

National Bank of Kuwait - Egypt (S.A.E)

Allied for Accounting & Auditing EY
Chartered Accountants & Consultants

Crowe Horwath Dr.A.M Hegazy & Co.
Public Accountants & consultants

NATIONAL BANK OF KUWAIT - EGYPT (S.A.E)
FINANCIAL STATEMENTS
FOR THE PERIOD ENDED
31 MARCH 2016
TOGETHER WITH LIMITED REVIEW REPORT

Report on Limited Review of Interim Financial Statements

To: TO THE SHAREHOLDERS OF NATIONAL BANK OF KUWAIT - EGYPT (S.A.E)

Introduction

We have performed a limited review for the accompanying interim financial statements of **NATIONAL BANK OF KUWAIT – EGYPT(S.A.E)** as of March 31, 2016 which comprise the statement of financial position as of March 31, 2016 and the related statements of income, changes in equity and cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these separate interim financial statements and basis of recognition and measurement in accordance with the Central Bank of Egypt's rules issued on December 16, 2008, its explanatory instructions and the prevailing Egyptian laws. Our responsibility is to express a conclusion on these separate interim financial statements based on our limited review.

Scope of Limited Review

We conducted our limited review in accordance with the Egyptian Standard on Review Engagements 2410, "Limited Review of Interim Financial Statements Performed by the Independent Auditor of the Entity". A limited review of separate interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters in the Bank, and applying analytical and other limited review procedures. A limited review is substantially less in scope than an audit conducted in accordance with Egyptian Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on these separate interim financial statements.

Conclusion

Based on our limited review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements do not present fairly, in all material respects, the financial position of the Bank as of March 31, 2016, and its financial performance and its cash flows for the three-month period then ended, in accordance with the basis of recognition and measurement issued by the Central Bank of Egypt's rules issued on December 16, 2008, its subsequent explanatory instructions and the prevailing Egyptian laws.

Cairo, May 12, 2016

Mohamed Ahmed Mahmoud Abu Elkassim

Allied for Accounting & Auditing EY

Auditors

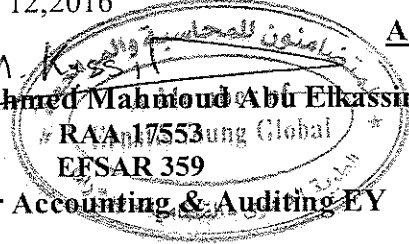
Sherif Elsokary

Dr. Sherif Elsokary

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National Bank of Kuwait - Egypt (S.A.E)

BALANCE SHEET

As of 31 MARCH 2016

	Note No.	31 MARCH 2016	31 December 2015
		<u>L.E (000)</u>	<u>L.E (000)</u>
<u>Assets</u>			
Cash and Due from Central Bank	(13)	3,579,456	2,974,811
Due from banks	(14)	4,444,417	6,593,910
Treasury bills	(15)	7,798,859	6,612,335
Loans and Facilities to customers	(16)	15,622,238	13,819,048
Available for sale investments	(18)	6,606,948	6,599,364
Held to maturity investments	(18)	21,750	21,750
Investments in associates	(19)	34,507	34,785
Other assets	(20)	639,285	626,321
Fixed assets	(21)	292,667	296,356
Total assets		39,040,127	37,578,680
<u>Liabilities and Equity</u>			
<u>Liabilities</u>			
Due to banks	(22)	3,733,496	3,592,789
Customers' deposits	(23)	31,002,623	30,394,299
Financial Derivatives	(17)	3,085	1,059
Other loans	(24)	1,141,400	618,408
Other liabilities	(25)	340,984	295,283
Other provisions	(26)	152,618	151,521
Deferred Tax Liabilities	(27)	4,048	4,094
Current Income Tax Liabilities		10,598	18,782
Total liabilities		36,388,852	35,076,235
<u>Equity</u>			
Issued and Paid-up capital	(28/ b)	1,000,000	1,000,000
Reserves	(28/ c)	443,945	481,727
Retained Earnings	(28/ d)	1,207,330	1,020,718
Total Equity		2,651,275	2,502,445
Total Liabilities and Equity		39,040,127	37,578,680


 Managing Director
Dr. Yasser Ismail Hassan

 Chairman
Issam Jassem Alsager

- The accompanying notes from (1) to (36) are integral part of these financial statements and to be read there with.
- The limited review report is attached.

National Bank of Kuwait - Egypt (S.A.E)
STATEMENT OF INCOME
For the period ended 31 MARCH 2016

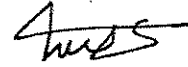
	Note No.	31 MARCH 2016	31 MARCH 2015
		<u>L.E (000)</u>	<u>L.E (000)</u>
Interest income from loans and similar revenues	(5)	790,040	613,535
Cost of deposits and similar costs	(5)	(458,558)	(356,582)
Net interest income		331,482	256,953
Fees and commissions revenues	(6)	84,856	79,046
Fees and commissions expenses	(6)	(1,802)	(929)
Net income from fees and commissions		83,054	78,117
Net trading income	(7)	15,450	7,881
Gains from financial investments	(8)	2,681	10,851
Share of profit from associates	(9)	(279)	83
Impairment charges for credit losses	(16)	(59,000)	(55,506)
General and administrative expenses	(10)	(109,834)	(89,870)
Other operating income (expenses)	(11)	(2,352)	(11,051)
Net profits for the period before Tax		261,202	197,458
Current Income tax	(12)	(74,590)	(71,128)
Net profits for the period		186,612	126,330
Earnings per share		1.87	1.26


Managing Director

Dr. Yasser Ismail Hassan

Chairman

Issam Jassem Alsager



-The accompanying notes from (1) to (36) are integral part of these financial statements and to be read there with.

National Bank of Kuwait - Egypt (S.A.E)

STATEMENT OF CHANGES IN EQUITY

For the period ended 31 MARCH 2016

	Capital LE (000)	Legal reserve LE (000)	General reserve LE (000)	Special reserve LE (000)	Capital reserve LE (000)	Fair value Reserve LE (000)	General banking risk reserve LE (000)	Retained earnings LE (000)	Total LE (000)
Balance as of 1 January 2015	1,000,000	120,961	206,773	9,205	31,867	4,573	28,759	553,153	1,955,291
Foreign currency translation differences for available for sale investments	-	-	-	-	-	135	-	-	135
Change in the fair value of the available for sale investments	-	-	-	-	-	71,791	-	-	71,791
Reversal of portion of fair value reserve for available for sale investments	-	-	-	-	-	(1,638)	-	-	(1,638)
Net profit for the period	-	-	-	-	-	-	-	126,330	126,330
Balance as of 31 March 2015	1,000,000	120,961	206,773	9,205	31,867	74,861	28,759	679,483	2,151,909

National Bank of Kuwait - Egypt (S.A.E)

STATEMENT OF CHANGES IN EQUITY

For the period ended 31 MARCH 2016

	Capital LE (000)	Legal reserve LE (000)	General reserve LE (000)	Special reserve LE (000)	Capital reserve LE (000)	Fair value Reserve LE (000)	General banking risk reserve LE (000)	Retained earnings LE (000)	Total LE (000)
Balance as of 1 January 2016	1,000,000	139,736	256,773	9,205	31,889	12,773	31,351	1,020,718	2,502,445
Foreign currency translation differences for available for sale investments	-	-	-	-	-	(398)	-	-	(398)
Change in the fair value of the available for sale investments	-	-	-	-	-	(34,434)	-	-	(34,434)
Reversal of portion of fair value reserve for available for sale investments	-	-	-	-	-	(2,950)	-	-	(2,950)
Net profit for the period	-	-	-	-	-	-	-	186,612	186,612
Balance as of 31 March 2016	1,000,000	139,736	256,773	9,205	31,889	(25,009)	31,351	1,207,330	2,651,275

* The accompanying notes from (1) to (36) are integral part of these financial statements and to be read there with.

