NATIONAL BANK OF KUWAIT - EGYPT (S.A.E)

LIMITED REVIEW REPORT
AND FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2020

Crowe Dr. A.M.Hegazy & Co.
Public Accountants & Consultants

Pricewaterhouse Coopers Ezzeldeen, Diab & Co.
Public Accountants & Consultants

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Report on Review of the Interim Financial Statements

To : Board of Directors of National Bank of Kuwait - Egypt "S.A.E."

Introduction

We have reviewed the accompanying financial position of National Bank of Kuwait – Egypt S.A.E as at 30th June 2020 and the related statements of income, other comprehensive income, changes in equity and cash flows for the six months 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 interim financial statements in accordance with the rules of preparation and presentation of the banks' financial statements issued by the Central bank of Egypt on 16 December 2008 as amended by regulations issued on February 26, 2019 and with the requirements of the applicable Egyptian laws and regulations, our responsibility is to express a conclusion on these interim financial statements based on our review.

Scope of the limited review

We conducted our review in accordance with the Egyptian Standard on Review engagements (2410), "Review of Interim Financial Statements performed by the Independent Auditor of the Entity". A limited review of 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 the 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 interim financial statements.

Conclusion

Based on our limited review, nothing has come to our attention which 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 at 30 June 2020, and its financial performance, and cash flows for the six months period then ended in accordance with the rules of preparation and presentation of the banks' financial statements issued by the Central bank of Egypt on 16 December 2008 and the amendments issued under the instructions of 26 February 2019, and with the related requirements of the applicable Egyptian laws and regulations.

Auditors

Tamer Abdel Tawab
Member of Egyptian Society of Accountants & Auditors
Member of American Society of Certified Public Accountants
R.A.A. 17996
F.R.A 388
PricewaterhouseCoopers, Ezzeldeen, Diab & Co.
Public Accountants

Dr. Mohamed Abdel Aziz Hegazy
R.A.A 9542
F.R.A 60

Crowe Dr. Abdel Aziz Hegazy & Co.
Public Accountants & Consultants

11 August 2020
Cairo

NATIONAL BANK OF KUWAIT - EGYPT (S.A.E)

Financial position
As at 30 June 2020

	Note No.	30 June 2020 000' EGP	31 December 2019 000' EGP
Assets			
Cash and Due from Central Bank	(14)	3,955,237	4,050,862
Due from banks	(15)	7,004,845	3,354,765
Loans and Facilities to customers	(16)	33,355,103	31,550,627
Financial investments at fair value through other comprehensive income	(18)	15,176,408	21,945,293
Financial investments at amortized cost	(18)	649,066	1,727,517
Financial investments through profits and losses	(18)	39,412	41,768
Investments in associates	(19)	22,677	21,791
Other assets	(20)	1,296,961	1,160,097
Intangible assets	(22)	55,856	60,844
Investments properties	(23)	795	-
Fixed assets	(21)	389,620	358,822
Deferred Tax assets	(30)	51,155	51,713
Total assets		61,997,135	64,324,099
Liabilities and Shareholders' equity			
Liabilities			
Due to banks	(24)	2,063,528	1,801,014
Customers' deposits	(25)	48,930,040	51,572,574
Financial Derivatives	(17)	-	38
Other loans	(26)	1,603,941	1,704,237
Other liabilities	(27)	591,805	707,364
Retirement benefits obligations	(28)	103,284	91,378
Other provisions	(29)	166,091	165,272
Current Income Tax Liabilities		192,298	271,374
Total liabilities		53,650,987	56,313,251
Shareholders' equity			
Issued and Paid-up capital	(31/b)	1,500,000	1,500,000
Reserves	(31/c)	1,694,993	1,358,308
Retained Earnings	(31/d)	5,151,155	5,152,540
Total Shareholders' equity		8,346,148	8,010,848
Total liabilities and Shareholders' equity		61,997,135	64,324,099

Vice Chairman
CEO & Managing Director
Yasser Eltayeb

Chairman
Shaikha Khaled Al Bahar

- The accompanying notes from (1) to (40) are integral part of these financial Statements and to be read there with.
- Limited review report attached.

NATIONAL BANK OF KUWAIT - EGYPT (S.A.E)

Statement of income
For the financial period ended 30 June 2020

	Note No	Six months ended 30 June 2020 000' EGP	Six months ended 30 June 2019 000' EGP	Three months ended 30 June 2020 000' EGP	Three months ended 30 June 2019 000' EGP
Interest income from loans and similar revenues	(5)	3,064,863	3,983,910	1,397,672	1,911,696
Cost of deposits and similar costs	(5)	(1,693,368)	(2,468,799)	(754,733)	(1,166,533)
Net interest Income		1,371,495	1,515,111	642,939	745,163
Fees and commissions revenues	(6)	299,542	255,417	169,083	154,021
Fees and commissions expenses	(6)	(7,802)	(8,833)	(4,277)	(3,891)
Net income from fees and commissions		291,740	246,584	164,806	150,130
Dividends	(7)	3,013	4,652	3,013	4,652
Net trading income	(8)	41,842	74,641	22,605	19,301
Gains from financial investments	(9)	8,394	4,332	1,130	379
Share of results from associates	(10)	886	1,398	409	4,072
Net Operating Income		1,717,370	1,846,718	834,902	923,697
Impairment charges on credit losses		(27,836)	(14,788)	(7,000)	-
General and administrative expenses	(11)	(568,387)	(491,476)	(297,766)	(254,759)
Other operating income (expenses)	(12)	(26,968)	17,465	(13,506)	25,633
Net profits for the period before income tax		1,094,179	1,357,919	516,630	694,571
Income tax expenses	(13)	(340,692)	(303,293)	(165,907)	(149,936)
Net profits for the period		753,487	1,054,626	350,723	544,635
Earnings per share (EGP/Share)	(40)	4.52	6.33	2.10	3.27

Vice Chairman
CEO & Managing Director

Yasser Eltayeb

Chairman

Shaikha Khaled Al Bahar

- The accompanying notes from (1) to (40) are integral part of these financial Statements and to be read there with.

Statement of other comperhensive income
For the financial period ended 30 June 2020

	Note No	30 June 2020 000' EGP	30 June 2019 000' EGP
Net profits for the period		**753,487**	1,054,626
Other comprehensive income items			
Net changes in fair value reserves for Financial instruments with fair value through other comprehensive income		**(14,246)**	124,215
Revaluation differences of financial instruments with fair value through OCI with foreign currency		**23**	(70)
	(18)	**(14,223)**	124,145
Total Other comprehensive income		**739,264**	1,178,771

- The accompanying notes from (1) to (40) are integral part of these financial Statements and to be read there with.

Statement of changes in equity
For the financial period ended 30 June 2020

	Capital	Legal reserve	General reserve	Special reserve	Capital reserve	Fair value Reserve	General banking risk reserve	General risk reserve	Risk Reserve IFRS 9	Retained earnings	Total
	000' EGP	000' EGP	000' EGP	000' EGP	000' EGP	000' EGP	000' EGP	000' EGP	000' EGP	000' EGP	000' EGP
Balance at 1 January 2019 As previously reported	1,500,000	285,044	406,773	9,205	53,296	(10,951)	106,386	-	268,347	3,734,588	6,352,688
Transfer to general banking risk reserve	-	-	-	(9,205)	-	-	(68,636)	346,188	(268,347)	-	-
Impact of applying IFRS 9	-	-	-	-	-	(64,677)	-	(172,903)	-	-	(237,580)
Balance at 1 January 2019 After adjustment	1,500,000	285,044	406,773	-	53,296	(75,628)	37,750	173,285	-	3,734,588	6,115,108
Valuation difference of financial investments at fair value through other comprehensive income at foreign currencies.	-	-	-	-	-	(70)	-	-	-	-	(70)
Cash dividends for 2018	-	-	-	-	-	-	-	-	-	(388,508)	(388,508)
Transferred to reserves	-	96,617	200,000	-	70,044	-	-	-	-	(366,661)	-
Impact of applying IFRS 9	-	-	-	-	-	96,459	-	-	-	-	96,459
Change in fair value of financial investments at fair value through other comprehensive income	-	-	-	-	-	27,756	-	-	-	-	27,756
Net profit for the period	-	-	-	-	-	-	-	-	-	1,054,626	1,054,626
Balance at 30 June 2019	1,500,000	381,661	606,773	-	123,340	48,517	37,750	173,285	-	4,034,045	6,905,371

The accompanying notes from (1) to (40) are integral part of these financial Statements and to be read there with.

Statement of changes in equity
For the financial period ended 30 June 2020

	Capital	Legal reserve	General reserve	Special reserve	Capital reserve	Fair value Reserve	General banking risk reserve	General risk reserve	Risk Reserve IFRS 9	Retained earnings	Total
	000' EGP	000' EGP	000' EGP	000' EGP	000' EGP	000' EGP	000' EGP	000' EGP	000' EGP	000' EGP	000' EGP
Balance as of 1 January 2020	1,500,000	381,661	606,773	-	123,340	39,924	33,325	173,285	-	5,152,540	8,010,848
Revaluation differences of financial investments at fair value through other comprehensive income at foreign currencies	-	-	-	-	-	23	-	-	-	-	23
Cash dividends for 2019	-	-	-	-	-	-	-	-	-	(405,369)	(405,369)
Transferred to reserves	-	106,199	200,000	-	44,709	-	-	-	-	(350,908)	-
Net changes in the fair value for the financial investments through other comprehensive income	-	-	-	-	-	(14,246)	-	-	-	-	(14,246)
Reversal of the fair value reserve for the financial investments through other comprehensive income										1,405	1,405
Net profit for the period	-	-	-	-	-	-	-	-	-	753,487	753,487
Balance as of 30 June 2020	1,500,000	487,860	806,773	-	168,049	25,701	33,325	173,285	-	5,151,155	8,346,148

- The accompanying notes from (1) to (40) are integral part of these financial Statements and to be read there with.

Statement of cash flows
For the financial period ended 30 June 2020

	30 June 2020 000' EGP	30 June 2019 000' EGP
Cash flow from operating activities		
Net Profits before income tax	**1,094,179**	1,357,919
Adjustments to reconcile net profit to net cash provided from operating activities		
Depreciation and amortisation	**38,663**	31,181
Impairment charges on credit losses	**27,836**	14,573
Reversal of other provisions	**(1,033)**	-
Revaluation differences of financial investments through Profits & Losses	**2,356**	(37,310)
Charges for other provisions	**1,053**	142
Differences of re-evaluation of other provisions in foreign currencies	**310**	(1,782)
Revaluation differences of financial investments through Other comprehensive income	**(30,652)**	352,195
Share of profit from associates	**(886)**	(1,398)
Gains/ (losses) from sale of fixed assets	**226**	(49)
Profits on sale of financial investments at fair value through other comprehensive income	**(8,394)**	(4,332)
Used from other provisions	**(7,207)**	(188)
Amortised cost	**(1,124,399)**	(32,023)
Dividends	**(3,013)**	(4,652)
Operating profits before changes in assets and liabilities from operating activities	**(10,961)**	1,674,276
Net (decrease) increase in assets and liabilities		
Due from central banks (within the mandatory reserve percentage)	**259,440**	(1,111,037)
Loans and facilities to customers and banks	**(1,818,676)**	6,731,854
Other assets	**(60,803)**	46,779
Due to banks	**262,514**	(8,601,426)
Customers' deposits	**(2,642,534)**	3,521,859
Financial derivatives	**(38)**	1,562
Other liabilities	**(103,652)**	237,805
Income tax paid	**(419,211)**	(453,789)
Net cash flows (used in) provided from operating activities (1)	**(4,533,921)**	2,047,883
Cash flows from investing activities		
Payments to acquire fixed assets and fixtures of branches	**(136,703)**	(202,184)
Proceeds from sale of fixed assets	**1**	186
Proceeds from sale of financial investments at fair value through other comprehensive income	**1,080,000**	385,000
Proceeds from sale of investments in at amortised cost	**26,578,417**	22,045,567
Payments to purchase financial investments at fair value through other comprehensive income.	**(18,667,110)**	(14,773,619)
Payments to acquire intangible assets	**(4,136)**	(3,349)
Dividends income received	**3,013**	8,652
Net cash flows provided from investing activities (2)	**8,853,482**	7,460,253

Statement of cash flows
For the financial period ended 30 June 2020

Cash flows from Financing Activities		
(Decrease) in long term loans	**(100,296)**	(640,887)
Dividends paid	**(405,370)**	(388,508)
Net cash flows (used in) financing activities (3)	**(505,666)**	(1,029,395)
Net Cash and cash equivalents during the period (1+2+3)	**3,813,895**	8,478,741
Cash and cash equivalents at the beginning of the period	**2,244,228**	4,331,164
Cash and cash equivalents at the end of the period (Note 32)	**6,058,123**	12,809,905
Cash and cash equivalents are represented in :		
Cash and due from Central Bank	**3,955,237**	4,500,327
Due from banks	**7,004,845**	11,994,252
Due from central banks (within the mandatory reserve percentage)	**(3,401,959)**	(3,684,674)
Due from banks with maturities of more than three months	**(1,500,000)**	-
Cash and cash equivalents	**6,058,123**	12,809,905

- The accompanying notes from (1) to (40) are integral part of these financial Statements and to be read there with.

Notes to the Financial Statements - For the period ended 30 June 2020

1. General information

The bank was established under the name of (Al Watany Bank of Egypt), an Egyptian Joint Stock Company under the Investment Law No (43) for 1974, and its amendments as the bank now is under the Investment law No (72) for 2017, The Bank's head office is located in First Sector, Plot 155, City Centre, New Cairo and is listed in stock exchange of Cairo and Alexandria.

On 24 March 2013, the Extraordinary General Assembly resolved that the Bank's name is to be amended from Al Watany Bank of Egypt to become National Bank of Kuwait - Egypt. Such amendment has been approved and published in the Commercial Register on 29 April 2014.

National Bank of Kuwait - Egypt provides corporate and retail banking services and investment in the Arab Republic of Egypt through 52 branches, and 1,839 employees at the date of the Balance sheet compared to 31 December 2019, which were 51 branches, and 1,766 employees.

This Separate Financial Statements approved from Board of Director on 11 August 2020.

2. Summary of accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

A) Basis of financial statements preparation

The financial statements are prepared in accordance with rules of preparation and presentation of banks' financial statements, basis of recognition and measurement approved by the Board of Directors of the Central Bank of Egypt on 16 December 2008, along with the requirements of IFRS 9 "Financial Instruments" according to the instructions issued by the Central Bank of Egypt on January 28, 2018, and as amended on 26 February 2019, in light of the Egyptian Accounting Standards issued during 2015, as amended and the related local laws.

B) Associates

Associates are establishments in which the Bank has, directly or indirectly, significant influence, but it does not reach to the extent of control, and usually the Bank holds from 20% to 50% of the voting rights.

The purchase accounting method is used for the Bank's acquisition of companies. The cost of acquisition is measured at the fair value of the assets or the consideration provided by the Bank for the assets of purchase, and/ or issued equity instruments and/ or liabilities incurred by the Bank, and/or liabilities accepted on behalf of the acquiree at the transaction date, plus any costs directly attributable to the acquisition. Net assets including identifiable contingent liabilities are measured at their fair value at the date of acquisition, irrespective of the minority interest. The excess in acquisition cost over the fair value of the Bank's share in the net assets acquired is recorded as goodwill. If the acquisition cost is less than the fair value of the net assets, the difference is recognized directly in the statement of profits and losses under other operating income (expenses).

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 rewards different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and rewards different from those of geographical segments operating in different economic environments.

D) Foreign currency transaction

D/1 Functional and presentation currency

The Bank's financial statements are presented in Egyptian Pound (EGP), which is the Bank's functional and presentation currency.

D/2 Transactions and balances in foreign currencies

The Bank keeps its accounting records in Egyptian pound. Foreign currency transactions during the financial year are translated using the exchange rates prevailing at the date of the transaction. All monetary assets and liabilities balances in foreign currencies at the financial position date are revaluated based on the exchange rates prevailing at that date. Foreign exchange gains and losses resulting from settlement of such transactions and valuation differences are recognized in the statement of profits and losses under the following sections:

- Net income on financial instruments at fair value through profits and losses for assets/ liabilities initially designated at fair value through profits and losses according to the type.

- Other operating income (expenses) for the remaining items.

- Among other comprehensive income items of owners' equity with regard to financial derivatives as qualifying hedge (eligible) for cash flows or as qualifying hedge for net investment.

- Among other comprehensive income items of owners' equity with regard to financial investments from equity instruments at fair value through other comprehensive income.

