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

## LIMITED REVIEW REPORT
## AND FINANCIAL STATEMENTS
## FOR THE PERIOD ENDED 31 MARCH 2019

| | |
|---|---|
| **Crowe Dr. A.M.Hegazy & Co.** | **PricewaterhouseCoopers Ezzeldeen, Diab & Co.** |
| **Public Accountants & Consultants** | **Public Accountants & Consultants** |

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**Ezz Eldin and Diab & Co. PricewaterhouseCoopers**
**Public Accountants & Consultants**

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

## Limited Review Report for the Interim Financial Statements

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

### Introduction

We have performed a limited review for the accompanying balance sheet of the National Bank of Kuwait – Egypt S.A.E as of 31st March 2019 and the related statements of income, other comprehensive income, changes in shareholders' equity and cash flows for the three 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 and the amendments issued under the instructions of 26 February 2019, and with the related requirements of the applicable Egyptian laws and regulations to prepare these interim financial statements, our responsibilities is to express a conclusion on these interim financial statements based on our limited review.

### Scope of the limited review

We conducted our limited review in accordance with the Egyptian Standard on Limited Review Engagements 2410, "Limited 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 31 March 2019, and its financial performance, and cash flows for the three 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.

<u>**Auditors**</u>

Mohamed Ahmed Fouad, CPA
F.R.A.R. 235
R.A.A. 11595
CBE Register No. 467
Ezz Eldin and Diab & Co. PricewaterhouseCoopers

Dr. Sherif Elsokary

Dr. Sherif Elsokary
R.A.A 10425
F.A.R. 182
Dr. Abdel Aziz Hegazy & Co.
Crowe

14 May 2019
Cairo

PricewaterhouseCoopers Ezzeldeen, Diab & Co.
pwc

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

## Balance Sheet
As at 31 March 2019

| | No. Note | 31 March 2019 000' EGP | 31 December 2018 000' EGP |
|---|---|---|---|
| **Assets** | | | |
| Cash and Due from Central Bank | (14) | 5,623,882 | 3,771,317 |
| Due from banks | (15) | 2,905,706 | 3,133,484 |
| Loans and facilities to customers | (16) | 37,676,127 | 38,643,994 |
| Financial derivatives | (17) | 1,040 | 1,716 |
| Financial investments at fair value through other comprehensive income. | (18) | 20,400,120 | 24,068,052 |
| Financial investments at amortised cost | (18) | 1,958,885 | 2,264,972 |
| Financial investments through profits and losses | (18) | 37,855 | - |
| Investment in associates | (19) | 34,857 | 37,531 |
| Other assets | (20) | 1,234,847 | 1,157,955 |
| Intangible assets | (22) | 70,998 | 74,141 |
| Fixed assets | (21) | 347,013 | 325,489 |
| Deferred tax assets | (29) | 80,943 | 17,459 |
| **Total assets** | | 70,372,273 | 73,496,110 |
| **Liabilities and Owners' equity** | | | |
| **Liabilities** | | | |
| Due to banks | (23) | 5,707,242 | 9,240,881 |
| Customers' deposits | (24) | 53,070,349 | 53,158,919 |
| Other loans | (25) | 3,503,175 | 3,610,700 |
| Other liabilities | (26) | 1,051,678 | 656,742 |
| Retirement benefit obligations | (27) | 76,682 | 71,784 |
| Other provisions | (28) | 176,266 | 92,090 |
| Current income tax liabilities | | 354,176 | 312,306 |
| **Total liabilities** | | 63,939,568 | 67,143,422 |
| **Owners' Equity** | | | |
| Issued and Paid-up capital | (30/b) | 1,500,000 | 1,500,000 |
| Reserves | (30/c) | 1,443,295 | 1,118,100 |
| Retained earnings | (30/d) | 3,489,410 | 3,734,588 |
| **Total Owners' equity** | | 6,432,705 | 6,352,688 |
| **Total liabilities and Owners' equity** | | 70,372,273 | 73,496,110 |

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- The accompanying notes from (1) to (39) are integral part of these financial statements and to be read therewith.
- Limited review report attached