National Bank of Kuwait - Egypt (S.A.E)

STATEMENT OF CASH FLOWS

For the period ended 31 MARCH 2016

	31 MARCH 2016	31 MARCH 2015
	<u>L.E (000)</u>	<u>L.E (000)</u>
<u>Cash flows from operating activities</u>		
Net Profits before income tax	261,202	197,458
<u>Adjustments to reconcile net profit to net cash (used in) provided from operating activities</u>		
Depreciation and amortization	8,599	8,380
Impairment charges for credit losses	59,000	55,506
Reversal for other provisions charges	-	-
Impairment charges for financial Investments	-	-
Other provisions charges	-	9,090
Foreign currencies revaluation differences of other provisions	1,178	250
Foreign currencies revaluation differences of Investments available for sale	(10,665)	(3,960)
Share of profit from associates	279	(83)
Gains (losses) from sale of fixed assets	-	(400)
Gains (losses) from sale of investments available for sale	(2,392)	(6,747)
Used from other provisions	(567)	(844)
Amortized Cost	1,352	1,551
Operating profits before changes in assets and liabilities from operating activities	317,986	260,201
<u>Proceeds from operating activities</u>		
Due from central banks (within the mandatory reserve percentage)	(592,215)	471,346
Treasury bills with maturities of more than three months	(1,030,865)	(1,948,904)
Loans and facilities to customers and banks	(1,858,907)	(903,973)
Other assets	(17,396)	(16,138)
Due to banks	140,707	(383,522)
Customers' deposits	608,324	3,708,957
Financial derivatives	2,026	965
Other liabilities	45,701	36,026
Income tax paid	(82,820)	(67,077)
Net cash flows (used in) provided from operating activities (1)	(2,467,459)	1,157,881
<u>Cash flows from Investing Activities</u>		
Payments to acquire fixed assets and fixtures of branches	(3,277)	(6,773)
Proceeds from sale of fixed assets	-	1,603
Proceeds from sale of available for sale investments	712,185	104,718
Purchases of available for sale investments	(745,845)	(1,756,409)
Net cash used in investing activities (2)	(36,937)	(1,656,861)

National Bank of Kuwait - Egypt (S.A.E)

STATEMENT OF CASH FLOWS

For the period ended 31 MARCH 2016

Cash flows from Financing Activities

Increase/Decrease in long term loans	522,992	21,450
Net cash flows provided from financing activities (3)	522,992	21,450
Net decrease in cash and cash equivalents during the period (1+2+3)	(1,981,404)	(477,530)
Cash and cash equivalents at the beginning of the period	6,987,483	6,042,544
Cash and cash equivalents at the end of the period	5,006,079	5,565,014

Cash and cash equivalents are represented in :

Cash and due from Central Bank	3,579,456	2,130,960
Due from banks	4,444,417	4,728,039
Treasury bills	7,798,859	6,134,291
Due from central banks (within the mandatory reserve percentage)	(3,254,966)	(1,903,711)
Treasury bills with maturities of more than three months	(7,561,687)	(5,524,565)
Cash and cash equivalents	5,006,079	5,565,014

-The accompanying notes from (1) to (36) are integral part of these financial statements and to be read there with.

National Bank of Kuwait - Egypt (S.A.E)

Notes to the Financial Statements

For the period ended 31 MARCH 2016

1. Background

National Bank of Kuwait - Egypt (S.A.E) was established by the name of (Alwatany Bank of Egypt) 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 First Sector, Part 155, City Center New Cairo, Egypt ; the Bank is listed in Cairo and Alexandria stock exchange.

On March 24, 2013 Extraordinary General Assembly decided to amend the name of the bank from Alwatany Bank of Egypt to become National Bank of Kuwait - Egypt, This amendment has been approved and recorded it in the Commercial Register on April 29, 2014.

National Bank of Kuwait - Egypt provides corporate, retail and investment banking services in Arab Republic of Egypt through 41 branches, and employs 1,119 staff at the date of the Balance sheet.

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

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.

The bank applying equity method for accounting of the investments in associates, dividends were recognized on approval of the deduction from the fair value of assets recognized since the investments in subsidiaries were either disposed or liquidated. For the purpose of the application of the equity method, the bank had to compare the investments acquisition cost with the fair values of the net assets

National Bank of Kuwait - Egypt (S.A.E)

Notes to the Financial Statements

For the period ended 31 MARCH 2016

acquired, however since the fair value of the net assets acquired at date of acquisition is not determinable, it was considered that the fair value of the net assets is equal to its book value.

- The bank assessed whether there are indications of impairment in the investments in associates and no indications for the impairment were identified.

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:

- 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.
- Owner's equity if resulting from the financial derivatives used as cash flows hedge or net investment hedge.
- 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.

National Bank of Kuwait - Egypt (S.A.E)

Notes to the Financial Statements

For the period ended 31 MARCH 2016

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.

National Bank of Kuwait - Egypt (S.A.E)

Notes to the Financial Statements

For the period ended 31 MARCH 2016

- 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.

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

National Bank of Kuwait - Egypt (S.A.E)

Notes to the Financial Statements

For the period ended 31 MARCH 2016

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 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 realize the asset and settle the liability simultaneously

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

National Bank of Kuwait - Egypt (S.A.E)

Notes to the Financial Statements

For the period ended 31 MARCH 2016

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.

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.

National Bank of Kuwait - Egypt (S.A.E)

Notes to the Financial Statements

For the period ended 31 MARCH 2016

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.

National Bank of Kuwait - Egypt (S.A.E)

Notes to the Financial Statements

For the period ended 31 MARCH 2016

- 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 excluded 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 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.

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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.

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	8 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.

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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.

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.

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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 pay 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 to 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.

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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

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.

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For the period ended 31 MARCH 2016

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.

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.

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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)

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 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.

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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.

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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 manages 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:

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	31 MARCH 2016		31 December 2015	
Bank's rating	Loans & facilities %	Impairment provision %	Loans & facilities %	Impairment provision %
Performing loans	% 77.1	% 8.3	% 72.9	% 16.9
Regular watching	% 9.6	% 4	% 13.2	% 4.9
Watch list	% 3.5	% 2.4	% 3.5	% 2.2
Non-performing loans	% 9.8	% 85.3	% 10.4	% 76
	<u>% 100</u>	<u>% 100</u>	<u>% 100</u>	<u>% 100</u>

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.

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

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

	31 MARCH 2016 L.E (000)	31 December 2015 L.E (000)
Balance sheet items exposed to credit risks	7,798,859	6,612,335
Treasury bills		
Loans and facilities to customers:		
Retail loans:		
Overdrafts	436,331	449,835
Credit cards	32,071	30,526
Personal loans	1,460,469	1,421,647
Mortgage loans	10,399	10,955
Corporate loans:		
Overdrafts	490,517	531,800
Direct loans	12,377,116	10,584,356
Syndicated loans	815,335	789,929
Financial investments:		
Debt instruments	6,561,789	6,549,001
Other assets	396,707	386,239
Total	30,379,593	27,366,623
Off-balance sheet items exposed to credit risk		
Acceptance documents	209,792	376,012
Letters of guarantee	2,360,337	2,249,487
Letters of credit Import/Export	1,056,270	616,889
Guarantees upon other banks request or by their warranty	1,364,575	1,039,573
	4,990,974	4,281,961

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A / 6 Loans and facilities

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

	31 MARCH 2016	31 December 2015
	L.E (000)	L.E (000)
	Loans and facilities to customers	Loans and facilities to customers
Neither past due nor impaired	15,103,727	13,075,688
Past due but not impaired	193,477	432,767
Impaired	1,526,212	1,442,250
Total	16,823,416	14,950,705
Less:		
Impairment loss provision	1,190,586	1,121,152
Interest in suspense	10,592	10,505
Net	15,622,238	13,819,048