- Changes in the fair value of monetary financial instruments in foreign currency classified as investments at fair value are analyzed within the other comprehensive income through differences from changes in amortized costs of the instrument, differences from changes in the prevailing exchange rates, and differences from changes in the fair value of the instrument. Differences related to changes in the amortized cost are recognized into statement of profits and losses under interest income from loans and similar revenues, and those related to the changes in the exchange rates under other operating income (expenses). Differences from changes in the fair value (fair value reserve/ financial investments at fair value through other comprehensive income) are recognized within owners' equity of comprehensive income items.

- Valuation differences resulting from non-cash items include profits and losses from change in fair value such as equity instruments at fair value through profits and losses. Valuation differences result from equity instruments classified as financial investments at fair value through other comprehensive income statement are recognized in statement of other comprehensive income.

E) Financial assets and liabilities

E-1 Initial recognition and measurement

The Bank conducts initial recognition of financial assets and liabilities on the date on which the bank becomes a party in the contractual conditions of financial instrument.

The financial asset or liability is initially measured at fair value. With regard to assets or liabilities that are not subsequently measured at fair value through profits and losses, it would be measured at fair value plus cost of transaction that is connected directly with acquisition or issuance.

Business model valuation

1) Debt instruments and equity instruments are classified and measured as follows:

Financial Instrument	Method of measurement as per the business model		
		Fair value	
	Amortized cost	Through other comprehensive income	through profit or loss
Equity Instrument	-	One-time option upon initial recognition Irrevocable	Normal transaction for equity instruments
Debt instruments	Business model of assets held to collect contractual cash flows	Business model of assets held to collect contractual cash flows and sale	Business model of assets held for trading

2) The Bank shall prepare, document and approve Business Model in compliance with IFRS 9 requirements to reflect the bank's strategy made for managing financial assets and its cash flows as follows:

Financial asset	Business model	Main characteristics
Financial assets at amortized cost	Business model for Financial Assets Held to collect contractual cash flows	▪ The objective of the business model is to retain financial assets to collect the contractual cash flows represented in the principal amount of the investment and the interests. ▪ A sale is an exceptional contingent event for the purpose of this model and under the terms of the Standard comprising deterioration in the creditworthiness of the issuer of the financial instrument. ▪ Lowest sales in terms of periodic and value. ▪ A clear and reliable documentation process for the justifications of each sale and its conformity with the requirements of the Standard shall be conducted by the bank.
Financial assets at fair value through other comprehensive income	Business model for financial assets held to collect contractual cash flows and sale	▪ Both the collection of contractual cash flows and sale are complementary to the objective of the model. ▪ High sales (in terms of turnover and value) compared to the business model held for the collection of contractual cash flows.
Financial assets at fair value through profits and losses	Other business models, which include (trading - management of financial assets based on fair value -	▪ The objective of the business model is not to hold the financial asset for the collection of contractual cash flows or hold the financial asset to collect contractual cash flows and sale. ▪ The collection of contractual cash flows is a contingent event for the objective of the model.

	maximising cash flows through sale)	▪ Management of financial assets by the management at fair value through profits and losses to avoid accounting inconsistencies.

- The Bank shall evaluate the purpose of business model at the level of portfolio in which the financial asset is held to reflect the method of management and supplying information. Such information taken into consideration when evaluating the business model shall include the following:

  - Documented approved policies and portfolio's objectives and application of such policies in practice. In particular, whether the management's strategy focuses only upon collection of contractual cash flows and holding a definite interest rate to compare maturity dates of financial assets with maturity dates of liabilities that finance such assets or generates cash flows from sale of assets.

  - Way of evaluating and reporting on portfolio's performance to senior management.

  - Risks that affect business model performance including nature of financial assets held in such model and the way of managing such risks.

  - Way of evaluating the performance of business managers (fair value and/or interest on portfolio, or both).

  - Periodic, value and date of sale transactions in previous periods, reasons of such transactions, and forecasts regarding future sale activities. However, information regarding sale activities is not taken into consideration separately but as a part of a whole comprehensive valuation of how to achieve the bank's objective from managing the financial assets and how to generate cash flows.

  - The financial assets held for trading, or managed and its performance valued on basis of fair value are measured at fair value through profits and losses since they are not held to collect contractual cash flows or to collect contractual cash flows and sell financial assets together.

- **Assessment of whether the contractual cash flows of an asset represent payments restricted upon principal amount of instrument and interest**

For purpose of this valuation, the bank identifies the principal amount of financial instrument as the fair value of financial asset upon initial recognition. Further, the bank identifies the interest as time value of money and credit risks related to the principal amount during specific period and other main loan risks and costs (such as liquidity risks and administrative costs) in addition to profit margin.

In order to evaluate whether the contractual cash flows of the asset are represented in payments restricted upon the principal of financial instrument and interest, the bank takes into its consideration the contractual conditions of the instrument. This includes valuation of whether the financial asset includes contractual conditions that may change date or amount of contractual cash flows which result in breach of this condition. In order to carry out such valuation, the bank takes into consideration the following matters:

- Potential events that may change the amount or date of cash flows.
- Specifications of financial leverage (interest rate, terms, currency type ...).
- Terms of accelerated payment and term extension.
- Terms that may limit the bank's ability to claim cash flows from certain assets.
- Specifications that may be amended for time value of cash (periodically repricing interest rate).

Reclassification

- The financial assets are reclassified upon initial recognition only if the bank changes business model of managing such assets.

- In all cases, reclassification between financial liabilities at fair value through profits and losses and financial liabilities at amortized cost are not conducted.

E/3 De-recognition

1- Financial assets

- The financial asset is excluded when the effective period of contractual right to obtain cash flows from financial asset expires or the bank transfers the right to receive contractual cash flows in a transaction whereby the risks and benefits associated materially with ownership are transferred to another party.

- When a financial asset is excluded, difference between asset's book value (or book value allocated to part of the excluded principal) and total of received consideration (including any new asset obtained less any new commitment incurred) and any consolidated profits and losses has been previously recognized in the fair value reserve of financial investments at fair value through statement of other comprehensive income is recognized in statement of profits and losses.

- As of January 1, 2019, any accumulated profit or loss recognized in statement of other comprehensive income related to investing in equity instruments allocated as investments at fair value through statement of other comprehensive income are not recognized in profits and losses upon disposal of such asset. Any share resulted or held from the asset qualified for disposal (eligible for disposal) shall be recognized as separate asset or liability.

- When the bank makes transactions whereby it transfers assets that have been previously recognized in statement of financial position, but materially held most of risks and benefits associated with the transferred asset or part of it. In such cases, the transferred asset shall not be excluded.

- In respect of transactions in which the bank does not materially hold or transfer all risks and benefits associated with asset ownership and hold control over the asset, the bank continues to recognise the asset within the limitation of its continuous commitment to financial asset. The continuous commitment of the bank to the financial asset shall be determined based on the bank's exposure to changes in value of transferred asset.

- In some transactions, the bank holds the commitment to provide transferred asset in return for commission. Thereupon, the transferred asset shall be excluded if it meets the exclusion conditions. An asset or liability to provide service is recognized if the service commission is higher than the appropriate amount (asset) or less than the appropriate amount (liability) to perform the service.

2- Financial liabilities

- The bank shall exclude financial liabilities when the financial liability is excluded or cancelled or its term set forth in the contract expires.

E/4 Adjustments to financial assets and liabilities

1- Financial assets

- If the terms of a financial asset are amended, the bank shall evaluate whether the cash flows of adjusted asset are materially different. If the cash flows materially differ, the contractual rights of cash flows from the principal financial asset shall be considered expired and hence the principal financial asset shall be excluded and the new financial asset shall be recognized at fair value and the value resulted from adjusting aggregate book value shall be recognized as profits or losses under profits and losses. On the other hand, if such adjustment has occurred due to financial difficulties of the borrower, the profits have to be deferred and presented with aggregate impairment losses whilst losses have to be recognized in the statement of profits and losses.
- If the cash flows of adjusted asset recognized at amortized cost do not materially differ, the adjustment shall not result in exclusion of financial asset.

2- Financial liabilities

- The Bank may adjust a financial liability when its terms are amended and the cash flows of adjusted liability will materially differ. In such case, a new financial asset is recognized according to the amended terms at fair value. The difference between book value of old financial liability and new financial liability shall be recognized in accordance with amended terms in the profits and losses.

Offsetting financial assets and liabilities

Financial assets and liabilities are offset when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

An offset between only revenues and expenses shall be made, if permitted in accordance with Egyptian Accounting Standards, or profit or loss results from similar groups because of trading or transfer differences of balance of foreign currency cash assets and liabilities or profits (losses) result from foreign currency operations.

F) Fair value measurement

- The Bank sets the fair value on basis that it is the price that will be obtained for the sale of an asset or will be paid for transfer of a liability in a transaction made between the participants in the market on measurement date taking specifications of the asset or liability into consideration when measuring the fair value if the participants in the market took such specifications into consideration when pricing the asset and/or liability on measurement date as such specifications include status and position of the asset and restrictions upon sale or use of the asset as per the perspective of participants in the market.

- The Bank uses market methodology to determine fair value of financial assets and liabilities as such methodology uses other relevant prices and information result from market transactions that include assets or liabilities or set of assets and liabilities and are typical or comparable. Accordingly, the Bank uses valuation methods that are in consistent with market methodology such as market multiples derived from comparable sets. Thereupon, it is required to opt for the appropriate multiplier within range using personal judgement taking into consideration both quantitative and qualitative factors of the measurement.

- When it can not be relied upon the market approach to determine the fair value of a financial asset or financial liability, the Bank uses the income approach to determine fair value whereby future payments such as cash flow or income and expenses are transferred to current amount (discounted) so that the fair value measurement reflects current market expectations about future payments.

- When it can not be relied upon market approach or income approach to determine the fair value of a financial asset or financial liability, the Bank uses the cost method to determine fair value in order to reflect the amount currently claimed to replace the asset in its current state (the current replacement cost) so that the fair value reflects the cost incurred by the participant in the market as a buyer of acquiring an alternative asset of similar benefits since the participant in the market as a buyer will not pay for an asset more than the amount that replaces benefit of the asset.

F/1) Financial instruments through first stage:

The fair values of financial instruments traded in an active market are determined based on quoted prices at the reporting date. The market is active when the items that are dealt with in the market are identical and that there are usually buyers and sellers willing to deal at any time normally. The Bank has used the quoted bid price to determine the fair value of this level. Instruments included in the first tier include investments held for trading on exchanges.

F/2) Financial instruments through second stage:

Fair values of financial instruments not traded in an active market are determined using valuation techniques. Valuation techniques are based primarily on observable inputs to the asset or liability, whether direct or indirect. The determination of fair value is included in the second level if all significant inputs are observable for the duration of the financial asset or liability, but if one of the significant inputs is not observable, the financial instrument is included in the third level.

Specific valuation techniques used to determine fair values of financial instruments include:

- Quoted prices for similar assets or liabilities in active markets.
- Interest rate swaps by calculating the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using the current value of the expected cash flows by using the future foreign exchange of the currency of contract.
- Analysis of deducted cash flows to determine fair values of other financial instruments.

G) Financial derivatives instruments and hedge accounting

Derivatives are recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair value is obtained from market prices quoted in active markets, recent market transactions or valuation techniques such as discounted cash flow models and options pricing models, as the case may be. All derivatives are presented within the assets if the fair value is positive, or within obligations if the fair value is negative.

Embedded derivatives contracts are not separated when the derivative is associated with a financial asset and therefore all embedded derivatives contract are classified with the financial asset associated therewith.

The method of recognition of profits and losses arising from changes in fair value is based on whether the derivative is designated as a hedging instrument and the nature of the hedged item. The Bank allocates certain derivatives as any of the following:

1. Fair value risk hedges for assets and liabilities recognized or confirmed commitments (fair value hedges).
2. Hedges of future cash flows risks expected to be substantially attributable to a recognized asset or liability, or attributable to a forecasted transaction (cash flows hedges).
3. Hedges of net investment in foreign operations (net investment hedges).

Hedge accounting is used for derivatives allocated for such purpose if they meet requirements eligible for accounting as hedge instruments.

At the inception of the transaction, the Bank documents the relationship between hedged items and hedging instruments as well as the objectives of risk management and strategy of entering into various hedge transactions. The Bank also documents, at the inception of the hedge and on an ongoing basis, the estimate of whether the derivatives used in hedge transactions are effective against the changes in the fair value or cash flows of the hedged item.

G/1 Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as hedges of changes in fair value risks are recognized in the statement of profits and losses, together with any changes in the fair value that are attributable to the risk of hedged asset or liability.

The effective changes in fair value for interest rate swaps and relevant hedged items is retrospectively recognized in "net interest income" item. Whilst the effective changes in fair value for future currency contracts is recognized in "net income of financial investments at fair value through profits and losses" item.

Non-effective in all contracts and relevant hedged items included in the previous paragraph is recognized in "Net income of financial investments at fair value through profits and losses" item.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to book value of a hedged item that is accounted for using the amortized cost method should be amortized by charging it to profit or loss over the period to maturity. Adjustments made to the book value of the hedged equity instrument are included within equity until they are disposed of.

G/2 Cash flow hedges

The effective portion of changes in the fair value of designated derivatives qualified for cash flow hedges are recognized in statement of other comprehensive income. Profits and losses related to non-effective portion are immediately recognized in "Net income of financial investments at fair value through profits and losses" item.

Amounts accumulated in statement of other comprehensive income are carried to statement of profits and losses in the same periods in which the hedged item has an impact on profit or loss. Profits or losses relating to the effective portion of the currency swaps and options are taken to the "net income of financial investments at fair value through profits and losses".

When a hedging instrument matures or is sold, or if hedging no longer meets the conditions for hedge accounting, profits or losses accumulated in other comprehensive income at that time is retained in other comprehensive income items and recognized in the statement of profits and losses when the forecasted transaction is finally recognized. When a forecast transaction is no longer expected to occur, profits or losses accumulated in other comprehensive income are immediately transferred to the statement of profits and losses.

G/3 Hedges of net investment

Profits or losses on the hedging instrument relating to the effective portion of the hedge are recognized in statement of other comprehensive income while any profits or losses relating to the ineffective portion are immediately recognized in the statement of profits and losses. On disposal of the foreign operation, the cumulative value of any such profits or losses recognized in the statement of other comprehensive income is carried to the statement of profits and losses.

G/4 Derivatives that do not qualify for hedge accounting

Changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognized in the statement of profits and losses under "net income of financial investments at fair value through profits and losses". However, profits and losses arising from changes in the fair value of derivatives that are managed in conjunction with financial assets and liabilities at fair value through profits and losses are included in statement of profits and losses under 'Net income from financial instruments at fair value through profits and losses'.

H) Embedded derivatives

Embedded Derivatives are defined when derivatives are included with other contractual arrangement (original contract) and the bank accounts for embedded derivative as separate derivative when:

- The original contract is not originally fall within IFRS (9) Financial Instruments
- Measuring the original contract itself in a way other than fair value through profits and losses.
- The embedded derivative satisfies the conditions of defined derivatives if evaluated as a separate instrument.
- Economic characteristics and risks of the embedded derivatives differ from those properties and risks related to the original contract.

Embedded derivatives separated at fair value are measured at fair value and changes in fair value are recognized in profits and losses unless it is a part qualified for accounting as cash flow hedge or net investment. These separate embedded derivatives are presented within the statement of financial position together with the original contract.

I) Interest income and expenses

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated initially at fair value through profits and losses, are recognized in a statement within 'interest of similar loans and revenues' or "cost of similar deposits and costs" using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of distributing the interest income or interest expense over the relevant instrument's life. The effective interest rate is the rate that exactly discounts future cash flows expected to be paid or received through the expected life of the financial instrument or, when appropriate, a shorter period to accurately determine the net carrying amount of the financial asset or financial 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 paid or received between parties to the contract that are considered as part of the effective interest rate. Also, the transaction cost includes any premiums or discounts.

When loans or receivables are classified as non-performing or impaired as the case may be, the related interest income is not recognized but is rather carried off the financial statements in marginal records and is recognized under revenues according to cash basis as per the following:

- When they are collected, after receiving all past due instalments for consumption and real estate loans for personal housing and small loans for economic activities.

- For corporate loans, cash basis is also applied, where the interest subsequently calculated is given in accordance with the loan scheduling contract, until 25% of the scheduling instalments are repaid and with a minimum of one year of regular repayment. In case the customer continues to make payments on a regular basis, the interest calculated on the loan outstanding is recognized in revenues (interest on regular scheduling balance) without marginal interest before scheduling which is not recognized as revenues except after paying all the loan balance in the balance sheet before scheduling.

J) Fees and commission income

Fees that are due for a loan service or a facility are recognized as revenues when the service is rendered. Fees and commissions income related to non-performing or impaired loans or debts are suspended and are carried at off-balance sheet in marginal records and are recognized under revenues according to the cash basis when interest income is recognized in accordance with item (I). Fees that generally represent a complementing part of the financial asset effective rate are recognized as adjustment to the effective interest rate.