## Statement of income
## For the financial period ended 31 March 2019

| | No. Note | 31 March 2019 000' EGP | 31 March 2018 000' EGP |
|---|---|---|---|
| Interest income from loans and similar revenues | (5) | 2,072,214 | 1,646,687 |
| Cost of deposits and similar costs | (5) | (1,302,266) | (995,194) |
| **Net interest income** | | 769,948 | 651,493 |
| Fees and commission revenues | (6) | 101,396 | 198,465 |
| Fees and commission expenses | (6) | (4,942) | (5,241) |
| **Net income from fees and commissions** | | 96,454 | 193,224 |
| Dividends | (7) | - | 260 |
| Net income from financial assets at fair value through profit and loss | (8) | 55,340 | 18,367 |
| Gains from financial investments | (9) | 3,953 | 1,910 |
| Share of results from associates | (10) | (2,674) | - |
| Impairment charges on credit losses | | (14,788) | (51,750) |
| General and administrative expenses | (11) | (236,717) | (218,477) |
| Other operating income (expenses) | (12) | (8,168) | 47,809 |
| **Net profit for the period before income tax** | | 663,348 | 642,836 |
| Current Income tax | (13) | (153,357) | (145,941) |
| **Net profit for the period** | | 509,991 | 496,895 |
| **Earnings per share (EGP/ share)** | (39) | 3.06 | 2.98 |

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- The Accompanying notes from (1) to (39) are integral part of financial statements and to be read therewith.

**Statement of other comprehensive income**
**For the financial period ended 31 March 2019**

| | 31 March 2019<br>000' EGP | 31 March 2018<br>000' EGP |
|---|---|---|
| **Net profit for the period** | **509,991** | 496,895 |
| **Other comprehensive income items** | | - |
| Net change in fair value through OCI | **168,591** | - |
| Revaluation differences in financial investments with fair value through OCI with foreign currency | **(34)** | (34) |
| Changes in fair value reserve of debt instruments at fair value through other comprehensive income | **27,558** | 3,044 |
| | **196,115** | 3,010 |
| **Total other comprehensive income** | **706,106** | 499,905 |

- The Accompanying notes from (1) to (39) are integral part of financial statements and to be read therewith.

**Statement of changes in equity**
**For the period ended 31 March 2019**

| | Capital | Legal reserve | General reserve | Special reserve | Capital reserve | Fair value reserve | General Banking risk reserve | Risk reserve IFRS9 | Retained earnings | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | 000' EGP | 000' EGP | 000' EGP | 000' EGP | 000' EGP | 000' EGP | 000' EGP | 000' EGP | 000' EGP | 000' EGP |
| Balance at 1 January 2018 | 1,500,000 | 209,901 | 206,773 | 9,205 | 53,078 | (23,392) | 37,817 | 268,347 | 2,415,249 | 4,676,978 |
| Transferred to the general banking risk reserve | - | - | - | - | - | - | 45,300 | | (45,300) | - |
| Valuation difference on financial investments at fair value through other comprehensive income at foreign currencies | - | - | - | - | - | (34) | - | - | - | (34) |
| Change in fair value of financial investments at fair value through the statement of other comprehensive income | - | - | - | - | - | 3,043 | - | - | - | 3,043 |
| Net profit for the period | - | - | - | - | - | - | - | - | 496,895 | 496,895 |
| Balance at 31 March 2018 | 1,500,000 | 209,901 | 206,773 | 9,205 | 53,078 | (20,383) | 83,117 | 268,347 | 2,866,844 | 5,176,882 |

**Statement of changes in equity**
**For the period ended 31 March 2019**

| | Capital | Legal reserve | General reserve | Special reserve | Capital reserve | Fair value reserve | General banking risk reserve | General risk reserve | Risk reserve IFRS9 | 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. | - | - | - | - | - | (35) | - | - | - | - | (35) |
| Cash dividends for 2018 | - | - | - | - | - | - | - | - | - | (388,508) | (388,508) |
| Transferred to reserves | - | 96,617 | 200,000 | - | 70,044 | - | - | - | - | (366,661) | - |
| Impact of applying IFRS 9 | - | - | - | - | - | 168,591 | - | - | - | - | 168,591 |
| Change in fair value of financial investments at fair value through other comprehensive income | - | - | - | - | - | 27,558 | - | - | - | - | 27,558 |
| Net profit for the period | - | - | - | - | - | - | - | - | - | 509,991 | 509,991 |
| Balance at 31 March 2019 | 1,500,000 | 381,661 | 606,773 | - | 123,340 | 120,486 | 37,750 | 173,285 | - | 3,489,410 | 6,432,705 |

- The Accompanying notes from (1) to (39) are integral part of financial statements and to be read therewith.

