EFG – Hermes Holding Company
(Egyptian Joint Stock Company)

Consolidated financial statements
for the year ended 31 December 2011
&
Auditor's Report

Contents

KPMG

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Auditor's Report

To the Board of Directors of the EFG – Hermes Holding Company

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of EFG – Hermes Holding Company and its subsidiaries which comprise the consolidated balance sheet as at 31 December 2011, and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to in the first paragraph above present fairly, in all material respects, the consolidated financial position of the group as of December 31, 2011 and its consolidated results of its operations and its consolidated cash flows for the year then ended in accordance with Egyptian Accounting Standards and comply with applicable Egyptian laws and regulations relating to the preparation of these financial statements.

Hassan Bas

KPMG Hazem Hassan

KPMG Hazem Hassan
Public Accountants and Consultants
(11)

Cairo, April 4, 2012

EFG - Hermes Holding Company

(Egyptian Joint Stock Company)

Consolidated balance sheet

as at 31 December 2011

	Note no.	31/12/2011 LE	31/12/2010 LE
Assets			
Cash and due from banks	(4)	12 287 220 080	10 119 135 577
Investments at fair value through profit and loss	(5)	817 449 045	1 085 289 153
Accounts receivables (net)	(6)	382 556 027	777 248 858
Loans and advances	(7)	12 037 028 726	9 834 730 791
Available -for- sale investments	(8)	1 191 479 102	2 815 356 135
Held-to-maturity investments	(9)	18 681 518 778	17 410 897 647
Investments in associates	(10)	44 844 000	39 175 500
Investment property	(11)	320 045 183	163 125 763
Fixed assets (net)	(12)	1 106 098 452	1 273 456 685
Goodwill and other intangible assets	(13)	4 090 993 629	3 965 594 060
Other assets	(14)	1 531 935 847	1 340 447 906
Total assets		**52 491 168 869**	**48 824 458 075**
Liabilities			
Due to banks and financial institutions	(15)	613 772 600	590 818 300
Customers' deposits	(16)	38 163 023 300	33 460 989 666
Accounts payables - customers' credit balances		483 536 711	630 496 550
Bonds	(17)	486 932 000	444 993 900
Creditors and other credit balances	(18)	1 666 787 774	1 842 182 511
Other liabilities	(19)	990 408	287 378 531
Current tax liability		87 810 614	357 426 274
Other provisions	(21)	348 251 688	271 097 053
Total liabilities		**41 851 105 095**	**37 885 382 785**
Shareholders' equity			
Share capital	(22)	2 391 473 750	1 913 570 000
Legal reserve		956 785 000	956 785 000
Share premium		3 294 067 512	3 294 067 512
Other reserves		(31 961 356)	476 978 353
Retained earnings		1 463 890 665	2 132 104 558
		8 074 255 571	8 773 505 423
Treasury shares	(22-1)	(6 918 613)	-
Shareholders' equity		8 067 336 958	8 773 505 423
Net profit for the year		132 579 926	707 910 729
Interim dividends		-	(774 517 396)
Shareholders' equity including net profit for the year		8 199 916 884	8 706 898 756
Non - controlling interests	(23)	2 440 146 890	2 232 176 534
Total shareholders' equity		**10 640 063 774**	**10 939 075 290**
Total shareholders' equity and liabilities		**52 491 168 869**	**48 824 458 075**

The accompanying notes from page (5) to page (44) are an integral part of these financial statements and are to be read therewith.

Auditor's Report "attached"

Mona Zulficar
Chairperson

Yasser El Mallawany
Executive Managing Director

Hassan Heikal
Executive Managing Director

EFG - Hermes Holding Company
(Egyptian Joint Stock Company)
Consolidated income statement
for the year ended 31 December, 2011

	Note no.	For the year ended 31/12/2011 LE	For the year ended 31/12/2010 LE
Fee and commission income	(25)	882 552 883	916 958 208
Fee and commission expense		(134 972 640)	(27 369 650)
Net fee and commission income		747 580 243	889 588 558
Securities gains	(10)	67 941 982	888 878 440
Share of profit of associate	(10)	5 342 040	831 600
Foreign currencies differences		20 304 188	189 223 931
Other income	(20)	87 742 550	44 556 806
Noninterest revenue		928 911 003	2 013 079 335
Interest and dividends income		2 518 446 046	1 323 638 774
Interest expense		(1 636 387 800)	(789 342 533)
Net interest income		882 058 246	534 296 241
Total net revenue		1 810 969 249	2 547 375 576
General administrative expenses	(29)	1 230 134 923	1 172 180 792
Changes in the investments at fair value through profit and loss		1 941 841	7 206 462
Net losses on loans and advances	(7)	20 374 200	20 362 650
Other provisions	(21)	85 976 164	32 543 494
Depreciation and amortization	(12),(13)	95 590 080	62 212 981
Changes in the fair value of investment property	(11)	-	46 104 606
Impairment loss on assets	(26)	1 883 142	55 764 135
Total noninterest expenses		1 435 900 350	1 396 375 120
Net profit before income tax		375 068 899	1 151 000 456
Income tax expense	(27)	(67 368 845)	(324 754 627)
Net profit for the year		307 700 054	826 245 829
Equity holders of the parent		132 579 926	707 910 729
Non - controlling interests	(23)	175 120 128	118 335 100
		307 700 054	826 245 829
Earnings per share	(30)	0.30	1.40

The accompanying notes from page (5) to page (44) are an integral part of these financial statements and are to be read therewith.

EFG - Hermes Holding Company

(Egyptian Joint Stock Company)