Commitment fees on loans are deferred when there is probability that loans will be used, as commitment fees the Bank receives represent compensation for the continuous interference to own the financial instrument. Subsequently, it is recognized as adjustment to the effective interest rate of the loan. If the commitment period passed without issuing the loan, commitment fees are recognized as income at the end of the commitment period.

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

Fees and commissions arising from negotiation or participating in negotiation over a transaction in favour of another party -such as arrangement to buy shares or other financial instruments or acquire or sell entities, are recognized in statement of profits and losses upon completion of concerned transaction. Fees of management consultation and other services are usually recognized on a time-apportion basis over the period of performing the service. Financial planning and custody services fees provided on long periods are recognized over the period in which the service is provided.

K) Dividends income

Dividends are recognized in the statement of profits and losses when the right to receive those dividends is established.

L) Purchase and resale & Sale and Re-purchase agreements

Financial instruments sold according to Sale and Re-purchase agreements are presented in the assets in Treasury bills & other governmental instruments in the financial position. Difference between face value & purchase amount is recorded as interest realized over the contractual period using effective interest method.

M) Impairment of financial assets

- Impairment losses from expected credit loss of subsequent financial instruments that are not measured at fair value are recognized through profits and losses, which are:

1) Financial assets represent debt instruments.
2) Outstanding debts.
3) Financial guarantee contracts.
4) Commitments of loans and similar debt instruments.

- Impairment losses are not recognized in investments value of equity instruments.

Below is summary of main changes in accounting policies of our bank due to applying IFRS 9:

1. Expected credit losses

- Recognition and measurement of Expected Credit Loss Valuation

Financial assets are classified into three stages of credit rating as follows:

Staging	Stage 1	Stage 2	Stage 3
Characteristics	For a financial instruments to be classified as a Stage 1 instrument, the instrument must be compliant with the terms and conditions of the disbursement of the instruments, in	For a financial instrument to be classified a Stage 2 instrument, the instrument in question must experience a large increase in credit risk from the initial recognition or	For a financial instrument to be classified as a Stage 3 instrument, it must be consider credit impaired.

	addition to complying with the agreed upon payment schedule, and the absence of high risk.	disbursement of the instrument.	
Effect on the calculation of the Estimated Credit Loss	The Estimated Credit Loss for instruments classified as Stage 1 instruments are calculated over a 12 month period.	The Estimated Credit Loss for instruments classified as Stage 2 instruments are calculated over the lifetime of the financial instrument.	The Estimated Credit Loss for instruments classified as Stage 3 instruments are calculated over the lifetime of the financial instrument on the basis of the difference between the carrying value of the instrument & the present value of expected future cash flows.

- **Significant Increase in Credit Risk**
  That requires the financial asset to be listed within Stage 2 and the expected credit loss to be calculated according to the methodology mentioned hereinafter

First: (Quantitative Factors):

- **(Backstop – Days of Past Dues)**

Loans and facilities for corporates, SMEs and retail banking are listed within Stage 2, if the default period exceeds at least 60 days and is less than 90 days. Noting that this 60 days will reduce by (10) days annually to become 30 days within 3 years from implementation date.

- **Probability of Default (PD):**

Upon increase of the PD over the remaining life of the financial asset since the date of the financial position, compared to the PD over the expected remaining life upon the initial recognition in accordance with the risk structure accepted by the Bank.

Second: (Qualitative Factors):

- Huge increase in interest rate due to increase in credit risks
- Significant adverse changes in the activity and financial or economic conditions in which the borrower operates
- Requesting scheduling as a result of difficulties facing the borrower
- Significant adverse changes in actual or expected operating results or cash flows.
- Future adverse economic changes affecting the borrower's future cash flows
- Early signs of cash flow/ liquidity problems such as delays in servicing creditors/ commercial loans.
- The cancellation of a direct facility by the bank due to the borrower's high credit risk.
- In addition to any other factors the bank deems fit when studying the case resulting in significant increase in credit risk.

- **Definition of Default and Impairment**

First: Quantitative criteria:

- If the borrower defaults more than 90 days to repay the contractual instalments, he is considered to be in default.
- If the Probability of Default results from valuation of credit worthiness degree proves default and impairment of financial asset.

Second: Qualitative criteria:

- The borrower's financial default.
- Non-compliance with financial obligations - the disappearance of the active market of the financial asset or financial instrument of the borrower due to financial difficulties.
- Granting lenders privileges related to the borrower's financial difficulty, which would not have been granted under normal circumstances.
- The borrower may be in bankruptcy or restructuring due to financial difficulties.
- Any other factors the bank thinks that it may result in default of impairment of financial asset as per the bank's internal policy.

- **Transition between Credit Rating Stages:**

First: Transition from Stage 2 to Stage 1

The financial asset should be transferred from Stage 2 to Stage 1 only after all the quantitative and qualitative elements of Stage 1 have been met and the full past due amounts of the financial asset and the returns have been paid.

Second: Transition from Stage 3 to Stage 2

Transfer of the financial asset from Stage 3 to Stage 2 shall not be made unless all the following conditions have been met:

- Fulfilling all quantitative and qualitative elements of Stage 2.
- Payment of 25% of financial asset outstanding balances after payment of due interest (marginalised/set aside)
- Regularity of payment for at least 12 months.

- **Mechanism of Expected Credit Loss Calculation:**

First: Regarding all financial assets except for retail:

- **Probability of Default (PD):**
  - For customers whose credit worthiness level are evaluated by using internal worthiness valuation of the bank, probability of default is calculated according to the used model considering the historical effective impact of probability of default related to our bank according to the client rating whether in portfolios of large, small and medium companies (PD Calibration)
  - Regarding financial assets that are externally valuated by external rating entities, the probability of default concerning international valuation entities is applied.

- **Loss Given Default (LGD):**
  - Loss Given Default (LGD) of large companies and corporates is calculated according to LGD developed by Moody's.
  - Regarding small and medium companies, LGD is calculated according to historical data of their default as well as historical collections and executions of our bank.
  - With regard to financial institutions and governmental debt instruments, LGD is calculated according to the Central Bank of Egypt's instructions.

- **Exposure At Default (EAD):**
  - Value at default equals current balance plus unused value of the authorized limits (cancellable and noncancellable) weighted with Credit Conversion Factor (CCF) according to Basel's instructions plus the amount of accrued interest as per the payment schedule and applicable interest rate.

- **The Impact of future looking for economic factors upon Probability of Default and Loss Given Default:**
  - Economic indicators issued by the international valuation corporation, Moody's, are applied
  - It is relied upon many economic indicators that have historical correspondence with default rates of geographical range in accordance with the indicators of the international valuation corporation, Moody's
  - Regarding the financial assets granted within the geographical range of Egypt, it is relied upon the economic indicators of trading volume in the Egyptian Stock Exchange as well as growth rate Gross Domestic Product (GDP) of Egypt.
  - Regarding other financial assets located outside the geographical range of Egypt, it is relied upon the economic indicators of these areas such as Arab Gulf, United States of America, United Kingdom and Europe.
  - Effect of such indicators on probability of default and Loss Given Default is calculated according to three different scenarios which are: normal, optimistic and reserved scenarios.
  - Weighted average of these scenarios is calculated on basis of 40% normal scenario, 30% optimistic scenario and 30% reserved scenario.

Second: Financial Assets of Retail Portfolio:

- **Probability of Default (PD):**

Markov Chain mechanism is used. It includes the following:

- Historical conversion ratios of a group of customers from performing into non-performing and vice versa at the beginning of the period and comparing such ratios to the same group of customers at the end of the period.
- Annual conversion ratios of DPD Buckets for customers.
- The aforementioned conversion ratios will be used to make change average matrix for each year to establish an approach for expected changes according to the difference between annual changes average and the real matrix of portfolio named Credit Index. Accordingly, examine the effect of change by using regression model considering the national economic indicators expected upon future probability of default for each product.

- **Loss Given Default (LGD):**
  - Loss Given Default is calculated according to Discounted Cash Flow (DCF) approach based on the historical default data and by using Effective Interest Rate in DCF account and hence conducting adjustment for default ratios as per each product.

- **Exposure at default (EAD):**
  - The value of the current balance plus the unused value of the authorized limit (cancellable or non-cancellable) is weighted by the CCF conversion factor in accordance with the Basel instructions plus the Accrued Interest according to the repayment schedule and the applicable interest rate.
  - In addition, the Bank calculates the provisions required for impairment of assets at risk of credit, including credit commitments, on the basis of percentages determined by the Central Bank of Egypt. If the provision for impairment losses required in accordance with the rules of the Central Bank of Egypt is required for the purpose of preparing the financial statements in accordance with the Egyptian Accounting Standards, the general bank risk reserve shall be deducted from equity in respect of retained earnings. This reserve is periodically adjusted to increase and decrease so that the amount of increase between the two allocations is always equal. This reserve is not available for distribution.

N) 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.

O) Intangible assets

O/1) Computer programs
Expenses related to computers development and maintenance realized in profits and losses statement, Expenses related directly to specified programs and under the bank's control and expected to generate from it economic benefit over its cost for more than one year is realized as an intangible asset, Direct cost includes employees cost in IT team and also appropriate share from general costs that's related to it.

Developing expenses that leads to the increase of computer programs performance exceed it is original performance is being realized, and adding it to the programs original cost, Realized computer programs is consumed through its productive life but it shouldn't exceed five years.

O/2- Other intangible assets

Intangible asset other than good will and computer programs (for example; brands, licenses and rental contract benefits).

Intangible assets is being recorded at its acquisition cost and being amortized by the straight line method or based on the expected future economic benefit over the expected life of the assets which have indefinite productive life are not amortized but the impairment cost is being tested annually and the charged in profits and losses statement.

P) Commitments and contracts of financial guarantees

- Financial guarantees represent contracts in which the bank is a guarantor or guarantor of funds or current accounts against other parties, and thus requires the bank to make certain payments to compensate the beneficiary from a loss incurred due to the failure of a debtor to pay when due in accordance with the terms of the loan. These financial guarantees are provided to banks, financial institutions and others on behalf of the bank's customers.

- Funding commitments are commitments by which the bank is obligated to grant credit in accordance with pre-defined conditions and thus includes unused portions of the credit limits granted within the amounts that the bank expects to use in the future. Initial recognition of contracts for financial guarantees and commitments to grant financing at interest rates below the market price in the financial statements at fair value at the date of granting the guarantee / commitment. Initially recognized fair value is amortized over the life of the guarantee / commitment.
- On subsequent measurement, the measurement of the bank's commitment under the guarantee / commitment is measured as follows:
As of January 1, 2019: the amortized cost or the amount of impairment losses, whichever is greater.

- Until December 31, 2018: On the basis of the amount of the first measurement, minus the consumption calculated to recognize the security fees in the statement of profits and losses in a straight-line manner over the life of the guarantee, or the best estimate of the payments required to settle any financial obligation resulting from the financial guarantee / correlation in the history of the financial position Which is higher. These estimates are determined on the basis of experience in similar transactions and historical losses, reinforced by the judgment of management.
During the year, the bank did not issue any commitments for funds that are measured at fair value through profit and loss.
For other commitments on funds:
Effective January 1, 2019: The bank recognizes expected credit losses.
The liabilities resulting from the contracts of financial guarantees are recognized in the provisions, and any increase in the liabilities resulting from the financial guarantee is recognized in other operating income (expenses) in the statement of profits and losses.
The calculated provisions for commitments for funds is recognized within the provision for loans for each individual loan to the extent that is equal to the value of the used from the loan. Any increase in the provision for commitments from financing over the value of the used is recognized in the provisions item in the statement of financial position.

Q) Investment properties

Investment properties represent land and buildings owned by the Bank and used to earn rental income or capital increase. Accordingly, investment properties do not include real estate assets through which the Bank carries out its business or which transferred to the bank to meet debts. The accounting policy for investment properties are the same as for fixed assets.

R) 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.

R/1 leasing (lessee)

For lease, lease costs including maintenance expenses for leased assets are recognized in the statement of income in the Period incurred.

If the bank decides to exercise the right to purchase the leased assets, the cost of the right to purchase is capitalized as fixed asset which is depreciated over the useful life of the expected remaining life of the assets in the same method followed with similar assets.

R/2 leasing (lessor)

Assets leased as finance lease are recorded in the fixed assets 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 Year, The difference between the rental income recognized in the income statement and the total leasing contracts will be recognized in the balance sheet until the contract is terminated as it is deducted from the book value of the leasing asset.

To offset with a net book value of the leased asset, The maintenance expenses and insurance expenses will be recognized in 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 the financial lease debtors, they are to be reduced to their recoverable amount.

Operating lease assets are recorded in the fixed assets 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 discounts granted to the lessee will be recognized in the income statement using the straight line method over the contract term.

S) Cash and cash equivalents

For the purposes of the cash flows statement, cash and cash equivalents include balances due within three months from the date of acquisition. It also includes, 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.

T) 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.

If 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, Reversal of Provisions no longer required totally or partially are presented 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, provisions will be measured by the contractual value if there is no material variance, Otherwise, it will be measured at the present value.

U) Employees benefits

Social Insurance
The bank is committed to pay the subscriptions to the Social Insurance Authority and there are no additional liabilities on the bank when paying such subscription, these periodical subscriptions will be charged to the income statement in the period it is recognized, 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 general assembly meeting, No liability is recognized for profit sharing relating to undistributed profit to employees.

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 subscriptions are recognized as expenses on employees' benefits until it is

redeemed, The contribution paid in advance are recognized within the assets to the extent that it reduces the future payments or cash refund.

Other Retirement benefit obligations
The bank offers heath care for retired people after end of service and usually this benefit is earned when the employee works till retirement age and completes the minimum time of service period, and this expected benefit is earned during the employment period by using an accounting method same as the one used in specific benefits process.

V) 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 other comprehensive income.

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 it is probable that future taxable profit will be available against which the temporary difference can be utilized, Deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered, Reversal is subsequently permitted when there is a probable from its economic benefit limited to the extent reduced previously.

W) 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 loan period using the effective interest method.

X) Capital

X/1 Capital cost
Issuance costs directly related to issuing new shares or issuing shares related to acquisition or share options are charged to share holders' equity of total proceeds net of tax.

X/2 Dividends
Dividends are recognized when declared by the Shareholders' General Assembly, 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 until the total reserve amount is equivalent to 100% of paid-up capital, and when lack of reserves the deduction returns.

2) And then, deduct the amount required for distributing the first share of profits of 5% paid to shareholders based on 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) Then, 10% of the profits are allocated to the 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 which should not exceed the sum of annual wages of workers in the bank.

4) After the above, a rate which does not exceed 10% of the remaining profit is allocated as a remuneration for the Board of Directors.

5) The remaining profit is distributed to shareholders as an additional share from profits or transferred to the following year based on the Board of Directors approval.

Y) 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 the related income are excluded from the bank's Financial Statements, since these assets are not owned by the bank.

2. Financial risk management

The Bank's activities expose it to a variety of financial risks. Taking risk is core to the financial business. The Bank's processes involve the analysis, evaluation and management of some degree of risk or combination of risks. The Bank's aim is, therefore, to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance. The most significant types of risks are credit risk, market risk, liquidity risk and other operating risks. Market risk comprises foreign exchange risks, interest rate risk and other price risks.

The risk management policies and strategies are designed to identify and analyse these risks, monitor the risks and comply with appropriate risk limits using reliable techniques as well as updated information systems. The Bank regularly reviews its risk management policies and systems and modify them to reflect changes in markets, products and services and the best modern applications.

Risk management is conducted through the Department of Risk Management in view of the policies approved by the Board of Directors. The Department of Risk Management identifies and evaluates financial risks in close collaboration with the various operational units of the Bank. The Board provides written principles for risk management as a whole, in addition to written policies covering specific risk areas such as credit risk, foreign currency exchange risk, risk of interest rates and the use of derivative and non-derivative financial instruments. In addition, the Department of Risk Management is responsible for the periodic review of risk management and the control environment independently.

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 and investments activities which represents the bank's assets, contain 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 centralized in credit risk team management in risk management department who prepare reports to the Board of Directors and Head of operating units on regular basis.

A / 1 Credit risk measurement

Loans and facilities to Banks and customers (including commitments and financial guarantees).
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 bank's management daily activities involves measuring the credit risk that reflects the expected loss 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 EAS 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 techniques to determine the rating for the different customers' categories, these techniques were developed taking into consideration statistical analysis and the professional judgment of the credit officers to reach the appropriate rating, and 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 default 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
Performing loans	1
Regular follow up	2
Watch list	3
Non-performing loans	4

General banking risk measurement model:

- The Bank calculates the provisions required to meet the impairment of assets at risk, including commitments relating to credit, on the basis of ratios determined by the Central Bank of Egypt. In the case of the increase in the provision for impairment required in accordance with the creditworthiness rules of the Central Bank of Egypt over the required provision using the expected credit losses. The excess of the provision is provided as a general bank risk reserve in equity deducted from retained earnings by that amount.