**Statement of cash flows**
**For the financial period ended 31 March 2019**

| | March 31, 2019 000' EGP | March 31, 2018 000' EGP |
|---|---|---|
| **Cash flow from operating activities** | | |
| Net Profits before income tax | **663,348** | 642,836 |
| **Adjustments to reconcile net profit to net cash provided from operating activities** | | |
| Depreciation and amortisation | **14,880** | 6,091 |
| Impairment charges on credit losses | **14,768** | 51,750 |
| Financial investments impairment losses | **328** | - |
| Charge/ (release) of other provisions | - | 10,500 |
| Charges for other provisions | **141** | - |
| Differences of re-evaluation of other provisions in foreign currencies | **(925)** | (12) |
| Valuation differences of financial investments at fair value through other comprehensive income in foreign currencies | - | 3,878 |
| Share of profit from associates | **2,674** | - |
| Gains/ (losses) from sale of fixed assets | **19** | (63,858) |
| Profits on sale of financial investments at fair value through other comprehensive income | **(4,280)** | - |
| Used from other provisions | **(31)** | (1,424) |
| Amortised cost | **1,174** | (13,332) |
| Dividends | - | (260) |
| **Operating profits before changes in assets and liabilities from operating activities** | 692,096 | 636,169 |
| **Net (decrease) increase in assets and liabilities** | | |
| Due from central banks (within the mandatory reserve percentage) | **(2,427,809)** | 1,589,345 |
| Treasury bills with more than 3 months maturity | - | 2,878,203 |
| Loans and facilities to customers and banks | **959,146** | (1,908,038) |
| Other assets | **72,006** | 27,431 |
| Due to banks | **(3,533,639)** | (3,193,305) |
| Customers' deposits | **(88,570)** | 3,158,647 |
| Financial derivatives | **676** | (1,188) |
| Other liabilities | **399,837** | 24,300 |
| Income tax paid | **(174,972)** | (121,891) |
| **Net cash flows (used in) provided from operating activities (1)** | (4,101,229) | 3,089,673 |
| **Cash flows from investing activities** | | |
| Payments to acquire fixed assets and fixtures of branches | **(187,523)** | (10,375) |
| Proceeds from sale of fixed assets | **384** | 102,517 |
| Proceeds from sale of financial investments at fair value through other comprehensive income | **17,256,021** | 1,066,949 |
| Proceeds from sale of investments in at amortised cost | **325,000** | - |
| Payments to purchase financial investments at fair value through other comprehensive income. | **(13,598,524)** | - |
| Payments to acquire intangible assets | **(1,117)** | (478) |
| Proceeds from dividends received | - | 260 |
| **Net cash flows provided from investing activities (2)** | 3,794,241 | 1,158,873 |

**Statement of cash flows (continued)**
**For the financial period ended 31 March 2019**

| | | |
|---|---|---|
| **Cash flows from financing activities** | | |
| (Decrease) in long term loans | **(107,526)** | (18,968) |
| Dividends paid | **(388,508)** | - |
| **Net cash flows used in financing activities (3)** | **(496,034)** | (18,968) |
| **Net cash and cash equivalent during the period (1+2+3)** | **(803,022)** | 4,229,578 |
| **Cash and cash equivalent at the beginning of the period** | **4,331,164** | 5,069,688 |
| **Cash and cash equivalent at the end of the period (Note 31)** | **3,528,142** | 9,299,266 |

| | | |
|---|---|---|
| **Cash and cash equivalents are represented in:** | | |
| Cash and Due from Central Bank | **5,623,882** | 3,489,992 |
| Due from banks | **2,905,706** | 6,508,208 |
| Treasury bills | **-** | 8,913,823 |
| Due from central banks (within the mandatory reserve percentage) | **(5,001,446)** | (2,461,340) |
| Treasury bills with more than 3 months maturity | **-** | (7,151,417) |
| **Cash and cash equivalents** | **3,528,142** | 9,299,266 |

- The accompanying notes from (1) to (39) are integral part of these financial statements and to be read therewith.

**Notes to the financial statements**
**For the financial period ended 31 March 2019**

## 1. General information

The bank is 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. 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 50 branches and employs 1544 employees at the financial position date.

## 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 statement preparation

The interim 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.

Rules for preparation and presentation of banks' financial statements and basis of recognition and measurement issued by the Central Bank of Egypt during 2008 are applied when preparing the Bank's financial statements till 31 December 2018 as amended on 26 February 2019.

**IFRS 9 - Financial Instruments**

As of 1 January 2019, the Bank has applied IFRS (9) - Financial Instruments issued in July 2014 and it has also been applied under a resolution issued by the Central Bank dated February 26, 2019 starting from the beginning of 2019. Requirements of said Standard materially differ from EAS No (26) "Financial Instruments - Recognition and measurement", in particular, with regard to rating, measurement and disclosure of financial assets and some financial liabilities. Below are a summary of main changes in accounting policies of the Bank due to applying the Standard:

**Financial Assets and Liabilities Classification**
Financial assets are classified into three main categories as follows:
- Financial assets measured at amortised cost.
- Financial assets at fair value through statement of other comprehensive income.
- Financial assets at fair value through profit and loss.