Consolidated statement of changes in equity

for the year ended 31 December, 2011

	Note no.	Share capital	Legal reserve	Share premium	Other reserves: General reserve	Other reserves: Special reserve	Other reserves: Translation reserve	Other reserves: Fair value reserve	Other reserves: Hedging reserve	Other reserves: Cumulative adjustments	Other reserves: Company's share of items recognized in associate equity	Other reserves: Other reserves	Other equity	Retained earnings	Treasury shares	Net profit for the year	Interim dividends	Non - controlling interests	Total
		LE	LE	LE	LE	LE	LE	LE	LE	LE	LE	LE	LE	LE	LE	LE	LE	LE	LE
Balance as at 31 December,2009		1 913 570 000	956 785 000	3 294 067 512	373 146	74 100 000	3 106 228	150 913 189	(3 546 267)	(53 645 190)	406 072 180	-	(607 200 000)	2 049 605 610	-	503 014 776	-	206 075 609	8 893 291 793
Transfer a part of the special reserve to retained earnings		-	-	-	-	(32 500 000)	-	-	-	-	-	-	-	32 500 000	-	-	-	-	-
Foreign currencies translation differences		-	-	-	-	-	112 957 159	-	-	-	-	-	-	-	-	-	-	-	112 957 159
Effective portion of changes in fair value of cash flow hedges (net of tax)		-	-	-	-	-	-	-	(22 896 120)	-	-	-	-	-	-	-	-	-	(22 896 120)
Selling of company's share in associate equity		-	-	-	-	-	-	-	-	-	(406 072 180)	-	-	-	-	-	-	-	(406 072 180)
Net changes in the fair value of available -for-sale investments		-	-	-	-	-	-	197 160 914	-	-	-	-	-	-	-	-	-	-	197 160 914
Other reserve		-	-	-	-	-	-	-	-	-	-	16 416 281	-	-	-	-	-	-	16 416 281
Other equity		-	-	-	-	-	-	-	-	-	-	-	607 200 000	-	-	-	-	-	607 200 000
Cumulative adjustments		-	-	-	-	-	-	-	-	34 539 013	-	-	-	-	-	-	-	-	34 539 013
2009 dividends payout		-	-	-	-	-	-	-	-	-	-	-	-	(48 795 852)	-	(503 014 776)	-	-	(551 810 628)
Change in non - controlling interests		-	-	-	-	-	-	-	-	-	-	-	-	98 794 800	-	-	-	1 907 765 825	2 006 560 625
Net profit for the year ended 31 December, 2010		-	-	-	-	-	-	-	-	-	-	-	-	-	-	707 910 729	-	118 335 100	826 245 829
Interim dividends		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(774 517 396)	-	(774 517 396)
Balance as at 31 December, 2010		1 913 570 000	956 785 000	3 294 067 512	373 146	41 600 000	116 063 387	348 074 103	(26 442 387)	(19 106 177)	-	16 416 281	-	2 132 104 558	-	707 910 729	(774 517 396)	2 232 176 534	10 939 075 290
Share capital increase	(22)	477 903 750	-	-	-	-	-	-	-	-	-	-	-	(477 903 750)	-	-	-	-	-
Foreign currencies translation differences		-	-	-	-	-	69 205 337	-	-	-	-	-	-	-	-	-	-	-	69 205 337
Net changes in the fair value of available -for-sale investments		-	-	-	-	-	-	(693 789 497)	-	-	-	-	-	-	-	-	-	-	(693 789 497)
Other reserves		-	-	-	-	-	-	-	-	-	-	119 417 959	-	-	-	-	-	-	119 417 959
Cumulative adjustments		-	-	-	-	-	-	-	-	(3 773 509)	-	-	-	-	-	-	-	-	(3 773 509)
Purchasing of treasury shares		-	-	-	-	-	-	-	-	-	-	-	-	-	(6 918 613)	-	-	-	(6 918 613)
2010 dividends payout		-	-	-	-	-	-	-	-	-	-	-	-	(190 310 143)	-	(707 910 729)	774 517 396	-	(123 703 476)
Change in non - controlling interests		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	32 850 229	32 850 229
Net profit for the year ended 31 December, 2011		-	-	-	-	-	-	-	-	-	-	-	-	-	-	132 579 926	-	175 120 128	307 700 054
Balance as at 31 December, 2011		2 391 473 750	956 785 000	3 294 067 512	373 146	41 600 000	185 268 724	(345 715 394)	(26 442 387)	(22 879 686)	-	135 834 240	-	1 463 890 665	(6 918 613)	132 579 926	-	2 440 146 891	10 640 063 774

The accompanying notes from page (5) to page (44) are an integral part of these financial statements and are to be read therewith.

EFG - Hermes Holding Company
(Egyptian Joint Stock Company)
Consolidated statement of cash flows
for the year ended 31 December, 2011

	For the year ended 31/12/2011 LE	For the year ended 31/12/2010 LE
Cash flows from operating activities		
Net profit before income tax	375 068 899	1 151 000 456
Adjustments to reconcile net profit to net cash provided by operating activities		
Depreciation and amortization	95 590 080	57 155 958
Povisions formed	107 245 262	64 789 694
Provisions used	(12 238 815)	(27 802 799)
Provisions no longer needed	(50 299 688)	(2 548 603)
(Gains) losses on sale of fixed assets	(10 751)	253 790
Gains on sale of available -for- sale investments	(1 658 310)	(6 076 040)
Losses (gains) on sale of investments in associates	657 360	(801 164 804)
Gains on sale of unquoted assets ready for sale	(7 587 360)	(16 420 250)
Gains on selling Investment in Real Property held for sale	-	(13 975 500)
Changes in the fair value of investments at fair value through profit and loss	1 793 898	7 179 462
Changes in the fair value of investment property	-	46 104 606
Impairment loss on assets	825 457	55 762 598
Foreign currency translation differences	22 029 369	130 750 994
Interest expense	(38 256 169)	-
Currency Differences gains	(21 008 665)	-
Operating profit before changes in working capital	472 150 567	645 009 562
(Increase) decrease in other assets	(301 249 380)	191 888 085
(Decrease) increase in creditors and other credit balances	(156 523 421)	149 678 642
Change in loans and advances	(1 914 752 000)	(1 167 468 300)
Change in customers' deposits	3 857 724 165	3 550 177 416
Decrease (increase) in accounts receivables	381 412 144	(58 164 099)
Decrease in accounts payables	(163 108 160)	(149 001 351)
Decrease (increase) in investments at fair value through profit and loss	179 526 897	(175 093 767)
Change in financial assets (over 3 months)	(1 842 252 000)	667 188 600
Income tax paid	(343 911 684)	(32 476 064)
Net cash provided from operating activities	169 017 128	3 621 738 724
Cash flows from investing activities		
Payments to purchase fixed assets	(148 943 143)	(33 452 131)
Proceeds from sale of fixed assets	172 537 539	647 566
Proceeds from / payments for projects under construction	5 686 408	(66 422 470)
Proceeds from sale of available -for- sale investments	258 571 787	1 247 401 701
Payments to purchase available -for- sale investments	(204 665 971)	(614 691 223)
Proceeds from sale of investments in subsidiaries and associates	140 988	3 860 512 223
Payments to purchase investments in subsidiaries and associates	(14 636 654)	(3 309 229 642)
Payments to purchase Real Property held for sale	-	(31 063 252)
Proceeds from sale Real Property held for sale	-	13 975 500
Purchase of financial instruments held to maturity	-	(1 295 700 900)
Proceeds from sale of held to maturity investments	65 356 000	-
Purchase of financial instruments classified as loans and receivables	-	(243 937 200)
Increase in long term lending	(14 817 280)	(12 085 881)
Payments to companies' share in Settlement Guarantee Fund	(2 451 839)	-
Payments to / proceeds from sale of non -current assets held for sale	(5 344 640)	8 229 000
Net cash provided from (used in) investing activities	111 433 195	(475 816 709)
Cash flows from financing activities		
Purchasing of treasury shares	(6 918 613)	-
Proceeds from bonds	-	444 993 900
Changes in retained earnings	322 115 387	(33 016 306)
Increase in bank overdraft	-	36 279 835
Paid dividends	(95 423 917)	(1 211 593 360)
Payments to long term loans	(49 990 226)	(112 328 065)
Change in non-controlling interests	(4 988 520)	920 400
Payments to Prefereed shares	(300 700 000)	-
Changes in reserves	-	(28 620 150)
Net cash used in financing activities	(135 905 889)	(903 363 746)
Net change in cash and cash equivalents during the year	144 544 434	2 242 558 269
Cash from acquisition of subsidiaries	-	4 537 383 060
Cash and cash equivalents at the beginning of the year	6 918 344 840	1 611 733 824
Cash and cash equivalents at the end of the year (note no. 28)	7 062 889 274	8 391 675 153

Non cash transactions:

For the purpose of preparing the cash flows statement:

- An amount of LE 283 328 271 has been transferred from projects under construction to fixed assets represents the value of construction on the company's headquartes in Smart Village,this amount was excluded from both items.