- 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:

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

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Notes to the Financial Statements - For the period ended 30 June 2020

Summary of the results of the calculation of expected credit losses on the status of June 2020:

Second: Expected credit loss according to Credit Rating Stages of IFRS 9 in accordance with items exposed to risk

Items exposed to credit risk		Credit rating stages in accordance with IFRS 9			
		Stage 1	Stage 2	Stage 3	Total
Retail customers	Value at risk	5,865,197	820,522	30,747	6,716,466
	Expected Credit Loss	(29,585)	(13,476)	(17,791)	(60,852)
	Net carrying value	5,835,612	807,046	12,956	6,655,614
Corporates and institutional clients	Value at risk	23,545,157	5,694,729	488,644	29,728,530
	Expected Credit Loss	(196,150)	(71,469)	(416,342)	(683,961)
	Net carrying value	23,349,007	5,623,260	72,302	29,044,569
Banks	Value at risk	1,889,971	1,981,874	-	3,871,845
	Expected Credit Loss	-	-	-	-
	Net carrying value	1,889,971	1,981,874	-	3,871,845
Financial Instruments with CBE	Value at risk	22,424,691	-	-	22,424,691
	Expected Credit Loss	(90,012)	-	-	(90,012)
	Net carrying value	22,334,679	-	-	22,334,679
Total	Value at risk	53,725,016	8,497,125	519,391	62,741,532
	Expected Credit Loss	(315,747)	(84,945)	(434,133)	(834,825)
	Net carrying value	53,409,269	8,412,180	85,258	61,906,707

The spread of the COVID-19 pandemic at the beginning of 2020 led to negative repercussions that cast a shadow on the global economy. This has also impacted both the Egyptian economy in general and the Egyptian banking sector in particular. Due to the spread of the virus, the bank implemented a number of precautionary measures that would aid in protecting the health & safety of both the employees of our bank, in addition to all customers visiting any NBK branches as well as the NBK headquarters. Additionally, a number of measures have been taken with the aim of protecting the financial position of the bank, and ensuring the adequate allocation of provisions to protect the bank from any possible negative repercussions that may occur to clients in the bank's credit portfolio due to the negative shock that resulted from the spread of COVID-19, and the consequent decrease in business indicators for some economic sectors. The following is a brief outline of the most important measures taken in this regard;

First: The most important precautionary measures to prevent the spread of the epidemic within our bank are as follows:

- Activating the bank's business continuity plan, in addition to the regular meetings held by Crisis Management Committee in order to discuss developments in the current situation and take the necessary decisions to manage the crisis within the bank.
- The number of employees in the Head Office and the branches have been reduced, with a number of employees transferred to emergency backup offices, in addition to a number of employees being assigned to work from home to ensure their health and safety.

- Disinfectants and sanitizer dispensers have been installed throughout in the bank's headquarters, in addition to the coordination with the sanitation company contracted with the bank to ensure continuous sterilization and disinfection of all the various offices within the headquarters and branches.
- Enforcement of the mandatory wearing of medical masks in the headquarters of our bank,
- Temperature checks of all employees at the bank headquarters upon arrival and periodically throughout the day,
- The suspension of all social activities and trips organized by our bank for employees
- The suspension of all forms of trainings and courses held either internally or externally.

Second: The most important measures taken in the implementation of the directives and initiatives set by the Central Bank of Egypt with the purpose of supporting the Egyptian economy in the current situation are as follows:

- All principle and interest repayment due after the 15/03/2020 have been postponed for 6 months, except for the clients who wish to pay their obligation according to their existing repayment schedules without incurring any late payment or interest fees,
- Enforcing the maximum limits for cash deposits and withdrawals according to instructions circulated by the Central Bank of Egypt,
- Exemptions of any cash transfer fees.
- Encouraging customers to use alternative channels provided by the bank, such as Internet & Mobile Banking or the use of the banks' mobile applications, to meet their needs and avoid the need for the visitation of the bank's branches or headquarter.
- Reduction of the interest rates for the sectors that enjoy the various initiative programs rolled out by the Central Bank of Egypt to 8% to protect these sectors from the negative economic shocks that are a result of the COVID19 pandemic. These sectors include; Tourism, Manufacturing, Real Estate, Mortgages, & Contracting.

Third: The most important measure that has been taken is the analysis of the repercussions of the COVID19 pandemic on all the clients within the banks' credit portfolio, to ensure that the necessary provisions have been allocated to protect the bank from any defaults or delayed payments that may occur as a result of the crisis. This analysis included the following;

- The bank applies the International Financial Reporting Standards (IFRS 9) when calculating provisions in accordance with the instructions of the Central Bank of Egypt, starting in 2019,
- The calculation of the banks provision involved the historical default rates, and all subsequent recoveries from defaulted customers in addition to forecasted economic indicators for the Egyptian economy and its' impact on the probability of default (PD) and the loss given default (LGD), which are used in the calculation of the Expected Credit Loss (ECL),
- The forecasted macroeconomic indicators are issued by Moody's Analytics, which have been stressed by the COVID19 crisis, which resulted in the deterioration of the future economic outlook of the Egyptian economy, in addition to the increased probability of default of numerous sectors within the local & global economy deemed to be most at risk of the COVID19 pandemic,
- In light of all the issues outlined previously, an independent analysis was carried out by the bank to analyze how the COVID-19 pandemic would impact Egypt's various economic sectors, using sources and studies published by several credit rating agencies and the International Monetary Fund (IMF) in addition to analysis conducted by credit risk analysts at the bank,

- In light of the studies conducted, all the various sectors within the Egyptian have been classified into the following categories;
  i. High Risk Sectors; These are the sectors that have been deemed to be the most vulnerable to the COVID-19 pandemic, as their future outlook are deemed to be negative in the short term, examples include the tourism sector, the aviation sector, the automotive sector, and stock portfolios.
  ii. Medium Risk Sector: these are medium risk sectors, where the COVID-19 pandemic is expected to have a slightly more limited impact on their future economic outlook, and these sectors include; Contractors, Infrastructure, Energy, & Petrochemicals.
  iii. Low Risk Sectors; these are relatively low risk sectors; where the COVID-19 is expected to have very little impact on the future economic outlook of these economic sectors, with some even experiencing an improved economic outlook as a result of the pandemic, and these sectors include; the health sector, pharmaceutical sector, the food & beverage sectors.
- Additionally, each client in the bank's credit portfolio were categorized into 3 subcategories according to a model developed that takes into account a respective clients credit worthiness, the type of facilities granted, whether the customer is a net importer or exporter, in addition to an assessment of the risks a respective client is expected to face due the COVID-19 pandemic. The subcategories are as follows;
  iv. Class A: this category consists of clients whose solvency is proportionate to the size of facilities disbursed by the bank, and the current crisis is not expected to impact these clients ability to repay their obligations giver the nature of the facilities granted.
  v. Class B: this category consists of clients who have a higher level of risk, and hence are expected to be impacted by the current crisis. However, the impact of the current crisis on the customers' ability to repay all obligations is expected to be limited.
  vi. Class C: this category consists of clients who are considered very high risk and their ability to repay all obligations is expected to be severely hindered by the current crisis.

- The result of the analysis conducted by the bank was the establishment of a risk matrix that was used to assess the status of all clients in the bank's credit portfolio, in addition to taking the necessary precautionary measures to ensure that sufficient monitoring takes place for all clients in line with the expected risk levels, in addition to ensuring that adequate provisions have been accumulated for all clients categorized in the high risk categories & subcategories. The matrix developed is as follows;

<table>
<tr><td>Risk Level</td><td>Class A</td><td>Class B</td><td>Class C</td></tr>
<tr><td>Low Risk Sectors</td><td colspan="2">Periodic monitoring of existing clients, and increasing granted facilities in this category & subcategories should the opportunity arise</td><td>Close monitoring of the clients will take place, and as the impact of the crisis becomes clearer, the clients will be reevaluated.</td></tr>
<tr><td>Medium Risk Sectors</td><td colspan="3">Close monitoring of the clients will take place, and as the impact of the crisis becomes clearer, the client will be reevaluated.</td></tr>
<tr><td>High Risk Sectors</td><td colspan="3">All client operating in high risk sectors are automatically considered as Stage 2 clients, and the provisions are calculated according to the lifetime of all granted facilities.</td></tr>
</table>

b. Additionally, all clients operating in the iron, cement or ceramic sectors have been automatically assigned 10% ORR provision, which will be gradually increased to 20% by March 31st 2021, according to instructions set by the Central Bank of Egypt.
c. As 2020 has progressed, the health crisis caused by the COVID19 crisis has begun to subside both in Egypt and the rest of the world, as major economies in Europe and Asia have begun to contain the spread of the virus, and in turn have begun to cautiously remove the restrictions imposed at the height of the crisis. This has led to a slow recovery in the local and global economy, hence softening the economic shock caused by shutdowns implemented at the start of the year.
d. Improvements observed in Egypt's' forecasted economic indicators in addition to the gradual recovery from the economic shock caused by the COVID19 pandemic has led to an improvement in the Probability of Default (PD) in addition to the Loss Given Default (LGD)
e. Therefore the Expected Credit Loss (ECL) calculated on June 2020 came in at EGP 876,130,670, whereas the provisions previously allocated at the Bank amounted to EGP 985,944,319, hence creating a surplus between the required ECL and the existing provision allocations which amounts to EGP 109,813,650. The surplus was retained to guard against any unseen future economic shocks that may occur due to the COVID19 pandemic.

Individual Loans	**Stage 1**	**Stage 2**	**Stage 3**	**Grand Total**
Exposure at Default Balances as of 31/12/2019	5,031,439	611,910	35,317	5,678,666
Increases/(Decreases) in EAD	594,369	(272,996)	(1,031)	320,342
Transferred to Stage 1	22,131	(16,077)	(6,054)	-
Transferred to Stage 2	(291,569)	298,973	(7,404)	-
Transferred to Stage 3	(9,606)	(5,788)	15,394	-
New Granted Facilities	932,040	233,236	13,970	1,179,246
Settled Exposures	(413,606)	(28,736)	(16,703)	(459,045)
Write Offs	-	-	(2,741)	(2,741)
Balance for the Period Ending 30/06/2020	**5,865,198**	**820,522**	**30,748**	**6,716,468**

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Notes to the Financial Statements - For the period ended 30 June 2020

Corporate Loans	**Stage 1**	**Stage 2**	**Stage 3**	**Grand Total**
Exposure at Default Balances as of 31/12/2019	24,086,477	4,263,322	654,547	29,004,346
Increases/(Decreases) in EAD	1,886,800	(1,701,289)	(86,929)	98,582
Transferred to Stage 1	79,426	(79,426)	-	-
Transferred to Stage 2	(1,031,802)	1,031,802	-	-
Transferred to Stage 3	-	-	-	-
New Granted Facilities	882,112	2,302,535	-	3,184,647
Settled Exposures	(2,357,856)	(122,216)	(76,957)	(2,557,029)
Write Offs	-	-	(2,017)	(2,017)
Balance for the Period Ending 30/06/2020	**23,545,157**	**5,694,728**	**488,644**	**29,728,529**

Dues from Banks	**Stage 1**	**Stage 2**	**Stage 3**	**Grand Total**
Exposure at Default Balances as of 31/12/2019	964,422	681,879	-	1,646,301
Increases/(Decreases) in EAD	658,006	233,723	-	891,729
Transferred to Stage 1	-	-	-	-
Transferred to Stage 2	-	-	-	-
Transferred to Stage 3	-	-	-	-
New Granted Facilities	560,513	1,381,770	-	1,942,283
Settled Exposures	(292,970)	(315,497)	-	(608,467)
Balance for the Period Ending 30/06/2020	**1,889,971**	**1,981,875**	**-**	**3,871,846**

Investments	Stage 1	Stage 2	Stage 3	Grand Total
Exposure at Default as of 31/12/2019	28,889,283	-	-	28,889,283
Increases/(Decreases) in EAD	1,350,206	-	-	1,350,206
Transferred to Stage 1	-	-	-	-
Transferred to Stage 2	-	-	-	-
Transferred to Stage 3	-	-	-	-
New Purchased/Issued Investments	9,414,305	-	-	9,414,305
Matured/Sold Investments	(17,229,104)	-	-	(17,229,104)
Balance for the Period Ending 30/06/2020	**22,424,690**	-	-	**22,424,690**

Third: Loans and facilities
Below is the position of Loans and facilities relative to credit rating:

	30 June 2020 000' EGP Loans and facilities to customers	31 December 2019 000' EGP Loans and facilities to customers
Neither past due nor impaired	**33,314,884**	30,988,168
Past due but not impaired	**265,642**	599,183
Impaired	**519,391**	689,761
Total	**34,099,917**	32,277,112
Less:		
Impairment loss provision	**(744,814)**	(726,485)
Net	**33,355,103**	31,550,627

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

30 June 2020 (000' EGP)

	Retail				Corporate		
Stages of credit classification	**Over-drafts**	**Credit cards**	**Personal loans**	**Mortgage**	**Over-drafts**	**Direct loans**	**Total loans and facilities to customers**
Stage 1	71,449	171,325	5,447,838	114,629	2,051,527	19,799,126	27,655,894
Stage 2	446,443	-	284,505	119	962,104	3,965,819	5,658,990
	517,892	171,325	5,732,343	114,748	3,013,631	23,764,945	33,314,884

Loans and facilities for banks and customers (Neither past due nor impaired)

31 December 2019 (000' EGP)

	Retail				Corporate		
Stages of credit classification	Over-drafts	Credit cards	Personal loans	Mortgage	Over-drafts	Direct loans	Total loans and facilities to customers
Stage 1	339,475	120,453	4,358,131	82,549	1,576,831	20,166,712	26,644,151
Stage 2	306,053	-	220,324	-	665,165	3,152,475	4,344,017
	645,528	120,453	4,578,455	82,549	2,241,996	23,319,187	30,988,168

Past due Loans and facilities and not impaired

Loans and facilities that have past dues until 90 days but are not considered impaired unless there is information that proves otherwise. Loans and facilities to customers with past dues but not impaired, and the fair value of the related collaterals are as follows:

30 June 2020 (000' EGP)

	Retail				
	Over-drafts	**Credit cards**	**Personal loans**	**Mortgage**	**Total**
Past due up to 30 days	-	-	2,837	1	2,838
Past due 30 - 60 days	-	495	23,433	6	23,934
Past due 60-90 days	-	623	6,055	-	6,678
Total	-	1,118	32,325	7	33,450

	Corporate				
	Over-drafts	**Direct loans**	**Syndicated loans**	**Other loans**	**Total**
Past due up to 30 days	-	211,638	-	-	211,638
Past due 30 - 60 days	-	13,876	-	-	13,876
Past due 60-90 days	-	6,678	-	-	6,678
Total	-	232,192	-	-	232,192

Upon the initial recognition of Loans and facilities, the fair value of collaterals is assessed based on valuation methods commonly used for similar assets. In the subsequent periods, the fair value would be updated in accordance with the Central Bank of Egypt's regulations.

31 December 2019 (000' EGP)

	Retail				
	Over-drafts	Credit cards	Personal loans	Mortgage	Total
Past due up to 30 days	-	20,670	21,445	24	42,139
Past due 30 - 60 days	-	4,364	7,054	2	11,420
Past due 60-90 days	-	3,256	2,502	-	5,758
Total	-	28,290	31,001	26	59,317

	Corporate				
	Over-drafts	Direct loans	Syndicated loans	Other loans	Total
Past due up to 30 days	518	480,333	-	-	480,851
Past due 30 - 60 days	1	40,523	-	-	40,524
Past due 60-90 days	1	18,490	-	-	18,491
Total	520	539,346	-	-	539,866

Loans and facilities individually subject to impairment

Loans and facilities to customers

Balance of Loans and facilities subject to individual impairment amounted, before taking into consideration cash flows from collaterals amounted to LE 519,391 thousands against L.E 689,761 thousand at the end of the comparative year according to the Central Bank's regulations.

Below is the analysis of the total value of Loans and facilities subject to individual impairment, including the collaterals fair valuation obtained by the Bank in exchange for the loans according to regulations of the Central Bank:

30 June 2020 (000' EGP)

Valuation	**Retail**				**Corporate**				
	Over-drafts	**Credit cards**	**Personal loans**	**Mortgage**	**Over-drafts**	**Direct loans**	**Syndicated loans**	**Other loans**	**Total**
Individual loans subject to impairment	6,343	241	24,163	-	134,553	354,091	-	-	519,391
Fair value of collaterals	-	24	12,932	-	37,992	31,224	-	-	82,172

31 December 2019 (000' EGP)

Valuation	Retail				Corporate				
	Over-drafts	Credit cards	Personal loans	Mortgage	Over-drafts	Direct loans	Syndicated loans	Other loans	Total
Individual loans subject to impairment	6,289	1,435	27,592	-	298,791	355,654	-	-	689,761
Fair value of collaterals	-	1,224	21,342	-	195,444	30,038	-	-	248,048

A. Impairment of non-financial assets

Assets that do not have definite life time are not depreciated and its impairment is reviewed annually. Impairment of depreciated assets has to examined when there are events or changes in circumstances indicate that the book value may be non-recoverable.

