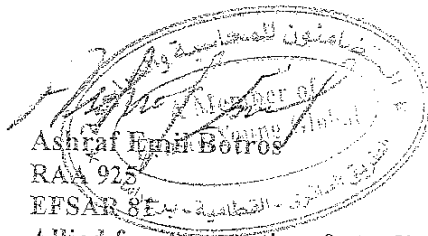
In our opinion, the financial statements referred to above, give a true and fair view, in all material respects, of the financial position of **AL WATANY BANK OF EGYPT (S.A.E)** as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with the Central Bank of Egypt's rules pertaining to the preparation and presentation of financial statements issued on 16 December 2008, and in light of the Egyptian laws and regulations relating to the preparation of these financial statements.

**Report on Other Legal and Regulatory Requirements**

We have not noted during the financial year ended 31 December 2011 any non compliance of the Bank with any of the articles of the Central Bank of Egypt law and Banking and Monetary Institution law No. 88 of 2003.

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

The financial information included in the Board of Directors' Report, prepared in accordance with Law 159 of 1981 and its executive regulation, is in agreement with the books of the Bank insofar as such information is recorded therein.



Allied for Accounting & Auditing E&Y



Alaa Eddin Ahmed El Rafei  
RAA 10970, Partner  
EFSAR 3  
Zarouk & Co. RODL

Cairo: 12 March 2012

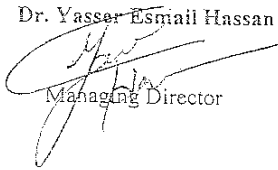
Translation of financial statements  
Originally issued in Arabic

Al Watany Bank Of Egypt (S.A.E)

BALANCE SHEET  
31 December 2011

	Note No.	31 December 2011 L.E ,000	31 December 2010 L.E ,000
<u>Assets</u>			
Cash and Due from Central Bank	(14)	1,523,306	1,382,316
Due from banks	(15)	1,207,498	1,423,610
Treasury bills	(16)	3,708,772	3,744,466
Trading investments	(17)	-	6,204
Loans and facilities to customers	(18)	7,118,974	7,162,989
Available for sale investments	(20)	2,321,316	2,663,342
Held to maturity investments	(20)	21,750	61,696
Investments in subsidiaries and associates	(21)	23,133	41,235
Other assets	(22)	355,988	380,151
Deferred Tax Assets	(29)	24,373	11,767
Fixed assets	(23)	190,253	186,219
<u>Total assets</u>		<u>16,495,363</u>	<u>17,063,995</u>
<u>Liabilities and Equity</u>			
<u>Liabilities</u>			
Due to banks	(24)	1,240,532	1,405,098
Customers' deposits	(25)	12,333,347	12,913,251
Financial Drivatives	(19)	16,014	-
Other loans	(26)	935,570	582,365
Other liabilities	(27)	240,933	236,182
Other provisions	(28)	109,539	97,034
Current income tax liability		-	29,574
<u>Total liabilities</u>		<u>14,875,935</u>	<u>15,263,504</u>
<u>Equity</u>			
Issued and Paid-up capital		1,000,000	1,000,000
Reserves	(30,B)	177,362	135,137
Retained Earnings	(30,C)	442,066	665,354
<u>Total Equity</u>	(30,D)	<u>1,619,428</u>	<u>1,800,491</u>
<u>Total Liabilities and Equity</u>		<u>16,495,363</u>	<u>17,063,995</u>

Dr. Yasser Esmail Hassan

  
Managing Director

Essam Jassem Elsakr

Chairman

\* The accompanying notes from (1) to (38) are integral part of these financial statements.  
Auditors' report attached

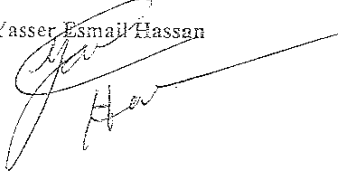
Al Watany Bank Of Egypt (S.A.E)

STATEMENT OF INCOME  
For The Year Ended 31 December 2011

	Note No.	31 December 2011 L.E ,000	31 December 2010 L.E ,000
Interest income from loans and similar revenues	(5)	1,288,739	1,174,439
Cost of deposits and similar costs	(5)	(756,449)	(651,326)
Net interest Income		532,290	523,113
Fees and commissions revenues	(6)	163,533	174,756
Fees and commissions expenses	(6)	(1,080)	(1,561)
Net income from fees and commissions		162,453	173,195
Dividends income	(7)	1,744	2,800
Net trading income	(8)	(54,372)	(2,994)
Gains from financial investments	(9)	21,578	29,790
Share of profit of associates	(10)	3,345	-
Impairment charge for credit losses	(18)	(114,366)	(9,371)
General and administrative expenses and depreciation	(11)	(248,895)	(220,977)
Other operating income (expenses)	(12)	30,415	40,216
Net profits for the year before Tax		334,192	535,772
Current income tax	(13)	(113,198)	(90,039)
Deferred income tax	(13)	4,558	1,255
Net profits for the year		225,552	446,988
Earning per share		2.26	4.47

Managing Director

Dr. Yasser Esmail Hassan



Chairman

Essam Jassem Elsakr

\* The accompanying notes from (1) to (38) are integral part of these financial statements.

**Al Wafay Bank of Egypt (S.A.E)**  
**STATEMENT OF CHANGES IN EQUITY**  
For the Year Ended 31 December 2011

	Capital L.E.,000	Legal reserve L.E.,000	General reserve L.E.,000	Special reserve L.E.,000	Capital reserve L.E.,000	Fair value Reserve L.E.,000	General banking risk reserve L.E.,000	Difference Between Nominal amount and Fair Value of Subordinated Loan L.E.,000	Retained earnings L.E.,000	Total L.E.,000
<b>Balance as at 1 January 2010</b>	1,000,000	34,365	6,773	9,205	16,299	(19,111)	1,381	67,975	653,377	1,770,764
Dividends distributions for 2009	-	-	-	-	481	-	-	-	(70,879)	(69,398)
Transferred to reserves	-	30,398	50,000	-	-	-	-	-	-	80,400
<b>Balance after Dividends</b>	1,000,000	55,263	56,773	9,205	16,780	(19,111)	1,381	67,975	218,172	1,406,438
Foreign currency translation differences	-	-	-	-	-	24	4,000	2,178	(4,000)	2,202
Transferred to general banking risk reserve	-	-	-	-	-	-	(1,381)	-	1,381	-
Used from general banking risk reserve	-	-	-	-	-	-	-	(2,813)	2,813	-
Reversal of portion of differences between nominal amount and fair value of subordinated loan	-	-	-	-	-	-	-	(67,340)	-	(67,340)
Payment of subordinated loan	-	-	-	-	-	34,633	-	-	34,633	-
Change in the fair value of the available for sale investments	-	-	-	-	-	(22,730)	-	-	(22,730)	-
Reversal of portion of fair value reserve for available for sale investments	-	-	-	-	-	300	-	-	300	-
Deferred tax	-	-	-	-	-	-	-	-	446,988	446,988
Net profit for the year	-	-	56,773	9,205	16,780	(6,884)	4,000	-	665,354	1,890,491
<b>Balance as of 31 December 2010</b>	1,000,000	55,263	56,773	9,205	16,780	(6,884)	4,000	-	665,354	1,800,491
Beginning balance as of 1 January 2011	1,000,000	55,263	56,773	9,205	16,780	(6,884)	4,000	-	(368,019)	(368,019)
Dividends distributions for 2010	-	22,342	50,000	-	8,479	-	-	-	(80,821)	-
Transferred to reserves	-	-	-	-	-	-	-	-	-	-
<b>Balance after Dividends</b>	1,000,000	77,605	106,773	9,205	25,259	(6,884)	4,000	-	216,514	1,452,472
Foreign currency translation differences	-	-	-	-	-	(42)	-	-	(42)	-
Change in the fair value of the available for sale investments	-	-	-	-	-	(45,475)	-	-	(45,475)	-
Reversal of portion of fair value reserve for available for sale investments	-	-	-	-	-	(1,126)	-	-	(1,126)	-
Deferred tax	-	-	-	-	-	8,047	-	-	8,047	-
Net profit for the year	-	-	106,773	9,205	25,259	(45,480)	4,000	-	225,552	225,552
<b>Balance as of 31 December 2011</b>	1,000,000	77,605	106,773	9,205	25,259	(45,480)	4,000	-	442,066	1,619,128

\* The accompanying notes from (1) to (38) are integral part of these financial statements.

Al Watany Bank Of Egypt (S.A.E)

STATEMENT OF CASH FLOWS

For The Year Ended 31 December 2011

	31 December 2011 L.E ,000	31 December 2010 L.E ,000
<u>Cash flows from operating activities</u>		
Net Profits before tax	334,192	535,772
<u>Adjustments to reconcile net profit to net cash provided</u>		
from operating activities		
Depreciation and amortization	15,316	13,599
Impairment charge for credit losses	114,366	9,371
Trading investments' revaluation differences	-	1,168
Other provision charges	19,056	150
Foreign currencies revaluation differences of other provisions	189	216
Foreign currencies revaluation differences of Investment available for sale	(6,657)	(1,041)
Share of profit of associates	(3,345)	-
Gains ( Loss ) from sales of fixed assets	2	(8,479)
Used From other provision	(6,330)	(383)
Gains on sales of subsidiaries and associates	(19,773)	-
Amortized Cost	7,913	(7,986)
Dividends income	(1,744)	(2,799)
No longer required provisions	-	(25,315)
Operating profits before changes in assets and liabilities	453,185	514,273
<u>Proceeds from operating activities</u>		
Due from banks	125,013	(394,780)
Treasury bills	1,210,115	(791,552)
Trading investments	6,204	(5,400)
Loans and facilities to customers and banks	(51,631)	(929,007)
Other assets	20,277	(55,787)
Due to banks	(164,566)	1,086,940
Customers' deposits	(579,904)	672,782
Derivatives	16,014	29
Other liabilities	5,780	24,164
Income tax paid	(142,772)	(84,190)
Net cash flows provided from operating activities (1)	897,715	37,472
<u>Cash flows from Investing Activities</u>		
Payments to acquire fixed assets and fixtures	(37,289)	(37,938)
Proceeds from sale of fixed assets	1,664	22,087
Proceeds from redemption of held to maturity investments	44,705	-
Payments to purchase of held to maturity investments	(5,000)	(10,000)
Proceeds from available for sale investments	772,941	1,823,394
Payments to purchase of available for sale investments	(478,550)	(1,630,541)
Payments to acquire investments in subsidiaries and associates	(15,000)	-
Proceeds from sale of investments in subsidiaries and associates	55,483	-
Dividends received	2,456	2,799
Net cash flows provided from investing activities (2)	341,410	169,801
<u>Cash flows from Financing Activities</u>		
Increase in long term loans	353,205	424,986
Dividends paid	(368,018)	(364,326)
Net cash flows (used in) provided from financing activities (3)	(14,813)	60,660
Net Increase (decrease) in cash and cash equivalents during the year (1+2+3)	1,224,312	267,933
Cash and cash equivalents at beginning of the year	1,408,603	1,140,670
Cash and cash equivalents at end of the year	2,632,915	1,408,603
<u>Cash and cash equivalents are represented in :</u>		
Cash and due from Central Bank	1,523,306	1,382,316
Due from banks	1,207,498	1,423,610
Treasury bills	3,708,772	3,744,466
Due from central banks (within the mandatory reserve percentage)	(1,321,764)	(1,226,262)
Due from banks with maturities of more than three months	(16,814)	(237,329)
Treasury bills with maturities of more than three months	(2,468,083)	(3,678,198)
Cash and cash equivalents at the end of the year	2,632,915	1,408,603

\* The accompanying notes from (1) to (38) are integral part of these financial statements.

Al Watany Bank Of Egypt (S.A.E)  
STATEMENT OF PROPOSED DIVIDENDS  
For The Year Ended 31 December 2011

	31 December 2011 L.E ,000	31 December 2010 L.E ,000
Net profit for the year (from the statement of income)	225,552	446,988
Deduct :		
Profits not related to the activities transferred to the capital reserve	-	(8,479)
General banking risk reserve	-	(2,619)
Net profit for the year available for distribution	<u>225,552</u>	<u>435,890</u>
Retained earnings at the beginning of the year	<u>216,514</u>	<u>220,985</u>
Total	<u><u>442,066</u></u>	<u><u>656,875</u></u>
To be distributed as follows		
Legal Reserve	11,278	22,342
General Reserve	50,000	50,000
Shareholders' dividends :		
First tranche	50,000	50,000
Second tranche	100,000	280,000
Employees' profit share	16,427	37,449
Board of Directors remuneration	270	570
Retained earnings at the end of the year	<u>214,091</u>	<u>216,514</u>
Total	<u><u>442,066</u></u>	<u><u>656,875</u></u>

## Al Watany Bank of Egypt (S.A.E)

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### Notes to the Financial Statements

For the year Ended 31 December 2011

#### 1. Background

Al Watany Bank of Egypt provides corporate, retail and investment banking services in Arab Republic of Egypt through 41 branches, and employs more than 1217 staff at the date of the Balance sheet.

Al Watany Bank of Egypt (S.A.E) was established as a commercial bank in Arab Republic of Egypt under the investment law No. 43 for 1974 and its amendments.

The head office is located in 13 Themar Street, Giza; the Bank is listed in Cairo and Alexandria stock exchange.

These financial statements were approved for issuance by the Board in March 12, 2012.

#### 2. Significant Accounting Policies Applied

The following are the significant accounting policies which were adopted in the preparation of these financial statements, these policies have been consistently applied to all the years presented, unless otherwise stated.

##### A - Basis of financial statements preparation

The financial statements are prepared in accordance with Egyptian Accounting Standards issued in 2006 and its amendments and in accordance with Central Bank of Egypt rules approved by its Board of Directors on 16 December 2008, and on the historical cost convention basis, modified by the revaluation of financial assets and liabilities classified on initial recognition as fair value through profit or loss and available for sale and all derivative contracts.

The financial statements are prepared in accordance with the relevant domestic laws

Starting from 30 September 2011 The Investments in associates has been adjusted to be presented and accounted for at equity method less impairment losses instead of cost method (Note B/2).

##### B - Subsidiaries and Associates

###### B/1 Subsidiary

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

###### B/2 Associates

- Associates are companies in which the Bank has, directly or indirectly, significant influence, but it does not reach to the extent of control, and usually the Bank owns from 20% to 50% of the voting rights.
- Starting from 30 September 2011 the bank adjusted the presentation and accounting of associates to the equity method instead of cost method due to exclusion of subsidiary that were sold or liquidated during the year.
- According to this method, the investment in an associate is initially recognized at cost and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the profit or loss of the investee is recognized in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee are other comprehensive income. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share of those changes is recognized in other comprehensive income of the Investor.



## Al Watany Bank of Egypt (S.A.E)

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### Notes to the Financial Statements

For the year ended 31 December 2011

- As a result of using the equity method the net profit of the period adjusted by L.E 3,345 K that represent the net of gain (Loss ) from using the equity method and the comparative figures has not been adjusted as the amounts is immaterial.
- The bank has performed test of impairment for the associated and there is no indications for the impairment found.