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

31 MARCH 2016
L.E (000)

Rating	Retail				Corporate			Total loans and facilities to customers
	Over-drafts	Credit cards	Personal loans	Mortgage	Over-drafts	Direct loans	Syndicated loans	
Performing loans	440,331	27,152	1,338,276	8,525	210,582	10,932,554	95,459	13,052,879
Regular follow up	-	120	2,562	-	-	1,014,734	488,434	1,505,850
Watch list	-	65	1,630	-	-	518,705	24,598	544,998
	<u>440,331</u>	<u>27,337</u>	<u>1,342,468</u>	<u>8,525</u>	<u>210,582</u>	<u>12,465,993</u>	<u>608,491</u>	<u>15,103,727</u>

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

31 December 2015
L.E (000)

Rating	Retail				Corporate			Total loans and facilities to customers
	Over-drafts	Credit cards	Personal loans	Mortgage	Over-drafts	Direct loans	Syndicated loans	
Performing loans	453,835	25,577	1,246,538	10,149	209,284	8,716,402	102,915	10,764,700
Regular follow up	-	60	1,739	-	-	1,347,682	482,267	1,831,748
Watch list	-	56	1,120	-	-	456,503	21,561	479,240
	<u>453,835</u>	<u>25,693</u>	<u>1,249,397</u>	<u>10,149</u>	<u>209,284</u>	<u>10,520,587</u>	<u>606,743</u>	<u>13,075,688</u>

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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 MARCH 2016	<u>Retail</u>				L.E (000)
	Over-drafts	Credit cards	Personal loans	Mortgage	Total
Past due up to 30 days	-	4,139	96,220	575	100,934
Past due 30 - 60 days	-	610	30,084	1,454	32,148
Past due 60-90 days	-	386	12,611	-	12,997
Total	-	5,135	138,915	2,029	146,079

	<u>Corporate</u>				L.E (000)
	Over-drafts	Direct loans	Syndicated loans	Other loans	Total
Past due up to 30 days	-	-	-	-	-
Past due 30 - 60 days	-	-	-	-	-
Past due 60-90 days	-	47,398	-	-	47,398
Total	-	47,398	-	-	47,398
Fair value of collaterals	-	13,507	-	-	13,507

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.

31 December 2015	<u>Retail</u>				L.E(000)
	Over-drafts	Credit cards	Personal loans	Mortgage	Total
Past due up to 30 days	-	4,091	162,286	625	167,002
Past due 30 - 60 days	-	870	23,642	-	24,512
Past due 60-90 days	-	322	12,611	-	12,933
Total	-	5,283	198,539	625	204,447

	<u>Corporate</u>				L.E(000)
	Over-drafts	Direct loans	Syndicated loans	Other loans	Total
Past due up to 30 days	-	-	-	-	-
Past due 30 - 60 days	-	-	-	-	-
Past due 60-90 days	-	228,320	-	-	228,320
Total	-	228,320	-	-	228,320
Fair value of collaterals	-	313,619	-	-	313,619

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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 1,526,212 thousand L.E 1,442,250 thousand at the end of the comparative year according to the central bank.

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 March 2016						
L.E (000)	<u>Retail</u>		Mortgage	<u>Corporate</u>		Total
Valuation	Credit cards	Personal loans		Over-drafts	Syndicated loans	
Individual loans subject to impairment	51	13,381	-	1,286,044	226,736	1,526,212
Fair value of collaterals	-	-	-	130,904	35,402	166,306
31 December 2015						
L.E (000)	<u>Retail</u>		Mortgage	<u>Corporate</u>		Total
Valuation	Credit cards	Personal loans		Over-drafts	Syndicated loans	
Individual loans subject to impairment	57	9,018	300	1,233,260	199,615	1,442,250
Fair value of collaterals	-	-	-	149,660	35,402	185,062

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 period ended at 31 MARCH 2016.

	Treasury bills	Investments securities	Total
	L.E (000)	L.E (000)	L.E (000)
B	7,798,859	1,585,499	9,384,358
B-	-	4,940,799	4,940,799
Unrated	-	35,491	35,491
Total	7,798,859	6,561,789	14,360,648

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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 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.

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 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

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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.

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:

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Equivalent in L.E (000)

	L.E	USD	Euro	GBP	Other	Total
31 MARCH 2016						
Financial assets						
Cash and balances with Central banks	2,781,143	745,504	30,720	10,110	11,979	3,579,456
Due from banks	1,438,689	2,824,624	69,712	35,753	75,639	4,444,417
Treasury bills	7,273,538	525,321	-	-	-	7,798,859
Loans and facilities to customers	8,944,438	6,203,115	474,360	24	301	15,622,238
Financial investments:						
Available for sale	6,517,638	89,117	193	-	-	6,606,948
Held to maturity	21,750	-	-	-	-	21,750
Investments in subsidiaries and associates	34,507	-	-	-	-	34,507
Other assets	895,752	35,844	355	1	-	931,952
Total financial assets	27,907,455	10,423,525	575,340	45,888	87,919	39,040,127
Financial liabilities						
Due to banks	3,594	3,666,160	62,474	-	1,268	3,733,496
Customer deposits	24,761,066	5,622,936	485,785	45,052	87,784	31,002,623
Financial Derivatives	3,085	-	-	-	-	3,085
Other loans	-	1,141,400	-	-	-	1,141,400
Other Provisions	143,290	7,730	1,598	-	-	152,618
Other liabilities	2,956,215	50,118	429	54	89	3,006,905
Total financial liabilities	27,867,250	10,488,344	550,286	45,106	89,141	39,040,127
Net financial position as of 31 MARCH 2016	40,205	(64,819)	25,054	782	(1,222)	-
As of 31 December 2015						
Total financial assets	27,808,831	9,173,134	493,420	36,910	66,385	37,578,680
Total financial liabilities	27,806,486	9,186,331	481,352	36,341	68,170	37,578,680
Net financial position as of 31 December 2015	2,345	(13,197)	12,068	569	(1,785)	-

B/3 Interest rate risk

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 Alco committee sets limits on the level of mismatch of interest rate reprising that may be undertaken which is monitored weekly 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.

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31 MARCH 2016							L.E (000)
	Up to 1 month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Without return	Total
Financial Asset							
Cash and balances with Central banks	-	626,681	-	-	-	2,952,775	3,579,456
Due from banks	1,886,240	76,825	543,176	1,892,221	-	45,955	4,444,417
Treasury bills	-	237,172	7,561,687	-	-	-	7,798,859
Loans and facilities to customers gross (before deducting provisions)	2,727,881	5,044,721	3,965,799	4,048,255	1,036,760	-	16,823,416
Financial investments:							
Available for sale	-	-	-	4,859,683	1,747,265	-	6,606,948
Held to maturity	-	-	-	-	21,750	-	21,750
Investments in subsidiaries and associates	-	-	-	-	34,507	-	34,507
Total financial assets	4,614,121	5,985,399	12,070,662	10,800,159	2,840,282	2,998,730	39,309,353
Financial liabilities							
Due to banks	489,089	2,217,486	1,026,921	-	-	-	3,733,496
Customer deposits	13,643,321	6,086,909	4,137,068	6,453,303	537	681,485	31,002,623
Financial Derivatives	3,085	-	-	-	-	-	3,085
Other Loans	-	-	-	658,500	482,900	-	1,141,400
Total financial liabilities	14,135,495	8,304,395	5,163,989	7,111,803	483,437	681,485	35,880,604
Interest re-pricing gap as of 31 MARCH 2016	(9,521,374)	(2,318,996)	6,906,673	3,688,356	2,356,845	2,317,245	3,428,749
31 December 2015							
Total financial assets	6,605,979	3,631,523	12,750,153	10,043,471	2,290,327	2,466,208	37,787,661
Total financial liabilities	16,406,035	6,190,219	4,886,295	6,273,735	425,593	424,678	34,606,555
Interest re-pricing gap as of 31 December 2015	(9,800,056)	(2,558,696)	7,863,858	3,769,736	1,864,734	2,041,530	3,181,106

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 of the settlement of the bank's obligations 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 deterioration of cash flow
- Monitoring liquidity ratios in relation with internal requirements and central bank of Egypt requirements.