Impairment loss is recognized and the asset value is deducted at the amount by which the asset's book value increases over the recoverable amount. The recoverable amount represents the higher of the asset's net selling amount and value in use. For the purpose of estimating the impairment, the asset is grouped with the smallest cash generating unit. At each financial statement preparation date, non-financial assets with impairment have to be reviewed to determine if there is impairment reversal made to the statement of profits and losses.

- The position exposed to impairment depends on the amounts that the bank expects to be outstanding at the time of the default, for example, for the loan, this position is the nominal value, and for the commitments, the bank lists all the amounts actually withdrawn in addition to the other amounts that are expected to have been withdrawn Until the date of default, if it occurred.

- The estimated default or acute loss represents the bank's expectation of the extent of the loss when claiming the loan if the default occurs, and this is expressed in terms of the loss of the loan and certainly this varies according to the type of debtor, the priority of the claim, the availability of guarantees or other credit coverage.

- **Debt instruments issued from Egyptian Government & Central bank of Egypt**

Debt instruments, treasury bills and other bills

- As for debt instruments and bills, the Bank uses external ratings such as Standard & Poor's or equivalent for credit risk management. If these are not available, techniques similar to those applied to the credit customers are used. Investments in securities and bills are considered a method to obtain a better credit quality. Such investments also provide an available source to meet the funding requirements.

A/2 Policies of limiting and preventing risks

The Bank manages, limits and controls concentrations of credit risk at the level of debtor, groups industries and countries.

The Bank structures the levels of credit risk it accepts by placing limits on the extent of risk accepted in relation to one borrower, groups of borrowers, and economic activities and geographical segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, if required. The limits of credit risk at the level of borrower/ group, producer, sector and country are periodically approved by Risk Committee and Credit Committee of the Board. A summary of these meetings shall be presented to the Board.

Limits of credit to any borrower, including banks, are divided into sub limits that include the amount on and off-the balance sheet, and the daily risk limit related to trading items such as forward foreign exchange contracts. Actual amounts against limits are compared daily.

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. Below are some ways to reduce the risk:

Collaterals

- The Bank develops several policies and measures to minimise the credit risk. One of these methods is to obtain collateral in exchange for funds provided. The Bank develops guidelines for specific categories of acceptable collateral. The main types of collaterals for loans and facilities are as follows:

  - Real estate mortgage.
  - Activity assets mortgage.
  - Financial instruments mortgage, such as debt and equity instruments.

- Long-term finance and lending to corporate entities are generally secured, while retail credit facilities are unsecured. To minimise the credit loss, the Bank seeks additional collaterals from the relevant parties as soon as impairment indicators are identified for the relevant loans or facilities.

- The Bank determines the collaterals held to secure assets other than loans and facilities according to the nature of the instrument. Generally, debt instruments are unsecured except for asset-backed securities and similar instruments that are secured by a financial instruments portfolio.

Derivatives

- The Bank maintains strict control procedures over net value of opened derivative positions, i.e. the difference between purchase and sale contracts at both the value and duration levels. In all cases, the amount subject to credit risk is limited to the current fair value of instruments in from which the Bank could gain benefits, i.e. assets that have positive fair value which represent a small value of the contractual amount or the notional value used to express outstanding instruments. The Bank manages this credit risk, which is considered part of the total lending limit granted to customers with expected market changes risk all together. Generally, no collateral is 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 securities are used in the settlement process or if there is expectation to receive cash, equity instruments or other securities. Daily settlement limits are established for other parties to cover the aggregate settlement risk arising from the daily transactions of the Bank.

Credit related commitments

- The main purpose of the credit related commitments is to ensure that funds are available to the customer upon request. Guarantees and standby letters of credit bear credit risk related to loans. Documentary and commercial letters of credit issued by the Bank on behalf of the customer to give a third party the right of withdrawal from the Bank within the limits of certain amounts and other specific conditions are often secured with the goods shipped and therefore carry a lesser degree of direct loan risks.

- Credit-related commitments represent the unused portion of credit limit authorised to grant loans, guarantees or letters of credit. The Bank is exposed to a possible loss of an amount that equals the total unused commitments as for the credit risk resulting from credit-related commitments. However, the probable amount of loss is less than the unused commitments as most commitments related to granting credit represent contingent liabilities to customers maintaining certain credit standards. The Bank monitors the maturity term of the credit commitments because long-term commitments are of a higher 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 planning from the beginning of lending and investment activities. Otherwise, impairment losses that occurred at the balance sheet date only are recognized for financial reports purposes based on objective evidence indicating impairment according to what will be mentioned in this note. Due to the different methodologies applied, the amounts of incurred credit losses charged to the financial statements are usually lower than the loss amount determined using the expected loss model used in preparing the financial statements. For the purposes of the Central Bank of Egypt's rules, impairment losses provision included in the balance sheet at the end of the period is derived from the four internal rating grades. However, the majority of the provision comes from the last two ratings.

- The table below shows the percentage of on-financial position items related to loans and facilities, and the relevant impairment for each internal rating category of the bank noting that written off during the period amounted L.E 4,715 K against L.E 26,236 in the comparative year.

Bank's rating in 30 June 2020

	30 June 2020		31 December 2019	
	Loans & facilities %	Impairment provision %	Loans & facilities %	Impairment provision %
Stage 1	**81.26%**	**18.26%**	83.20%	36.55%
Stage 2	**17.22%**	**13.38%**	14.66%	7.71%
Stage 3	**1.52%**	**68.36%**	2.14%	55.74%
	100 %	**100 %**	100 %	100 %

- Internal rating tools help management to determine whether there is objective evidence to indicate the existence of impairment based on the following indicators identified by the Bank:

  - Significant financial difficulty of the borrower or obligor.
  - Breach of the loan agreement conditions such as default.
  - Expected bankruptcy of the borrower, entering a liquidation lawsuit, or restructuring the finance granted to the borrower.
  - Deterioration of the competitive position of the borrower.
  - Granting privileges or assignments by the Bank to the borrower due to economic or legal reasons related to the financial difficulties of the borrower, which are not granted by the Bank in the normal course of business.
  - Impairment of the guarantee.
  - Deterioration of creditworthiness.

- The Bank's policies require reviewing all financial assets that exceed specific materiality at least once a year or more, when required. The impairment loss is determined for accounts evaluated on an individual basis by determining case-by-case actual losses at the balance sheet date. These policies are applied on all accounts, which have specific materiality on an individual basis. The 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 a group of similar assets using the historical experience available, personal judgement and statistical methods.

A /4 Maximum limits for credit risk before collaterals:

	30 June 2020 000' EGP	31 December 2019 000' EGP
Balance sheet items exposed to credit risks		
Due from banks	**7,004,845**	3,354,765
Loans and facilities to banks and customers		
Retail loans:		
- Overdrafts	**524,235**	651,817
- Credit cards	**172,684**	150,179
- Personal loans	**5,788,831**	4,637,048
- Mortgage	**114,755**	82,575
Corporate loans:		
- Overdrafts	**3,148,595**	2,541,307
- Direct loans	**24,350,817**	24,214,186
Financial investments:		
Debt instruments - Treasury bills	**13,989,083**	20,633,923
Debt instruments - Treasury bonds	**1,894,916**	3,089,853
Other assets	**910,571**	735,960
Total	**57,899,332**	60,091,613
Off-balance sheet items exposed to credit risk		
Acceptance documents	**1,166,052**	665,742
Letters of guarantee	**4,541,218**	4,312,724
Letters of credit Import/Export	**3,385,865**	3,094,696
Guarantees upon other banks request or by their warranty	**4,802,441**	5,739,598
	13,895,576	13,812,760

A /5 Debt instruments and treasury bills

The table below shows an analysis of debt instruments and treasury bills according to the rating agencies at the end of the period, according to the evaluation of (Fitch) Agency at 30 June 2020.

	Treasury Bills 000' EGP	Investments in securities 000' EGP	Total 000' EGP
B +	13,989,083	1,894,916	15,883,999
Total	13,989,083	1,894,916	15,883,999

B) Market risk

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

Management of market risks arising from trading or non-trading activities focuses on risk management in the Bank which is monitored by two separate teams. Regular reports about market risk are submitted to the Risk Committee of the Board of Directors and each business unit head periodically.

Portfolios of financial investments at fair value through profits and losses include positions resulting from the bank dealing directly with customers or with the market, while non-trading portfolios primarily arise from managing assets and liabilities interest price. Such portfolios include foreign exchange risk and equity instruments risks arising from financial investments at amortized cost and financial investments at fair value through other comprehensive income.

B/ 1 Market risk measurement techniques

- As part of market risk management, the Bank undertakes various hedging strategies. The Bank also enters into swaps to match the interest rate risk associated with the debt instruments and fixed-rate long-term loans if the fair value option has been applied. The major measurement techniques used to 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 on positions held and the maximum expected losses based on a number of assumptions for various changes in market conditions. The Board sets separate limits for the value of risk that may be accepted by the Bank for trading and non-trading portfolios and are monitored daily by the Bank's risk management.

- VAR is a statistical estimation of the expected losses on the current portfolio resulting from adverse market movements, which represent the maximum amount the Bank expects to lose using a confidence level of (99%). Therefore, there is a statistical probability of (1%) that actual losses could be greater than the VAR estimation. The VAR model assumes that the holding period is ten days before closing the open positions. It also assumes that market movements during the holding period will be similar to the movement pattern which occurred during the previous ten days. The bank shall assess the previous movement based on information regarding two previous years and by using Decay Rate 99. The Bank applies these historical changes in rates, prices, indicators, etc., 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 is considered a primary part of the Bank's market risk control technique, VAR limits are established by the Board of Directors annually. Actual VAR are compared to the limits set by the Bank and reviewed weekly by the Bank's risk management.

Stress testing

- Stress testing provides an indicator of the expected losses that may arise from sharp adverse circumstances. Stress testing is designed to match the business using standard analysis for specific scenarios. The stress testing carried out by the Bank Risk Management includes risk factors stress testing where a set of sharp movements are applied to each risk category. The results of stress testing are reviewed by Senior Management and Board of Directors and a summary of the Risks Committee meetings is submitted to the Board of Directors.

B/2 Foreign exchange volatility risk

- The Bank is exposed to the effects of volatility in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits for foreign exchange with the aggregate value for each position at the end of the day as well as during the day. The following table summarizes the Bank's exposure to foreign exchange volatility risk at the end of financial period. The following table includes the carrying amounts of the financial instruments in their currencies:

NATIONAL BANK OF KUWAIT - EGYPT (S.A.E)

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Equivalent in LE (000)

	EGP	USD	EUR	GBP	Other	Total
Financial assets						
Cash and Due from Central Bank	2,311,519	1,588,932	26,905	2,272	25,609	3,955,237
Due from banks	4,639,789	2,034,596	157,936	85,844	86,680	7,004,845
Loans and facilities to customers	24,655,467	8,324,991	372,646	1	1,998	33,355,103
Financial investments:						
- At fair value through other comprehensive income,	10,137,921	5,038,138	349	-	-	15,176,408
- At amortized cost	649,066	-	-	-	-	649,066
- Investments in associates	22,677	-	-	-	-	22,677
- At fair value through profit or loss	39,412	-	-	-	-	39,412
Other assets	1,718,356	75,039	992	-	-	1,794,387
Total financial assets	44,174,207	17,061,696	558,828	88,117	114,287	61,997,135
Financial liabilities						
Due to banks	14,150	2,049,378	-	-	-	2,063,528
Customers' deposits	34,806,405	13,305,449	582,812	88,983	146,391	48,930,040
Other loans	69,179	1,534,762	-		-	1,603,941
Other provisions	119,469	43,734	2,888	-	-	166,091
Other liabilities	9,075,677	157,750	36	66	6	9,233,535
Total financial liabilities	44,084,880	17,091,073	585,736	89,049	146,397	61,997,135
Net financial position June 30, 2020	89,327	(29,377)	(26,908)	(932)	(32,110)	-
As of 31 December 2019 Total financial assets	46,251,491	17,200,391	680,305	98,315	93,597	64,324,099
Total financial liabilities	46,279,749	17,154,453	695,325	102,546	92,026	64,324,099
Net of financial position for the balance sheet - as of 31 December 2019	(28,258)	45,938	(15,020)	(4,231)	1,571	-

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B /3 Interest rate risk

- The Bank is exposed to the effects of fluctuations in the interest rates prevailing in the market, which is the risk of cash flows of the interest rate represented in fluctuation of future cash flows for a financial instrument due to changes in the interest rate of the instrument. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The interest margin may increase due to these changes; however, revenues may decrease in case unexpected movements arise. The ACLO Committee sets limits on the level of mismatch of interest rate repricing that the Bank may maintain, which is monitored daily by the Bank's risk management.
- The table below summarises the Bank's exposure to interest rate volatility risk. It includes the financial instruments' carrying amounts categorized by the earlier repricing or maturity dates:

(000" EGP)

30 June 2020	Up to 1 month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Without return	Total
Financial assets							
Cash and Due from Banks	-	1,378,816	-	-	-	2,576,421	3,955,237
Due from banks	5,342,549	-	1,500,000	-	-	162,296	7,004,845
At fair value through profit or loss	39,412	-	-	-	-	-	39,412
Loans and facilities to customers gross (before deducting provisions)	1,095,960	4,404,329	13,336,544	13,781,612	1,481,472	-	34,099,917
Financial investments:							
At fair value through other comprehensive income.	-	181,838	14,297,480	671,336	-	25,754	15,176,408
At amortized cost	649,066	-	-	-	-	-	649,066
Investments in associates	-	-	-	-	22,677	-	22,677
At fair value through profits and losses	7,126,987	5,964,983	29,134,024	14,452,948	1,504,149	2,764,471	60,947,562
Total financial assets							
Financial liabilities							
Due to banks	1,672,939	-	-	-	-	390,589	2,063,528
Customer deposits	8,459,384	6,769,489	12,018,663	20,937,913	6	744,585	48,930,040
Other Loans	-	-	-	69,179	1,534,762	-	1,603,941
Total financial liabilities	10,132,323	6,769,489	12,018,663	21,007,092	1,534,768	1,135,174	52,597,509
Interest Re-pricing gap as of 30 June 2020	(3,005,336)	(804,506)	17,115,361	(6,554,144)	(30,619)	1,629,297	8,350,053
31 December 2019							
Total financial assets	5,340,943	9,674,575	28,884,400	13,845,377	3,084,130	2,589,683	63,419,108
Total financial liabilities	20,129,191	9,890,405	5,745,401	17,812,801	1,383,408	116,657	55,077,863
Interest re-pricing gap as of 31 December 2019	(14,788,248)	(215,830)	23,138,999	(3,967,424)	1,700,722	2,473,026	8,341,245

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 the depositors and fulfil lending commitments.

Liquidity Risk Management System

Risks are identified and measured by the Treasury Department while the risks are assessed and corrective actions are determined by the (ALCO) under the chairmanship of the Managing Director, the membership of the Executive Directors, the Chief Financial Officer and the Head of Treasury (Secretary of the Committee).

The necessary procedures determined by the Asset and Liability Management Committee to correct gaps are implemented by the Treasury Department and/or business segments. Reports on the situation progress are submitted to the Treasury Department as well as to the Asset and Liability Management Committee.

Function of the Assets and Liabilities Committee:

- Review, verify and approve scenarios and assumptions used to identify and measure liquidity risk.
- Review reports issued by the Treasury Department on the liquidity structure gap.
- Evaluate, amend and approve any recommendations to amend the financing strategy or financial position structure.

Function of the Treasury management

- Documenting and maintaining a risk reduction policy as approved by the Asset Liability Management Committee.
- Preparation of models used to identify and measure risks and work to develop them constantly.
- Prepare reports on values exposed to risk, develop these values over time, and present them to the Asset and Liability Management Committee.
- Follow up the implementation of the decisions of the Assets and Liabilities Committee and notify it of the progress in the implementation thereof.
- Coordinate with multiple lines of work to meet funding needs and report on the potential impact on the liquidity gap.
- Test and advise on the potential impact of the introduction of any new product on liquidity structure positions.
- Responsibility for managing liquidity in the short term.
- Prepare periodic reports on any market developments and to consider any bottleneck in liquidity.
- Implement the approved recommendations of the Asset and Liabilities Management Committee. Submit reports on progress regarding implementation of such recommendations.
- Inform the Treasury Department of funding needs to address the liquidity gap.