The accompanying notes from page (5) to page (44) are an integral part of these financial statements and are to be read therewith.

EFG- Hermes Holding Company
(Egyptian Joint Stock Company)
Notes to the consolidated financial statements
for the year ended 31 December 2011

1- Description of business

1-1 Legal status

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

1-2 Purpose of the company

- The company's purpose is participation in the companies establishment which issue securities or in increasing their share capitals.
- The company's extraordinary meeting held on March 14, 2004 decided to add the Custody Activity to the purpose of the company.
- The company obtained the approval of Capital Market Authority on February 5, 2007 to execute the Marginal Trading Activity.

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

- On August 17, 2010 EFG-Hermes Holding Company agreed with the major shareholder of Credit Libanais SAL (the Bank) to purchase 14 228 000 shares a controlling stack in Credit Libanais SAL (the Bank) through its fully owned subsidiary EFG – Hermes CL Holding SAL for an amount of USD 542 million and a Call Option for an additional 25 % of the Bank's shares. The call option will be exercisable over the next two years, at the terms including pricing same as those applicable to the initial acquisition. The company obtained the approval of the Central Bank Of Lebanon for the acquisition transaction and the transfer of title had been completed on November 8, 2010.
- On December 30, 2010 the company obtained the approval of the Central Bank of Lebanon on the purchase of another 686 918 shares of

Credit Libanais S.A.L (the Bank) Shares through its fully owned subsidiary EFG Hermes CL Holding SAL.

The following table summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	LE
Total assets	32 750 757 718
Total liabilities	(30 550 046 293)
Net carrying value of assets	2 200 711 425
Increase in carrying value - intangible assets	3 175 551 947
Increase in carrying value - other assets	287 117 311
Fair value of identifiable assets acquired and liabilities assumed	5 663 380 683

The non-controlling interest has been accounted at its proportionate interest in the fair value of the identifiable assets and liabilities at the acquisition date.

- Credit Libanais SAL (the Bank) has subsidiaries, so the consolidated financial statements of the company for the year ended December 31, 2011 include the accounts of Credit Libanais SAL and its subsidiaries and affiliates as detailed below:

Company	**% of control**
Credit Libanais Investment Bank SAL	99.86
Lebanese Islamic Bank SAL	99.84
Credit International SA	92.82
Cedar's Real Estate SAL	99.92
Soft Management SAL	47
Hermes Tourism & Travel SAL	99.99
Crédit Libanais d'Assurances et de Réassurances SAL	66.97
Business Development Center SARL	98.62
Capital Real Estate SAL	98
Credilease SAL	99.26
Collect SAL	44.94

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

2- Basis of preparation

2-1 Statement of compliance

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

2-2 Basis of measurement

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

2-3 Functional and presentation currency

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

2-4 Use of estimates and judgments

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

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

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

- Note (21) – other provisions.
- Note (24) – contingent liabilities, valuation of financial instruments.
- Note (18-1) – recognition of deferred tax assets and liabilities.

2-5 Financial assets and liabilities

Recognition and derecognition:

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

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

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

Offsetting

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

3- Significant accounting policies applied

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

3-1 Basis of consolidation

The consolidated financial statements include the following companies:

3-1-1 Subsidiaries

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

3-1-2 Associates

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

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

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

3-2 Translation of the foreign currencies transactions

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

3-3 Translation of the foreign subsidiaries' financials

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

3-4 Derivative financial instruments

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

Cash flow hedges

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

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

Fair value hedges

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

3-5 Fixed assets depreciation

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

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

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

3-6 Projects under construction

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

3-7 Intangible assets

3-7-1 Goodwill

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

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

3-7-2 Other intangible assets

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

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

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

3-7-3 Subsequent expenditure

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

3-8 Treasury bills

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

3-9 Investments

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

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

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

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

3-9-3 Held-to-maturity investments

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

3-9-4 Investment property

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

3-10 Impairment

3-10-1 Financial assets

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

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

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

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

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

3-10-2 Non-financial assets

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

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

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

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

3-11 Cash and cash equivalents

For the purpose of preparing the cash flow statement, cash and cash equivalent includes the balances, which maturity not exceeding three months from the date of acquisition and the balances included cash on hand, cheques under collection and due from banks and financial institutions.

3-12 Interest-bearing borrowings

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

3-13 Other assets

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

3-14 Provisions

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

3-15 Legal reserve

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

3-16 Share capital

3-16-1 Repurchase of share capital

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

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

3-16-2 Dividends

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

3-17 Revenue recognition

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

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

3-17-2 Dividend income

Dividend income is recognized when declared.

3-17-3 Custody fee

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

3-17-4 Interest income and expenses

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

3-17-5 Fee and commission income

Fee related to servicing the loan or facility are recognized within the income when performing the service while the fees and commissions related to non-performing or impaired loans are not recognized, instead, they are to be recorded in marginal records off the balance sheet.

Then they are recognized within the income pursuant to the cash basis when the interest income is recognized. As for fees which represent an integral part of the actual return on the financial assets, they are treated as an amendment to the rate of actual return.

3-17-6 Brokerage commission

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

3-17-7 Management fee

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

3-17-8 Incentive fee

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

3-18 Long term lending

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

3-19 Expenses

3-19-1 Employees' pension

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

3-19-2 Taxation

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

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

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

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

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

3-20 Earnings per share

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

3-21 Profit sharing to employees

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

3-22 Loans and advances to customers and related provision

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

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

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

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

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

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

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

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

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

Real estate property acquired through the enforcement of security over loans and advances to customers is measured at cost less any accumulated impairment losses. The acquisition of such assets is regulated by the Lebanon Banking Authorities which require the liquidation of these assets within 2 years from acquisition. In case of default of liquidation the Group's lead regulator requires an appropriation from the yearly net income to a special reserve that is reflected under equity. This reserve can neither be distributed nor considered as an equity component while calculating the ratios set according to applicable laws, regulations and decisions.