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- Managing loans concentration and loans' 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 a separate committee through the bank treasury to maintain a wide diversification of currency geography resources products and terms.

Cash flows derived

The following table presents cash flows paid by the bank in a financial obligations underived distributed on the basis of the remaining contractual entitlements at the balance sheet date.

31 MARCH 2016

	L.E (000)					
	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
Financial liabilities						
Due to banks	2,318,143	801,528	613,825	-	-	3,733,496
Customers' deposits	14,324,806	6,086,909	4,137,068	6,453,303	537	31,002,623
Other loans	-	-	-	658,500	482,900	1,141,400
Total of financial liabilities	16,642,949	6,888,437	4,750,893	7,111,803	483,437	35,877,519
Total of financial assets	7,976,261	8,277,674	12,892,697	9,024,545	1,138,175	39,309,352

31 December 2015

	L.E (000)					
	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
Financial liabilities						
Due to banks	2,467,185	762,617	362,987	-	-	3,592,789
Customers' deposits	14,429,775	6,036,233	3,847,370	6,080,484	437	30,394,299
Other loans	-	-	-	193,253	425,155	618,408
Total of financial liabilities	16,896,960	6,798,850	4,210,357	6,273,737	425,592	34,605,496
Total of financial assets	10,887,006	3,904,794	13,767,855	8,206,602	1,021,404	37,787,661

Cash Flow Derivatives

Derivatives are settled in Gross amounts

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

- * 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

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entitlements at the date of the balance sheet, the amounts listed in the table represent the undiscounted cash flows:

						L.E (000)
31 MARCH 2016						
Financial liabilities	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
IRS derivatives:						
Outflows	-	-	-	87,800	-	87,800
Inflows	-	-	-	87,800	-	87,800
Total outflows	-	-	-	87,800	-	87,800
Total inflows	-	-	-	87,800	-	87,800

						L.E (000)
31 December 2015						
Financial liabilities	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
IRS derivatives:						
Outflows	-	-	-	77,301	-	77,301
Inflows	-	-	-	77,301	-	77,301
Total outflows	-	-	-	77,301	-	77,301
Total inflows	-	-	-	77,301	-	77,301

Off balance sheet items

According to the following table as referred to in note (31):

				L.E (000)
31 MARCH 2016				Total
	Up to 1 year	Over 1 year and less than 5 years	More than 5 years	
Financial guarantees, and acceptable bills and other financial facilities	4,990,974	-	-	4,990,974
Operating lease commitments	7,997	5,846	-	13,843
Capital commitments arising from the acquisition of fixed assets	18,101	-	-	18,101
Total	5,017,072	5,846	-	5,022,918

				L.E (000)
31 December 2015				Total
	Up to 1 year	Over 1 year and less than 5 years	More than 5 years	
Financial guarantees, and acceptable bills and other financial facilities	4,281,962	-	-	4,281,962
Operating lease commitments	5,498	5,687	-	11,185
Capital commitments arising from the acquisition of fixed assets	16,949	-	-	16,949
Total	4,304,409	5,687	-	4,310,096

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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 estimated 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.

	Carrying value		Fair value	
	<u>L.E (000)</u>	<u>L.E (000)</u>	<u>L.E (000)</u>	<u>L.E (000)</u>
	31 MARCH 2016	31 December 2015	31 MARCH 2016	31 December 2015
Financial assets				
Due from banks	4,444,417	6,593,910	4,450,162	6,605,479
Loans and facilities to customers	16,823,416	14,950,705	16,780,034	14,920,092
Financial investments:				
Equity instruments available for sale	31,889	31,937	31,889	31,937
Debit instruments unquoted	21,750	21,750	32,752	31,228
Financial liabilities				
Due to banks	3,733,496	3,592,789	3,732,021	3,592,314
Customer deposits	31,002,623	30,394,299	31,315,688	30,758,747
Other loans	1,141,400	618,408	1,156,243	618,519

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 financial credit markets of similar credit risk and due dates.

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.

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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

First: 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.

Second: According to the new standards issued on 18 December 2012

The numerator in capital adequacy comprises the following two tiers:

- **Tier 1:** It consists of two parts, the continuous capital and the basic additional capital. 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 subordinated capital, and consists of the following: -

- 45% of the value of the positive foreign currency translation differences reserve.
- 45% of the value of the Special Reserve.
- 45% of the increase in the fair value over its carrying value of financial investments (if positive).
- 45% of the value of balance of the fair value reserve of financial investments available for sale.
- 45% of the increase in the fair value of financial investments held to maturity over it's' book value.
- 45% of the increase in the fair value of financial investments in

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subsidiaries and affiliates over its book value.

- Hybrid Financial instruments.
- Loans (deposits) subordinated with the consumption of 20% of its value each year of the last five years created.

- Provision for impairment of loans and advances and contingent liabilities (must not exceed 1.25% of the total credit risk of the assets and liabilities of regular risk-weighted, also the impairment loss provision for loans and credit facilities and contingent liabilities should be enough to meet the obligations provided for it.

Disposals of 50% of the first tranche and 50% of the second tranche

- With respect to the value of assets reverted to the Bank for the settlement of debts general banking risk reserve.
- When calculating the total numerator of the capital adequacy ratio, taking in consideration not exceeding subordinated loans (deposits) for 50% of the first tranche after exclusions.
- Assets and liabilities are weighted by credit risk, market risk, operational risk.

The denominator of the capital adequacy ratio consists of the following:

- Credit risk
- Market Risk
- Operational risk

Assets are risk weighted ranging from zero to 100% classified according to the nature of each asset of the debtor to reflect the credit risk associated with it, and taking in consideration the cash collateral.

And the same treatment is used for off-balance amounts after adjustments to reflect the contingent nature and the potential loss of those amounts.

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The tables below summarizes the compositions of tier 1, tier 2 and the capital adequacy ratio according to Basel 2 in the end of the current period & prior year.

	31 MARCH 2016 L.E (000)	31 December 2015 L.E (000)
Capital		
Tier 1 (basic capital)		
Share capital	1,000,000	1,000,000
General reserve	256,773	256,773
Legal reserve	139,736	139,736
Capital reserve	31,889	31,889
Retained earnings	445,133	445,133
Disposals	(47,842)	(22,186)
Total basic capital	1,825,689	1,851,345
Tier 2 (subordinated capital)		
Equivalent to general risk provision	144,480	135,252
Loans/subordinated deposits	482,900	425,156
45% of the available for sale , held to maturity and investments in associates and subsidiaries increase in fair value	4,951	10,012
45% of the special reserve	4,142	4,142
Disposals	-	-
Total subordinated capital	636,473	574,562
Total capital	2,462,162	2,425,907
Assets and contingent liabilities risk weighted		
Total credit risk	12,239,815	11,464,552
Capital requirements for operational risk	1,767,292	1,767,292
Total risk weighted assets and contingent liabilities	14,007,107	13,231,844
Capital adequacy ratio (%)	% 17.58	% 18.33

Risk Management :

Ratio Components

A. Numerator components

The numerator of the ratio consists of Tier 1 capital (after disposals) which is used in the numerator of the capital adequacy ratio currently applied according to the central bank of Egypt instructions.