The Bank's Objective from Liquidity Management

The Bank aims to finance its activities based on the best possible prices under normal conditions and to ensure that it can meet its obligations in the event of a crisis occurs. To this end, the Bank adopts the following key principles of liquidity management:

- Liquidity management in the short term according to the regulatory framework.
- Diversifying sources of funding.
- Maintaining a group of assets with high liquidity.

Measurement and Follow-up of Liquidity Risks

The Bank's liquidity management framework consists of the following operations:

- Regular assessment of the Bank's liquidity structure and its development over time.
- Follow-up diversification of sources of funding.
- The Bank's assessment of the funding needs based on the projections in the estimated budget for planning suitable financing solutions.

The expected liquidity gaps are determined by listing the items appearing on the statement of financial position of the Bank and by the type of currency and maturities remaining for those items.

The maturity dates of assets and liabilities are determined based on the contractual terms of the transactions and models of the customer's historical behavior as in the case of savings accounts as well as the traditional assumptions related to certain items in the statement of financial position (as in the case of equity).

Funding Approach

Sources of liquidity are reviewed by the Asset and Liabilities Committee of the Bank to provide a wide diversity in the currency, resources, products and maturities.

Cash flows underived

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities on the basis of remaining contractual maturities at the date of balance sheet.

30 June 2020	**(000' EGP)** 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	**1,368,735**	**-**	**718,267**	**-**	**-**	**2,087,002**
Customers' deposits	**9,396,085**	**7,124,357**	**13,189,025**	**22,746,925**	**6**	**52,456,398**
Other loans	**-**	**-**	**45,460**	**1,603,941**	**-**	**1,649,401**
Total of financial liabilities	**10,764,820**	**7,124,357**	**13,952,752**	**24,350,866**	**6**	**56,192,801**

- The table above represents undiscounted cash flows which includes principle and interest, So it can't be compared to related items in the financial position.

31 December 2019	(000' EGP) 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	1,239,782	564,020	-	-	-	1,803,802
Customers' deposits	10,361,546	8,158,343	13,413,158	23,703,360	568,032	56,204,439
Other loans	-	51,114	11,693	1,704,237	-	1,767,044
Total of financial liabilities	11,601,328	8,773,477	13,424,851	25,407,597	568,032	59,775,285

Cash flows derivatives

Derivatives settled in Gross Amounts

The bank's derivatives settled in gross amounts includes the following: interest rate derivatives on swaps interest. The below table shows derivatives of financial liabilities that will be settled in gross distributed on the basis of the remainder of the contractual entitlements at the date of the balance sheet. The amounts listed in the table represent the undiscounted cash flows

30 June 2020	**(000' EGP)**					
	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	-	-	-	-	-	-
Inflows	-	-	-	-	-	-
Total outflows	-	-	-	-	-	-
Total inflows	-	-	-	-	-	-

31 December 2019	(000' EGP)					
	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	-	-	-	160,415	-	160,415
Inflows	-	-	-	160,415	-	160,415
Total outflows	-	-	-	160,415	-	160,415
Total inflows	-	-	-	160,415	-	160,415

Off balance sheet items
According to the following table as referred to in note (33):

30 June 2020 **(000' EGP)**

	Up to 1 year	Over 1 year and less than 5 years	More than 5 years	Total
Financial collaterals, accepted bills and other financial facilities	**13,895,576**	**-**	**-**	**13,895,576**
Operating lease commitments	**31,510**	**147,510**	**32,195**	**211,215**
Capital commitments resulting from the acquisition of fixed assets	**1,948,928**	**-**	**-**	**1,948,928**
Total	**15,876,014**	**147,510**	**32,195**	**16,055,719**

31 December 2019 (000' EGP)

	Up to 1 year	Over 1 year and less than 5 years	More than 5 years	Total LE (000)
Financial collaterals, accepted bills and other financial facilities	13,812,759	-	-	13,812,759
Operating lease commitments	30,212	150,492	44,887	225,591
Capital commitments resulting from the acquisition of fixed assets	1,919,775	-	-	1,919,775
Total	15,762,746	150,492	44,887	15,958,125

(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 legal requirements of capital inside Egypt
- To protect the Bank's ability to continue as a going concern and enabling it to generate return for shareholders and other parties dealing with the Bank.
- To maintain a strong capital base to enhance business growth.
- Capital adequacy and uses are reviewed according to the regulatory authority's requirements (CBE in Egypt) daily by the Bank's management through models based on the instructions of Basel committee for banking supervision. The required data is submitted to CBE on a quarterly basis. CBE requires the following from the Bank:
- Maintaining EGP 500 million as a minimum limit of paid and issued capital.
- Maintaining a ratio that is equal or more than 10% between the capital base items and risk-weighted assets and contingent liabilities components.

Second: According to the new restrictions issued on December 18, 2012, the numerator of capital adequacy ratio consists of the following two tiers:

Tier 1 :

First tier consists of two parts which are ongoing capital and supplementary capital.

Tier 2:

Which is subordinate capital and consists of the following:-

- 45% of reverse amount of required foreign currency transfer differences.
- 45% of special reserve amount.
- 45% of increase in fair value over book value of financial investments (if required).
- 45 % of the fair value reserve of available for sale financial investments.
- 45% of increase in fair value over book value of financial investments at amortized cost
- 45 % of the increase of fair value over the carrying amount of financial investments in affiliates and subsidiaries.
- Mixed financial instrument.
- subordinate loans (deposits) with amortization of 20% of their value over each year of the last five years of their terms.
- Impairment loss of performing Loans and facilities, and contingent liabilities (it shall not exceed 1.25% of total credit risks of risk weighted performing assets and contingent liabilities. Also, the impairment loss provision of non-performing loans, credit facilities and contingent liabilities shall be sufficient to meet the liabilities for which the provision is made.
- Disposals of 50% from Tier 1 and 50% of Tier 2.
- With respect to the value of assets reverted to the Bank for the settlement of debts in general banking risk reserve.
- When calculating the total numerator of the capital adequacy ratio, subordinated loans (deposits) shall not exceed 50% of the first tranche after exclusions.
- Assets and contingent liabilities are weighted by credit risk, market risk, and operational risk.

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

- Credit risk.
- Market risk.
- Operational risk.

Assets are risk weighted classified according to the nature of each debtor of an asset to reflect the credit risk associated therewith and taking into consideration the cash collateral.
The same treatment is used for the off-balance amounts after making relevant adjustments to reflect the contingent nature and the potential loss for these amounts.
The below tables summarizes capital adequacy ratio according to Basel 2 at the end of the period and prior year:

	30 June 2020 EGP (000)	31 December 2019 EGP (000)
Capital		
Tier 1 (basic capital)		
Share capital	**1,500,000**	1,500,000
General reserve	**806,773**	606,773
Legal reserve	**487,860**	381,662
Capital reserve	**168,049**	123,340
General risk reserve	**173,285**	173,285
Retained earnings	**4,397,668**	2,983,845
Quarterly profits and losses	**753,487**	1,763,326
Total balance of the accumulative other comprehensive income in the financial statements	**(14,223)**	115,552
Disposals	**(51,086)**	(55,235)
Total basic capital	**8,221,813**	7,592,548
Tier 2 (subordinated capital)		
Equivalent to general risk provision	**404,337**	421,931
Loans/subordinated deposits	**887,612**	882,282
Total subordinated capital	**1,291,949**	1,304,213
Total Capital adequacy after disposals	**9,513,762**	8,896,761
Assets and contingent liabilities risk weighted		
Total credit risk	**36,480,473**	33,754,514
Capital Requirements for Market Risk	**126,233**	158,576
Capital requirements for operational risk	**5,114,302**	5,114,302
Value of waive border assessments for the 50 largest client	**-**	7,984,784
Total risk weighted assets and contingent liabilities	**41,721,008**	47,012,176
Capital adequacy ratio (%)	**22.80%**	18.92%

Financial risk management
Financial leverage ratio
Ratio components

a. **Numerator elements**
   - The numerator consists of tier 1 of capital (after exclusions) that is used in capital adequacy standard currently applied in accordance with the instructions of the Central Bank of Egypt.

b. **Denominator elements**
   - The denominator consists of all the Bank's assets on and off-financial position items according to the financial statements, called "Bank Exposures" including the following totals:

     1. On Balance Sheet exposure items after deducting Tier 1 exclusions for capital base.
     2. Exposures resulting from financing securities.
     3. Off-financial position exposures "weighted exchange transactions".

	30 June 2020 000' EGP	31 December 2019 000' EGP
Tier 1 of Capital after disposals (1)	**8,221,813**	7,592,548
Cash and Due from Central Bank	**3,960,968**	4,054,895
Due from bank	**7,004,845**	3,354,840
Financial investments through profits and losses	**39,412**	41,768
Financial investments at fair value through other comprehensive income	**15,260,688**	22,024,352
Investment at amortized cost	**649,066**	1,727,517
Investments in associates	**22,677**	21,791
Loans and facilities to customers	**34,099,917**	32,277,112
Fixed assets (after deducting impairment provisions and accumulated depreciation)	**389,620**	358,822
Other assets	**1,404,767**	1,272,654
Deductible exposures (some of capital base Tier 1 deductions)	**(632,693)**	(516,225)
Total exposures of in-balance sheet items after Tier 1 deductions	**62,199,267**	64,617,526
Replacement cost	-	113
The future expected value	-	-
Total exposures resulted from derivatives contracts	-	113
Total exposures resulted from financing securities operations	-	320
Total exposures of in-balance sheet items, derivatives contracts and financing securities operations,	**62,199,267**	64,617,959
Letters of credit – Importing	**676,878**	616,602
Letters of credit – Exporting	-	2,178
Letters of Guarantee	**2,247,201**	2,130,694
Letters of Guarantee upon other banks' request or by their warranties	**2,394,294**	2,868,690
Accepted Bills	**1,165,669**	665,553
Total contingent liabilities	**6,484,042**	6,283,718
Capital Commitments	**1,948,928**	1,919,775
Legal claims	**11,112**	11,399
Commitments for operating lease contracts	**211,215**	225,591
Commitments for loans, guarantees and facilities (unused limits) with original due date		
Irrevocable more than year	**288,324**	317,951
Irrevocable one year or less	**4,000**	112,291
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	**1,624,176**	1,760,414
Total commitments	**4,087,755**	4,347,421
Total Off-balance sheet exposures	**10,571,797**	10,631,139
Total in-balance sheet and off-balance sheet exposures (2)	**72,771,064**	75,249,098
Financial leverage ratio (1/2)	**11.30%**	10.09%

4- Significant accounting estimates and assumptions

The Bank uses estimates and assumptions affecting the reported amounts of assets and liabilities that are disclosed during the next financial year. Estimates and assumptions are constantly evaluated on the basis of historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances and information available.

A) Estimates:

Information on estimates used in applying accounting policies that have a significant effect
Amounts recognized in the financial statements:
- **Classification of financial assets:** Evaluate the business model in which the assets are held and assess whether the contractual terms of the financial assets will generate cash flow in the form of payment of returns and installments on the outstanding balances of those assets.

B) Uncertainty associated with assumptions and estimations:

The uncertainty associated with the assumptions and estimates with high risk that result in material changes in the year ended 31 December 2019 are reflected in the following notes:
- Estimation of fair value of financial instruments using unobservable inputs in the measurement.
- Measurement of defined benefit obligations: key actuarial assumptions.
- Recognition of deferred tax assets: the existence of future taxable profits from which to benefit from the tax losses carried forward

C) Income taxes

The income tax on profit or loss for the period includes both the current and deferred taxes. Income tax is recognized in the statement of income, except for income taxes related to equity items that are recognized directly in equity.

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

The Bank's deferred tax assets are recognized if it is probable that sufficient taxable profits will be realized in the future whereby the asset can be utilized. The value of deferred tax assets will be reduced by the value of the portion not yielding the expected tax benefit during the following years. However, in case the expected tax benefit increases, the deferred tax assets will increase to the extent of previous reduction.

5- Net interest income

	Six months ended on 30 June 2020 000' EGP	Six months ended on 30 June 2019 000' EGP	Three months ended on 30 June 2020 000' EGP	Three months ended on 30 June 2019 000' EGP
Interest from loans and similar revenues from:				
Loans and facilities :				
Customers	**1,691,196**	2,298,288	**793,842**	1,126,393
Treasury bills	**1,129,133**	1,359,413	**485,722**	600,139
Deposits and current accounts	**98,114**	153,446	**57,350**	103,609
Investments in debt instruments held to maturity and available for sale	**146,420**	172,763	**60,758**	81,555
Total	**3,064,863**	3,983,910	**1,397,672**	1,911,696
Costs of Deposits and similar costs from:				
Deposits and current accounts				
Banks	**(39,423)**	(148,791)	**(13,081)**	(30,958)
Customers	**(1,621,682)**	(2,232,408)	**(727,508)**	(1,093,794)
	(1,661,105)	(2,381,199)	**(740,589)**	(1,124,752)
Other Loans	**(32,263)**	(87,600)	**(14,144)**	(41,781)
Total	**(1,693,368)**	(2,468,799)	**(754,733)**	(1,166,533)
Net	**1,371,495**	1,515,111	**642,939**	745,163

6- Net Fees and Commission Income

	Six months ended on 30 June 2020 000' EGP	Six months ended on 30 June 2019 000' EGP	Three months ended on 30 June 2020 000' EGP	Three months ended on 30 June 2019 000' EGP
Fees and commission revenues:				
Fees and commissions related to credit	**243,859**	207,618	**138,994**	131,995
Custody fees	**2,242**	1,915	**382**	541
Other fees	**53,441**	45,884	**29,707**	21,485
	299,542	255,417	**169,083**	154,021
Fees and commission expenses:				
Other fees paid	**(7,802)**	(8,833)	**(4,277)**	(3,891)
Net	**291,740**	246,584	**164,806**	150,130

7- Dividends

	Six months ended on 30 June 2020 000' EGP	Six months ended on 30 June 2019 000' EGP	**Three months ended on 30 June 2020 000' EGP**	Three months ended on 30 June 2019 000' EGP
Financial investments with fair value through other comprehensive income.	**3,013**	4,652	**3,013**	4,652
	3,013	4,652	**3,013**	4,652

8- Net trading income

	Six months ended on 30 June 2020 000' EGP	Six months ended on 30 June 2019 000' EGP	**Three months ended on 30 June 2020 000' EGP**	Three months ended on 30 June 2019 000' EGP
Foreign exchange operations:				
Profits on foreign currency operations	**44,162**	54,046	**19,860**	20,733
Profits (loss) on valuation of exchange interest swaps	**38**	(1,562)	**29**	(887)
Valuation of equity instruments through profits and losses	**(2,358)**	22,157	**2,716**	(545)
	41,842	74,641	**22,605**	19,301

9- Gains from financial investments

	Six months ended on 30 June 2020 000' EGP	Six months ended on 30 June 2019 000' EGP	**Three months ended on 30 June 2020 000' EGP**	Three months ended on 30 June 2019 000' EGP
Gain/(loss) from sale of treasury bills	**8,384**	4,332	**1,130**	51
Financial investments impairment losses	**-**	-	**-**	328
Gain on sale of FVPL instruments	**10**	-	**-**	-
	8,394	4,332	**1,130**	379

10- Share of results from associates

	Six months ended on 30 June 2020 000' EGP	Six months ended on 30 June 2019 000' EGP	**Three months ended on 30 June 2020 000' EGP**	Three months ended on 30 June 2019 000' EGP
International company for postal services	**-**	754	**-**	3,728
Al-Watany capital for assets management	**886**	644	**409**	344
	886	1,398	**409**	4,072

11- General and administrative expenses

	Six months ended on 30 June 2020 000' EGP	Six months ended on 30 June 2019 000' EGP	**Three months ended on 30 June 2020 000' EGP**	Three months ended on 30 June 2019 000' EGP
Staff cost				
Wages and salaries	**235,986**	192,496	**116,804**	96,662
Social insurance	**13,863**	12,401	**6,982**	6,391
Pension other benefits cost:				
Defined contribution plan	**30,682**	25,813	**15,341**	14,602
Total	**280,531**	230,710	**139,127**	117,655
Other administrative expenses	**287,856**	260,766	**158,639**	137,104
	568,387	491,476	**297,766**	254,759

12- Other operating income (expenses)

	Six months ended on 30 June 2020 000' EGP	Six months ended on 30 June 2019 000' EGP	**Three months ended on 30 June 2020 000' EGP**	Three months ended on 30 June 2019 000' EGP
Valuation Losses of assets and liabilities balances in monetary foreign currencies other than trading	**(231)**	(1,829)	**(1,058)**	4,375
Assets' revenues reverted to the Bank in settlement of debts	**1,859**	11,418	**674**	2,064
Reversal of no longer required provisions	**4,595**	-	**4,547**	-
Assets' expenses reverted to the Bank in settlement of debts	**(3,104)**	(404)	**(2,816)**	(208)
Gains/loss on sale of fixed assets	**(226)**	48	**(95)**	68
Finance and operating lease expenses	**(29,571)**	(22,498)	**(14,259)**	(11,393)
Other provisions	**(1,053)**	(142)	**(1,000)**	-
Others	**763**	30,872	**501**	30,727
	(26,968)	17,465	**(13,506)**	25,633

13- Income Tax Expenses

	Six months ended on 30 June 2020 000' EGP	Six months ended on 30 June 2019 000' EGP	**Three months ended on 30 June 2020 000' EGP**	Three months ended on 30 June 2019 000' EGP
Current income taxes	**340,134**	366,384	**165,244**	149,543
Deferred tax	**558**	(63,091)	**663**	393
	340,692	303,293	**165,907**	149,936

Additional information on deferred income tax was presented in Note (30).