#### **C- Segment reporting**

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

#### **D- Foreign currencies translation**

##### **D/1 Functional and presentation currency**

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

##### **D/2 Foreign currency transactions and balances**

The Bank maintains its accounting records in Egyptian pound. Foreign currency transactions are translated and recorded using the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities in foreign currencies are retranslated at the end of each year at the exchange rates then prevailing. Foreign currencies gains and losses resulting from settlement of these transactions in addition to revaluation differences are recognized in the income statement in the following sections:

- o Net trading income, if resulting from financial instruments designated as at fair value through profit or loss at initial recognition, for financial assets/liabilities held for trading or designated as at "fair value through profit or loss at initial recognition.
- o Owner's equity if resulting from the financial derivatives used as cash flows hedge or net investment hedge.
- o Other operating income (expenses) for other items.

The changes in fair value arising from monetary financial instruments classified as available for sale (Debt Instruments) should be analyzed into: differences arising from changes in the instruments amortized cost which is recognized in the income statement in "interest income on loans and similar income" and differences arises from changes in foreign exchange rate which is recorded in the income statement in "other operating revenues (expenses)" and differences arises from change in fair value which is recognized in owners' equity (fair value reserve for available for sale investments)

Translation differences of non-monetary items (equity securities) held at fair value through profit or loss also includes its fair value revaluation difference. Whereas for those classified as available-for-sale are recorded directly in equity in fair value reserve for available for sale investments.

## Al Watany Bank of Egypt (S.A.E)

### Notes to the Financial Statements

For the year ended 31 December 2011

#### **E- Financial assets**

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

##### **E / 1 financial assets at fair value through profit or loss:**

This category includes financial assets held for trading and financial assets designated at fair value through profit or loss at initial recognition.

Financial assets are classified as held for trading if they are acquired or incurred principally for the purpose of selling in the near term or if is part financial instruments portfolio that are managed together and there is evidence resulted from recent actual transaction that profit can be recognized. Derivatives can be classified as held for trading unless they are identified as hedging instruments.

- Financials assets designated at fair value through profit or loss are recognized when:
  - Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortized cost for loans and facilities to customers or banks and issued debt securities.
  - Equity investments that are managed and evaluated at the fair value basis in accordance with a risk management or investment strategy and preparing reports to top management on that basis are classified as fair value through profit and loss.
  - Financial instruments such as debt instrument which contain one or more embedded derivatives which may significantly affect the cash flows are classified at fair value through profit and loss.
- Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are recorded in the "net income from financial instruments classified at fair value though profit and loss"
- It is not permitted to reclassify any derivative out of the financial instrument valued at fair value through profit or loss category during its holding period. Also, it is not permitted to reclassify any financial instrument valued at fair value through profit or loss category if it is designated at fair value through profit or loss at initial recognition.
- In all cases the Bank should not reclassify any financial instrument into financial instrument measured at fair value through profit and loss or to the held for trading financial assets.

##### **E / 2 Loans and receivables**

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

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

##### **E / 3 Held to maturity financial assets:**

Held to maturity financial assets are non-derivative assets which carry fixed or determinable payments and where the Bank has the intention and the ability to hold to maturity. Any sale of a significant amount, not close to the date of its maturity, would result in the reclassification of all held to maturity assets as available for sale except in cases of necessity.

## Al Watany Bank of Egypt (S.A.E)

### Notes to the Financial Statements

For the year ended 31 December 2011

#### **E / 4 Available for sale financial assets**

Available-for-sale assets are non-derivative financial assets that the bank's management has intention to hold for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

#### **The following applies to financial assets:**

Regular-way purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognized on trade-date – the date on which the Bank commits to purchase or sell the asset.

Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit and loss are initially recognized at fair value, and transaction costs are expensed in the income statement in net income from trading.

Financial assets are derecognized when the contractual rights to receive cash flows have expired or when the bank has transferred substantially all the risk and rewards of ownership. Financial liabilities are disposed upon disposal or cancellation or expiration of its contractual term.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently measured at fair value. Held-to-maturity assets and loans and receivables are measured at amortized cost using the effective interest method.

Gains and losses arising from changes in the fair value of assets at fair value through profit or loss are recognized in the income statement in the period it occurs. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in equity, until the financial asset is derecognized or impaired. At this time, the cumulative gain or loss previously recognized in equity should be recognized in profit or loss.

Interest income is recognized based on the amortized cost method in the income statement, the foreign currency revaluations differences related to monetary available for sale assets are recognized in the income statements, dividends from available for sale equity instruments are recognized in the income statement when the bank's right to receive the payment is established

Fair value are obtained from quoted market price in active market (bid price), where no active market exists, or quoted price are unobtainable, the fair value is estimated using a variety of valuation technique – including discounted cash flow , using recent sale prices, option pricing models or other valuation method used by market participants. When the bank is unable to estimate the fair value of equity available for sale instrument it is measured at cost less any impairment losses.

Debt instruments can be reclassified from the available-for-sale assets to held-to-maturity at fair value when the Bank has the intention and ability to hold the financial assets to maturity. Any related profits or losses that were previously recognized in equity are treated as follows:-

1. In case of financial assets with fixed and determinable payments and fixed maturity, gains and losses are amortized over the remaining life of the financial asset held to maturity using the effective interest method. The difference between the amortized cost and the maturity value is amortized over the remaining life of the financial asset, using the effective interest method. In case of impairment the profits or losses that have been previously recognized in equity are recognized immediately in the income statement.
  2. In case of financial assets without fixed or determinable maturity, gains and losses are held in equity until the asset is sold, then removed from equity and recognized in the income statement. In case of impairment the profits or losses that have been previously recognized in equity are recognized immediately in the income statement.
- If the Bank changes its estimates regarding payments or proceeds, the book value of a financial asset (or group of financial assets) has to be adjusted to reflect the actual cash inflows and the change in this estimate through calculating the present value of

## Al Watany Bank of Egypt (S.A.E)

### Notes to the Financial Statements

For the year ended 31 December 2011

estimated future cash flows using the effective interest rate for the financial instrument. This adjustment is recognized as either income or expense in the income statement.

- In all cases, if the Bank reclassified financial asset in accordance with what is referred to above and the Bank subsequently increase its future cash proceeds estimates resulted from an increase in the recoverable amount from its cash receipts, this increase is recognized as an adjustment to the effective interest rate not as an adjustment in the book value of the asset at the date of change in estimate.

#### **F- Offsetting financial instruments**

Financial assets and liabilities can be offset when, there is a currently enforceable legal right to set-off the recognized amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously

Treasury bills, repos and reverses repos agreements are netted, and presented on the balance sheet in treasury bills and other governmental securities.

#### **G- Interest income and expense**

Interest income and expense related to financial instruments except for held for trading assets or designated at fair value through profit and loss at initial recognition under "interest revenue and similar income" or Interest expense and similar charges.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the related instrument. The effective interest rate is the rate that discounts estimated future cash payments or receipts over the expected life of the financial instrument or, a shorter period when appropriate to reach the net carrying amount of the financial asset or liability.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, early payment options) but does not consider future credit losses.

The calculation includes all fees and points paid or received between parties of the contract which is considered part of the effective interest rate, transaction costs include all other premiums or discounts.

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

- When collected and after recovery of all arrears for retail loans, personal loans, small and medium business loans., mortgage loans for personal housing and small loans for businesses.
- For loans granted to corporate, interest income is recognized on cash basis after the Bank collects 25 % of the scheduling installments and after the installments continued to be regular for at least one year. Interest income will not be recognized as revenue until full payment of the loan balance before the rescheduling and client is considered to be performing.

#### **H - Fees and commission income**

Fees and commissions related to loan and facilities are recognized as income when the service is rendered. Fees and commission income related to non-performing or impaired loans or debts are suspended and are carried off balance sheet and are recognized under income according to the cash basis, when interest income is recognized in accordance with note (G) above, fees and commissions which represent part of the financial asset effective rate is recognized as adjustment to the effective interest rate.

Commitment fees recognized as revenue when there is probability that this loan will be used by the customer, as commitment fees represent compensation for the continuing interfere to own the financial asset. Subsequently its recognized as adjustments to the effective interest rate of the loan. If the commitment year passed without issuing the loan, commitment fees is recognized as income at the end of the commitment year.

## Al Watany Bank of Egypt (S.A.E)

### Notes to the Financial Statements

For the year ended 31 December 2011

Fees and commission related to equity debts measured by fair value is recognized as income at initial recognition. Fees and commission related to marketing of syndicated loan is recognized as income when the marketing is completed and the loan is fully used or the Bank kept its share of the syndicated loan using the effective interest rate as used by the other participants.

Commission and fees arising from negotiation, or participating in a negotiation to the favor of a third party as in share acquisition arrangements or purchase of securities or purchase or sale of businesses are recognized as income when the transaction is completed, commission and fees related to management advisory and other service are recognized as income based on the contract terms, usually on a time-appropriation basis. Asset management fees are recognized over the year in which the service is provided.

#### **I- Dividend income**

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

#### **J- Impairment of financial assets**

##### **J / 1 financial asset carried at amortized cost:**

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

The indicators used by the bank to determine whether there is objective evidence that a financial assets or portfolio is impaired include the following:

- Significant financial difficulty of the issuer or obligor.
- Breach of the loan agreement, e.g. default
- It became probable the borrower will enter bankruptcy or other financial reorganization.
- Deterioration of competitive position of borrower.
- Granting privileges or assignments by the Bank to the borrower, due to economic or legal reasons, which are not granted by the Bank in the normal course of business.
- Impairment of guarantee.
- Deterioration of creditworthiness.

An objective evidence for impairment loss of the financial assets is the existence of clear information indicating a measurable decline in the expected future cash flows of such category since initial recognition though such decline is not identifiable for each individual asset.

The Bank estimates the period between identifying the loss event and its occurrence and it ranges from three to twelve months.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant taking into consideration the following:

- In case there is no objective evidence that an impairment loss has been incurred on a financial instrument considered individually, being individually significant or not, the Bank includes that financial asset in a group of financial assets having similar characteristics in terms of credit risk and tests the whole group for impairment.
- An individually impairment test is made for a financial asset if there is objective evidence that this asset is impaired. If the impairment occurred then this asset will be ed from group of financial assets that are collectively evaluated for impairment.
- If the result of the previously test did not recognized impairment loss, then this asset will be added to the group of financial assets that are collectively evaluated for impairment. Impairment loss is calculated by the difference between the carrying amount and the present value of estimated future recoverable cash flows, excluding future expected credit loss not charged yet, discounted at the financial assets' original effective interest rate. This

## Al Watany Bank of Egypt (S.A.E)

### Notes to the Financial Statements

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impairment is booked in the income statement as "impairment loss" and the book value of the financial asset is reduced by the impairment amount using "impairment loss provision".

If there is evidence that loan or other receivables, or financial assets classified as held to maturity carry variable rate, the discount rate will be the contract effective interest rate when there is objective evidence that an impairment loss has been incurred. For practical purposes, the Bank may measure the impairment loss using the fair value of the instrument through its market rate.

For guaranteed financial assets present value for expected futures cash flow has to be considered in addition to the proceeds from sale of guarantee after deducting selling cost.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics according to the Bank classification taking into consideration type of asset, industry, geographical location, collateral, past-dues and other relevant factors. Those characteristics are relevant to the estimation of future cash flows for that group of assets as they are indicators of the debtors' ability to pay all amounts due according to its contract terms for assets under study.

If historical impairment losses rates method is used for a group of financial assets that are collectively evaluated for impairment, future contractual cash flow will be used by the Bank in future and the historical loss for a group of assets with similar credit risk characteristics are considered. Historical impairment loss rates are adjusted to reflect the effects of current circumstances that did not affect the year on which the historical impairment loss rates is based and to remove the effects of circumstances in the historical year that are not currently exist.

The Bank has to ensure that the estimates of changes in future cash flows for groups of assets are in consistence with changes in relative data from year to year, such as , changes in unemployment rates, real estate prices, settlement status, or other factors that may affect the probability and magnitude of losses. The Bank reviews the basis and methods of estimation regularly.

#### **J / 2 Available for sale assets**

At each balance sheet date, the Bank estimates if there is objective evidence that impairment loss for an asset or a group of assets classified as available-for-sale or held to maturity is occurred. For listed equity instruments classified as available for sale investments, impairment is recognized if as it's significant and a prolonged decline it's price below it's acquisition cost is observed.

The decline in value is considered significant for the equity instruments if it reaches 10% of the financial instrument's cost, and it is considered prolonged if it extends for a year of more than 9 months. When a decline in the fair value of an available for sale financial asset has been recognized directly in equity under fair value reserve and subsequent objective evidence of impairment emerges, the Bank recognizes the total accumulated loss previously recognized equity will be recognized in profit and loss. Impairment losses recognized on equity instruments on profit or loss are not subsequently reversed. Impairment losses recognized through profit or loss on debt instruments classified as available for sale are reversed through profit and loss if the price subsequently increased and this increase can be objectively related to an event occurring after the recognition of impairment loss in profit or loss.

#### **K- Fixed assets**

They represent land and buildings related to head office, branches and offices. All fixed assets are reported at historical cost less depreciation and impairment losses. The historical cost includes all costs directly related to the acquisition of fixed assets items.

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

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### Notes to the Financial Statements

For the year ended 31 December 2011

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

- Buildings	50 years
- Furniture and safes	from 10 years to 40 years
- Typewriters calculators and air conditions	10 years
- Motor vehicles	5 years
- Computers and core systems	5 years
- Fixtures and fittings	5 years

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

The recoverable amount is the higher of the asset's fair value less costs to sell or value in use.

Gains and losses on disposals are determined by comparing proceeds with asset carrying amount. These gain and losses are included in other operating income (expenses) in the income statement.

#### **L- Leases**

The accounting treatment for the finance lease is in accordance with law 95 of year 1995, if the contract entitles the lessee to purchase the asset at a specified date and amount, and the contract term is more than 75% of the asset expected useful life, or the present value of the total lease payments represents at least 90% of the value of the asset then this lease is considered finance lease. Other leases are considered operating lease.

##### **L/1 leasing (lessee)**

For finance lease contracts rent expense including maintenance cost related to the leased assets is recognized in the income statement in the period in which it occurred.

If the bank decides to exercise the rights to purchase the leased assets, the cost of this right will be capitalized as fixed asset and depreciated over the assets' expected remaining useful life using the same method used for similar assets.

Operating lease payments less any discounts granted to lessee is recognized as expenses in the income statement using the straight line method over the contract term.

##### **L/2 leasing (lessor)**

Assets leased as finance lease are recorded in the fixed assets caption in the balance sheet and depreciated over the asset expected useful life using the same method applicable to similar assets. The rent income is recognized based on the rate of return on the lease plus an amount equal to the cost of depreciation for the period, and the difference between the rental income will be recognized in the income statement using the straight line method over the contract term and the total customer accounts and leasing it until the end of the lease where it is used to offset with a net book value of the leased asset. The maintenance expenses and insurance will be charged on the income statement when incurred to the extent they are not charged to the tenant.

And when there is objective evidence that the Bank will not be able to collect all balances of debtors a financial lease, be reduced to its recoverable amount.