B. Denominator components :

The denominator of the ratio consists of all the assets of the bank in and off balance sheet according to the financial statements which is mentioned (bank exposures) which includes the following:

- 1- Exposure of items in the balance sheet after capital base disposals.
- 2- Exposures from financing securities operations.
- 3- Exposure of off balance sheet (weighted conversion factors)

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-The following table summarizes the financial leverage ratio (as a guidance till 2017)

	31 MARCH 2016	31 December 2015
	L.E (000)	L.E (000)
Tier 1 of Capital after disposals (1)	1,825,689	1,851,345
Cash and Due from Central Bank	7,446,853	8,681,764
Due from banks	577,020	886,957
Treasury bills and other governmental securities	7,798,859	6,612,335
Available for sale investments	6,606,948	6,599,364
Held to maturity investments	21,750	21,750
Investments in associates and subsidiaries	34,507	34,785
Loans and facilities to customers	15,795,814	13,993,025
Fixed assets (after deducting impairment provisions and accumulated depreciation)	292,667	296,356
Other assets	639,285	626,321
Deductible exposures (some of capital base Tier 1 deductions)	(22,832)	(22,186)
Total exposures of in-balance sheet items after Tier 1 deductions	39,190,871	37,730,471
Replacement cost	-	55
The future expected value	439	387
Total exposures resulted from derivatives contracts	439	442
Total exposures resulted from financing securities operations	25,685	33,063
Total exposures of in-balance sheet items, derivatives contracts and financing securities operations.	39,216,995	37,763,976
Letters of credit – Importing	209,700	119,423
Letters of credit – Exporting	1,554	3,954
Letters of Guarantee	1,180,169	1,124,744
Letters of Guarantee upon other banks' request or by their warranties	682,288	519,787
Accepted Bills	209,792	376,012
Total contingent liabilities	2,283,503	2,143,920
Capital Commitments	18,101	16,949
Legal claims	15,315	15,284
Commitments for operating lease contracts	13,843	11,185
Commitments for loans, guarantees and facilities (unused limits) irrevocable more than year	47,513	53,349
Unconditional revocable at any time by the bank and without prior notice , or that include the texts of self- cancel because of the deterioration of the creditworthiness of the borrower	509,054	655,133
Total commitments	603,826	751,900
Total Off-balance sheet exposures	2,887,329	2,895,820
Total in-balance sheet and off-balance sheet exposures (2)	42,104,324	40,659,796
Financial leverage ratio (1/2)	%4,34	%4,55

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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. This 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.

C - 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.

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D - 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 MARCH 2016 L.E (000)	31 MARCH 2015 L.E (000)
Interest from loans and similar revenues:		
Loans and facilities :		
Customers	313,734	211,903
Treasury bills	172,128	184,342
Deposits and current accounts	99,703	43,568
Investments in debt instruments held to maturity and available for sale	204,475	173,722
Total	790,040	613,535
Costs of Deposits and similar costs:		
Deposits and current accounts:		
Banks	20,129	7,617
Customers	430,545	346,445
	450,674	354,062
Other Loans	7,884	2,520
Total	458,558	356,582
Net	331,482	256,953

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6. Net fees and commission income

	31 MARCH 2016 L.E (000)	31 MARCH 2015 L.E (000)
Fees and commission income:		
Fees and commissions related to credit	75,278	69,842
Custody fees	765	914
Other fees	8,813	8,290
	<u>84,856</u>	<u>79,046</u>
Fees and commission expenses:		
Other fees paid	(1,802)	(929)
Net	<u>83,054</u>	<u>78,117</u>

7. Net trading income

	31 MARCH 2016 L.E (000)	31 MARCH 2015 L.E (000)
Foreign exchange operations :		
Forex gains	17,476	8,846
Loss of revaluation interest rate swap contract	(2,026)	(965)
	<u>15,450</u>	<u>7,881</u>

8. Gains from financial investments

	31 MARCH 2016 L.E (000)	31 MARCH 2015 L.E (000)
Gains from sale of investments available for sale	2,392	6,747
Gains from sale of treasury bills	289	4,104
	<u>2,681</u>	<u>10,851</u>

9. Share of profit from associates

	31 MARCH 2016 L.E (000)	31 MARCH 2015 L.E (000)
International company for postal services	-	(92)
Al-Watany capital assets management	(279)	175
	<u>(279)</u>	<u>83</u>

10. Administrative expenses

	31 MARCH 2016 L.E (000)	31 MARCH 2015 L.E (000)
Staff costs		
Wages and salaries	43,951	42,583
Social insurance	2,571	2,164
Pension and other benefits cost		
Defined contribution plan	3,784	4,810
	<u>50,306</u>	<u>49,557</u>
Other administrative expenses	59,528	40,313
Total	<u>109,834</u>	<u>89,870</u>

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Notes to the Financial Statements
For the period ended 31 MARCH 2016

11. Other operating income (expenses)

	31 MARCH 2016 L.E (000)	31 MARCH 2015 L.E (000)
Gains (losses) from revaluation of monetary assets & liabilities balances in foreign currencies other than trading	769	(77)
Gains from Assets transferred to bank	2,968	2,814
Reversal of provisions no longer required	-	-
Assets transferred to bank expenses	(279)	(104)
Gains (losses) from sale of fixed assets	-	400
Operating and finance lease expenses	(5,810)	(4,994)
Other provisions	-	(9,090)
	<u>(2,352)</u>	<u>(11,051)</u>

12. Income tax expenses

	31 MARCH 2016 L.E (000)	31 MARCH 2015 L.E (000)
Current income taxes	74,635	70,926
Deferred tax	(45)	202
	<u>74,590</u>	<u>71,128</u>

(Note 27) shows additional information about deferred income tax: the taxes on bank profits differ when current applicable tax rates used as follows:

Settlement to calculate the effective tax rate :-	31 MARCH 2016 L.E (000)	31 MARCH 2015 L.E (000)
	<u>Tax pool</u>	<u>Tax</u>
Accounting profit before tax	261,202	197,458
Income tax calculated on accounting profit	58,770	59,187
Total Income tax calculated on accounting profit	<u>58,770</u>	<u>59,187</u>
Add (Deduct)		
Non-taxable revenues	-	(10,129)
Provisions and Interest in suspense	15,591	29,768
Other deductions	422	66
Net tax pool	<u>277,215</u>	<u>217,163</u>
Income tax according to the tax return	62,373	65,099
Tax of Treasury Bills and Treasury bonds	12,262	5,827
Income tax	<u>74,635</u>	<u>70,926</u>
Effective tax rate	<u>%28.57</u>	<u>%35.92</u>

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13. Cash and Due from Central Bank

	31 MARCH 2016	31 December 2015
	L.E (000)	L.E (000)
Cash	324,490	312,060
Due from central bank (within the required reserve percentage)	3,254,966	2,662,751
	<u>3,579,456</u>	<u>2,974,811</u>
Non-interest bearing balances	2,952,775	2,428,533
Interest bearing balances	626,681	546,278
	<u>3,579,456</u>	<u>2,974,811</u>

14. Due from banks

	31 MARCH 2016	31 December 2015
	L.E (000)	L.E (000)
Current accounts	126,748	127,693
Deposits	450,272	759,264
	<u>577,020</u>	<u>886,957</u>
Due from central bank (other than the required reserve percentage)	3,867,397	5,706,953
	<u>4,444,417</u>	<u>6,593,910</u>
Non-interest bearing balances	45,955	37,675
Interest bearing balances	4,398,462	6,556,235
	<u>4,444,417</u>	<u>6,593,910</u>
Current balances	<u>4,444,417</u>	<u>6,593,910</u>
	<u>4,444,417</u>	<u>6,593,910</u>

15. Treasury bills

	31 MARCH 2016	31 December 2015
	L.E (000)	L.E (000)
Treasury bills	7,798,859	6,612,335
<u>Treasury bills represent the following:</u>		
91 days maturity	240,000	82,100
182 days maturity	435,000	459,000
273 days maturity	1,950,050	1,235,500
364 days maturity	5,558,625	5,109,056
	<u>8,183,675</u>	<u>6,885,656</u>
Unearned interest	(384,816)	(273,321)
Total	<u>7,798,859</u>	<u>6,612,335</u>