3-25 Due from banks and other financial institutions

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

3-26 Customers' deposits

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

3-27 Fiduciary assets

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

3-28 Reserves for general banking risks

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

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

3-29 Allowances for credit losses

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

3-30 Segment reporting

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

4- Cash and due from banks

	31/12/2011 LE	31/12/2010 LE
Cash on hand	179 141 029	168 591 103
Central Bank of Lebanon *		
- Demand deposits	645 616 000	739 354 200
- Time deposits	4 852 380 000	2 990 430 300
Other Central Banks		
- Demand deposits	179 252 000	47 486 400
Cheques under collection	8 364 805	825 391
Banks - current accounts (net)	811 733 349	869 429 911
Banks - demand deposits	552 293 748	520 570 845
Banks - time deposits	5 014 083 149	4 777 490 527
Accrued interest	44 356 000	4 956 900
Balance	12 287 220 080	10 119 135 577

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

5- Investments at fair value through profit and loss

Trading investment

	31/12/2011 LE	31/12/2010 LE
Mutual Fund certificates	507 242 358	910 004 395
Equity securities	122 901 007	63 252 281
Debt securities	89 945 680	112 032 477
Lebanese treasury bills	97 360 000	--
Balance	817 449 045	1 085 289 153

6- Accounts receivables

	31/12/2011	31/12/2010
	LE	LE
Accounts receivables (net)	400 841 981	776 868 466
Other brokerage companies (net)	(18 285 954)	380 392
Balance	382 556 027	777 248 858

7- Loans and advances

		31/12/2011	31/12/2010
		LE	LE
Loans and advances to customers	(7-1)	11 827 850 000	9 678 299 545
Loans and advances to related parties	(7-2)	143 316 000	105 385 800
Other loans		65 862 726	51 045 446
Balance		12 037 028 726	9 834 730 791

7-1 Loans and advances to customers

	31/12/2011				31/12/2010
	Gross amount	Unrealized Interest	Impairment Allowance	Carrying Amount	Carrying amount
	LE	LE	LE	LE	LE
Regular retail customers					
Cash collateral	367 392 000	--	--	367 392 000	406 699 800
Mortgage loans	4 850 657 189	--	--	4 850 657 189	4 034 215 680
Personal loans	1 387 236 000	--	--	1 387 236 000	1 792 763 700
Credit cards	162 504 000	--	--	162 504 000	211 894 800
Other	66 504 000	--	--	66 504 000	56 803 500
Regular corporate customers					
Corporate	4 677 934 300	--	--	4 677 934 300	2 876 830 308

	31/12/2011				31/12/2010
	Gross amount LE	Unrealized Interest LE	Impairment Allowance LE	Carrying Amount LE	Carrying amount LE
Classified retail customers					
Watch	51 352 946	--	--	51 352 946	58 477 853
Substandard	83 024 000	(29 332 000)	--	53 692 000	52 677 300
Doubtful	167 924 000	(83 612 000)	(64 636 000)	19 676 000	9 582 300
Bad	38 948 000	(22 652 000)	(16 296 000)	--	--
Classified corporate customers					
Watch	165 225 565	--	--	165 225 565	140 376 104
Substandard	10 432 000	(2 364 000)	--	8 068 000	27 498 900
Doubtful	238 144 000	(78 612 000)	(96 900 000)	62 632 000	57 279 300
Bad	40 692 000	(26 984 000)	(13 708 000)	--	--
Collective provision for retail loans	--	--	(22 984 000)	(22 984 000)	(21 165 300)
Collective provision for corporate loans	--	--	(42 172 000)	(42 172 000)	(41 117 700)
Accrued interest receivable	20 132 000	--	--	20 132 000	15 483 000
Balance	12 328 102 000	(243 556 000)	(256 696 000)	11 827 850 000	9 678 299 545

7-2 Loans and advances to related parties

	31/12/2011 LE	31/12/2010 LE
Regular Retail loans	1 068 000	5 226 000
Regular Corporate loans	142 248 000	100 159 800
Balance	143 316 000	105 385 800

8- Available - for- sale investments

	31/12/2011 LE	31/12/2010 LE
Lebanese Treasury bills	--	885 128 400
Corporate debt securities	--	18 298 800
Preferred shares	98 096 000	171 795 000
Equity securities	1 087 519 102	1 717 389 135
Accrued interest received	5 864 000	22 744 800
Balance	1 191 479 102	2 815 356 135

9- Held-to-maturity investments

	31/12/2011 LE	31/12/2010 LE
Lebanese government treasury bills and Eurobonds	12 651 797 718	11 840 746 650
Other sovereign bonds	33 748 000	--
Certificates of deposit issued by banks	5 362 460 111	5 168 435 230
Other debt instruments	341 720 949	92 055 767
Accrued interest receivable	291 792 000	309 660 000
Balance	18 681 518 778	17 410 897 647

10- Investments in associates

	Ownership %	31/12/2011 LE	31/12/2010 LE
Agence Générale de Courtage d'Assurance SAL	25.86	28 152 000	23 782 200
Credit Card Management SAL	28.96	9 448 000	8 357 700
International Payment Network SAL	18.68	6 180 000	5 643 300
Net Commerce SAL	19.10	1 016 000	916 500
Hermes Rent a Car SAL	--	--	425 100
Liberty Executive Center SAL	6.27	48 000	50 700
Balance		44 844 000	39 175 500

- On January 21,2010 the holding company and its subsidiaries sold the entire investment in Audi Bank – Lebanon (an associate – 29.16%) which was represented in 10 037 182 shares with share price of US $ 91 each, the consolidated selling gain amounted to LE 739 403 104 after eliminating the effects of the equity method applied in the accounting for the investment and recorded on the income statement for the comparable year ended 31 December 2010.

11- Investment property

Investment property amounted LE 320 045 183 as at 31 December, 2011, represents the following:

- LE 132 062 511 represents the fair value of the area owned by EFG – Hermes Holding Company in Nile City Building
- LE 187 982 672 represents the fair value of the area owned by EFG – Hermes UAE Limited in the Index Tower.

12- Fixed assets

Particular	Land & Buildings	Leasehold Improvements	Office furniture, equipment & electrical Appliances	Computer Equipment	Vehicles	Projects Under Construction *	Total
	LE	LE	LE	LE	LE	LE	LE
Balance as at 1/1/2011	1 098 371 919	165 444 434	278 696 161	80 373 732	19 217 135	40 710 266	1 682 813 647
Additions	26 132 922	16 067 311	38 595 524	5 158 227	1 190 962	71 549 467	158 694 413
Disposals	(231 215 326)	(228 595)	(13 368 829)	(5 428 372)	(819 996)	(28 182 537)	(279 243 655)
Reclassification of assets	2 636 000	8 870 547	2 433 453	--	--	--	13 940 000
Foreign currency translation differences	14 493 750	3 851 935	7 068 599	1 085 260	178 181	1 005 050	27 682 775
Total cost as at 31/12/2011	910 419 265	194 005 632	313 424 908	81 188 847	19 766 282	85 082 246	1 603 887 180
Accumulated depreciation as at 1/1/2011	67 754 878	118 183 835	161 619 846	49 837 509	11 960 894	--	409 356 962
Depreciation	30 170 535	15 571 630	31 896 121	8 928 122	2 069 236	--	88 635 644
Disposals' accumulated depreciation	(5 748 811)	(232 495)	(3 555 256)	(104 100)	(483 977)	--	(10 124 639)
Reclassification of assets	--	76 199	(76 199)	--	--	--	--
Foreign currency translation differences	1 522 453	3 201 574	4 261 435	827 346	107 953	--	9 920 761
Accumulated depreciation as at 31/12/2011	93 699 055	136 800 743	194 145 947	59 488 877	13 654 106	--	497 788 728
Carrying amount as at 31/12/2011	816 720 210	57 204 889	119 278 961	21 699 970	6 112 176	85 082 246	1 106 098 452
Carrying amount as at 31/12/2010	1 030 617 041	47 260 599	117 076 315	30 536 223	7 256 241	40 710 266	1 273 456 685