Operating lease assets are accounted for at the fixed assets caption in the balance sheet and depreciated over the asset expected useful life using the same method applicable to similar assets. The lease rent income less any discount granted to the lessee will be recognized in the income statement using the straight line method over the contract term.

## Al Watany Bank of Egypt (S.A.E)

### Notes to the Financial Statements

For the year ended 31 December 2011

#### **M- Cash and cash equivalents**

For the purposes of the cash flows statement, cash and cash equivalents include balances due within three months from date of acquisition, cash and balances due from the Central Bank of Egypt other than the mandatory reserve, and current accounts with banks and treasury bills and other governmental securities.

#### **N- Other provisions**

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

Where there are a number of similar obligations, the likelihood that an outflow is required to settle an obligation is determined taking into consideration the group of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any obligation in the group is minimal.

Provisions no longer required totally or partially are reversed in other operating income (expense). Provisions are measured at the present value of the expected required expenditures to settle obligations after one year from financial statement date using the appropriate rate in accordance with the terms of settlement ignoring the tax effect which reflects the time value of money. If the settlement term is less than one year the provision is booked using the present value unless time consideration has a significant effect.

#### **O. Employees benefits**

##### **Social Insurance**

The bank committed to pay the subscriptions to the general social insurance Authority and there are no additional liabilities on the bank when paying such subscription which will be charged to the income statement for the appropriate period, and to be included in employees benefits.

##### **Employees Profit share**

The bank pays a percentage of the cash dividends declared as profit sharing to employees. The employees' share is recognized as a dividend distribution through equity and as a liability when approved by the Bank's shareholders generally assembly meeting. No liability is recognized for profit sharing relating to undistributed profit.

##### **Collective employee insurance policy**

The Bank and employees pays contribution to the collective insurance policy as a percentage of the employees' wages on a monthly basis. Once the contributions have been paid, the bank has no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due and as such are included in staff costs. The contributions paid in advance are recognized within the assets to the extent that it is reduce the future payments or cash refund.

#### **P- Income tax**

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

The income taxes recognized on the basis of net taxable profit using the tax rates enacted at the date of the Balance Sheet in addition to the tax adjustments related to previous years, and commitments in accordance with the principles of accounting and its value according to the tax regulations, The value of deferred tax is recognized based on the expected manner of realization or settlement of the values of the asset values and liabilities, using tax rates enacted at the date of the balance sheet.



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### Notes to the Financial Statements

For the year ended 31 December 2011

The deferred tax assets of the Bank are recognized when that it is probable that taxable profit will be available against which the deferred tax asset can be utilized, The value of deferred tax assets is reduced by the portion that will result in expected tax benefit during the following years, however in the case of the increase of expected tax benefit, the deferred tax assets will increase to the extent previously reduced

#### **Q- Borrowing**

Loans obtained by the Bank are initially recognized at fair value less the cost of obtaining the loan, the loan is measured subsequently at amortized cost, and the difference between net proceeds and the value that will be paid are charged in the income statement over the period of the borrowings using the effective interest method.

#### **R- Capital**

##### **R/1) Capital cost**

Issuance cost directly related to issuing new shares or issuing shares related to acquisition or share options is charged to share holders' equity of total proceeds net of tax.

##### **R/2) Dividends**

Dividends are recognized when declared by the General Assembly of shareholders. Those dividends include employees' share in the profits and the Board of Directors' remuneration as prescribed by the articles of association and law.

Bank's net profits are distributed annually after deducting all general expenses and other costs as follows:

- 1 - Deducting an amount equivalent to 5% of the profits to form the legal reserve and stop such deduction when the total reserve amount equivalent to 100% of paid-up capital, and when lack of reserves the deduction returns.
- 2 - And then deduct the amount needed for the distribution of the first share of the profits of 5% paid to shareholders for the value of their shares if that did not allow the profit for one of the years, The distribution of this share is not permissible to claim the profits from the years following.
- 3 - After that allocate 10% of the profits to staff and workers in the bank and are distributed according to the rules proposed by the Board of Directors and adopted by the General Assembly and no more than the sum of annual wages for workers in the bank.
- 4 - After the above a rate not exceeding 10% of the rest is allocated to the reward the Board of Directors.
- 5 - Distributing the rest of the profits to shareholders after the additional share in profits or go on a proposal to the Board of Directors next year.

#### **S- Custodial activities**

The bank performs custodial activities that results in custody or management of assets on behalf of individuals, trusts, and retirement benefit plans. These assets and related income are excluded from the bank's financial statements, since these assets are not owned by the bank.

#### **T- Comparative figures**

The comparative figures shall be re-classified, when necessary, to be in conformity with the changes in the presentation used in the current year.

### **3. Financial Risk Management:**

The bank, as a result of the activities it exercises, is exposed to various financial risks; acceptance of risks is a basis in the financial activities. Some risks or group of risks are analyzed, evaluated and managed together. The bank objective is to balance between the risk and return and to reduce the possible negative effects on the bank's financial performance.

The most important types of risks are credit risk, market risk, liquidity risk and other operating risks. The market risk comprises foreign currency exchange rates, interest rate risk and other pricing risks.

The risk management policies have been set to determine and analyze the risks, set limits to the risk and control them through reliable methods and updated information systems.

## Al Watany Bank of Egypt (S.A.E)

### Notes to the Financial Statements

For the year ended 31 December 2011

The bank regularly reviews the risk management policies and systems and amend them to they reflect the changes in market, products and services and the best updated applications.

Those risks are managed by risk department in the light of policies approved by Board of Directors. The risk department determines, evaluates and hedges the financial risks, in collaboration with the bank's various operating units, and the Board of Directors provides written policies for management of risks as a whole, in addition to written policies covering specific risk areas, such as credit risk, foreign exchange rate risk, interest rate risk, and using the financial derivative and non-derivative instruments. Moreover, the risk department is independently responsible for annual review of risk management and control environment.

#### A - Credit risk

The bank is exposed to credit risk, which is the risk resulting from failure of one party to meet its contractual obligations. Credit risk is considered the most significant risk for the bank therefore the management is conservative in managing this risk. Credit risks results mainly from lending activities that result in loans and facilities and from investment activities which results in obtaining debt instruments. Credit risk is also included in off balance sheet financial instruments, such as loan commitments. Managing and monitoring process of credit risk is represented in credit risk team management in risk management department who prepare reports to the Board of Directors and Head of operating units on regular basis.

#### A / 1 Credit risk measurement

##### Loans and facilities to Banks and customers

To measure credit risk on the loans and facilities to banks and customers, the Bank considers the following three components:

- \* Probability of default by the client or third parties to fulfill its contractual obligations.
- \* The current position and its future development from which the bank conclude the balance exposed to risk. (Exposure at default)
- \* Loss given default.

The daily management of the bank's activities involves measures of credit risk based on the Expected Loss Model required by the Basel Committee on Banking Supervision. Those operational measures could be inconsistent with the impairment loss according to IAS 26, which adopts the realized losses model and not the expected losses (Note A / 3).

The Bank evaluates the default risk for each customer using internal evaluation methods to determine the rating for the different customers' categories. These methods were improved taking into consideration statistical analysis and the professional judgment of the credit officers to reach the appropriate rating. The customers are classified into four ratings.

Rating scale (shown in the following table) reflects the possibility of defaults for each rating category, in which the credit positions may transfer from one rating to other depending on the change in the degree of possible risk. The customer's rating and the rating process are reviewed and improved when necessary. The Bank periodically evaluates the performance of the credit rating methods and their ability in expecting the customers' defaults.

##### Bank's internal ratings scale

Rating description	Rating
Performing loans	1
Regular watching	2
Watch list	3
Non-performing loans	4

The Position exposed to default depends on the outstanding balances expected at the time when a default occurs, for example, for the loans , the position is the book value, for commitments, the

## Al Watany Bank of Egypt (S.A.E)

### Notes to the Financial Statements

For the year ended 31 December 2011

bank includes all actual withdrawals in addition to any expected withdrawals till the date of the late payment if any.

The expected losses or specific losses represent the Bank's expectation of loss as of the date when the settlement is due, which is loan loss percentage that differ according to the type of facility, the availability of guarantees and any other credit cover.

#### **Debt instruments and treasury bills and other bills**

For debt instruments and bills, the Bank is using the external classifications such as Standard & Poor's or equivalent to manage credit risk, in case such ratings are not available, methods similar to those applied to credit customers are used. Investments in securities and treasury bills are regarded as a way to get better credit quality at the same time provide a source available to meet funding requirements.

#### **A / 2 Limiting and avoiding risks policies**

The Bank manages and controls credit concentrations at the borrower's level, groups of borrowers' level, industries level and countries level.

The Bank manage the credit risk it undertakes by placing limits on the amount of risk accepted in relation to single borrower, or groups of borrowers, and to the geographical and industry segments. Such risks are monitored on a regular basis and subject to an annual or more frequent review, when considered necessary. The top management reviews on quarterly basis the borrower, or groups of borrowers, geographical and industry segments and country credit concentration.

The lines of credit are divided ,to any borrower including banks, into sub limits include amounts inside and outside the balance sheet, the daily limit risk on trading items such as forward foreign exchange contracts, the actual amounts are compared with the limit every day.

Exposure to credit risk is also managed through regular analysis of the existing and potential borrowers' ability to meet their obligations and through changing the lending limits where appropriate.

#### **The following are other controls used by the bank to limit the credit risk.**

##### **Collaterals**

The bank use different methods to limit its credit risk. One of these methods is accepting collaterals against loans and facilities granted by the bank. The bank implements guidelines for collaterals to be accepted. The major types of collateral against loans and facilities are:

- Real estate mortgage
- Business assets mortgage such as machines and goods.
- Financial instruments mortgage such as debt and equity instruments.

The Bank keen to obtain the appropriate guarantees against corporate entities of long term finance while individual credit facilities are generally unsecured.

In addition, to minimize the credit loss the bank will seek additional collaterals from all counterparties as soon as impairment indicators are noticed for a loan or advance.

The Bank determine type of collaterals the Bank held by the bank as security for financial assets other than loans and facilities according to the nature of the instrument, generally, debt securities and treasury bills are unsecured, except for asset-backed securities and similar instruments are secured by a financial instrument portfolio.

## Al Watany Bank of Egypt (S.A.E)

### Notes to the Financial Statements

For the year ended 31 December 2011

#### Derivatives

The bank maintains strict control limits over amounts and terms for the net value of opened derivative positions i.e., the difference between purchase and sale contracts. In all cases, the amount subject to credit risk is limited to the current fair value of instruments in which the Bank could gain a benefit from it (i.e., assets that have positive fair value), which represent small value of the contract, or the notional value. The Bank manage this credit risk which is considered part of the total customer limit with market changes risk all together. Generally no collateral obtained for credit risk related to these instruments, except for marginal deposits required by the bank from other parties.

Settlement risk arises when cash, equity instruments or other financial securities is used in the settlement process, or if there is expectation to receive cash, equity instruments or other financial securities. Daily settlement limits are established for each counterparty to cover the aggregate settlement risk arising from the daily Bank transactions.

#### Credit-related commitments

The primary purpose of these commitments is to ensure that funds are available to customer when required. Guarantees and standby letters of credit are of the same credit risks as loans.

Documentary and commercial letters of credit – which are issued by the Bank on behalf of customer by which authorizing a third party to draw within a certain limit in accordance to specific terms and conditions and guaranteed by the goods under shipment are of lower risk than a direct loan.

Credit related commitment represent the unused portion of credit limit of loans, guarantees or letters of credit. With respect to credit risk related to credit related commitments, the Bank is exposed to probable loss of amount equal to the total unused limit. However, the probable amount of loss is less than the unused limit commitments, as most commitments represent commitments to customers maintaining certain credit standards. The Bank monitors the maturity term of the credit commitments because long-term commitments are of high credit risk than short-term commitments.

#### A /3 Impairment and provisioning policies

The internal rating systems described in Note (A/1) focus more on credit-quality at the inception of lending and investment activities. Otherwise, impairment provisions recognized at the balance sheet date for financial reporting purposes are losses that have been incurred and based on objective evidence of impairment as will be mentioned below.

Due to the different methodologies applied, the amounts of incurred credit losses charged to the financial statements are usually lower than the expected amount determined from the expected loss models used.

The impairment provision appeared in the balance sheet at the end of the year is derived from the four internal rating grades. However, the majority of the impairment provision comes from the last two ratings. The table below shows the percentage of in-balance sheet items relating to loans, facilities and the related impairment for each rating:

Bank's rating	31 December 2011		31 December 2011	
	Loans & facilities	Impairment provision	Loans & facilities	Impairment provision
	%	%	%	%
Performing loans	% 77.5	% 20.1	% 80.0	% 7.6
Regular watching	% 1.8	% 0.5	% 3.6	% 0.8
Watch list	% 8.3	% 2.7	% 3.5	% 1.4
Non-performing loans	% 12.4	% 76.7	% 12.9	% 90.2
	<b>100 %</b>	<b>100 %</b>	100 %	100 %

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### Notes to the Financial Statements

For the year ended 31 December 2011

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

- Payment delinquency of principal or interest.
- Breach of loan conditions
- Expectation of bankruptcy or entering a liquidation or finance restructure.
- Deterioration of the borrower's competitive position.
- For economical or legal reasons, the bank granted the borrower additional benefits that will not be done in normal circumstances.
- Deterioration in the value of collateral.
- Deterioration of customer credit status.

The Bank policies require review of all financial assets (that exceed specific materiality) at least once a year or more when required, the impairment loss is determined on individual basis by determining case by case actual losses. These policies applied on all accounts have specific materiality on individual basis. Valuation usually includes the existing collateral, the related enforcements on these collaterals and the expected collections from those accounts.

Impairment loss provision is formed based on group of similar assets using the historical experience available, personal judgment and statistical methods.

#### A /4 Banking general risk measurement module

In addition to the four categories of credit rating indicated in note (A/1) the management makes more detailed groups in accordance with the CBE requirements,

Assets exposed to credit risk in these categories are classified according to detailed conditions and terms depending on information related to the customer, it's activities, financial position and payment schedules.

The Bank calculates the provisions required for impairment of assets exposed to credit risk, including commitments relating to credit on the basis of rates determined by CBE. In case, the provision required for impairment losses as per CBE regulations exceeds the provision required for financial statements preparation purposes according to the Egyptian Accounting Standards, this increase shall be debited from the retained earnings to and credited to the "general Banking risk reserve" under the equity caption. This reserve is regularly adjusted with this increase and decrease, to equal the amount of increase and decrease in the two provisions. This reserve is not distributable.