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Notes to the Financial Statements
For the period ended 31 MARCH 2016

16. Loans and facilities to customers

	31 MARCH 2016	31 December 2015
	L.E (000)	L.E (000)
Loans to Customers	15,845,086	14,081,436
Murabhat	978,330	869,269
Total loans and facilities to customers	16,823,416	14,950,705
Less		
Provision for impairment losses	(1,190,586)	(1,121,152)
Interest in suspense	(10,592)	(10,505)
Net	15,622,238	13,819,048

	31 MARCH 2016	31 December 2015
	L.E (000)	L.E (000)
Retail:		
Overdrafts	440,331	453,835
Credit cards	32,524	31,032
Personal loans	1,494,764	1,456,954
Mortgage loans	10,554	11,074
Total (1)	1,978,173	1,952,895
Corporate loans including small loans:		
Overdrafts	1,496,625	1,442,545
Direct loans	12,513,390	10,748,907
Syndicated loans	835,228	806,358
Total (2)	14,845,243	12,997,810
Total loans and advances to customers (1+2)	16,823,416	14,950,705
Less		
provision for impairment losses	(1,190,586)	(1,121,152)
Interest in suspense	(10,592)	(10,505)
Net	15,622,238	13,819,048

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)
31 MARCH 2016			
Beginning balance	35,932	1,085,220	1,121,152
Impairment charged during the period	-	59,000	59,000
Proceeds from loans previously written off	-	475	475
Foreign currency translation differences	-	11,147	11,147
Transferred to operational risk provisions	(486)	-	(486)
Used during the period	(702)	-	(702)
Ending balance	34,744	1,155,842	1,190,586

-The amount of bad debts which was written off reached L.E 702 thousand for the period ended 31 March 2016.

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Notes to the Financial Statements For the period ended 31 MARCH 2016

	<u>Retail</u>	<u>Corporate</u>	<u>Total</u>
	L.E (000)	L.E (000)	L.E (000)
31 December 2015			
Beginning balance	31,674	887,668	919,342
Impairment charged during the year	-	252,827	252,827
Proceeds from loans previously written off	-	1,625	1,625
Foreign currency translation differences	-	5,043	5,043
Transferred from corporate to retail	8,750	(8,750)	-
Transferred to contingent liabilities provisions	-	(20,761)	(20,761)
	40,424	1,117,652	1,158,076
Used during the year	(4,492)	(32,432)	(36,924)
Ending balance	35,932	1,085,220	1,121,152

17. 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.

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- 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.

Derivatives held for trading:

(Amounts in L.E 000)

	31 MARCH 2016			31 December 2015		
	<u>Contractual notional amount</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Contractual notional amount</u>	<u>Assets</u>	<u>Liabilities</u>
Derivatives held for trading						
Interest rate swaps	87,800	-	3,085	77,301	-	1,059
Total derivatives	<u>87,800</u>	<u>-</u>	<u>3,085</u>	<u>77,301</u>	<u>-</u>	<u>1,059</u>

18. Financial investments

Available for sale investments

Debt Instruments – Fair value:

Quoted

6,561,789

6,549,001

Debt instruments –unquoted :

Ishraq Fund

11,333

16,611

Namaa Fund

1,937

1,815

Equity Instruments – Fair value:

Unquoted

40,047

40,095

Less: Impairment loss

(8,158)

(8,158)

Total available for sale investments (1)

6,606,948

6,599,364

Held to maturity investments

Debt instruments – Amortized Cost:

Unquoted:

National Bank of Kuwait - Egypt Fund

6,750

6,750

Ishraq Fund

5,000

5,000

Alhayah Fund

5,000

5,000

Namaa Fund

5,000

5,000

Total Held to maturity investments (2)

21,750

21,750

Total financial investments (1+2)

6,628,698

6,621,114

Current Balances

6,575,059

6,567,428

Non-Current Balances

53,639

53,686

6,628,698

6,621,114

Fixed interest debt instruments

6,526,298

6,510,061

Variable interest debt instruments

102,400

111,053

6,628,698

6,621,114

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For the period ended 31 MARCH 2016

	Available for sale investments L.E (000)	Held to maturity investments L.E (000)	Total L.E (000)
Balance as of 1 January 2016	6,599,364	21,750	6,621,114
Additions	745,846	-	745,846
Disposals (Sale / Redemption)	(709,793)	-	(709,793)
Monetary assets revaluation differences	10,267	-	10,267
Gain/loss from change in FMV for available for sale investments (Note 28)	(34,434)	-	(34,434)
Reverse Of change in FMV for available for sale investments	(2,950)	-	(2,950)
Amortized cost during the period	(1,352)	-	(1,352)
Deduct provisions for credit losses	-	-	-
Balance as of 31 MARCH 2016	6,606,948	21,750	6,628,698
Balance as of 1 January 2015	4,886,650	21,750	4,908,400
Additions	3,795,310	-	3,795,310
Disposals (Sale / Redemption)	(2,088,761)	-	(2,088,761)
Monetary assets revaluation differences	6,195	-	6,195
Gain/loss from change in FMV for available for sale investments (Note 28)	20,842	-	20,842
Reverse Of change in FMV for available for sale investments (Note 28)	(12,846)	-	(12,846)
Amortized cost during the year	(6,582)	-	(6,582)
Deduct provisions for credit losses	(1,444)	-	(1,444)
Balance as of 31 December 2015	6,599,364	21,750	6,621,114

19. Investments in associates

The bank contribution was as follow:

	31 MARCH 2016		31 December 2015	
	Amount	Holding Percentage	Amount	Holding Percentage
	L.E (000)	%	L.E (000)	%
International company for postal services	3,469	20.00	3,469	20.00
Al-Watany capital assets management	31,038	49.99	31,316	49.99
	34,507		34,785	

- The main financial data and the share of the bank in the Associates are from the financial statements as of 31 December 2015 are as follows :-

			L.E (000)					
Description	Nature	Region	Assets of company	Total Liabilities without Equity	Revenues of company	Net Income of company	Share of the bank	Share %
International company for postal services	Associate	Egypt	25,171	7,239	56,037	4,292	3,469	20,00
Al Watany Capital assets management	Associate	Egypt	63,208	1,080	5,290	527	31,038	49,99

All investments in associates are unquoted.

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Notes to the Financial Statements
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20. Other assets

	31 MARCH 2016	31 December 2015
	L.E (000)	L.E (000)
Accrued revenues	285,532	276,227
Advances to purchase fixed assets	38,209	39,843
Assets transferred to bank (after deducting the impairment)	72,967	70,170
Collective insurance policy	154,465	154,697
Prepaid expenses	14,517	13,206
Insurance & petty cash	9,711	10,302
Prepaid interest expense	23,805	20,273
Other	40,079	41,603
	<u>639,285</u>	<u>626,321</u>