* Projects under construction are represented in the following :

	31/12/2011 LE	31/12/2010 LE
Preparations in the new headquarters of the group in Smart Village - Egypt	--	1 856 584
Office spaces in Egypt	9 784 500	16 038 147
Preparation of alternate headquarters in emergency - United Arab Emirates	1 961 746	6 756 590
New headquarters – Syrian Arab Republic	--	778 745
Others	73 336 000	15 280 200
Balance	85 082 246	40 710 266

13- Goodwill and other intangible assets

		31/12/2011 LE	31/12/2010 LE
Goodwill	(13-1)	707 539 161	707 539 161
Other intangible assets	(13-2)	3 383 454 468	3 258 054 899
Balance		4 090 993 629	3 965 594 060

13-1 Goodwill is relating to the acquisition of the following subsidiaries:

	31/12/2011 LE	31/12/2010 LE
Flemming CIIC group (S.A.E) – Egypt	63 483 756	63 483 756
EFG- Hermes Oman LLC	66 039 857	66 039 857
EFG- Hermes IFA Financial Brokerage Company (KSC) - Kuwait	567 776 330	567 776 330
IDEAVELOPERS – Egypt	1 600 000	1 600 000
EFG- Hermes Jordan	8 639 218	8 639 218
Balance	707 539 161	707 539 161

13-2 Other intangible assets are represented in the following :

	31/12/2011 LE	31/12/2010 LE
Branch network - Credit Libanais Bank	3 360 300 184	3 235 184 109
Key Money	1 348 000	191 100
Licenses & Franchise	5 229 650	4 398 830
Research & Development	16 432 000	18 162 300
Software	144 634	118 560
Balance	3 383 454 468	3 258 054 899

14- Other assets

		31/12/2011	31/12/2010
		LE	LE
Deposits with others	(14-1)	48 388 384	52 181 539
Downpayments to suppliers		1 870 574	2 320 838
Prepaid expenses		92 111 894	87 900 966
Employees' advances		18 802 301	20 212 443
Accrued revenues		31 940 043	19 798 581
Unrealized swap losses		--	46 126
Taxes withheld by others		53 846 601	74 172 009
Payments for investments	(14-2)	22 895 075	22 464 700
Re-insurers' share of technical reserve		214 688 000	197 964 000
Receivables - sale of investments		76 694 259	72 974 948
Infra Egypt fund		3 187 862	2 856 785
Perching Brokerage		1 178 414	2 415 752
Settlement Guarantee Fund		27 173 750	24 377 487
Unquoted assets - Ready for sale acquired in satisfaction of loans		183 704 000	166 502 700
Due from EFG- Hermes Employee Trust		398 946 562	408 962 440
Due from Ara inc. company		3 477 331	6 961 205
Due from related parties		10 468 000	8 899 800
Re-insurance accrued commission		14 360 000	12 944 100
Cards transaction on ATM		536 000	--
Re-insurance debtors		1 564 000	1 548 300
Non current assets available for sale		70 936 046	--
Sundry debtors		255 166 751	154 943 187
Balance		1 531 935 847	1 340 447 906

14-1 Deposits with others include an amount of LE 21 029 750 in the name of the subsidiaries, Financial Brokerage Group Company and Hermes Securities Brokerage Company which represents the blocked deposits for Same Day Trading Operations Settlement takes place in the Egyptian Stock Exchange. Both companies are not entitled to use these amounts without prior approval from Misr Clearance Company , in addition to an amount of LE 24 060 000 (equivalent to LBP 6 015 million) represents deposit blocked by Credit Libanais SAL (the Bank) with the Ministry of Finance of Lebanon.

14-2 Payments for investments are represented in the following:

	31/12/2011 LE	31/12/2010 LE
EFG- Hermes Mutual Funds Co.	10 000 000	10 000 000
Financial Group for Real Estate Co.	250 000	250 000
EFG-Hermes Securitization Company	5 000 000	5 000 000
Arab Visual Company	3 749 500	3 749 500
Egyptian Company for Funds Investments	400 200	400 200
IDEAVELOPERS	25 000	25 000
AAW Company for Infrastructure	3 040 000	3 040 000
Sohail Investment Company	430 375	--
	22 895 075	22 464 700

15- Due to banks and financial institutions

		31/12/2011 LE	31/12/2010 LE
Current deposits of banks		198 044 000	127 038 600
Time deposits		76 372 000	74 685 000
Financial institutions		319 256 000	332 658 300
Borrowings	(15-1)	15 584 600	53 956 000
Accrued interest payable		4 516 000	2 480 400
Balance		613 772 600	590 818 300

15-1 Borrowings

A- On December 28, 2005, a loan agreement has been signed with International Finance Corporation "IFC" whereby the company is entitled to obtain long term loan with an amount of US$ 20 million with an applied annual floating interest rate in order to finance regional expansion of the company. The loan will be repaid on 10 equal semi-annual installments with an amount of US$ 2 million for each installment and the first installment was due on May 15,2007 and the last installment will due on November 15, 2011 and the interest is due on May 15, and November 15 and the first interest was due on November 15,2006. The loan agreement provides for that some of the company's subsidiaries will guarantee the loan repayment through an irrevocable unconditional guarantee and the company got the full amount of the loan amounted to US$ 20 million on September 3, 2006. The loan has been fully paid.

B- On December 29,2005 a loan agreement has been signed with the Foundation of (DEG)- DEUTSCHE INVESTITIONS- UND ENTWICKLUNGSGESELLSCHAFT MBH whereby the company is entitled to obtain a long term loan with an amount of Euro 10 million with a variable annual interest rate in order to finance the regional expansion of the company. The loan will be repaid on 10 equal semi-annual installments with an amount of one million Euro per installment. The first installment was due on May 15, 2008 and the last installment will due on November 15, 2012 and the interest is due on May 15, November 15 each year. The first interest was due on November 15, 2006. The loan agreement provides for that some of the company's subsidiaries will guarantee the loan repayment through an irrevocable unconditional guarantee. The company has obtained the full amount of the loan amounted Euro 10 million on September 17, 2006. The loan balance as of December 31, 2011 amounted Euro 2 million (the equivalent amount of LE 15 584 600) the amount that will due within one year.