The following are the categories of credit ratings for the institutions in accordance with the four internal rating grades compared to the bases of the Central Bank of Egypt assessment and provisions percentage required for the impairment of assets exposed to credit risk:

CBE Ratings	Rating indications	Provision percentage required	Internal Ratings	Internal Ratings Granting
1	Low risk	Zero	1	Performing loans
2	Moderate risk	1 %	1	Performing loans
3	Satisfactory risk	1 %	1	Performing loans
4	Appropriate risk	2 %	1	Performing loans
5	Acceptable risk	2 %	1	Performing loans
6	Marginally Acceptable risk	3 %	2	Regular watching
7	Risks that need special care	5 %	3	Watch list
8	Below the level	20 %	4	Non-performing loans
9	Doubtful	50 %	4	Non-performing loans
10	Bad debt	100 %	4	Non-performing loans

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**A / 5 Maximum limits for credit risk before collaterals and after deducting the provision**

	31 December 2011	31 December 2010
	L.E (000)	L.E (000)
<b>Balance sheet items exposed to credit risks</b>		
<b>Treasury bills</b>	<b>3,708,772</b>	3,744,466
<b>Loans and facilities to customers:</b>		
<b>Retail loans:</b>		
Credit cards	14,193	14,264
Personal loans	477,158	569,276
Mortgage loans	13,300	13,884
<b>Corporate loans:</b>		
Overdrafts	1,199,634	1,268,677
Direct loans	4,005,893	3,906,496
Syndicated loans	1,408,796	1,390,392
<b>Financial investments:</b>		
Debt instruments	2,271,579	2,620,135
Other assets	234,686	219,040
<b>Total</b>	<b>13,334,011</b>	13,746,630
<b>Off-balance sheet items exposed to credit risk</b>		
Acceptance documents	331,763	326,210
Letters of credit	1,160,368	1,417,770
Letters of guarantee Import/Export	358,002	548,212
Guarantees upon other banks request or by their warranty	167,229	123,632
<b>Total</b>	<b>2,017,362</b>	2,415,824

**A / 6 Loans and facilities**

Loans and facilities status based on credit rating are summarized as follows:

	31 December 2011	31 December 2010
	L.E (000)	L.E (000)
	<b>Loans and facilities to customers</b>	Loans and facilities to customers
Neither past due nor impaired	6,255,318	6,712,887
past due but not impaired	941,577	459,706
impaired	885,064	926,601
<b>Total</b>	<b>8,081,959</b>	8,099,194
<b>Less:</b>		
Impairment loss provision	943,420	914,608
Interest in suspense	19,565	21,597
<b>Net</b>	<b>7,118,974</b>	7,162,989

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**Loans and facilities to banks and customers (neither past due nor impaired)**

**31 December 2011**

Rating	Retail				Corporate				Total loans and facilities to customers
	Over-drafts	Credit cards	Personal loans	Mortgage	Over-drafts	Direct loans	Syndicated loans	Other Loans	
Performing loans	-	10,030	183,624	13,457	-	4,148,002	1,429,048	-	5,784,161
Regular follow up	-	-	11,350	-	127,704	-	-	-	139,054
Watch list	-	-	4,327	-	327,776	-	-	-	332,103
<b>Total</b>	<b>-</b>	<b>10,030</b>	<b>199,301</b>	<b>13,457</b>	<b>455,480</b>	<b>4,148,002</b>	<b>1,429,048</b>	<b>-</b>	<b>6,255,318</b>

The guaranteed loans were not considered impaired as to non performing loans after taking into consideration the collectability of such guarantees.

**Loans and facilities to banks and customers (neither past due nor impaired)**

31 December 2010

Rating	Retail				Corporate				Total loans and facilities to customers
	Over-drafts	Credit cards	Personal loans	Mortgage	Over-drafts	Direct loans	Syndicated loans	Other Loans	
Performing loans	-	14,594	503,274	18,677	-	4,333,182	1,391,320	-	6,261,047
Regular follow up	-	202	14,736	541	235,910	-	-	-	251,389
Watch list	-	1,378	27,809	-	171,264	-	-	-	200,451
<b>Total</b>	<b>-</b>	<b>16,174</b>	<b>545,819</b>	<b>19,218</b>	<b>407,174</b>	<b>4,333,182</b>	<b>1,391,320</b>	<b>-</b>	<b>6,712,887</b>

## ALWATANY BANK OF EGYPT (S.A.E)

### Notes to the e Financial Statements For the year ended 31 December 2011

#### Past due Loans and facilities and not impaired

They are loans and facilities having past due up to 90 days and not considered impaired, unless there is information to the contrary. Loans and facilities having past due and not subject to impairment are as follows:

#### 31 December 2011

	Over-drafts	Retail			L.E (000)
		Credit cards	Personal loans	Mortgage	Total
Past due up to 30 days	-	634	273,691	-	274,325
Past due 30 - 60 days	-	3,515	11,350	-	14,865
Past due 60-90 days	-	303	4,327	-	4,630
<b>Total</b>	-	<b>4,452</b>	<b>289,368</b>	-	<b>293,820</b>

	Credit cards	Corporate			L.E (000)
		Direct loans	Syndicated loans	Other loans	Total
Past due up to 30 days	-	-	-	-	-
Past due 30 - 60 days	-	-	-	-	-
Past due 60-90 days	647,757	-	-	-	647,757
<b>Total</b>	<b>647,757</b>	-	-	-	<b>647,757</b>
<b>Fair value of collateral</b>	<b>938,638</b>	-	-	-	<b>938,638</b>

At the initial recording of loans and facilities, the fair value of guarantees is assessed based on valuation methods commonly used for similar assets. In subsequent periods, fair value is updated to reflect the market prices or prices of similar assets.

#### 31 December 2010

	Over-drafts	Retail			L.E(000)
		Credit cards	Personal loans	Mortgage	Total
Past due up to 30 days	-	120	-	-	120
Past due 30 - 60 days	-	97	43,263	-	43,360
Past due 60-90 days	-	84	9,920	-	10,004
<b>Total</b>	-	<b>301</b>	<b>53,183</b>	-	<b>53,484</b>

#### 31 December 2010

	Over-drafts	Corporate			L.E(000)
		Direct loans	Syndicated loans	Other loans	Total
Past due up to 30 days	-	-	-	-	-
Past due 30 - 60 days	217,886	-	-	-	217,886
Past due 60-90 days	188,336	-	-	-	188,336
<b>Total</b>	<b>406,222</b>	-	-	-	<b>406,222</b>
<b>Fair value of collateral</b>	<b>355,450</b>	-	-	-	<b>355,450</b>



## ALWATANY BANK OF EGYPT (S.A.E)

Notes to the e Financial Statements  
For the year ended 31 December 2011

### Loans and facilities individually subject to impairment

#### \*Loans and facilities to customers

Loans and facilities individually subject to impairment before taking into consideration cash flows from guarantees amounted to L.E 926,601 thousand (L.E 1,012,976 thousand as at 31 December 2010).

The breakdown of the total loans and facilities individually subject to impairment including fair value of collateral obtained by the Bank are as follows:

#### 31 December 2011

Valuation	Over-drafts	Credit cards	Retail		Mortgage	Over-drafts	Corporate		Other loans	L.E (000) Total
			Personal loans				Direct loans	Syndicated loans		
Individual loans subject to impairment	-	1,305	30,324	-	-	841,868	-	11,567	-	885,064
Fair value of collateral	-	-	-	-	-	-	-	-	-	-
	-	<u>1,305</u>	<u>30,324</u>	-	-	<u>841,868</u>	-	<u>11,567</u>	-	<u>885,064</u>

#### 31 December 2010

Valuation	Over-drafts	Credit cards	Retail		Mortgage	Over-drafts	Corporate		Other loans	L.E (000) Total
			Personal loans				Direct loans	Syndicated loans		
Individual loans subject to impairment	-	1,362	27,809	-	-	886,396	-	11,034	-	926,601
Fair value of collateral	-	-	-	-	-	-	-	-	-	29,697
	-	<u>1,362</u>	<u>27,809</u>	-	-	<u>886,396</u>	-	<u>11,034</u>	-	<u>926,601</u>

## ALWATANY BANK OF EGYPT (S.A.E)

Notes to the e Financial Statements  
For the year ended 31 December 2011

### Re-structured loans and facilities

Restructuring activities include renegotiating in terms of payments extension, restructure of mandatory management policies, and modifying and postpone repayment terms. Renegotiating policies depend on indicators or standards in addition to the management personal judgment to show that regular payments are of high probability. These policies are subject to regular review. Long-term loans, especially loans to customers are usually subject to renegotiation.

	31 December 2011	31 December 2010
	L.E (000)	L.E (000)
<b>Loans and facilities to customers</b>		
<b>Corporate</b>		
Syndicated loans	11,567	11,034
	<u>11,567</u>	<u>11,034</u>

### A /7 Debt instruments and treasury bills and other governmental securities

The table below shows an analysis of debt instruments and treasury bills and other governmental securities according to the rating agencies for the year ended at 31 December 2011.

	Treasury bills and other governmental securities L.E (000)	Investments securities L.E (000)	Total L.E (000)
AAA	-	-	-
AA- to AA+	-	-	-
A- to A+	-	-	-
Less than A-	3,708,772	2,271,579	5,980,351
<b>Total</b>	<u>3,708,772</u>	<u>2,271,579</u>	<u>5,980,351</u>

### B - Market risk

The bank exposed to market risks which is the risk that the fair value or future cash flow fluctuation resulted from changes in market prices. Market risks arise from open market related to interest rate, currency, and equity products of which each is exposed to general and specific market movements and changes in sensitivity levels of market rates or prices such as interest rates, foreign exchange rates and equity instrument prices. The Bank divides its exposure to market risk into trading and non-trading portfolios.

Bank treasury is responsible for managing the market risks arising from trading and non-trading activities of which monitored by two e teams. Regular reports are submitted to the Board of Directors and each business unit head.

Trading portfolios include transactions where the Bank deals direct with clients or with the market; Non-trading portfolios primarily arise from managing assets and liabilities interest rate relating to retail transactions. Non-trading portfolios also includes foreign exchange risk and equity instruments risks arising from the Bank's held-to-maturity and available-for-sale investments portfolios.

## ALWATANY BANK OF EGYPT (S.A.E)

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### Notes to the e Financial Statements For the year ended 31 December 2011

#### **B/1 Market risk measurement techniques**

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

#### **Value at Risk**

The Bank applies a 'value at risk' methodology (VAR) for trading and non-trading portfolios to estimate the market risk of positions held and the maximum expected losses based on a number of assumptions for various changes in market conditions. The Board sets e limits for the value of risk that may be accepted by the Bank for trading and non- trading portfolios and monitored by the Risk Management department in the bank.

VAR is a statistical estimation of the expected losses on the current portfolio from adverse market movements in which it represents the 'maximum' amount the Bank expect to lose using confidence level (98%). Therefore there is statistical probability of (2%) that actual losses could be greater than the VAR estimation. The VAR module assumes that the holding year is 10 days before closing the opening position. It also assumes that market movements during the holding year will be the same as 10-days before. The Bank's assessment of past movements is based on data for the past five years. The Bank applies these historical changes in rates, prices and indicators directly to its current positions this approach is called historical simulation. Actual outcomes are monitored regularly to test the validity of the assumptions and factors used in the VAR calculation.

The use of this approach does not prevent losses from exceeding these limits if there are significant market movements.

As VAR considered a primary part of the Bank's market risk control technique VAR limits are established by the Board annually for all trading and non-trading transactions and allocated to business units. Actual values exposed to market risk are compared to the limits established by the bank and reviewed daily by the Risk Management department in the bank.

The quality of the VAR model is continuously monitored through examining the VAR results for trading portfolio and results are reported to the top management and Board of Directors.

#### **Stress Testing**

Stress testing provides an indicator of the expected losses that may arise from sharp adverse circumstances Stress testing are designed to match business using standard analysis for specific scenarios. The stress testing carried out by the Bank treasury. Stress testing include: risk factor stress testing where sharp movements are applied to each risk category and test emerging market stress, as emerging market portfolios are subject to sharp movements; and subject to special stress including possible stress events to specific positions or regions - for example the stress outcome to a region applying a free currency rate.

The results of the stress testing are reviewed by top management and Board of directors.

## ALWATANY BANK OF EGYPT (S.A.E)

Notes to the e Financial Statements  
For the year ended 31 December 2011

### B /2 Foreign exchange volatility risk

The Bank is exposed to foreign exchange rate volatility risk in terms of the financial position and cash flows. The Board of Directors set aggregate limits for foreign exchange for each position at the end of the day, and during the day which is controlled on timely basis. The following table summarizes the Bank exposure to foreign exchange volatility risk at the end of the financial year. The following table includes the carrying amounts of the financial instruments in their currencies:

	L.E	USD	Euro	GBP	<u>Equivalent in L.E (000)</u>	
					Other	Total
<b>31 December 2011</b>						
<b><u>Financial assets</u></b>						
Cash and balances with Central banks	1,249,520	250,290	16,303	2,510	4,683	1,523,306
Due from banks	9,163	842,662	295,220	27,018	33,435	1,207,498
Treasury bills	3,708,772	-	-	-	-	3,708,772
Loans and facilities to customers	6,129,226	1,734,571	130,530	87,631	1	8,081,959
<b><u>Financial investments:</u></b>						
Available for sale	2,066,414	254,902	-	-	-	2,321,316
Held to maturity	21,750	-	-	-	-	21,750
<b>Total financial assets</b>	<b>13,184,845</b>	<b>3,082,425</b>	<b>442,053</b>	<b>117,159</b>	<b>38,119</b>	<b>16,864,601</b>
<b><u>Financial liabilities</u></b>						
Due to banks	673,239	399,822	79,587	87,884	-	1,240,532
Customer deposits	10,204,657	1,704,955	356,788	29,697	37,250	12,333,347
Financial Derivatives	16,014	-	-	-	-	16,014
Other loans	625	934,945	-	-	-	935,570
<b>Total financial liabilities</b>	<b>10,894,535</b>	<b>3,039,722</b>	<b>436,375</b>	<b>117,581</b>	<b>37,250</b>	<b>14,525,463</b>
<b>Net financial position</b>	<b>2,290,310</b>	<b>42,703</b>	<b>5,678</b>	<b>(422)</b>	<b>869</b>	<b>2,339,138</b>
<b>31 December 2010</b>						
<b>Total financial assets</b>	<b>13,871,297</b>	<b>2,971,890</b>	<b>476,000</b>	<b>130,831</b>	<b>28,184</b>	<b>17,478,202</b>
<b>Total financial liabilities</b>	<b>11,951,389</b>	<b>2,312,186</b>	<b>477,629</b>	<b>131,090</b>	<b>28,421</b>	<b>14,900,715</b>
<b>Net financial position</b>	<b>1,919,908</b>	<b>659,704</b>	<b>(1,629)</b>	<b>(259)</b>	<b>(237)</b>	<b>2,577,487</b>

## ALWATANY BANK OF EGYPT (S.A.E)

### Notes to the e Financial Statements For the year ended 31 December 2011

#### B/3 Interest rate risk

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

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

#### At the end of the current year

	Up to 1 month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Without return	<u>L.E (000)</u> Total
<b>Financial Asset</b>							
Cash and balances with Central banks	-	208,083	-	-	-	1,315,223	1,523,306
Due from banks	785,943	404,741	16,814	-	-	-	1,207,498
Treasury bills	456,955	673,228	2,578,589	-	-	-	3,708,772
Financial assets held for trading	-	-	-	-	-	-	-
Loans and facilities to banks	-	-	-	-	-	-	-
Loans and facilities to customers gross (before deducting provision)	1,898,814	713,325	1,840,341	2,874,811	754,668	-	8,081,959
<b>Financial investments:</b>							
Available for sale	-	-	-	1,769,512	551,804	-	2,321,316
Held to maturity	-	-	-	-	21,750	-	21,750
<b>Total financial assets</b>	<b>3,141,712</b>	<b>1,999,377</b>	<b>4,435,744</b>	<b>4,644,323</b>	<b>1,328,222</b>	<b>1,315,223</b>	<b>16,864,601</b>
<b>Financial liabilities</b>							
Due to banks	760,756	301,595	178,181	-	-	-	1,240,532
Customer deposits	5,265,870	3,878,156	948,178	2,172,309	2,111	66,723	12,333,347
Financial Derivatives	16,014	-	-	-	-	-	16,014
Other Loans	-	-	-	625	934,945	-	935,570
<b>Total financial liabilities</b>	<b>6,042,640</b>	<b>4,179,751</b>	<b>1,126,359</b>	<b>2,172,934</b>	<b>937,056</b>	<b>66,723</b>	<b>14,525,463</b>
<b>Interest re-pricing gap</b>	<b>(2,900,928)</b>	<b>(2,180,374)</b>	<b>3,309,385</b>	<b>2,471,389</b>	<b>391,166</b>	<b>1,248,500</b>	<b>2,339,138</b>
<u>At the end of the comparative year</u>							
Total financial assets	2,429,585	939,844	7,057,735	4,692,940	1,177,297	1,180,801	17,478,202
Total financial liabilities	6,289,877	5,267,640	1,260,282	1,453,137	582,298	47,481	14,900,715
<b>Interest re-pricing gap</b>	<b>(3,860,292)</b>	<b>(4,327,796)</b>	<b>5,797,453</b>	<b>3,239,803</b>	<b>594,999</b>	<b>1,133,320</b>	<b>2,577,487</b>

## ALWATANY BANK OF EGYPT (S.A.E)

Notes to the e Financial Statements  
For the year ended 31 December 2011

### C- Liquidity risk

Liquidity risk represents difficulty encountering the Bank in meeting its financial commitments when they fall due and replace funds when they are withdrawn. This may results in failure in fulfilling the Bank obligation to repay to the depositors and fulfilling lending commitments.