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Notes to the Financial Statements
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21. 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)
Balance as of 1 January 2015									
Cost	22,928	212,252	57,672	5,255	109,220	25,150	27,687	12,416	472,580
Accumulated depreciation	-	(30,377)	(42,540)	(4,620)	(45,901)	(8,170)	(11,696)	(9,267)	(152,571)
Net book value as at 1 January 2015	22,928	181,875	15,132	635	63,319	16,980	15,991	3,149	320,009
Additions	-	33	10,563	656	3,459	700	637	506	16,554
Disposals	-	-	(727)	(1,008)	-	(91)	(39)	(104)	(1,969)
Depreciation for disposals	-	-	727	1,008	-	74	27	99	1,935
Depreciation for the year	-	(4,234)	(8,105)	(395)	(21,698)	(2,867)	(2,058)	(816)	(40,173)
Net book value as at 31 December 2015	22,928	177,674	17,590	896	45,080	14,796	14,558	2,834	296,356
Balance as of 1 January 2016									
Cost	22,928	212,284	67,510	4,904	112,679	25,758	28,286	12,818	487,167
Accumulated depreciation	-	(34,610)	(49,920)	(4,008)	(67,599)	(10,962)	(13,728)	(9,984)	(190,811)
Net book value as at 1 January 2016	22,928	177,674	17,590	896	45,080	14,796	14,558	2,834	296,356
Balance as of 1 January 2016									
Additions	-	-	826	-	843	471	2,633	137	4,910
Depreciation for the period	-	(901)	(1,577)	(95)	(4,593)	(705)	(530)	(198)	(8,599)
Net book value as at 31 March 2016	-	(901)	(751)	(95)	(3,750)	(234)	2,103	(61)	(3,689)
Balance as of 31 March 2016									
Cost	22,928	212,284	68,336	4,904	113,522	26,229	30,919	12,955	492,077
Accumulated depreciation	-	(35,511)	(51,497)	(4,103)	(72,192)	(11,667)	(14,258)	(10,182)	(199,410)
Net book value as at 31 March 2016	22,928	176,773	16,839	801	41,330	14,562	16,661	2,773	292,667

*Fixed assets (net of accumulated depreciation) at Balance Sheet date include L.E 69,458 K representing assets not registered yet in the Bank's name as the legal procedures are currently been undertaken to register such assets.

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22. Due to banks

	31 MARCH 2016 L.E (000)	31 December 2015 L.E (000)
A- Local Banks		
Deposits	-	389,921
	-	389,921
B- Foreign Banks		
Current Accounts	209,575	42,198
Deposits	3,523,921	3,160,670
	3,733,496	3,592,789
Non-interest bearing balances	209,391	42,067
Interest bearing balances	3,524,105	3,550,722
	3,733,496	3,592,789
Current balances	3,733,496	3,592,789
	3,733,496	3,592,789

23. Customers' deposits

	31 MARCH 2016 L.E (000)	31 December 2015 L.E (000)
Demand deposits	10,535,620	10,268,039
Time and call deposits	10,022,034	10,305,095
Certificates of deposits	6,619,348	6,427,984
Saving deposits	3,144,137	2,968,503
Other deposits	681,484	424,678
Total	31,002,623	30,394,299
Financial Institutions deposits	18,702,812	18,672,852
Individual and Corporate deposits	12,299,811	11,721,447
	31,002,623	30,394,299
Non-interest bearing balances	681,485	424,677
Interest bearing balances	30,321,138	29,969,622
	31,002,623	30,394,299
Current balances	24,548,783	24,313,378
Non-current balances	6,453,840	6,080,921
	31,002,623	30,394,299

24. Other Loans

	31 MARCH 2016 L.E (000)	31 December 2015 L.E (000)
European bank for reconstruction and development loan	658,500	193,252
Subordinated loan (National Bank of Kuwait- Kuwait)	482,900	425,156
	1,141,400	618,408

• According to the note (30-B "Transactions with related parties") Other Loans represent loans from the National Bank of Kuwait.

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25. Other liabilities

	31 MARCH 2016	31 December 2015
	L.E (000)	L.E (000)
Accrued interest	181,924	164,922
Creditors	55,455	53,207
Accrued expenses	26,579	22,444
Unearned revenue	40,959	25,540
Other credit balances	36,067	29,170
	<u>340,984</u>	<u>295,283</u>

26. Other Provisions

	Potential claims Provision	Contingent liabilities provision	Legal Provision	Early retirement Provision	Bank Operation Risk Provision	Total
Ended at 31 MARCH 2016						
Balance at the beginning of the period	72,433	70,801	3,669	-	4,618	151,521
Charged to the income statement	-	-	-	-	-	-
Transferred from Loans provision	-	-	-	-	486	486
Foreign currency valuation difference	-	720	134	-	324	1,178
Used during the period	-	-	(14)	-	(553)	(567)
Balance at the end of the period	<u>72,433</u>	<u>71,521</u>	<u>3,789</u>	<u>-</u>	<u>4,875</u>	<u>152,618</u>

	Potential claims Provision	Contingent liabilities provision	Legal Provision	Early retirement Provision	Bank Operation Risk Provision	Total
Ended at 31 December 2015						
Balance at the beginning of the year	49,243	49,820	1,853	11,224	4,435	116,575
Charged to the income statement	23,190	-	3,885	43,130	-	70,205
Foreign currency valuation difference	-	220	75	-	183	478
Used during the year	-	-	(2,144)	(54,354)	-	(56,498)
Transferred from Loans provision	-	20,761	-	-	-	20,761
Balance at the end of the year	<u>72,433</u>	<u>70,801</u>	<u>3,669</u>	<u>-</u>	<u>4,618</u>	<u>151,521</u>

27. Deferred tax

Deferred income taxes calculated entirely on the temporary differences in accordance with liabilities method using the enacted tax rate 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.

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Deferred tax assets and liabilities

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

Deferred tax assets and liabilities balances

	Deferred tax assets		Deferred tax liabilities	
	31 MARCH 2016	31 December 2015	31 MARCH 2016	31 December 2015
	L.E (000)	L.E (000)	L.E (000)	L.E (000)
Fixed assets deprecation	-	-	(13,534)	(13,580)
Provisions (other than loans provision)	9,486	9,486	-	-
Total tax assets (liabilities)	9,486	9,486	(13,534)	(13,580)
Net tax assets (liabilities)	(4,048)	(4,094)	-	-

Deferred tax assets and liabilities movement :

	Deferred tax assets		Deferred tax liabilities	
	31 MARCH 2016	31 December 2015	31 MARCH 2016	31 December 2015
	L.E (000)	L.E (000)	L.E (000)	L.E (000)
Balance at the beginning of the Period /year	9,486	9,689	(13,580)	(17,314)
Additions	-	-	-	-
Disposal	-	(203)	46	3,734
Balance at the end of the period /year	9,486	9,486	(13,534)	(13,580)

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28. Stockholders' 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

(c) Reserves

- According to the Bank's articles of association, 5% of the net profits of the year are 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.

	31 MARCH 2016 L.E (000)	31 December 2015 L.E (000)
Legal reserve	139,736	139,736
General reserve	256,773	256,773
Specific reserve	9,205	9,205
Capital reserve	31,889	31,889
General banking risk reserve	31,351	31,351
Fair value reserve – available for sale investments	(25,009)	12,773
Total Reserves	443,945	481,727

Fair value reserve – available for sale investments

Balance at the beginning of the period / year	12,773	4,573
Net Gains (losses) from change in fair value	(34,434)	20,842
Foreign currencies exchange differences of available for sale investments	(398)	204
Reversal of Available for sale financial investments fair value reserve transferred to the income statement during the period / year due to sale	(2,950)	(12,846)
	(25,009)	12,773

(d) Retained Earnings

	31 MARCH 2016 L.E (000)	31 December 2015 L.E (000)
Retained Earnings' movement		
Balance at the beginning of the period	1,020,718	553,153
Transferred from profits of the period	186,612	575,585
Dividends	-	(36,631)
Transferred to reserves and retained earnings	-	(71,389)
Balance at the end of the period	1,207,330	1,020,718

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29. 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:

	31 MARCH 2016 L.E (000)	31 December 2015 L.E (000)
Cash and due from Central Bank of Egypt	3,579,456	2,974,811
Due from banks	4,444,417	6,593,910
Treasury bills	7,798,859	6,612,335
Due from central bank (within the mandatory reserve percentage)	(3,254,966)	(2,662,751)
Treasury bills with maturities of more than three months	(7,561,687)	(6,530,822)
Cash and cash equivalents	5,006,079	6,987,483

30. 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. Apparently about 2000 shareholders and no one of them acquire 5% or more