14- Cash and Due from Central Bank

	30 June 2020 **000' EGP**	31 December 2019 000' EGP
Cash	**553,277**	597,928
Due from central bank (within the required reserve percentage)	**3,407,691**	3,456,967
Impact of applying IFRS (9)	**-**	(4,531)
Less: Provision for expected credit losses	**(5,731)**	498
	3,955,237	4,050,862
Non-interest bearing balances	**2,576,421**	2,199,449
Fixed Interest balances	**1,378,816**	1,851,413
	3,955,237	4,050,862

15- Due from banks

	30 June 2020 **000' EGP**	31 December 2019 000' EGP
Current accounts	**431,467**	398,989
Deposits	**3,440,378**	1,247,312
	3,871,845	1,646,301
Due from central bank (other than the required reserve percentage)	**3,133,000**	1,708,539
Impact of applying IFRS 9	**-**	(122)
Less: Provision for expected credit losses	**-**	47
	7,004,845	3,354,765
Non-interest bearing balances	**162,296**	362,142
Variable Interest balances	**6,842,549**	2,992,623
	7,004,845	3,354,765
Current balances	**7,004,845**	3,146,226
Non-Current Balances	**-**	208,539
	7,004,845	3,354,765

16- Loans and facilities to customers

	30 June 2020 000' EGP	31 December 2019 000' EGP
Loans to Customers	32,623,612	30,871,790
Murabha	1,476,305	1,405,322
Total loans and facilities to customers	34,099,917	32,277,112
Less		
Provision for expected credit losses	(744,814)	(726,485)
Net	33,355,103	31,550,627

	30 June 2020 000' EGP	31 December 2019 000' EGP
Retail:		
Overdrafts	524,235	651,817
Credit cards	172,684	150,179
Personal loans	5,788,831	4,637,048
Real estate loans	114,755	82,575
Total (1)	6,600,505	5,521,619
Corporate loans including small loans to economic activities:		
Overdrafts	3,148,595	2,541,307
Syndicated loans	24,350,817	24,214,186
Total (2)	27,499,412	26,755,493
Total loans and advances to customers (1+2)	34,099,917	32,277,112
Less		
Provision for expected credit losses	(744,814)	(726,485)
Net	33,355,103	31,550,627

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

30 June 2020	Retail 000' EGP	Corporate 000' EGP	Total 000' EGP
Balance at the beginning of the period	53,754	672,731	726,485
Less: Provision for expected credit losses	8,462	(21,072)	(12,610)
Charged during the period	-	27,836	27,836
Proceeds from previously written off loans	1,334	6,929	8,263
Foreign currency translation differences	49	3,068	3,117
Provisions no longer required	-	(3,562)	(3,562)
Written off loans during the period	(2,747)	(1,968)	(4,715)
Ending balance	60,852	683,962	744,814

31 December 2019	Retail 000' EGP	Corporate 000' EGP	Total 000' EGP
Balance at the beginning of the year	40,440	715,906	756,346
Impact of applying IFRS 9	(21,309)	(59,770)	(81,079)
Less: Provision for expected credit losses	40,987	67,503	108,490
Charged during the period	150	14,638	14,788
Proceeds from previously written off loans	-	129,772	129,772
Foreign currency translation differences	(804)	(60,591)	(61,395)
Provisions no longer required	-	(114,201)	(114,201)
Written off loans during the year	(5,710)	(20,526)	(26,236)
Ending balance	53,754	672,731	726,485

17- Financial derivatives

Derivatives

The Bank uses the following derivative instruments for hedging and non-hedging purposes:

- Currency forwards contract represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. Future foreign currency exchange contracts and/or interest rates are contractual obligations to receive or pay a net amount based on changes in currency rates, interest rates and/or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an active financial market.

  Credit risk at the Bank is considered low. Future interest rate agreements represent future exchange rate contracts negotiated on a case-by-case basis. These agreements require financial settlements on a future date for the difference between the contractual interest rate and the interest rate prevailing in the market on the basis of an agreed contractual amount/ nominal value.

- Currency and/or interest rate swap contracts are commitments to exchange one set of cash flows for another. These contracts result in the exchange of currencies or interest rates (i.e. fixed rate for floating rate) or a combination of all these (i.e. Interest and currency swap contracts). Actual exchange of contractual amounts is not done unless in some currency swap contracts.

  The Bank's credit risk is represented in the potential cost to replace the swap contracts if other parties fail to fulfil their obligations. This risk is monitored on an ongoing basis by comparison with the fair value a percentage of the contractual amount. For the purpose of monitoring the existing credit risk The bank evaluates other parties by the same approached used in lending activities

- Foreign currency/ interest rates option contracts represent contractual arrangements in which the seller (issuer) grants the buyer (holder), the right not the obligation, either to buy (buy option) or to sell (sell option) at a certain date or within a certain period by a certain amount of foreign currency or a financial instrument at a predefined price. The vendor receives a commission from the buyer in return for accepting the risk of the foreign currency or the interest rate. Option contracts are either traded in the market or negotiable between the Bank and one of its customers (off the counter). The Bank is exposed to credit risk for the purchased option contracts only within its book value which represents its fair value.

- The contractual amounts of certain types of financial instruments are used as a basis for comparison with financial instruments recognized in the balance sheet but do not necessarily indicate the amounts of future cash flows or the current fair value of the instruments and therefore, do not indicate the Bank's exposure to credit or price risks.

  Derivatives in favor of the Bank become (assets), otherwise they become (liabilities) as a result of fluctuations in foreign exchange rates or interest rates related to them. The aggregate contractual/notional amounts of the existing financial derivative instruments, the duration to which the instruments are favorable or unfavorable to the Bank, and the aggregate fair value of financial assets and liabilities from financial derivatives can fluctuate from time to time.

Derivatives are represented in liability shown in the table below:

Derivatives retained at fair value through profits and losses:

000' EGP

	30 June 2020			31 December 2019		
	Contractual Default amount	**Assets**	**Liabilities**	Contractual Default amount	Assets	Liabilities
Interest rate swaps	-	-	-	160,415	-	38
Total derivatives	-	-	-	160,415	-	38

18- Financial investments

	30 June 2020 000' EGP	31 December 2019 000' EGP
Financial investments at fair value through other comprehensive income		
Debt Instruments – unquoted– treasury bills	**13,989,083**	20,633,923
Debt instruments –Unquoted–Bonds	**574,514**	559,451
Debt instruments –quoted	**671,336**	802,885
Mutual Funds at Fair Value:		
Mizan Fund	**5,195**	5,624
Ishraq Fund	**6,316**	5,978
Namaa Fund	**4,037**	4,938
Alhayah Fund	**3,808**	4,608
Equity Instruments – Fair value:		
Unquoted	**6,399**	6,945
Impact of applying IFRS 9	**-**	(138,739)
Less: Provision for expected credit losses	**(84,280)**	59,680
Total Financial investments with fair value through other comprehensive income (1)	**15,176,408**	21,945,293
Financial investments with amortized cost		
Debt instruments – Amortized Cost:		
Debt instruments-quoted - Traded with fixed interest	**649,066**	1,727,517
Total Financial investments with amortized cost (2)	**649,066**	1,727,517
Financial investments with fair value through profits and losses		
Mutual Funds with Fair Value:		
Mizan Fund	**14,843**	16,068
Ishraq Fund	**15,575**	14,749
Alhayah Fund	**3,808**	4,608
Namaa Fund	**5,186**	6,343
Total of financial investments at fair value through profits and losses (3)	**39,412**	41,768
Total financial investments (1+2+3)	**15,864,886**	23,714,578
Current Balances	**15,209,421**	21,980,116
Non-Current Balances	**655,465**	1,734,462
	15,864,886	23,714,578
Fixed interest debt instruments	**15,799,720**	23,644,717
	15,799,720	23,644,717

	Financial investments with fair value through OCI 000' EGP	Financial investment with amortized cost 000' EGP	Financial Investment with fair value through profits and losses 000' EGP	Total 000' EGP
Balance at January 1, 2020 (Net)	**21,945,293**	**1,727,517**	**41,768**	**23,714,578**
Additions	**18,667,110**	**-**	**2,050**	**18,669,160**
Disposals (sales/ redemption)	**(26,570,023)**	**(1,080,000)**	**(2,048)**	**(27,652,071)**
Differences from valuation of monetary assets in foreign currencies	**30,628**	**-**	**-**	**30,628**
Losses from change in fair value	**(14,223)**	**-**	**(2,358)**	**(16,581)**
Amortized cost during the period	**1,122,843**	**1,549**	**-**	**1,124,392**
Less: Provision for expected credit losses	**(5,220)**	**-**	**-**	**(5,220)**
Balance as of 30 June 2020 (Net)	**15,176,408**	**649,066**	**39,412**	**15,864,886**
Balance at 1 January 2019	24,068,052	2,264,972	-	26,333,024
Additions	-	-	15,153	15,153
Disposals (sale/ redemption)	(38,207,334)	(560,000)	-	(38,767,334)
Transferred from investments at amortized cost into investments in the fair value through profits and losses	(545,800)	-	-	(545,800)
Differences from revaluation of monetary assets in foreign currencies	37,327	-	22,346	59,673
Profits from change in fair value	2,550,495	22,545	-	2,573,040
Amortized cost during the year	(79,060)	-	-	(79,060)
Balance at 31 December 2019	21,945,293	1,727,517	41,768	23,714,578

19- Investments in Associates

The Bank's shareholding in associates is as follows:

	30 June 2020 000' EGP	30 June 2020 Share %	31 December 2019 000' EGP	31 December 2019 Share %
Al-Watany Capital Assets Management	22,677	49.99	21,791	49.99
	22,677		21,791	

Most important financial information and bank's shareholding to affiliates in accordance with financial statements as at Dec. 31, 2019

Description	Nature of Relation	Region	Assets of company	Total liabilities without Equity	Revenues of company	Net Income of the company	Share of the Bank	Share %
Al Watany Capital assets management	Associate	Egypt	46,894	1,540	2,421	818	29,250	49.99

- All investments in associates are unquoted.

20- Other assets

	30 June 2020	31 December 2019
	000' EGP	000' EGP
Accrued revenues	**501,093**	400,799
Advances to purchase fixed assets	**366,585**	291,241
Assets reverted to the bank (after deducting the impairment)	**42,894**	43,920
Collective insurance policy	**37,228**	44,633
Prepaid expenses	**174,206**	177,929
Insurance & petty cash	**56,396**	38,883
Prepaid interest expense	**893**	1,063
Other	**117,666**	161,629
	1,296,961	1,160,097

21- Fixed Assets

	Lands* 000' EGP	Buildings* 000' EGP	Core systems 000' EGP	Vehicles 000' EGP	Fittings and fixtures 000' EGP	Machines and Equipment 000' EGP	Furniture 000' EGP	Others 000' EGP	Total 000' EGP
Balance as of 1 January 2019									
Cost	7,383	202,980	95,818	9,894	204,322	35,275	27,094	15,196	597,962
Accumulated depreciation	-	(41,571)	(61,618)	(5,499)	(128,702)	(16,844)	(11,355)	(6,884)	(272,473)
Net book value as of 1 January 2019	7,383	161,409	34,200	4,395	75,620	18,431	15,739	8,312	325,489
Additions	-	2,660	23,755	-	43,472	9,421	8,909	1,934	90,151
Disposals	(2,612)	(6,496)	(3,902)	-	(2)	(276)	(788)	(791)	(14,867)
Depreciation for disposals	-	2,374	3,866	-	1	257	541	711	7,750
Depreciation for the year	-	(4,091)	(13,112)	(1,129)	(22,960)	(4,553)	(2,307)	(1,549)	(49,701)
Net book value as of 31 December 2019	4,771	155,856	44,807	3,266	96,131	23,280	22,094	8,617	358,822
Balance as of 31 December 2019									
Cost	7,383	205,640	119,573	9,894	247,794	44,696	36,003	17,130	688,113
Accumulated depreciation	(2,612)	(49,784)	(74,766)	(6,628)	(151,663)	(21,416)	(13,909)	(8,513)	(329,291)
Net book value as of 31 December 2019	4,771	155,856	44,807	3,266	96,131	23,280	22,094	8,617	358,822
Balance as of 1 January 2020	4,771	155,856	44,807	3,266	96,131	23,280	22,094	8,617	358,822
Additions	-	8,161	22,863	-	23,006	7,310	6,437	1,744	69,521
Disposals	-	(5,997)	(368)	-	-	(1)	(245)	-	(6,611)
Depreciation for disposals	-	(3,031)	255	-	-	1	131	-	(2,644)
Depreciation for the period	-	(1,889)	(7,843)	(545)	(14,284)	(2,639)	(1,423)	(845)	(29,468)
Net book value as at 30 June 2020	4,771	153,100	59,714	2,721	104,853	27,951	26,994	9,516	389,620
Balance as of 30 June 2020									
Cost	7,383	213,801	142,436	9,894	270,800	52,006	42,440	18,874	757,634
Accumulated depreciation	(2,612)	(60,701)	(82,722)	(7,173)	(165,947)	(24,055)	(15,446)	(9,358)	(368,014)
Net book value as of 30 June 2020	4,771	153,100	59,714	2,721	104,853	27,951	26,994	9,516	389,620

* The fixed assets on the date of balance sheet includes EGP 107,018 represents a net value of lands and buildings that have not registered yet under the name of the bank and the necessary legal procedures are now made to register such assets.

22- Intangible assets

	Computers programs	Other assets	Total
	000' EGP	000' EGP	000' EGP
Cost at 1 January 2020	89,579	12,050	101,629
Additions	4,136	-	4,136
Cost at 30 June 2020	93,715	12,050	105,765
Accumulated depreciation at 1 January 2020	(36,910)	(3,875)	(40,785)
Amortization of the year	(8,521)	(603)	(9,124)
Accumulated depreciation at 30 June 2020	(45,431)	(4,478)	(49,909)
Net book value at 30 June 2020	48,284	7,572	55,856
Net book value at 31 December 2019	52,669	8,175	60,844

23- Investments properties

	000' EGP
Cost at 1 January 2020	-
Additions	1,378
Cost at 30 June 2020	1,378
Accumulated depreciation at 1 January 2020	-
Amortization of the year	(583)
Accumulated depreciation at 30 June 2020	(583)
Net book value at 30 June 2020	795
Net book value at 31 December 2019	-

24- Due to banks

	30 June 2020	31 December 2019
	000' EGP	000' EGP
A- Local Banks		
Deposits	-	481,245
	-	481,245
B- Foreign Banks		
Current Accounts	390,589	116,657
Deposits	1,672,939	1,203,112
	2,063,528	1,801,014
Non-interest bearing balances	387,661	116,243
Fixed Interest balances	1,675,867	1,684,771
	2,063,528	1,801,014
Current balances	2,063,528	1,801,014
	2,063,528	1,801,014

25- Customers' deposits

	30 June 2020	31 December 2019
	000' EGP	000' EGP
Demand deposits	10,052,482	12,602,866
Time and call deposits	10,822,073	11,572,798
Certificates of deposits	21,016,971	21,120,699
Saving deposits	6,293,929	5,469,449
Other deposits	744,585	806,762
Total	48,930,040	51,572,574
Corporate deposits	16,681,797	19,795,515
Retail deposits	32,248,243	31,777,059
	48,930,040	51,572,574
Non-interest bearing balances	744,585	768,140
Interest bearing balances	48,185,455	50,804,434
	48,930,040	51,572,574
Current balances	27,069,653	34,080,603
Non-current balances	21,860,387	17,491,971
	48,930,040	51,572,574

26- Other Loans

	30 June 2020 000' EGP	31 December 2019 000' EGP
Arab Fund for Economic and Social Development Loan	**647,150**	696,201
Sanad for financing of small and micro enterprises loan	**-**	53,472
Subordinated loan (National Bank of Kuwait- Kuwait)*	**887,612**	882,282
Loans of the Central Bank of Egypt initiatives	**69,179**	72,282
	1,603,941	1,704,237

*According to Note No (33.B) Transactions with related parties) the item represents subordinated loan from National Bank of Kuwait.