#### Liquidity risk management process

The Bank's liquidity management process carried out by the Bank liquidity management department includes:

- Daily funding managed by monitoring future cash flows to ensure that all requirements can be met when due this includes availability of liquidity as they due or to be borrowed to customers. To ensure that the Bank reaches its objective the Bank maintains an active presence in global money markets.
- The Bank maintains a portfolio of highly marketable and diverse assets that assumed to be easily liquidated in the event of an unforeseen interruption of cash flow
- Monitoring liquidity ratios in relation with internal requirements and central bank of Egypt requirements.
- Managing loans concentration and dues.

The main period for liquidity management is the next day, week and month. The Bank calculates the expected cash flow for those years for monitoring and reporting purposes.

The starting point to calculate these expectations is analyzing the financial liabilities dues and expected financial assets collections.

Credit risk department monitor the mismatch between medium term assets, the level and nature of unused loans limits, overdraft utilizations, and the effect of contingent liabilities such as letters of guarantees and letters of credit.

#### Funding approach

Sources of liquidity are regularly reviewed by bank treasury to maintain a wide diversification by currency geography source products and terms.

#### Cash flows derived

The following table presents cash flows paid by the bank in a financial obligations derived distributed on the basis of the remainder of the contractual entitlements at the balance sheet date, and represent the amounts listed in the table contractual cash flows is undiscounted, while the Bank manages liquidity risk on the basis of undiscounted cash flows expected and not a contractual:

At the end of current year	<u>L.E (000)</u>					
	Up to 1 month	Over than 1 month to 3 months	Over than 3 months to 1 year	Over than 1 year to 5 years	More than 5 years	Total
<b>Financial liabilities</b>						
Due to banks	760,756	479,776	-	-	-	1,240,532
Customers' deposits	5,265,870	3,878,156	948,178	2,239,032	2,111	12,333,347
Other loans	-	-	625	934,945	-	935,570
<b>Total of financial liabilities according to contractual maturity date</b>	<u>6,026,626</u>	<u>4,357,932</u>	<u>948,803</u>	<u>3,173,977</u>	<u>2,111</u>	<u>14,509,449</u>
<b>Total of financial assets according to contractual maturity date</b>	<u>4,356,692</u>	<u>1,532,607</u>	<u>5,431,446</u>	<u>4,287,207</u>	<u>1,256,649</u>	<u>16,864,601</u>

## ALWATANY BANK OF EGYPT (S.A.E)

Notes to the e Financial Statements  
For the year ended 31 December 2011

At the end of comparative year	Up to 1 month	Over than 1 month to 3 months	Over than 3 months to 1 year	Over than 1 year to 5 years	More than 5 years	L.E (000)
						Total
<b>Financial liabilities</b>						
Due to banks	624,241	780,857	-	-	-	1,405,098
Customers' deposits	5,933,703	4,466,564	1,059,915	1,451,262	1,807	12,913,251
Other loans	-	-	-	1,875	580,490	582,365
<b>Total of financial liabilities according to contractual maturity date</b>	<b>6,557,944</b>	<b>5,247,421</b>	<b>1,059,915</b>	<b>1,453,137</b>	<b>582,297</b>	<b>14,900,714</b>
<b>Total of financial assets according to contractual maturity date</b>	<b>3,769,097</b>	<b>1,123,076</b>	<b>6,826,492</b>	<b>5,035,228</b>	<b>724,309</b>	<b>17,478,202</b>

### Derivatives are settled in Gross amounts

Include the bank's derivatives which settled in gross amounts are as the following:

- \* Foreign exchange derivatives: Currency forward contracts and currency spot contracts.
- \* Derivatives at the rate of return: return swaps and currencies together.

The following table shows derivative financial obligations that will be settled in gross, distributed on the basis of the remainder of the contractual entitlements at the date of the balance sheet, the amounts listed in the table represent the undiscounted cash flows:

31 December 2011	Up to 1 month	Over than 1 month to 3 months	Over than 3 months to 1 year	Over than 1 year to 5 years	More than 5 years	L.E (000)
						Total
<b>Financial liabilities</b>						
Swap derivatives:						
Outflows	-	-	-	54,926	120,638	175,564
Inflows	-	-	-	54,926	120,638	175,564
<b>Total outflows</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>54,926</b>	<b>120,638</b>	<b>175,564</b>
<b>Total inflows</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>54,926</b>	<b>120,638</b>	<b>175,564</b>

### Off balance sheet items

According to the following table as referred to in note (34):

31 December 2011	Up to 1 year	Over 1 year and less than 5 years	More than 5 years	L.E (000)
				Total
Financial guarantees, and acceptable bills and other financial facilities	2,017,362	-	-	2,017,362
Operating Lease commitments	9,493	24,910	3,610	38,013
Capital commitments arising from the acquisition of fixed assets	33,938	167,947	-	201,885
<b>Total</b>	<b>2,060,793</b>	<b>192,857</b>	<b>3,610</b>	<b>2,257,260</b>

## ALWATANY BANK OF EGYPT (S.A.E)

### Notes to the e Financial Statements For the year ended 31 December 2011

<b>31 December 2010</b>	<b>Up to 1 year</b>	<b>Over 1 year and less than 5 years</b>	<b>More than 5 years</b>	<b><u>L.E (000)</u> Total</b>
Financial guarantees, and acceptable bills and other financial facilities	2,415,824	-	-	2,415,824
Operating Lease commitments	8,397	30,213	7,373	45,983
Capital commitments arising from the acquisition of fixed assets	81,667	201,509	-	283,176
<b>Total</b>	<b><u>2,505,888</u></b>	<b><u>231,722</u></b>	<b><u>7,373</u></b>	<b><u>2,744,983</u></b>

#### D- Fair value of financial assets and liabilities

##### D/1 financial instruments measured at fair value using a valuation method.

The bank does not have financial instruments measured at fair value using a valuation method.

##### D/2 financial instruments not measured at fair value

The table below summarizes the carrying amounts and fair values for those financial assets and liabilities not presented on the Bank's balance sheet at their fair value.

	<b>Carrying value <u>L.E (000)</u> 31 December 2011</b>	<b>Carrying value <u>L.E (000)</u> 31 December 2010</b>	<b>Fair value <u>L.E (000)</u> 31 December 2011</b>	<b>Fair value <u>L.E (000)</u> 31 December 2010</b>
<b>Financial assets</b>				
Due from banks	1,207,498	1,423,610	1,207,498	1,423,610
<b>Loans and facilities to customers</b>				
Retail	548,237	581,214	548,237	581,214
Corporate	7,533,722	7,517,980	7,533,722	7,517,980
<b>Financial investments</b>				
Equity instruments available for sale	43,217	43,207	43,217	43,207
Held to maturity	21,750	61,696	22,129	65,008
<b>Financial liabilities</b>				
Due to banks	1,240,532	1,405,098	1,240,532	1,405,098
<b>Customer deposits</b>				
Retail	5,625,987	5,226,880	5,625,987	5,226,880
Corporate	6,707,360	7,686,371	6,707,360	7,686,371
*Other loans	935,570	582,365	935,570	582,365

\*The bank did not calculate the fair value of these items.

##### Due from banks

Fair value of placements and deposits bearing variable interest rate for one day is its current value. The expected fair value for deposits bearing variable interest is based on the discounted cash flow using rate of similar asset of similar credit risk and due dates.



## ALWATANY BANK OF EGYPT (S.A.E)

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### Notes to the e Financial Statements For the year ended 31 December 2011

#### **Loans and facilities to banks**

Loans and facilities to banks are loans other than due from banks. Fair value expected for loans and facilities represent the discounted value of future cash flows expected to be collected and cash flows are discounted using the current market interest rate to determine fair value.

#### **Loans and facilities to customers**

Loans and facilities are net of provisions for impairment losses. Fair value expected for loans and facilities represents the discounted value of future cash flows expected to be collected and cash flows are discounted using the current market interest rate to determine fair value.

#### **Financial Investments**

Financial investments shown in the above schedule includes only held to maturity assets investments; as available for sale investments are measured at fair value except for equity instruments that its market value can't be reliably determined. Fair value of held-to-maturity investments is based on market prices or broker/ prices. Fair value is estimated using quoted market prices for financial paper with similar credit maturity and yield characteristics where information is not available

#### **Due to banks and customers**

The estimated fair value of deposits of indefinite maturity which includes interest-free deposits is the amount paid on call.

**The estimated fair value of fixed interest-bearing deposits and other loans not traded in an active market is based on discounted cash flows using interest rates for new debts of similar maturity dates.**

#### **Debt instruments issued**

The fair value is calculated based on market prices of current financial markets. For securities that do not have active markets, the cash flows discounted at the current rate is used for the first time that is appropriate for the remaining period until the maturity date.

#### **E- Capital management**

The Bank's objectives behind managing capital include elements other than equity shown in the balance sheet are represented in the following:

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

Capital adequacy and uses are reviewed on a daily basis according to the regulatory authority's requirements (CBE) by the Bank's management through models based basel committee for banking control instructions, these data are submitted to CBE on quarterly basis.

CBE requires the following from the Bank:

- Maintaining L.E 500 million as a minimum requirement for the issued and paid up capital.
- Maintaining a ratio between capital elements and asset and contingent liability elements weighted by risk weights at 10 % or more.

## ALWATANY BANK OF EGYPT (S.A.E)

### Notes to the e Financial Statements For the year ended 31 December 2011

The numerator in capital adequacy comprises the following two tiers:

- **Tier 1:** It is the basic capital comprising of paid up capital (after deducting the carrying amount of the treasury stocks) retained earnings and reserves resulting from profit appropriations except the general reserve for banking risks less any goodwill previously recognized and any carried forward losses.
- **Tier 2:** It is the subordinate capital comprising of the equivalent of the general reserve according to CBE credit rating bases issued by CBE not exceeding 1.25% of total assets and contingent liabilities applying the risk weights subordinate loans/deposits of maturing over more than 5 years (20% amortization of its value each year of the last five years of their maturity term) and 45 % of the increase between the fair value and carrying amount for the available for sale investments held to maturity investments and investments in subsidiaries.

On calculating the total numerator of capital adequacy it is to be considered that tier 2 should not be greater than tier 1 and subordinate loans (deposits) should not be greater than half of basic capital.

Assets are weighted by risk in a range from zero to 100 %. Classification is made according to the debit party for each asset to reflect the related credit risk taking into consideration cash guarantees. Same treatment is used for the off-balance sheet amounts after making relevant adjustments to reflect the contingent nature and the potential loss for these amounts.

The Bank complied with all internal requirements during the last two years. The schedule below shows the calculation of capital adequacy ratio for the two years:

	31 December 2011 L.E (000)	31 December 2010 L.E (000)
<b>Capital</b>		
<b>Tier 1 (basic capital)</b>		
Share capital	1,000,000	1,000,000
General reserve	106,773	56,772
Legal reserve	77,605	55,263
Other reserves	(11,016)	19,101
Retained earnings	216,514	218,366
<b>Total basic capital</b>	<b>1,389,876</b>	<b>1,349,503</b>
<b>Tier 2 (subordinated capital)</b>		
Equivalent to general risk provision	122,957	112,265
Loans/subordinated deposits	694,938	580,490
<b>Total subordinated capital</b>	<b>817,895</b>	<b>692,755</b>
<b>Total capital</b>	<b>2,207,771</b>	<b>2,042,258</b>
<b>Assets and contingent liabilities risk weighted</b>		
Assets	8,849,900	7,888,458
Contingent liabilities	986,699	1,092,764
<b>Total risk weighted assets and contingent liabilities</b>	<b>9,836,599</b>	<b>8,981,222</b>
<b>Capital adequacy ratio (%)</b>	<b>22.44%</b>	<b>% 22.74</b>

## ALWATANY BANK OF EGYPT (S.A.E)

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### 4. Significant accounting estimates and assumptions

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and assumptions are continually evaluated based on historical experience and other factors including the expectations of future events that are believed to be reasonable.

#### A - Impairment losses for loans and facilities

The Bank reviews the portfolio of loans and facilities at least quarterly. The Bank uses professional judgment in determining whether it is necessary to recognize impairment loss in the income statement, to identify if there is objective evidence indicating a decline in the expected future cash flows from loan portfolio before identifying any decline on individual basis. These evidence include data indicating negative changes in borrowers' portfolio ability to repay to the Bank, or local or economic circumstances related to default. On rescheduling future cash flows the management uses the past experience to determine the credit impairment loss for assets when there is objective evidence of impairment similar to that of the portfolio in question.

The methods and assumptions used in estimating both the amount and timing of the future cash flows are reviewed on a regular basis to minimize any discrepancy between the estimated loss and actual loss based on experience.

#### B - Impairment of available for sale equity investments

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

Had all the declines in fair value below cost been considered significant or prolonged, the Bank would suffer an additional LE 45,480 k loss, being the transfer of the total fair value reserve to the income statement.

#### C - Fair value of derivatives

For the unquoted financial instruments, the fair value is determined using valuation techniques which are tested and reviewed periodically by high qualified staff who are independent of those who created the models.