16- Customers' deposits

	31/12/2011 LE	31/12/2010 LE
Deposits from customers (private sector):		
Saving accounts	22 832 211 300	20 266 038 150
Term deposits	9 062 524 000	7 771 327 200
Current accounts	3 474 632 000	3 098 444 316
	35 369 367 300	31 135 809 666
Deposits from customers (public sector):		
Saving accounts	238 348 000	184 785 900
Term deposits	638 296 000	502 054 800
Current accounts	415 288 000	362 863 800
	1 291 932 000	1 049 704 500
Others	70 592 000	39 760 500
	36 731 891 300	32 225 274 666
Accrued interest payable	201 492 000	180 082 500
	36 933 383 300	32 405 357 166
Deposits from related parties:		
Long term saving accounts	382 336 000	308 279 400
Long term deposits	822 072 000	639 042 300
Short term deposits	21 156 000	100 542 000
Accrued interest payable	4 076 000	7 768 800
	1 229 640 000	1 055 632 500
Balance	38 163 023 300	33 460 989 666

17- Bonds

On November 11, 2010 Credit Libanais SAL has issued US.$ 75 000 000, 6.75% Subordinated Bonds due January 15, 2018 at an issue price of 100% of their principal amount. The bonds have been fully underwritten. The net proceeds from the sale of Bonds will be used for general corporate purposes, and the obligation of the issuer in respect of the Bonds constitutes direct, unsecured and general obligation of the issuer. The Arranger of the offering is Credit Libanais Investment Bank SAL (an affiliate) and the Bonds will not be listed on any stock exchange. The bonds balance amounted to LE 486 932 000 as at December 31, 2011 versus LE 444 993 900 as at December 31,2010.

18- Creditors and other credit balances

		31/12/2011	31/12/2010
		LE	LE
Margins held against documentary credits		71 352 000	67 895 100
Technical reserve for insurance companies		343 052 000	313 259 700
Interbranch reconciling items		5 984 000	7 144 800
Revaluation of assets acquired in satisfaction of loans		19 888 000	19 390 800
Social Insurance Association		589 324	603 651
Unearned revenues		14 438 691	10 802 770
Accrued interest & commission		82 256	22 007 637
Suppliers		94 560 762	99 797 059
Accrued expenses		242 258 425	314 666 274
Clients' coupons- Custody Activity		8 267 925	8 716 618
Clients' payments under subscription		--	518 765
Due to industry Modernization Center		6 748 849	8 423 928
Dividends payable		36 441 011	22 336 201
Cards transaction on ATM		13 592 000	7 020 000
Re-insurance creditors		221 504 000	191 092 200
Deferred tax liabilities	(18-1)	551 606 725	559 731 558
Due to related parties		15 235 000	15 235 000
Creditors – purchase of investment		--	142 116 605
Sundry creditors		21 186 806	31 423 845
Balance		1 666 787 774	1 842 182 511

18-1 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

(A) Deferred tax	**31/12/2011**		**31/12/2010**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
	LE	**LE**	**LE**	**LE**
Fixed assets depreciation	--	5 040 533	--	3 836 086
Expected claims provision	2 132 865	--	3 114 649	--
Impairment loss on assets	5 581 321	--	4 009 430	--
Prior year losses forward	1 602 917	--	882 479	--
Company's share in affiliate's profits	--	7 879 242	--	39 879 242
Total deferred tax assets / liabilities	9 317 103	12 919 775	8 006 558	43 715 328
Net deferred tax liabilities		3 602 672		35 708 770

(B) Deferred tax recognized directly in equity

	31/12/2011	**31/12/2010**
	LE	**LE**
Fair value adjustments *	554 616 650	530 635 385
Changes in fair value of cash flow hedges	(6 612 597)	(6 612 597)
	548 004 053	524 022 788

* Deferred tax liabilities arising from the assets acquired and liabilities assumed as a result of the acquisition of the subsidiary Credit Libanais Bank.

19- Other liabilities

	31/12/2011	**31/12/2010**
	LE	**LE**
Preferred shareholders in subsidiaries *	--	286 425 000
Others	990 408	953 531
Balance	990 408	287 378 531

* In August 2004, Credit Libanais SAL (the Bank) issued 1 600 000 cumulative "Series A" preferred shares for an aggregate amount of USD 50 million with a seven-year term expired on 10 August 2011. The issue was affected at a nominal value of LBP 10 000 for each preferred share, while the aggregate share premium

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

20- Other income

Other income presented in the income statement includes an LE 49.5 million represents provision no longer needed and LE 7 587 360 represents gains on sale of non current assets held for sale.

21- Other provisions

		31/12/2011 LE	31/12/2010 LE
Expected claims provision	(21-1)	232 734 753	178 448 831
Servance pay provision	(21-1)	114 636 935	91 969 622
Other provisions		880 000	678 600
Balance		348 251 688	271 097 053

21-1	Expected claims provision LE	Severance pay provision LE	Total LE
Balance at the beginning of the year	178 448 831	91 969 622	270 418 453
Formed during the year	59 087 858	27 683 126	86 770 984
Foreign currency differences	404 240	1 842 946	2 247 186
Amounts used during the year	(5 206 176)	(6 858 759)	(12 064 935)
Balance at the end of the year	232 734 753	114 636 935	347 371 688

22- Share capital

- The company's authorized capital amounts LE 3 200 million and issued and paid in capital amounts LE 1 913 570 000 distributed on 382 714 000 shares of par value LE 5 per share.
- The company's Extraordinary General Assembly approved in its session held on June 13, 2011 to increase the company's share capital from LE 1 913 570 000 to LE 2 391 473 750 with an increase amount of LE 477 903 750 through distributing of 95 580 750 stock dividend at one share to each four shares outstanding at the declaration date , this increase are financed from retained earnings according to the decision of the company's Ordinary General Assembly in its session held at the same date and the required procedures had been taken and this increase have been registered in the Commercial Register on September 6, 2011.

22-1 Treasury shares

The company's board of directors approved in its session held on April 27,2011 to purchase a number of 5 million shares of the company's shares and the company has purchased a number of 391 000 shares from Egyptian Stock Exchange Market at cost of LE 6 918 613.

23- Non - Controlling interests

	31/12/2011	31/12/2010
	LE	LE
Share capital	449 146 509	416 906 497
Legal reserve	115 287 877	97 583 865
Other reserves	501 626 251	378 383 397
Retained earnings	67 551 400	100 229 150
Other equity	64 156 000	53 479 800
Increase in fair value of net assets	1 067 258 725	1 067 258 725
Net profit for the year	175 120 128	118 335 100
Balance	2 440 146 890	2 232 176 534

24- Contingent liabilities

- The company guarantees its subsidiaries – Financial Brokerage Group and Hermes Securities Brokerage – against the credit facilities granted from banks and EFG- Hermes Brokerage – UAE against the credit facilities granted from banks amounting to AED 178 670 000 (equivalent to LE 293 358 273).