- On 4th of June 2020 the bank acquired USD 100 Million loan from EBRD bank but it wasn`t used until financial position of 30th of June 2020.

27- Other liabilities

	30 June 2020 000' EGP	31 December 2019 000' EGP
Accrued interest	**304,810**	423,395
Unearned revenue	**22,191**	26,506
Accrued Expenses	**118,756**	110,705
Creditors	**63,645**	57,903
Other Miscellaneous credit balances	**82,403**	88,855
	591,805	707,364

28- Retirement benefits obligation

	30 June 2020 000' EGP	31 December 2019 000' EGP
Retirement benefits obligation in balance sheet:	**103,284**	91,378
Medical benefit after retirement	**103,284**	91,378
Realized amounts in income statement:		
Medical benefit after retirement	**11,906**	22,491
	11,906	22,491

Liabilities during the period / year

	30 June 2020 000' EGP	31 December 2019 000' EGP
Beginning Balance for the period / year	**91,378**	71,784
Cost of current services	**3,818**	7,213
Interest expense	**8,088**	15,277
Pre-paid benefits	**-**	(2,896)
Balance at the end of the financial period / year	**103,284**	91,378

29- Other Provisions

000' EGP

30 June 2020	Potential claims Provision	Contingent liabilities provision	Legal Provision	Bank Operation Risk Provision	Total
Balance at the beginning of the period	9,046	144,223	6,171	5,832	165,272
Provision for expected credit losses	-	6,651	-	-	6,651
Charged for the year	-	-	1,000	53	1,053
Proceeds from written off loans	-	1,045	-	-	1,045
Foreign exchange valuation differences	-	255	25	30	310
Reversal of no longer required provisions	-	(1,033)	-	-	(1,033)
Used during the period	(7,130)	(24)	-	(53)	(7,207)
Balance at the end of the Period	1,916	151,117	7,196	5,862	166,091

000' EGP

31 December 2019	Potential claims Provision	Contingent liabilities provision	Legal Provision	Bank Operation Risk Provision	Total
Balance at the beginning of the period	9,046	69,426	7,234	6,384	92,090
Impact of applying IFRS 9	-	(110,589)	-	-	(110,589)
Provision for expected credit losses	-	192,048	-	-	192,048
Charged for the year	-	24	25	289	338
Proceeds from written off loans	-	84	-	-	84
Foreign exchange valuation differences	-	(5,786)	(522)	(578)	(6,886)
Reverse of provisions no longer required	-	-	-	(56)	(56)
Used during the period	-	(984)	(566)	(207)	(1,757)
Balance at the end of the year	9,046	144,223	6,171	5,832	165,272

30- Deferred tax

Deferred tax was calculated on all temporary tax differences using the liabilities method and using the effective tax rate for the current financial year.

Deferred tax assets and liabilities can be offset when there is a legal reason to offset between the current taxes on assets versus the current tax on liabilities, in addition, when the deferred tax is following the same tax authority.

Deferred tax assets and liabilities
Below is the movement of deferred tax assets and liabilities:

Deferred tax assets and liabilities balances

	Deferred tax assets		Deferred tax liabilities	
	30 June 2020	31 December 2019	**30 June 2020**	31 December 2019
	000' EGP	000' EGP	**000' EGP**	000' EGP
Fixed assets deprecation	-	-	**(25,431)**	(24,873)
Provisions (other than loans provision)	**76,586**	76,586	-	-
Total tax assets (liabilities)	**76,586**	76,586	**(25,431)**	(24,873)
Net tax assets (liabilities)	**51,155**	51,713	-	-

Deferred tax assets and liabilities movement:

	Deferred tax assets		Deferred tax liabilities	
	30 June 2020	31 December 2019	**30 June 2020**	31 December 2019
	000' EGP	000' EGP	**000' EGP**	000' EGP
Balance at the beginning of the period / year	**76,586**	36,945	**(24,873)**	(19,486)
Additions	-	65,141	-	(5,387)
Disposal	-	(25,500)	**(558)**	-
Balance at the end of the period / year	**76,586**	76,586	**(25,431)**	(24,873)

31- Stockholders' Equity:

(a) **Authorized Capital**
The authorized capital is LE 2.5 billion.

(b) **Issued and Paid up Capital**
The issued and paid up capital is LE 1.5 billion distributed over 150 million shares, the nominal value of the share is 10 Egyptian pounds.

(c) **Reserves**
- According to the Bank's articles of association, 5% of the net profits of the Period 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.

	30 June 2020 LE (000)	31 December 2019 LE (000)
Legal reserve	**487,860**	381,661
General reserve	**806,773**	606,773
Capital reserve	**168,049**	123,340
General banking risk reserve	**33,325**	33,325
Fair value reserve – investments at fair value through other comprehensive income	**25,701**	39,924
General risk reserve	**173,285**	173,285
Total Reserves	**1,694,993**	1,358,308
Fair value reserve – Fair value through other comprehensive income		
Balance at the beginning of the Period / Year	**39,924**	(10,951)
Impact of IFRS 9 upon initial recognition	-	(64,677)
Balance after adjustments	**39,924**	(75,628)
Revaluation differences of financial instruments with fair value through OCI with foreign currency	**(14,246)**	115,660
Revaluation differences of financial investments at fair value through Other comprehensive income with foreign currencies	**23**	(108)
	25,701	39,924

(d) Retained Earnings

	30 June 2020 000' EGP	31 December 2019 000' EGP
Retained Earnings' movement		
Balance at the beginning of the year	**5,152,540**	3,734,588
Transferred from profits of the year	**753,487**	2,168,696
Dividends	**(405,369)**	(388,508)
Reversal of the fair value reserve for the financial investments through other comprehensive income	**1,405**	-
Transferred to reserves	**(350,908)**	(362,236)
Balance at the end of the period / year	**5,151,155**	5,152,540

(e) Impact of adopting IFRS (9)

	000' EGP
Impact of expected credit loss recognition	
Provisions charged in accordance with the Central Bank of Egypt's instructions issued on December 16, 2008	
Impairment loss provision for balance of loans and facilities to customers	**756,346**
Provision for contingent liabilities	**69,427**
Total	**825,773**
Expected credit losses provisions in accordance with IFRS-9 financial instruments	
Expected credit loss provision for balances of loans and facilities to customers	**(81,079)**
Expected credit loss provision for contingent liabilities	**110,589**
Expected credit loss provision for balances held with the Central Bank	**4,531**
Expected credit loss provision for balances held with banks	**122**
Expected credit loss provision for financial investments at fair value through other comprehensive income	**138,740**
Total - Impact of adopting IFRS (9)	**172,903**

32- Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include the following balances with original maturities not exceeding three months from the date of acquisition:

	30 June 2020 000' EGP	31 December 2019 000' EGP
Cash and due from Central Bank of Egypt	3,955,237	4,050,862
Due from banks	7,004,845	3,354,765
Due from central bank (within the mandatory reserve percentage)	(3,401,959)	(3,452,934)
Due from Central bank over 3 months maturity	(1,500,000)	(1,708,465)
Cash and cash equivalents	**6,058,123**	2,244,228

33- Related party transactions

The Bank is a subsidiary of National bank of Kuwait, which owns 94.93% of ordinary shares, The remaining percentage (5.07%) is owned by other shareholders within 2000 shareholders and no one of them acquire 5% or more.

A number of transactions with related parties has been entered into in the normal course of the Bank's business, including loans, deposits, and foreign currency swaps. There are no transactions with the Parent Company except for the payment of the ordinary shares dividends. All transactions with related parties are made under conditions similar to those prevailing in the free transactions.
Related parties transactions and balances at the end of the financial period / year are as follows:

A- Balances of related parties

	Related parties	
	30 June 2020 000' EGP	31 December 2019 000' EGP
Due to customers		
Current accounts	376	384
Deposits	900	1,050
	1,276	1,434
Due from customers		
Other debit balances	58	70
Balance at the end of the Period / Year	58	70

National Bank of Kuwait

	30 June 2020 000' EGP	31 December 2019 000' EGP
Due from banks	91,285	50,937
Due to banks	17,100	904,256

B- Subordinated loan from National Bank of Kuwait

	30 June 2020 000' EGP	31 December 2019 000' EGP
Nominal amount at the end of the Period / Year	887,612	882,282
	887,612	882,282

- National Bank Of Kuwait obtain, the loan paid in the amount of **55** million US dollars equivalent to **887,612** thousand Egyptian pounds denominated in the dollar when preparing the Financial Statement **16.1384** Egyptian pounds For a period of **10** years from March 29, 2017 to March 29, 2027 to be re-priced annually.

  The loan contract included the acceptance and undertaking of NBK that the arrangement of repayment of the loan to the bank in the event of liquidation is after the rights of depositors and creditors, and the Bank undertakes to pay the full amount of the loan on the maturity date at a rate of **% 3.97275** annually.

C- Transactions with Al Watany Capital Assets Managements Company (S,A,E) :

	30 June 2020 000' EGP	31 December 2019 000' EGP
Mutual funds managements fees	1,174	332
Interest expenses	30	4

D- The total amount of salaries and wages paid for the top 20 employees in the bank is **L.E** 16,875 in 30 June 2020 against **LE 29,259 K** with a monthly average salary **L.E** 2,812 against **LE 2,438 K** for the year ended **31 December 2019.**

34- Commitment and contingent liabilities

A- Legal claims

There are lawsuits filed against the Bank at the preparation of the financial statements amounted **11,112 K** Egyptian pound, 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 purchasing of buildings and computer systems amounted to **LE 1,948,928 K** as at 30 June 2020, compared to **LE 1,919,775 K** as at 31 December 2019 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.

C- Commitments for loans, guarantees and facilities

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

	30 June 2020 000' EGP	31 December 2019 000' EGP
Acceptances securities	1,166,052	665,742
Letters of guarantee	4,541,218	4,312,724
Letters of credit (import and export)	3,385,865	3,094,696
Collaterals upon other banks' request or by their warranties	4,802,441	5,739,598
Total	13,895,576	13,812,760

D- Commitments for operating lease contracts

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

	30 June 2020 000' EGP	31 December 2019 000' EGP
Less than one year	31,510	30,212
More than one year and less than five years	147,510	150,492
Over 5 years	32,195	44,887
	211,215	225,591

35- Finance Lease Liabilities

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

Description	**Selling Amount**		**Finance Lease installment**		
	Amount EGP (000)	**Currency**	**Amount EGP (000)**	**Currency**	**Period**
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

36- Distribution of Assets, Liabilities, Contingent Liabilities and Commitments:

	30 June 2020	
	Local Currency 000' EGP	Foreign Currency 000' EGP
First: Assets:		
A- Balances with banks	4,639,789	2,365,056
	4,639,789	2,365,056
B- Loans for customers and banks		
Agriculture Sector	347,304	1
Industrial Sector	13,829,349	3,476,870
Commercial Sector	1,928,649	171,198
Services Sector	2,444,483	5,258,020
Family Sector	6,451,867	192,176
Other sectors	-	-
	25,001,652	9,098,265
Loans Provision	(347,082)	(397,732)
Net Loans	24,654,570	8,700,533

	30 June 2020	
	Local Currency 000' EGP	Foreign Currency 000' EGP
Second: Liabilities:		
A- Due to banks	14,150	2,049,378
	14,150	2,049,378
B- Customer Deposits		
Agriculture Sector	175,272	69,654
Industrial Sector	1,910,467	2,651,459
Commercial Sector	1,324,369	552,411
Services Sector	2,225,012	2,290,518
Family Sector	26,450,239	7,388,530
Other Sectors	2,728,186	1,163,923
	34,813,545	14,116,495
C- Contingent Liabilities		
Letter of guarantees	3,677,109	864,109
Collaterals upon other banks' request or by their warranties	146,323	4,656,118
Letter of credit (Import & Export)	21,020	3,364,845
Accepted bills for suppliers facilities	2,296	1,163,756
	3,846,748	10,048,828

37- Geographical distribution of loans balances

	Local Currency 000' EGP	Foreign Currency 000' EGP
Cairo	16,335,414	6,193,938
6th of October	971,643	539,228
Alexandria	1,780,779	1,629,724
Gharbya	142,972	464
Damitta	73,808	-
Sharquia	750,598	122,403
Dakahlia	284,058	172,017
Kalubaia	317,071	166,488
Giza	3,947,995	271,401
Asuit	147,558	741
Sohaj	153,865	1,317
Red sea	85,531	507
South Sinai	10,360	37
	25,001,652	9,098,265
Less		
Provision of expected credit losses	(347,082)	(397,732)
Net Loans	24,654,570	8,700,533

38- Geographical distribution of Customers` Deposits

	Local Currency 000' EGP	Foreign Currency 000' EGP
Cairo	18,540,478	7,145,992
6th of October	1,371,270	783,546
Alexandria	3,863,076	3,169,748
Gharbya	454,902	133,963
Damitta	218,141	27,262
Sharquia	370,985	366,347
Dakahlia	927,793	292,037
Kalubaia	484,787	135,024
Giza	7,166,146	1,919,897
Asuit	552,075	44,377
Sohaj	615,742	41,134
Red sea	193,185	34,068
South Sinai	54,965	23,100
Total	34,813,545	14,116,495

39- Mutual Funds

(A) National Bank of Kuwait - Egypt Mutual Fund (with periodic return and capital growth):

The fund is one of the banking activity authorized for the bank by virtue of Capital Market Law No, 95/ 1992 and its Executive Regulation, The fund is managed by El Watany capital for Asset Management.

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

The redeemable value of the certificate as of 30 June 2020 amounted to **LE 296.86815** and the outstanding of the fund certificates at that date reached **69,954** certificates while the net assets value of the mutual fund was **LE 20,767** K.

The bank has a number of **17,500** certificates with the fair value of **LE 5,195** K through OCI.

The bank has a number of **50,000** certificates with the fair value of **LE 14,843 K** through income statement.

In accordance with 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 **LE 36 K** for the year ended 30 June 2020 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 fund is one of the 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 148,983K** of which **763K** certificates (Held) were allocated to the bank to undertake the fund's activity with a nominal value of **LE 11,349 K .**

The bank has a number of **220,000** certificates with the fair value of **LE 6,315 K** through OCI.

The bank has a number of **542,768** certificates with the fair value of **LE 15,575 K** through income statement.

The redeemable value of the certificate as of 31 December 2019 amounted to **LE 28.70603** and the outstanding of the fund certificates at that date reached **29,713,545** certificates while the net assets value of the mutual fund was **LE 852,958** K.

In accordance with 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 **LE 1,950** K the year ended 30 June 2020 included in fees and commissions' income caption in the Income Statement.

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

The fund is one of the 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 **LE 50,000K** of which **500,000** certificates (Held) were allocated to the Bank to undertake the fund's activity with a nominal value of **LE 5,000K**.

The bank has a number of **250,000** certificates with the fair value of **LE 3,808 K** through OCI.

The bank has a number of **250,000** certificates with the fair value of **LE 3,808** through income statement.

The redeemable value of the certificate as of 30 June 2020 amounted to **LE 15.23068** and the outstanding of the fund certificates at that date reached **588,694** certificates while the net assets value of the mutual fund was **LE 8,966** K.

In accordance with 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 **LE 25 K** for the period ended 30 June 2020 included in fees and commissions' income caption in the Income Statement.

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

The fund is one of the 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 **LE 60,820K** of which **685,334** certificates (Held) were allocated to the Bank to undertake the fund's activity with a nominal value of **LE 7,050 K.**

The bank has a number of **300,000** certificates with the fair value of **LE 4,037** K through OCI.

The bank has a number of **385,334** certificates with the fair value of **LE 5,186 K** through income statement.

The redeemable value of the certificate as of 30 June 2020 amounted to **LE 13.45773** and the outstanding of the fund certificates at that date reached **712,111** certificates while the net assets value of the mutual fund was **LE 9,583**.

In accordance with 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 **LE 30 K** for the year ended 30 June 2020 included in fees and commissions' income caption in the Income Statement.

40- Earnings per share

	Six months ended on 30 June 2020 LE (000)	Six months ended on 30 June 2019 LE (000)	**Three months ended on 30 June 2020 LE (000)**	Three months ended on 30 June 2019 LE (000)
Net profit for the period	**753,487**	1,054,626	**350,723**	544,635
	753,487	1,054,626	**350,723**	544,635
Employees' share	**(75,349)**	(105,463)	**(35,072)**	(54,464)
	678,138	949,163	**315,651**	490,171
Average number of shares	**150,000**	150,000	**150,000**	150,000
Earnings per share (share/LE)	**4.52**	6.33	**2.10**	3.27