The models used are validated prior put into use to ensure that its results reflect actual data and prices that can be compared to market. To extent practicable, inputs to pricing models are generally market-based when available and taken from reliable external data sources; while areas like bank credit risk, counter parties, volatility and correlations require management to make judgments and estimations. Change in the assumptions related to these factors may affect the financial instruments fair values which have been disclosed.

#### D - Held-to-maturity investments

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

If the entire held-to-maturity investments are tainted, the carrying value would increase by L.E 379 k to reach the fair value, with a corresponding entry in the fair value reserve in equity.

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**E - Income tax**

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

The income taxes recognized on the basis of net taxable profit using the tax rates enacted at the date of the Balance Sheet in addition to the tax adjustments related to previous years, and commitments in accordance with the principles of accounting and its value according to the tax regulations, The value of deferred tax is recognized based on the expected manner of realization or settlement of the values of the asset values and liabilities, using tax rates enacted at the date of the balance sheet.

The deferred tax assets of the Bank are recognized when that it is probable that taxable profit will be available against which the deferred tax asset can be utilized, The value of deferred tax assets is reduced by the portion that will result in expected tax benefit during the following years, however in the case of the increase of expected tax benefit, the deferred tax assets will increase to the extent previously reduced

**5. Net interest income**

	31 December 2011	31 December 2010
	L.E (000)	L.E (000)
<b>Interest from loans and similar revenues:</b>		
<b>Loans and facilities :</b>		
Customers	678,613	604,463
Treasury bills	364,626	267,348
Deposits and current accounts	13,300	43,284
Investments in debt instruments held to maturity and available for sale	232,200	259,344
<b>Total</b>	<u>1,288,739</u>	<u>1,174,439</u>
<b>Costs of Deposits and similar costs:</b>		
<b>Deposits and current accounts:</b>		
Banks	74,020	24,131
Customers	654,993	611,174
	<u>729,013</u>	<u>635,305</u>
Other Loans	27,436	16,021
<b>Total</b>	<u>756,449</u>	<u>651,326</u>
<b>Net</b>	<u>532,290</u>	<u>523,113</u>

**6. Net fees and commission income**

	31 December 2011	31 December 2010
	L.E (000)	L.E (000)
<b>Fees and commission income:</b>		
Fees and commissions related to credit	131,967	139,200
Custody fees	3,193	1,276
Other fees	28,373	34,280
	<u>163,533</u>	<u>174,756</u>
<b>Fees and commission expenses:</b>		
Other fees paid	(1,080)	(1,561)
<b>Net</b>	<u>162,453</u>	<u>173,195</u>

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**7. Dividends income**

	31 December 2011	31 December 2010
	L.E (000)	L.E (000)
Trading investments	-	943
Available for sale investments	1,508	1,335
Subsidiaries and associates	-	522
Held to maturity investments	236	-
	<u>1,744</u>	<u>2,800</u>

**8. Net trading income**

	31 December 2011	31 December 2010
	L.E (000)	L.E (000)
<b>Foreign exchange operations:</b>		
Forex losses	(38,358)	(1,826)
Loss of revaluation interest rate swap contract	(16,014)	-
Equity instruments held for trading	-	(1,168)
	<u>(54,372)</u>	<u>(2,994)</u>

**9. Gains from financial investments**

	31 December 2011	31 December 2010
	L.E (000)	L.E (000)
Gains from investments in subsidiary and joint venture	19,799	-
Gains from available for sale investments	1,329	20,785
Gains from treasury bills	450	9,005
	<u>21,578</u>	<u>29,790</u>

**10. Share of profit of an associates**

	31 December 2011	31 December 2010
	L.E (000)	L.E (000)
International company for postal services	3,842	-
Al Watany capital assets management	(497)	-
	<u>3,345</u>	<u>-</u>

**11. Administrative expenses**

	31 December 2011	31 December 2010
	L.E (000)	L.E (000)
<b>Staff costs</b>		
Wages and salaries	135,636	121,193
Social insurance	6,579	5,690
<b>Pension and other benefits cost</b>		
Defined contribution plan	16,934	10,893
	<u>159,149</u>	<u>137,776</u>
Other administrative expense	89,746	83,201
	<u>248,895</u>	<u>220,977</u>

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

	31 December 2011 L.E (000)	31 December 2010 L.E (000)
Gain ( loss) revaluation monetary assets & liabilities balances in foreign currencies other than trading	64,270	24,187
Gain from assets transferred to bank	16,575	10,998
Assets transferred to bank expenses	(684)	(570)
Gain from sale of fixed assets	(2)	8,479
Operating and financial lease expenses	(30,688)	(28,043)
Reversal of provisions no longer required	-	25,315
Other provisions	(19,056)	(150)
	<u>30,415</u>	<u>40,216</u>

**13. Income tax expenses**

	31 December 2011 L.E (000)	31 December 2010 L.E (000)
Current taxes	113,198	90,039
Deferred tax	(4,558)	(1,255)
	<u>108,640</u>	<u>88,784</u>

(Note 29) shows additional information about deferred income tax; the taxes on bank profits differ when current applicable tax rates used as follows:

	31 December 2011 L.E (000)	31 December 2010 L.E (000)
Accounting profit before tax	334,192	535,772
Income tax calculated on accounting profit:		
20 % from accounting profit	2,000	107,154
25 % from accounting profit more than L.E 10 Million	81,048	-
Income tax calculated on accounting profit	<u>83,048</u>	<u>107,154</u>
<b>Add (Deduct)</b>		
<b>Undetectable Expenses</b>	25,628	16,582
<b>Tax Exemptions</b>	(28,137)	(82,191)
Provisions	36,062	17,050
Interest in suspense	(2,033)	(1,127)
Depreciations	(6,122)	(8,882)
Share of profit of an associates	(3,345)	-
Other deductions	(23,226)	(25,315)
<b>Net tax pool</b>	<u>333,019</u>	<u>451,980</u>
<b>Income tax according to the tax return</b>	<u>82,755</u>	<u>90,378</u>
<b>Tax of Treasury Bills and Treasury bonds</b>	<u>30,443</u>	<u>(339)</u>
<b>Income tax</b>	<u>113,198</u>	<u>90,039</u>
<b>Effective tax rate</b>	<u>%33,87</u>	<u>%16,81</u>

**14. Cash and Due from Central Bank (CBE)**

	31 December 2011 L.E (000)	31 December 2010 L.E (000)
Cash	201,542	156,054
Due from central bank (within the required reserve percentage)	1,321,764	1,226,262
	<u>1,523,306</u>	<u>1,382,316</u>
Non-interest bearing balances	1,315,223	1,176,074
Interest bearing balances	208,083	206,242
	<u>1,523,306</u>	<u>1,382,316</u>

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**15. Due from banks**

	31 December 2011	31 December 2010
	L.E (000)	L.E (000)
Current accounts	83,505	62,630
Deposits	1,123,993	1,006,254
	<u>1,207,498</u>	<u>1,068,884</u>
Due from central bank (other than the required reserve percentage)	-	354,726
	<u>1,207,498</u>	<u>1,423,610</u>
Interest free balances	83,505	67,356
Variable interest rate balances	1,123,993	1,356,254
	<u>1,207,498</u>	<u>1,423,610</u>
Current balances	1,207,498	1,418,884
Noncurrent balances	-	4,726
	<u>1,207,498</u>	<u>1,423,610</u>

**16. Treasury bills**

	31 December 2011	31 December 2010
	L.E (000)	L.E (000)
*Treasury bills	3,708,772	3,744,466
	<u>3,708,772</u>	<u>3,744,466</u>

**Treasury bills represent the following:**

	31 December 2011	31 December 2010
	L.E (000)	L.E (000)
91 days maturity	557,650	114,825
182 days maturity	788,100	886,500
273 days maturity	651,875	816,700
364 days maturity	1,196,600	2,169,225
	<u>3,194,225</u>	<u>3,987,250</u>
Unearned interest	(179,786)	(242,784)
<b>Total (1)</b>	<u>3,014,439</u>	<u>3,744,466</u>
Treasury bills purchased with a resell commitment within one week	726,375	-
Unearned interest	(32,042)	-
<b>Total (2)</b>	<u>694,333</u>	<u>-</u>
	<u>3,708,772</u>	<u>3,744,466</u>

\*the Treasury bill includes bills amounting L.E 726,375 K pledged to the central bank of Egypt against a deposit amounting L.E 668,000 K.

**17. Trading investments**

	31 December 2011	31 December 2010
	L.E (000)	L.E (000)
Funds certificates *	-	6,204
	<u>-</u>	<u>6,204</u>

\* Trading Investments has been re-classified to investments available for sale as per (note 20)

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**18. Customers Loans and facilities**

	<b>31 December 2011</b>	31 December 2010
	L.E (000)	L.E (000)
<b>Retail:</b>		
Credit cards	15,787	16,176
Personal loans	518,993	545,820
Mortgage loans	13,457	19,218
<b>Total (1)</b>	<b>548,237</b>	<b>581,214</b>
<b>Corporate loans including small loans:</b>		
Overdrafts	1,945,105	2,061,929
Direct loans	4,148,002	4,064,731
Syndicated loans	1,440,615	1,391,320
<b>Total (2)</b>	<b>7,533,722</b>	<b>7,517,980</b>
<b>Total loans and advance to customers (1+2)</b>	<b>8,081,959</b>	<b>8,099,194</b>
<b>Less</b>		
provision for impairment losses	(943,420)	(914,608)
Interest in suspense	(19,565)	(21,597)
<b>Net</b>	<b>7,118,974</b>	<b>7,162,989</b>

**Provision for impairment losses:**

The Provision for impairment losses analysis for loans and facilities to customers' as follows:

	<u>Retail</u>	<u>Corporate</u>	<u>Total</u>
	L.E (000)	L.E (000)	L.E (000)
<b>31 December 2011</b>			
Beginning balance	32,316	882,292	914,608
Impairment charge During the period	4,500	109,866	114,366
Proceeds from loans previously written off	-	330	330
Foreign currency translation differences	-	1,177	1,177
Transferred from corporate to retail	6,770	(6,770)	-
Transferred from other provisions	-	410	410
	<b>43,586</b>	<b>987,305</b>	<b>1,030,891</b>
Used during the year	-	(87,471)	(87,471)
<b>Ending balance</b>	<b>43,586</b>	<b>899,834</b>	<b>943,420</b>

	<u>Retail</u>	<u>Corporate</u>	<u>Total</u>
	L.E (000)	L.E (000)	L.E (000)
31 December 2010			
Beginning balance	61,984	953,051	1,015,035
Impairment losses	(15,731)	25,102	9,371
Proceeds from loans previously written off	-	1,060	1,060
Foreign currency translation differences	-	792	792
Transferred from(to) other provisions	(13,937)	(1,839)	(15,776)
	<b>32,316</b>	<b>978,166</b>	<b>1,010,482</b>
Used during the year	-	(95,874)	(95,874)
<b>Ending balance</b>	<b>32,316</b>	<b>882,292</b>	<b>914,608</b>



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#### 19. Derivatives financial instruments

##### Derivatives

The bank uses the following derivatives for hedging and non-hedging purposes:

- The forward currency contracts represent commitments to buy foreign and local currencies, including unexecuted spot transactions. Foreign currency and /or interest rates future contracts are contractual obligations to receive or pay net amount based on the change in foreign exchange or interest rates, and/or buy or sell foreign currency or financial instrument in a future date at a contractual determined price in an active financial market.

The Bank's credit risk is considered minimal, forward interest rate contracts represent future interest rate contracts negotiated on case by case, these contracts require settlements in a future date of the difference between agreed interest rates and prevailing market interest rate based on agreed contractual amount (nominal value).

- Currency and/or interest rate swaps represent commitments to exchange cash flows. As a result of these contracts, currencies or interest rates (e.g.; fixed rate verses variable rate) or both (interest rate and currency swaps) are exchanged. Contractual amounts are not actually exchanged except for some currency swaps.

Credit risks are represented in the contingent cost to change swap contracts in case the counter parties failed to perform their commitments. This risk is continuously monitored through comparisons of fair value and contractual amount, and to monitor the existing credit risk, the Bank evaluates counter parties using the same methods used in lending activities.

- Foreign currency options and/or interest rates options represent contractual agreements whereby the seller (issuer) gives the buyer (holders) a right not an obligations , to buy(call option) or to sell (put option) on a certain day or within a certain period , a certain amount of foreign currency or financial instrument at a predetermined price . The seller receives commissions in compensation for his acceptance of the foreign currency risk of interest rate risk. Options contracts are either traded in the market or negotiated between the bank and one of its clients. The bank is exposed to credit risk for purchased options contracts only and to extent of its carrying values which represent its fair value.
- The contractual value of some financial instruments are considered a base to compare with the recognized financial instruments on the balance sheet, however it does not necessarily provide an indicator for future cash flow or the fair value of the instruments, thus, those amounts doesn't reflect the credit risk or interest rate risk.

Derivatives are considered in the favor of the bank (assets) or not in its favor (liabilities) as a result of changes in foreign exchange rates or interest rates related to these derivatives. Contractual /estimated amounts of financial derivatives can fluctuate from time to time, as well as, the range through which derivatives are considered in the favor of the bank (assets) or not in its favor (liabilities) and the total fair value of the financial assets and liabilities from derivative.

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**Derivatives held for trading:**

	(Amounts in L.E 000)					
	31 December 2011			31 December 2010		
	<u>Contractual notional amount</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Contractual notional amount</u>	<u>Assets</u>	<u>Liabilities</u>
<b>Derivatives held for trading</b>						
Interest rate swaps	175,564	-	16,014	-	-	-
Total derivatives held for trading	<u>175,564</u>	<u>-</u>	<u>16,014</u>	<u>-</u>	<u>-</u>	<u>-</u>

**20. Financial investments**

	31 December 2011	31 December 2010
	L.E (000)	L.E (000)
<b>Available for sale</b>		
Debt Instruments – Fair Value:		
Quoted	2,271,579	2,620,135
Debt instruments –quoted :		
Al Watany Bank of Egypt Fund	723	-
Ishraq Fund	5,797	-
Equity Instruments – Fair Value:		
Unquoted	43,217	43,207
Total available for sale investments (1)	<u>2,321,316</u>	<u>2,663,342</u>
<b>Held to maturity investments</b>		
<b>Debt instruments – Amortized Cost:</b>		
<b>Quoted</b>	-	44,946
<b>Unquoted:</b>		
Al Watany Bank of Egypt Fund	6,750	6,750
Ishraq Fund	5,000	5,000
Alhayah Fund	5,000	5,000
Namaa Fund	5,000	-
<b>Total Held to maturity investments (2)</b>	<u>21,750</u>	<u>61,696</u>
<b>Total financial investments (1+2)</b>	<u>2,343,066</u>	<u>2,725,038</u>
Current Balances	2,099,912	2,455,472
Non-Current Balances	243,154	269,566
	<u>2,343,066</u>	<u>2,725,038</u>
Fixed interest debt instruments	2,093,393	2,455,472
Variable interest debt instruments	249,673	269,566
	<u>2,343,066</u>	<u>2,725,038</u>

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	Available for sale	Held to maturity	Total
	L.E (000)	L.E (000)	L.E (000)
<b>Balance as of 1 January 2011</b>	<b>2,663,342</b>	<b>61,696</b>	<b>2,725,038</b>
Additions	461,112	5,000	466,112
Reclassification from Trading investment*	17,438	-	17,438
Transfer from subsidiaries and associates**	25	-	25
Disposals (Sale / Redemption)	(772,941)	(44,705)	(817,646)
Monetary assets revaluation differences	6,613	-	6,613
Loss from change in FMV (Note 30)	(46,601)	-	(46,601)
Amortized cost during the year	(7,672)	(241)	(7,913)
<b>Balance as of 31 December 2011</b>	<b>2,321,316</b>	<b>21,750</b>	<b>2,343,066</b>
Balance as of 1 January 2010	2,828,210	51,970	2,880,180
Additions	1,630,541	10,000	1,640,541
Disposals (Sale / Redemption)	(1,823,394)	-	(1,823,394)
Monetary assets revaluation differences	1,064	-	1,064
Gain from change in FMV	34,633	-	34,633
Amortized cost during the year	(7,712)	( 274)	(7,986)
Balance as of 31 December 2010	2,663,342	61,696	2,725,038

\* During the financial period ended June 30, 2011 and According to the memorandum issued by the Central Bank of Egypt on June 7, 2011 relating to banks be allowed to re-classification of financial assets held for trading to other items during the period from January to June 2011, The Bank has re-classified the certifications of funds held for trading that are no longer the purpose of the acquisition is to buy or sell them to the investments available for sale by the fair value on the date of re –classification amounting of 17.438 thousand Egyptian pounds and was affecting the fair value reserve of 156 thousand Egyptian pounds

\*\* The bank has reclassified investments in subsidiaries amounting 25 thousand Egyptian pounds to investments available for sale resulting of sold all the bank shares of Al Yasmain for hotels which led to the loss of banks controls over this company. While the company Al Yasmain for touristic projects under liquidation.