- The company and its subsidiaries have the following off-balance sheet assets and liabilities :

Off-balance sheet items :

	31/12/2011 LE	31/12/2010 LE
Financing commitments given to financial institutions	680 256 000	397 051 200
Commitments to customers	1 830 912 000	2 144 493 000
Guarantees given to customers	526 324 000	309 273 900
Restricted and non – restricted fiduciary accounts	383 156 000	88 190 700
Commitments of signature received from financial intermediaries	84 572 000	2 176 200
Other commitments received	23 092 916 000	19 659 346 200
Assets under management	27 453 901 000	34 804 434 900

25- Incentive fee revenue

Due to inadequate assurance concerning the revenue recognition conditions and collection of the incentive fee on managing investment funds and portfolios, the assets management companies (subsidiaries) deferred the recognition of incentive fee with an amount of LE 38 595 till December 31, 2011 versus an amount of LE 1 256 540 till December 31, 2010 as no revenues are recognized if there are any uncertainties regarding the recovery of the consideration due.

Subsidiary's name	For the year ended 31/12/2011 LE	 31/12/2010 LE
Egyptian Portfolio Management Group Company	38 595	925 271
Hermes Fund Management	--	331 269
Total	38 595	1 256 540

26- Impairment loss on assets

	For the year ended 31/12/2011 LE	 31/12/2010 LE
Impairment loss on accounts receivables & debit accounts	837 702	8 392 245
Impairment loss on available –for– sale investments	1 045 440	47 371 890
Total	1 883 142	55 764 135

27- Income tax expense

	For the year ended 31/12/2011 LE	For the year ended 31/12/2010 LE
Current income tax	95 981 295	333 643 447
Deferred tax	(28 612 450)	(8 888 820)
Total	67 368 845	324 754 627

28- Cash and cash equivalents

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

	31/12/2011 LE	31/12/2010 LE
Cash and due from banks	12 287 220 080	10 119 135 577
Due to banks and financial institutions	(613 772 600)	(590 818 300)
Less: Assets – maturity more than one year	(4 610 558 207)	(2 650 649 424)
Effect of exchange rate	--	40 676 987
Cash and cash equivalents	7 062 889 273	6 918 344 840

29- General administrative expenses

	For the year ended 31/12/2011 LE	For the year ended 31/12/2010 LE
Wages , salaries and similar items	771 734 667	762 284 796
Consultancy	23 885 951	71 486 568
Travel , accommodation and transportation	42 014 005	37 113 421
Other expenses	392 500 300	301 296 007
Total	1 230 134 923	1 172 180 792

30 - Earnings per share

	For the year ended 31/12/2011 LE	For the year ended 31/12/2010 LE
Net profit for the year	132 579 926	707 910 729
Employees share	--	(37 748 996)
Board of directors remuneration	--	(5 224 500)
Net	132 579 926	664 937 233
Weighted average number of shares	478 099 250	478 294 750
Earnings per share	0.30	1.40

31- Segment reporting

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

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

For the year ended December 31, 2011

	Investment banking LE	Commercial banking LE	Elimination LE	Total LE
Fee and commission income	551 516 683	331 036 200	--	882 552 883
Fee and commission expense	--	(134 972 640)	--	(134 972 640)
Net fee and commission income	551 516 683	196 063 560	--	747 580 243
Securities gains	42 744 502	25 197 480	--	67 941 982
Share of profit of associate	--	5 342 040	--	5 342 040
Foreign currencies differences	20 304 188	--	--	20 304 188
Other income	23 103 470	64 639 080	--	87 742 550
Noninterest revenue	637 668 843	291 242 160	--	928 911 003
Interest and dividends income	87 037 025	2 406 008 880	25 400 141	2 518 446 046
Interest expense	25 334 885	(1 647 550 080)	(14 172 605)	(1 636 387 800)
Net interest income	112 371 910	758 458 800	11 227 536	882 058 246
Total net revenue	750 040 753	1 049 700 960	11 227 536	1 810 969 249
Total noninterest expenses	(827 774 661)	(598 391 640)	(9 734 049)	(1 435 900 350)
Net profit before income tax	(77 733 908)	451 309 320	1 493 487	375 068 899
Income tax expense	143 862	(64 053 000)	(3 459 707)	(67 368 845)
Net (loss) profit	(77 590 046)	387 256 320	(1 966 220)	307 700 054
Total assets	8 952 629 439	42 918 200 000	620 339 430	52 491 168 869
Total liabilities	1 107 113 145	39 971 160 000	772 831 950	41 851 105 095
Shareholders' equity	7 845 516 294	2 947 040 000	(152 492 520)	10 640 063 774
Total equity and liabilities	8 952 629 439	42 918 200 000	620 339 430	52 491 168 869

For the year ended December 31, 2010

	Investment banking	Commercial banking	Elimination	Total
	LE	LE	LE	LE
Fee and commission income	819 641 758	97 316 450	--	916 958 208
Fee and commission expense	--	(27 369 650)	--	(27 369 650)
Net fee and commission income	819 641 758	69 946 800	--	889 588 558
Securities gains	819 874 890	69 003 550	--	888 878 440
Share of profit of associate	--	831 600	--	831 600
Foreign currencies differences	174 147 331	15 076 600	--	189 223 931
Other income	12 274 556	32 282 250	--	44 556 806
Noninterest revenue	1 825 938 535	187 140 800	--	2 018 359 658
Interest and dividends income	196 724 829	1 122 652 300	4 261 645	1 323 638 774
Interest expense	(54 164 167)	(726 002 200)	(9 176 166)	(789 342 533)
Net interest income	142 560 662	396 650 100	(4 914 521)	534 296 241
Total net revenue	1 968 499 197	583 790 900	(4 914 521)	2 547 375 576
Total noninterest expenses	(1 091 731 968)	(299 957 350)	(4 685 802)	(1 396 375 120)
Net profit before income tax	876 767 229	283 833 550	(9 600 323)	1 151 000 456
Income tax expense	(279 186 851)	(44 086 350)	(1 481 426)	(324 754 627)
Net profit	597 580 378	239 747 200	(11 081 749)	826 245 829
Total assets	10 363 339 105	37 901 869 874	559 249 096	48 824 458 075
Total liabilities	1 694 512 975	35 050 302 974	1 140 566 836	37 885 382 785
Shareholders' equity	8 668 826 130	2 851 566 900	(581 317 740)	10 939 075 290
Total equity and liabilities	10 363 339 105	37 901 869 874	559 249 096	48 824 458 075

32- Tax status

- As to Income Tax, the years from the first financial year till 31/12/2004 the competent tax inspectorate inspected parent company's books and all the disputed points have been settled with the Internal Committee and as to years 2005/2008, the competent tax inspectorate inspected parent company's books and the parent company was notified by form no. (19) , which was objected thereon on the due date and the disputed items have been transferred to the Internal Committee and as to years 2009 / 2010, parent company's books have not been inspected yet and the company has provided its tax returns for these years and paid the due tax according to the Tax Law no. 91/2005.
- As to Salaries Tax, parent company's books had been examined till the year 2004 and all the disputed points have been settled with the Internal Committee and the due amount has been paid and the years 2005/2008 have

been inspected and the parent company was notified by tax forms which was objected thereon on the due date and the disputed items have been transferred to the Internal Committee and as to years 2009 / 2010, the parent company's books have not been inspected yet.