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- Balances of related parties

	<u>Associates Companies</u>	
	31 MARCH 2016 L.E (000)	31 December 2015 L.E (000)
Due to customers		
Current accounts	3,212	2,791
Deposits	8,000	-
	11,212	2,791
Due from customers		
Bank overdraft	5,741	26,010
Other debit balances	14	81
Balance at the end of the year	5,755	26,091

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	National Bank of Kuwait	
	31 MARCH 2016	31 December 2015
	L.E (000)	L.E (000)
Due from banks	32,480	41,542
Due to banks	2,018,050	1,821,571
B- Subordinated loan from National Bank of Kuwait		
	31 MARCH 2016	31 December 2015
	L.E (000)	L.E (000)
Nominal amount at the end of the period / year	482,900	425,156
	<u>482,900</u>	<u>425,156</u>

- The Bank obtained a subordinated loan amounting to U.S. Dollars 55 million , equivalent to L.E 482,900 K using exchange rate as of 31 MARCH 2016 8.78 L.E per USD from National Bank of Kuwait, for a period of 10 years starting from 31 May 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 National Bank of Kuwait - Egypt who is committed to pay the full amount of the loan at maturity date with interest rate 2.1% annually .

C- Transactions with Al Watany Capital Assets Managements Company

Transactions with Al Watany Capital Assets Managements Company as follows:

	31 MARCH 2016	31 December 2015
	L.E (000)	L.E (000)
Mutual funds managements fess	675	3,041
Interest expenses	9	172

- D- The total amount of salaries and wages paid for the top 20 banks employees is L.E 5,143 K with a monthly average salary L.E 1,714 K for the period ended 31 MARCH 2016.

31. Commitment and contingent liabilities

A- Legal claims

There are lawsuits filed against the Bank as at 31 MARCH 2016 amounted to 15,315 K, 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 18,101 K as at 31 MARCH 2016, compared to L.E 16,949 K as at 31 December 2015 related to building and core system purchase. The management is confident that net revenues will be generated and provides the sufficient finance to pay these commitments.

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C- Commitments for loans, guarantees and facilities

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

	31 MARCH 2016	31 December 2015
	L.E (000)	L.E (000)
Acceptances	209,792	376,012
Letters of guarantee	2,360,337	2,249,487
Letters of credit (import and export)	1,056,270	616,889
Guarantees upon other banks' request or by their warranties	1,364,575	1,039,573
Total	4,990,974	4,281,961

D- Commitments for operating lease contracts

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

	31 MARCH 2016	31 December 2015
	L.E (000)	L.E (000)
Less than one year	7,997	5,498
More than one year and less than five years	5,846	5,687
	13,843	11,185

32. 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	
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 – 3	16,380	Egyptian Pounds	355	Egyptian Pounds	Monthly
IT Improvement – 4	6,766	Egyptian Pounds	152	Egyptian Pounds	Monthly

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33. Distribution of Assets , Liabilities , Contingent Liabilities and Commitments:

	Local Currency L.E (000)	Foreign Currency L.E (000)
First: Assets:		
A- Due from banks	1,438,689	3,005,728
	1,438,689	3,005,728
B- Loans to Customer and Banks		
Agriculture Sector	451,093	23,464
Industrial Sector	4,385,637	5,443,173
Commercial Sector	1,825,822	458,093
Services Sector	1,416,390	744,691
Family Sector	1,971,359	84,065
Other Sectors	580	19,049
	10,050,881	6,772,535
Loans Provision	(1,096,576)	(94,010)
Interest in suspense	(9,866)	(726)
Net Loans	8,944,439	6,677,799
Second: Liabilities:		
A- Due to banks	3,594	4,871,302
	3,594	4,871,302
B- Customer Deposits		
Agriculture Sector	108,635	45,676
Industrial Sector	6,242,520	1,689,118
Commercial Sector	1,079,004	603,370
Services Sector	1,311,198	709,564
Family Sector	11,494,322	1,780,548
Other Sectors	4,525,386	1,413,282
	24,761,065	6,241,558
C- Contingent Liabilities		
Letter of guarantees	2,014,099	346,238
Acceptance papers for credit facilities	90,945	1,273,630
Letter of credit (Import & Export)	8,083	1,048,187
Accepted bills for suppliers facilities	-	209,792
	2,113,127	2,877,847

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34. Geographical distribution of loans balances :

	Local Currency L.E (000)	Foreign Currency L.E (000)
Cairo	4,230,346	1,059,619
6th of October	776,616	65,260
Alexandria	765,759	312,063
Gharbya	45,585	2
Damitta	17,387	-
Shrquia	260,199	89,883
Dakahlia	434,630	206,945
Giza	3,308,577	4,787,928
Kalubaia	78,200	250,711
Asuit	21,855	-
Sohaj	73,471	124
Red sea	37,854	-
South Sinai	402	-
	<u>10,050,881</u>	<u>6,772,535</u>
Less		
Loans Provision of impairment losses	(1,096,576)	(94,010)
Advance interest revenue under settlement	(9,866)	(726)
Net Loans	<u>8,944,439</u>	<u>6,677,799</u>

35. Geographical distribution of Deposits

	Local Currency L.E (000)	Foreign Currency L.E (000)
Cairo	12,729,001	4,057,572
6th of October	731,802	367,216
Alexandria	2,099,726	500,177
Bheira	-	1,273,963
Gharbya	193,756	-
Damitta	75,842	7,818
Sharquia	200,891	7,115
Dakahlia	349,324	-
Kalubaia	217,161	-
Giza	7,737,558	-
Asuit	150,281	-
Sohaj	212,207	-
Red sea	63,989	10,004
South Sinai	7,214	10,006
	<u>24,768,752</u>	<u>6,233,871</u>

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36. Mutual Funds

(A) National Bank of Kuwait - Egypt 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 K.

The redeemable value of the certificate as of 31 MARCH 2016 amounted to L.E **190.24918** and the outstanding of the fund certificates at that date reached **226,780** certificates while the net assets value of the mutual fund was L.E **43,145** K as of 31 March 2016.

According to the Fund's management contract and Fund's prospectus, National Bank of Kuwait - 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 42 K for the year ended 31 MARCH 2016 included in fees and commissions income caption in the Income Statement.

(B) National Bank of Kuwait - 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 **665,600** certificates (AFS) of total amount of LE 9,775 K and with a redeemable value amounted to L.E 11,333 K as of 31 MARCH 2016.

The redeemable value of the certificate as of 31 MARCH 2016 amounted to L.E 17.02716 and the outstanding of the fund certificates at that date reached 48,771,950 certificates while the net assets value of the mutual fund was L.E 830,448 K as of 31 March 2016.

According to the Fund's management contract and Fund's prospectus, National Bank of Kuwait - 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 1,091 K for the year ended 31 MARCH 2016 included in fees and commissions income caption in the Income Statement.

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(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 MARCH 2016 amounted to L.E 12.34204 and the outstanding of the fund certificates at that date reached 1,097,421 certificates while the net assets value of the mutual fund was L.E 13,544 K as of 31 March 2016.

According to the Fund's management contract and Fund's prospectus, National Bank of Kuwait - 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 18 K for the year ended 31 MARCH 2016 included in fees and commissions income caption in the Income Statement.

(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 60,820 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 185,334 certificates (AFS) of total amount of LE 2,050 K and with a redeemable value amounted to L.E 1,937 K as of 31 MARCH 2016.

The redeemable value of the certificate as of 31 MARCH 2016 amounted to L.E 10.45145 and the outstanding of the fund certificates at that date reached 715,386 certificates while the net assets value of the mutual fund was L.E 7,477 K as of 31 March 2016.

According to the Fund's management contract and Fund's prospectus, National Bank of Kuwait - 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 10 K for the year ended 31 MARCH 2016 included in fees and commissions income caption in the Income Statement.