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**21. Investments in subsidiaries and Associates**

	31 December 2011		31 December 2010	
	amount L.E (000)	Percentage %	amount L.E (000)	Percentage %
<b>(A) Subsidiaries Companies*</b>				
Al Yasmin for touristic projects – under liquidation	-	-	-	71.84
Al Yasmin for hotels	-	-	19,740	99.79
Al Watany for hotels**	-	-	15,995	99.97
<b>(B) Associates Companies</b>				
International company for postal services	<b>3,630</b>	<b>20.00</b>	500	20.00
Al Watany capital assets management	<b>19,503</b>	<b>49.99</b>	5,000	49.99
	<b>23,133</b>		<b>41,235</b>	

All investments in subsidiaries and associates are unquoted.

\* The bank has reclassified investments in subsidiaries amounting 25 thousand Egyptian pounds to investments available for sale resulting of sold all the bank shares of Al Yasmain for hotels which led to the loss of banks controls over this company. While the company Al Yasmain for touristic projects under liquidation.

\*\* Al Watany for hotels was liquidated with a net profit of L.E 16,088 K with profit amounting L.E 93 K.

**22. Other assets**

	31 December 2011	31 December 2010
	L.E (000)	L.E (000)
Accrued revenues	<b>116,246</b>	118,372
Advances to purchase fixed assets	<b>109,578</b>	93,305
Assets transferred to bank (after deducting the impairment)	<b>55,854</b>	74,983
Collective insurance policy	<b>38,198</b>	31,135
Prepaid expenses	<b>8,862</b>	7,363
Fixed assets stores	<b>690</b>	226
Insurance and impressments	<b>1,372</b>	1,357
Stamp taxes duty	-	3,731
Speed Service company	<b>3,083</b>	5,868
Prepaid interest expense	<b>4,262</b>	1,612
Other	<b>17,843</b>	42,199
	<b>355,988</b>	<b>380,151</b>

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**23. Fixed Assets**

	Land	Buildings	Core Systems	Vehicles	Fitting – out	Machines and Equipments	Furniture	Others	Total
	L.E (000)	L.E (000)	L.E (000)	L.E (000)	L.E (000)	L.E (000)	L.E (000)	L.E (000)	L.E (000)
<b>Balance as of 1 January 2010</b>									
Cost	23,638	122,819	32,106	5,089	5,351	5,857	11,149	8,756	214,765
Accumulated depreciation	-	(16,781)	(18,714)	(3,095)	-	(2,432)	(6,235)	(5,628)	(52,885)
<b>Net book value as at 1 January 2010</b>	<b>23,638</b>	<b>106,038</b>	<b>13,392</b>	<b>1,994</b>	<b>5,351</b>	<b>3,425</b>	<b>4,914</b>	<b>3,128</b>	<b>161,880</b>
Additions	-	18,243	8,735	410	17,612	1,981	2,465	2,100	51,546
Disposals	(710)	(12,818)	(5)	(28)	-	(19)	(11)	(17)	(13,608)
Depreciation for the year	-	(2,295)	(4,923)	(738)	(3,316)	(700)	(836)	(791)	(13,599)
Transferred between assets	-	-	-	-	(6)	(22)	6	22	-
<b>Net book value as at 31 December 2010</b>	<b>22,928</b>	<b>109,168</b>	<b>17,199</b>	<b>1,638</b>	<b>19,641</b>	<b>4,665</b>	<b>6,538</b>	<b>4,442</b>	<b>186,219</b>
<b>Balance as of 1 January 2011</b>									
Cost	22,928	128,005	38,647	5,164	19,641	7,711	12,857	10,324	245,277
Accumulated depreciation	-	(18,837)	(21,448)	(3,526)	-	(3,046)	(6,319)	(5,882)	(59,058)
<b>Net book value as at 1 January 2011</b>	<b>22,928</b>	<b>109,168</b>	<b>17,199</b>	<b>1,638</b>	<b>19,641</b>	<b>4,665</b>	<b>6,538</b>	<b>4,442</b>	<b>186,219</b>
Additions	-	5	1,500	747	15,915	492	1,944	413	21,016
Transferred between assets	-	-	63	-	(222)	(46)	202	3	-
Disposals	-	-	(978)	-	(6)	(61)	(527)	(94)	(1,666)
Depreciation for disposals	-	-	907	-	-	54	305	92	1,358
Depreciation for the year	-	(2,694)	(5,780)	(613)	(5,449)	(914)	(362)	(862)	(16,674)
<b>Net book value as at 31 December 2011</b>	<b>22,928</b>	<b>106,479</b>	<b>12,911</b>	<b>1,772</b>	<b>29,879</b>	<b>4,190</b>	<b>8,100</b>	<b>3,994</b>	<b>190,253</b>
<b>Balance as of 31 December 2011</b>									
Cost	22,928	128,010	39,232	5,911	35,328	8,096	14,476	10,646	264,627
Accumulated depreciation	-	(21,531)	(26,321)	(4,139)	(5,449)	(3,906)	(6,376)	(6,652)	(74,374)
<b>Net book value as at 31 December 2011</b>	<b>22,928</b>	<b>106,479</b>	<b>12,911</b>	<b>1,772</b>	<b>29,879</b>	<b>4,190</b>	<b>8,100</b>	<b>3,994</b>	<b>190,253</b>

- Fixed assets (net of accumulated depreciation) at the financial position date include L.E 72,344 thousands representing assets not registered yet in the Bank's name as the legal procedure are currently undertaken to register such assets.

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**24. Due to banks**

	31 December 2011	31 December 2010
	L.E (000)	L.E (000)
<b>A- Central bank Of Egypt</b>		
Deposits	<b>668,000</b>	-
	<u>668,000</u>	<u>-</u>
<b>B- Local Banks</b>		
Current Accounts	-	9
Deposits	<b>31,065</b>	350,000
	<u>31,065</u>	<u>350,009</u>
<b>C- Foreign Banks</b>		
Current Accounts	<b>19,025</b>	23,487
Deposits	<b>522,442</b>	1,031,602
	<u>541,467</u>	<u>1,055,089</u>
	<u>1,240,532</u>	<u>1,405,098</u>
Non-interest bearing balances	<b>19,025</b>	23,496
Variable Interest bearing balances	<b>553,507</b>	1,381,602
Fixed Interest bearing balances	<b>668,000</b>	-
	<u>1,240,532</u>	<u>1,405,098</u>
Current balances	<b>1,240,532</b>	1,405,098
	<u>1,240,532</u>	<u>1,405,098</u>

**25. Customers' deposits**

	31 December 2011	31 December 2010
	L.E (000)	L.E (000)
Demand deposits	<b>1,660,665</b>	1,570,570
Time and call deposits	<b>6,332,215</b>	7,230,879
Certificates of deposits	<b>2,421,868</b>	1,802,238
Saving deposits	<b>1,524,403</b>	1,801,857
Other deposits	<b>394,196</b>	507,707
	<u>12,333,347</u>	<u>12,913,251</u>
Financial Institutions deposits	<b>6,707,360</b>	7,686,371
Individual and Corporate deposits	<b>5,625,987</b>	5,226,880
	<u>12,333,347</u>	<u>12,913,251</u>
Interest free balances	<b>66,844</b>	47,460
Variable interest balances	<b>12,266,503</b>	12,865,791
	<u>12,333,347</u>	<u>12,913,251</u>
Current balances	<b>10,092,204</b>	11,460,182
Non-current balances	<b>2,241,143</b>	1,453,069
	<u>12,333,347</u>	<u>12,913,251</u>

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**26. Other Loans**

	<b>Interest Rates</b>	<b>31 December 2011</b>	<b>31 December 2010</b>
	<b>%</b>	<b>L.E (000)</b>	<b>L.E (000)</b>
Agricultural sector development program loan	<b>5.5</b>	<b>625</b>	1,875
Subordinated loan	<b>3.7</b>	<b>934,945</b>	580,490
<b>Total</b>		<b>935,570</b>	<b>582,365</b>

**27. Other liabilities**

	<b>31 December 2011</b>	<b>31 December 2010</b>
	<b>L.E (000)</b>	<b>L.E (000)</b>
Accrued interest	<b>87,057</b>	87,793
Creditors	<b>123,591</b>	124,441
Accrued expenses	<b>12,758</b>	10,379
Unearned revenue	<b>7,476</b>	8,263
Other credit balances	<b>10,051</b>	5,306
<b>Total</b>	<b>240,933</b>	<b>236,182</b>

**28. Other Provisions**

	<b>31 December 2011</b>	<b>31 December 2010</b>
	<b>L.E (000)</b>	<b>L.E (000)</b>
Balance at the beginning of the year	<b>97,034</b>	106,590
Foreign currency valuation difference	<b>19,056</b>	150
Charged to the income statement	<b>189</b>	216
Used during the year	<b>(6,330)</b>	(525)
Transferred to Loan provision	<b>(410)</b>	142
Provisions no longer needed	-	(25,315)
Surplus in provisions	-	15,776
<b>Balance at the end of the year</b>	<b>109,539</b>	<b>97,034</b>

**29. Deferred tax**

Deferred income taxes calculated entirely on the temporary differences in accordance with liabilities method using the enacted tax rate of 20% for the current financial year.

Deferred tax assets and liabilities can be offset where legally enforceable right to offset current tax assets against current tax liabilities, and deferred tax assets and liabilities are in the same tax jurisdiction.

**Deferred tax assets and liabilities**

The movement of deferred tax assets and liabilities is as follows:

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For the year ended 31 December 2011

**Deferred tax assets and liabilities balances**

	Deferred tax assets		Deferred tax liabilities	
	31 December 2011 L.E (000)	31 December 2010 L.E (000)	31 December 2011 L.E (000)	31 December 2010 L.E (000)
Fixed assets	-	-	(9,725)	(6,956)
Provisions (other than loans provision)	25,832	18,505	-	-
Available for sale investments revaluation differences	8,266	-	-	218
<b>Total tax assets (liabilities)</b>	<b>34,098</b>	<b>18,505</b>	<b>(9,725)</b>	<b>(6,738)</b>
<b>Net tax assets (liabilities)</b>	<b>24,373</b>	<b>11,767</b>	<b>-</b>	<b>-</b>

**Deferred tax assets and liabilities balances recognized in income statement**

	Deferred tax assets		Deferred tax liabilities	
	31 December 2011 L.E (000)	31 December 2010 L.E (000)	31 December 2011 L.E (000)	31 December 2010 L.E (000)
Balance at the beginning of the year	18,505	15,353	(6,956)	(5,060)
Additions	7,328	3,152	(2,769)	-
Disposal	-	-	-	(1,896)
Balance at the end of the year	<b>25,833</b>	<b>18,505</b>	<b>(9,725)</b>	<b>(6,956)</b>

**Deferred tax assets and liabilities balances recognized in statement of owners' equity**

	Deferred tax assets		Deferred tax liabilities	
	31 December 2011 L.E (000)	31 December 2010 L.E (000)	31 December 2011 L.E (000)	31 December 2010 L.E (000)
Balance at the beginning of the year	218	-	-	(82)
Additions	8,047	-	-	-
Disposal	-	300	-	-
Balance at the end of the year	<b>8,265</b>	<b>300</b>	<b>-</b>	<b>(82)</b>

**30. Owners Equity**

**(a) Authorized Capital**

The authorized capital amounts to one billion Egyptian pounds.

**(b) Issued and Paid up Capital**

The issued and paid capital is one billion Egyptian pound divided on 100 million shares the par value per share is L.E.10



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**(c) Reserves**

- According to the Bank's articles of association, 5% of the net profits of the year is transferred to the legal reserve until this reserve reaches 100% of the issued capital..
- According to Central Bank instructions, the bank cannot use the balance of the special reserve without the approval of the Central Bank.
- According to the regulations of the CBE on 16 December 2008 and the treatment of the financial investments for the comparative years, accordingly the retained earning balance and the fair value reserve for the available for sale investments were modified.