- As to Stamp Tax, parent company's books had been examined from year 1998 till 31/7/2006 and the disputed points had been transferred to Appeal Committee, and the period from 1/8/2006 till 31/12/2010 have not been inspected yet.
- The Supreme Council of the Armed Forces issued the Decree Law No. 51 of 2011 amending some provisions of the Income Tax Law promulgated by Law No. 91 of 2005 where the amendment of Article (49 / first paragraph) as follows:

  The tax base nearest ten pounds less is subject to tax in accordance with the following two tranches:
  - First tranche: up to ten million pounds at 20%.
  - Second tranche: more than ten million pounds at 25%.

  instead of 20% of the entire tax base.

33- Group's entities

The parent company owns the following subsidiaries:

	Direct ownership %	Indirect ownership %
Financial Brokerage Group	99.76	0.06
Egyptian Fund Management Group	88.51	11.49
Egyptian Portfolio Management Group	66.33	33.67
Hermes Securities Brokerage	97.58	2.42
Hermes Fund Management	89.95	10.05
Hermes Corporate Finance	99.37	0.53
EFG - Hermes Advisory Inc.	100	--
EFG- Hermes Financial Management (Egypt) Ltd.	100	--
EFG – Hermes Promoting & Underwriting	99.88	--
Bayonne Enterprises Ltd.	--	100
EFG- Hermes Fixed Income	99	1
EFG- Hermes Private Equity (Egypt)	96.3	3.7
EFG- Hermes Private Equity	1.59	63.41
EFG- Hermes Brokerage – UAE Ltd.	--	90
Flemming CIIC Holding	100	--
Flemming Mansour Securities	--	99.33
Flemming CIIC Securities	--	96
Flemming CIIC Corporate Finance	--	74.92
EFG- Hermes UAE Ltd.	100	--
EFG- Hermes Holding - Lebanon	99	--
EFG- Hermes KSA	73.1	26.9

	Direct ownership %	Indirect ownership %
October Property Development Ltd.	94.10	--
EFG- Hermes Lebanon	99	0.96
Mena Opportunities Management Limited	--	66.5
EFG- Hermes Mena (Caymen) Holding	--	100
Mena (BVI) Holding Ltd.	--	66.5
EFG – Hermes Mena Securities Ltd.	--	100
Mena Financial Investments W.L.L	--	100
EFG – Hermes Qatar LLC	100	--
EFG- Hermes Oman LLC	--	51
EFG- Hermes Regional Investment Ltd.	100	--
Offset Holding KSC	--	50
EFG- Hermes IFA Financial Brokerage	--	45
IDEAVELOPERS	--	52
EFG- Hermes CB Holding Limited	--	100
EFG- Hermes Global CB Holding Limited.	100	--
EFG – Hermes Orient Advisory Inc.	--	70
EFG – Hermes Syria LLC	--	69.33
Sindyan Syria LLC	--	96.81
Talas & Co. LLP	--	96.81
EFG – Hermes Jordan	100	--
Mena Long-Term Value Feeder Holdings Ltd	--	100
Mena Long-Term Value Master Holdings Ltd	--	90
Mena Long-Term Value Management Ltd	--	90
EFG – Hermes CL Holding SAL	--	100
Credit Libanais SAL "the Bank"	--	63.739
Credit Libanais Investment Bank SAL	--	63.65
Lebanese Islamic Bank SAL	--	63.64
Credit International SA	--	59.16
Cedar's Real Estate SAL	--	63.69
Soft Management SAL	--	29.96
Hermes Tourism & Travel SAL	--	63.73
Crédit Libanais d'Assuranceset de Réassurances SAL	--	42.69
Business Development Center SARL	--	62.86
Capital Real Estate SAL	--	62.46
Credilease SAL	--	63.27
Collect SAL	--	28.64
EFG – Hermes Investment Funds Co.	99.998	--
Mena FI Cayman Ltd.	--	100
EFG – Hermes Mena FI Management Limited.	--	100
Fixed Income Investment Limited.	--	100

34- Financial instruments and management of related risks:

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

34-1 Market risk:

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

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

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

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

34-2 Foreign currencies risk

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

34-3 Risk management

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

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

34-4 Credit risk

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

34-5 Liquidity risk

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

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

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

34-6 Interest rate risk

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

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

34-7 Equity price risk

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

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

34-8 Operational risk

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

34-9 Fair value of financial instruments

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

34-10 Derivative financial instruments and hedge accounting

- Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value, according to the valuation basis applied, in accounting policies to derivative financial instruments, (note no. 3-4).
- In accordance with an arrangement between the subsidiary, EFG Hermes MENA Securities Limited Co. and its customers ("the customers"), the Company from time to time enters into fully paid Shares Swap Transaction Contracts ("the Contracts") with the customers. Under the Contracts the customers pay to the Company a pre-determined price, which is essentially the market price at the trade date, in respect of certain reference securities. In return for such shares swap transactions the Company pays to the customers the mark to market price of the reference securities at a pre-determined date (normally after one year). However, the Contracts can be terminated at any time by either of the parties, which shall be the affected party.

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

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

35- Corresponding figures

- The consolidated statements of income, changes in equity and cash flows for the comparable year ended December 31, 2010 included the figures of the subsidiary, Credit Libanais SAL, (the Bank) from July 1st, 2010 to December 31, 2010. Certain corresponding figures have been reclassified according to Credit Libanais Bank purchase price allocation study as follows:

	Balance as at 31/12/2010 (as reported)	**Adjustments**	**Balance as at 31/12/2010 (Restated)**
	LE	**LE**	**LE**
Loans and advances	9 795 643 946	39 086 845	9 834 730 791
Financial assets classified as loans and receivables	5 003 957 400	(5 003 957 400)	--
Held-to-maturity investments	12 164 240 400	5 246 657 247	17 410 897 647
Fixed assets (net)	1 011 791 305	261 665 380	1 273 456 685
Goodwill and other intangible assets	2 630 015 297	1 335 578 763	3 965 594 060
Other assets	1 083 586 793	256 861 113	1 340 447 906
Customers' deposits	33 189 838 116	271 151 550	33 460 989 666
Creditors and other credit balances	1 040 537 853	801 644 658	1 842 182 511
Other provisions	292 262 353	(21 165 300)	271 097 053
Other reserves	441 749 680	35 228 673	476 978 353
Retained earnings	2 180 900 410	(48 795 852)	2 132 104 558
Non - controlling interests	1 141 832 230	1 090 344 304	2 232 176 534
Interest and dividends income	1 318 358 451	5 280 323	1 323 638 774
Depreciation and amortization	(57 527 179)	(4 685 802)	(62 212 981)
Income tax expense	(334 688 044)	9 933 417	(324 754 627)
Earnings per share	1.72	(0.32)	1.40