	31 December 2011	31 December 2010
	L.E (000)	L.E (000)
Legal reserve	77,605	55,263
General reserve	106,773	56,773
Specific reserve	9,205	9,205
Capital reserve	25,259	16,780
General banking risk reserve	4,000	4,000
Fair value reserve – available for sale investments	<u>(45,480)</u>	<u>(6,884)</u>
<b>Total Reserves</b>	<b><u>177,362</u></b>	<b><u>135,137</u></b>

**\* Fair value reserve – available for sale investments**

	31 December 2011	31 December 2010
	L.E (000)	L.E (000)
Balance at the beginning of the year	(6,884)	(19,111)
Net gain (loss) of changes in the fair value	(45,475)	34,633
Foreign currencies exchange differences	(42)	24
Reversal of the available for sale financial investments fair value reserve transferred to the income statement due to sale	(1,126)	(22,730)
Deferred taxes	8,047	300
<b>Balance at the end of the year</b>	<b><u>(45,480)</u></b>	<b><u>(6,884)</u></b>

**(d) Retained Earnings**

Retained Earnings movement

	31 December 2011	31 December 2010
	L.E (000)	L.E (000)
Balance at the beginning of the year	665,354	653,377
Transferred from profits of the year	225,552	446,988
Dividends	(368,019)	(364,326)
Transferred to reserves and retained earnings	(80,821)	(70,879)
Reversal of differences between nominal amount and fair value of subordinated loan	-	2,813
Transferred to general banking risk reserve	-	(4,000)
Used from general banking risk reserve	-	1,381
<b>Balance at the end of the year</b>	<b><u>442,066</u></b>	<b><u>665,354</u></b>

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**31. Earnings per share**

	<b>31 December 2011</b>	31 December 2010
	<b>L.E (000)</b>	L.E (000)
<b>Net profit for the year</b>	<b>225,552</b>	446,988
Board of directors remuneration	<b>(270)</b>	(570)
Employees' profit share	<b>(16,427)</b>	(37,449)
Shareholders' profit share	<b>208,885</b>	408,969
Common shares weighted average outstanding	<b>100,000</b>	100,000
Earnings per share/ L.E	<b>2.09</b>	4.09

**32. Cash and cash equivalents**

For the purpose of preparing the statement of cash flow, the cash and cash equivalent includes the following balances of maturity dates within less than three months from the date of acquisition:

	<b>31 December 2011</b>	31 December 2010
	<b>L.E (000)</b>	L.E (000)
Cash and due from Central Bank of Egypt	<b>1,523,306</b>	1,382,316
Due from banks	<b>1,207,498</b>	1,423,610
Treasury bills	<b>3,708,772</b>	3,744,466
Due from central bank (within the mandatory reserve percentage)	<b>(1,321,764)</b>	(1,226,262)
Due from banks with maturities of more than three months	<b>(16,814)</b>	(237,329)
Treasury bills with maturities of more than three months	<b>(2,468,083)</b>	(3,678,198)
<b>Cash and cash equivalents</b>	<b>2,632,915</b>	1,408,603

**33. Related party transactions**

The Bank is a subsidiary of parent National bank of Kuwait, which owns 94.93% of ordinary shares. The remaining percentage (5.07%) is owned by other shareholders.

Number of banking transactions with related parties has been conducted in the normal course of the business including loans deposits and foreign currency swaps. There is no related party transaction with the parent company other than the payment of dividends on ordinary shares.

Related parties transactions and balances at the end of the financial year are as follows:

**A- Deposits from related parties**

	<b>Subsidiaries and Associates Companies</b>	
	<b>31 December 2011</b>	31 December 2010
	<b>L.E (000)</b>	L.E (000)
<b>Due to customers</b>		
Deposits at the beginning of the year	<b>1,044</b>	1,760
Deposits received during the year	-	3,544
Deposits redeemed during the year	<b>(1,044)</b>	(4,260)
Deposits at the end of the year	<b>-</b>	1,044

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	<b>National Bank of Kuwait</b>	
	<b>31 December 2011</b>	31 December 2010
	<b>L.E (000)</b>	L.E (000)
Due from banks	<b>51,341</b>	5,017
Due to banks	<b>522,443</b>	1,039,032

**B- Subordinated loan from National Bank of Kuwait**

	<b>31 December 2011</b>	31 December 2010
	<b>L.E (000)</b>	L.E (000)
Nominal amount	<b>934,945</b>	580,490

- The Bank obtained a subordinated loan amounting to U.S. Dollars 40 million , equivalent to L.E 241,276 K using exchange rate as of 31 December 2011 L.E 6.0319 per USD from National Bank of Kuwait, for a period of 10 years starting from 15 June 2009 until 15 June 2019, the loan agreement include the acceptance and commitment of National Bank of Kuwait to receive a subordinated priority following the depositors and creditors in case of liquidation, and the loan is at the disposal of Al Watany Bank of Egypt who is committed to pay the full amount of the loan at maturity date .The loan agreement has been amended in 15 June 2010 modifying interest rate to be 3.3% and as a result of that the difference between the nominal amount and present value has been settled and the interest expense was calculated starting from the date of amendment.
- The Bank obtained a subordinated loan amounting to U.S. Dollars 60 million , equivalent to L.E 361,914 K using exchange rate as of 31 December 2011 L.E 6.0319 per USD from National Bank of Kuwait, for a period of 10 years starting from 11 May 2010 until 11 May 2020 , the loan agreement include the acceptance and commitment of National Bank of Kuwait to receive a subordinated priority following the depositors and creditors in case of liquidation, and the loan is at the disposal of Al Watany Bank of Egypt who is committed to pay the full amount of the loan at maturity date with interest rate 3.3% .
- The Bank obtained a subordinated loan amounting to U.S. Dollars 55 million , equivalent to L.E 331,755 K using exchange rate as of 31 December 2011 6.0319 L.E per USD from National Bank of Kuwait, for a period of 10 years starting from 31May 2011 until 31 May 2021 , the loan agreement include the acceptance and commitment of National Bank of Kuwait to receive a subordinated priority following the depositors and creditors in case of liquidation, and the loan is at the disposal of Al Watany Bank of Egypt who is committed to pay the full amount of the loan at maturity date with interest rate 3.3% .

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**C- Transactions with Al Watany Capital Assets Managements Company**

Transactions with Al Watany Capital Assets Managements Company as follows:

	31 December 2011	31 December 2010
	L.E (000)	L.E (000)
Mutual funds managements fess	1,087	650
Supporting services revenue	50	100
Interest expenses	784	810
Revenue from services	100	-
Payments under increasing of paid up capital	-	15,000

D- The total amount of salaries and wages paid for the top 20 banks employees is L.E 18,914 K with a monthly average salary L.E 1,576 K for the year ended 31 December 2011.

**34. Commitment and contingent liabilities**

**A- Legal claims**

There are lawsuits filed against the Bank as at 31 December 2011, provisions were charged for some of these lawsuits, while no provisions were charged for the others since it is not expected that these lawsuits will result in loss.

**B- Capital Commitment**

The Bank's total capital commitments related to building and core systems purchase amounted to L.E 201,885 K as at 31 December 2011, compared to L.E 283,176 K as at 31 December 2010. The management is confident that net revenues will be generated and provides the sufficient finance to pay these commitments.

**C- Commitments for loans, guarantees and facilities**

Bank Commitments for loans guarantees and facilities are represented as follows:

	31 December 2011	31 December 2010
	L.E (000)	L.E (000)
Acceptances	331,763	326,210
Letters of guarantee	1,160,368	1,417,770
Letters of credit (import and export)	358,002	548,212
Guarantees upon other banks' request or by their warranty	167,229	123,632
<b>Total</b>	<b>2,017,362</b>	<b>2,415,824</b>

**D- Commitments for operating lease contracts**

The total minimum lease payments for irrevocable operating leases are as follows:

	31 December 2011	31 December 2010
	L.E (000)	L.E (000)
Less than one year	9,493	8,397
More than one year and less than five years	24,910	30,214
More than five years	3,610	7,373
	<b>38,013</b>	<b>45,984</b>

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**35. Finance Lease Liabilities**

The bank entered into sale agreement with International Company for Leasing (INCOLEASE), according to the agreements the bank sold real estate (lands) which had been transferred to the bank, in addition to some branches and the intangible assets and leased it back. The bank granted loans to the leasing company with the same sale amounts as follows:

Description	Selling Amount		Finance Lease installment		Period
	Amount	Currency	Amount	Currency	
Damanhour land	19,288	Egyptian Pounds	378	Egyptian Pounds	Monthly
Shoubra Branch	2,515	Egyptian Pounds	39	Egyptian Pounds	Monthly
Smouha Branch	2,970	Egyptian Pounds	46	Egyptian Pounds	Monthly
Nozha Branch	4,208	Egyptian Pounds	51	Egyptian Pounds	Monthly
El Hegaz Branch	5,076	Egyptian Pounds	61	Egyptian Pounds	Monthly
El Nasr Branch	8,262	Egyptian Pounds	81	Egyptian Pounds	Monthly
Mesadak Branch	11,573	Egyptian Pounds	114	Egyptian Pounds	Monthly
IT Improvement – 1	34,366	Egyptian Pounds	764	Egyptian Pounds	Monthly
IT Improvement – 2	11,425	Egyptian Pounds	244	Egyptian Pounds	Monthly
Envelopment Machine	80	Egyptian Pounds	1	Egyptian Pounds	Monthly
Printer	343	Egyptian Pounds	9	Egyptian Pounds	Monthly
IT Improvement – 3	16,380	Egyptian Pounds	359	Egyptian Pounds	Monthly

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**36. Distribution of Assets , Liabilities , Contingent Liabilities and Commitments:**

	Local Currency L.E ,000	Foreign Currency L.E ,000
<b>First: Assets:</b>		
<b>A- Due from banks</b>	<b>12,783</b>	<b>1,194,715</b>
	<u>12,783</u>	<u>1,194,715</u>
<b>B- Loans to Customer and Banks</b>		
Agriculture Sector	1,924,288	534,997
Industrial Sector	547,042	78,002
Commercial Sector	5,071	2,947
Services Sector	2,613,136	1,033,482
Family Sector	1,038,775	206,704
Other Sectors	908	96,607
	<u>6,129,220</u>	<u>1,952,739</u>
Loans Provision	(906,272)	(37,148)
Advance interest revenue under settlement	(19,419)	(146)
<b>Net Loans</b>	<u><u>5,203,529</u></u>	<u><u>1,915,445</u></u>
<b>Second: Liabilities:</b>		
<b>A- Due to banks</b>	<b>673,863</b>	<b>1,502,239</b>
	<u>673,863</u>	<u>1,502,239</u>
<b>B- Customer Deposits</b>		
Agriculture Sector	112,381	8,165
Industrial Sector	510,423	533,873
Commercial Sector	530,861	255,355
Services Sector	819,251	218, 647
Family Sector	8,118,542	1,036,225
Other Sectors	126,988	62,515
	<u>10,218,446</u>	<u>2,114,780</u>
<b>C- Contingent Liabilities</b>		
Letter of guarantees	1,064,139	263,458
Letter of credit (Import & Export)	48,094	309,908
Accepted bills for suppliers facilities	26,225	305,538
	<u>1,138,458</u>	<u>878,904</u>

## Al Watany Bank of Egypt (S.A.E)

### Notes to the e Financial Statements

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#### 37. Mutual Funds

##### (A) Al Watany Bank Mutual Fund (with the periodic return and capital growth):

The mutual fund is a banking activity authorized for the bank by virtue of Capital Market Law No. 95/ 1992 and its Executive Regulation. The fund is managed by Hermes for Asset Management.

The certificates of the fund has reached 1,350,000 certificates amounted to L.E 135,000 K of which 67,500 certificates (Held) were allocated to the bank to undertake the fund's activity with a nominal value of L.E 6,750.

The bank purchased a number of 6,579 certificates (trading) of total amount of LE 658 K and with a redeemable value amounted to L.E 722 K as of Dec, 31, 2011.

The redeemable value of the certificate as of 31 December 2011 amounted to L.E 109.83 and the outstanding of the fund certificates at that date reached 768,618 certificates while the net assets value of the mutual fund was L.E 84,415 K as of Dec, 31, 2011.

According to the Fund's management contract and Fund's prospectus, Al Watany Bank of Egypt obtains 0.0035 as fee and commission for supervision on the fund and other managerial services rendered by the bank. Total commissions amounted to L.E 327 K for the year ended 31 December 2011 included in fees and commissions income caption in the Income Statement.

##### (B) Al Watany Bank of Egypt Mutual Fund (with the cumulative daily return "Ishraq"):

The mutual fund is a banking activity authorized for the bank by virtue of Capital Market Law No. 95/ 1992 and its Executive Regulation. The fund is managed by Al Watany Capital for Asset Management. The certificates of the fund has reached 14,898,379 certificates amounted to LE 148,984 K of which 500,000 certificates (Held) were allocated to the bank to undertake the fund's activity with a nominal value of L.E 5,000 K

The Bank purchased a number of 500,000 certificates (AFS) of total amount of LE 5,477 K and with a redeemable value amounted to L.E 5,797 K as of 31 December 2011.

The redeemable value of the certificate as of 31 December 2011 amounted to L.E 11.59409 and the outstanding of the fund certificates at that date reached 32,577,630 certificates while the net assets value of the mutual fund was L.E 377,708 K as of Dec, 31, 2011.

According to the Fund's management contract and Fund's prospectus, Al Watany Bank of Egypt obtains 0.0045 as fees and commissions for supervising the fund and other managerial services rendered by the Bank. Total commissions amounted to L.E 1,692 K for the year ended 31 December 2011 included in fees and commissions income caption in the Income Statement.

##### (C) Al Hayat Mutual Fund (with the cumulative daily return and the periodic distribution – works according to Islamic Shariah):

The mutual fund is a banking activity authorized for the bank by virtue of Capital Market Law No. 95/ 1992 and its Executive Regulation. The fund is managed by Al Watany Capital for Asset Management. The certificates of the fund has reached 5,000,000 certificates amounted to L.E 50,000 K of which 500,000 certificates (Held) were allocated to the Bank to undertake the fund's activity with a nominal value of L.E 5,000 K

The redeemable value of the certificate as of 31 December 2011 amounted to L.E 7.67812 and the outstanding of the fund certificates at that date reached 1,589,904 certificates while the net assets value of the mutual fund was L.E 12,207 K as of Dec, 31, 2011.

According to the Fund's management contract and Fund's prospectus, Al Watany Bank of Egypt obtains 0.006 as fees and commissions for supervising the fund and other managerial services rendered by the Bank. Total commissions amounted to L.E 102 K for the year ended 31 December 2011 included in fees and commissions income caption in the Income Statement.

## Al Watany Bank of Egypt (S.A.E)

### Notes to the e Financial Statements

For the year ended 31 December 2011

#### (D) Namaa Mutual Fund (with the cumulative daily return and the periodic distribution):

The mutual fund is a banking activity authorized for the bank by virtue of Capital Market Law No. 95/ 1992 and its Executive Regulation. The fund is managed by Al Watany Capital for Asset Management. The certificates of the fund has reached 6,081,969 certificates amounted to L.E 60,819,690 of which 500,000 certificates (Held) were allocated to the Bank to undertake the fund's activity with a nominal value of L.E 5,000 K

The redeemable value of the certificate as of 31 December 2011 amounted to L.E 10.15873 and the outstanding of the fund certificates at that date reached 2,597,114 certificates while the net assets value of the mutual fund was L.E 26,383 K as of Dec, 31, 2011.

According to the Fund's management contract and Fund's prospectus, Al Watany Bank of Egypt obtains 0.0035 as fees and commissions for supervising the fund and other managerial services rendered by the Bank. Total commissions amounted to L.E 44 K for the year ended 31 December 2011 included in fees and commissions income caption in the Income Statement.

#### 38. Subsequent Events

There have been some fundamental events in Egypt through the year ended 2011 which affected generally the economic sector and lead to tangible decrease in economic activities. The magnitude of the impact varies according to the expected period waiting for the end of these events and their impact.

#### 39. Comparative Figures

Some comparative figures for year 2010 have been reclassified to conform to the current year's presentation.

	Balance before adjustment	Balance after adjustment	Change	Narratives
<b>A- Balance sheet items</b>				
Cash and balances with central banks	1.176.074	1.382.316	206.242	Reclassification
Due from banks	1.629.852	1.423.610	(206.242)	Reclassification
<b>B- Income statement items</b>				
Credit impairment loss	(9.521)	(9.371)	150	Reclassification of other provision
Other operating income	16.179	40.216	24.037	Reclassification of other provision and revaluation of assets and liabilities
Net trading Income	21.193	(2.994)	(24.187)	Reclassification of revaluation of assets and liabilities