Classification of IFRS 9 relies generally upon Bank's business models by which the financial assets and its contractual cash flows are managed. Accordingly, classes of EAS No (26) (Financial investments at amortised cost, Loans and facilities, financial investments at fair value through other comprehensive income). Have been cancelled.

Change in financial liabilities at fair value through profit and loss is presented as follows:

- Change in fair value related to change in credit rating degree is presented in Statement of other comprehensive income.

Outstanding amount of change in fair value is presented under (Net income from other financial instruments at fair value through profit and loss) in the statement of profit and loss.

**Impairment of financial assets**

"Expected Credit losses" model is used instead of "Realized Credit Losses" model in accordance with EAS No (26) when measuring the value of all financial assets at amortised cost and debts instruments at fair value through statement of other comprehensive income. In addition to some loans commitments and financial guarantees contracts.

Note 30-E shows the impact of applying instructions of Central Bank dated February 26, 2019.

### 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 recognised directly in the statement of profit and loss under other operating income (expenses).

Subsidiaries and associates in the Bank's financial statements are accounted for using the cost method. According to this method, investments are recognised at the cost of acquisition, including goodwill, less any impairment losses. Dividends income is recognised in the statement of profit and loss, when the dividends are approved to be distributed and the Bank's right of collection is established.

### 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 recognised in the statement of profit and loss under the following sections:

- Net income on financial instruments at fair value through profit and loss for assets/ liabilities initially designated at fair value through profit and loss 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 analysed within the other comprehensive income through differences from changes in amortised 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 amortised cost are recognised into statement of profit and loss 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 recognised within owners' equity of comprehensive income items.
- Valuation differences resulting from non-cash items include profit and loss from change in fair value such as equity instruments at fair value through profit and loss. Valuation differences result from equity instruments classified as financial investments at fair value through other comprehensive income statement are recognised 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 profit and loss, it would be measured at fair value plus cost of transaction that is connected directly with acquisition or issuance.

**E-2 Classification**

**Financial assets - Applicable Policy as of January 1, 2019**

- Upon initial recognition, the Bank classifies the financial assets into financial assets at amortised cost, financial assets at fair value through statement of other comprehensive income or at fair value through profit and loss.

- The financial asset is measured at amortised cost upon fulfilment of the following two conditions and when it has not been allocated by Bank's management upon initial recognition at fair value through profit and loss:

  - The financial asset is held within a business model whose purpose is to hold financial asset to collect contractual cash flows.
  - The contractual conditions of financial asset result, on specific dates, in contractual cash flows for the asset and is represented only in the principal amount of the financial instrument and the interest.

- The debt instrument is measured at fair value through other comprehensive income upon fulfilment of the following two conditions and when it has not been allocated upon initial recognition at fair value through profit and loss:

  - The financial asset is held within a business model whose purpose is to collect contractual cash flows and sell the financial asset.
  - The contractual conditions of financial asset result, on specific dates, in contractual cash flows for the asset and is not represent only in the principal debt and the interest.

- Upon initial recognition of an equity instrument not held for trading, the Bank can take irrevocable option to present subsequent changes in fair value through statement of other comprehensive income. Such option shall be taken for each investment individually.
- Other outstanding financial assets shall be classified as financial investments at fair value through profit and loss.
- Furthermore, the Bank may, upon initial recognition, irrevocably allocate a financial asset as measured at fair value through profit or loss despite of fulfilling the conditions of classifying as financial asset at amortised cost or fair value through statement of other comprehensive income, if so materially prevents or reduces the conflict that may arise in accounting measurement.

**Business model valuation**

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

| | Method of measurement as per the business model | | |
|---|---|---|---|
| | | Fair value | |
| **Financial Instrument** | **Amortised 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 | Principal characteristics |
|---|---|---|
| **Financial assets at amortised 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.<br>▪ 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.<br>▪ Lowest sales in terms of periodic and value.<br>▪ 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.<br>▪ 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 profit and loss** | Other business models, which include (trading - management of financial assets based on fair value - maximising cash flows through sale) | ▪ 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.<br>▪ The collection of contractual cash flows is a contingent event for the objective of the model.<br>▪ Management of financial assets by the management at fair value through profit and loss 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 parctice. 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 profit and loss 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).

**Financial liabilities - Applicable policies as of January 1, 2019**

- Upon initial recognition, the bank classifies financial liabilities into financial liabilities at amortised cost and financial liabilities at fair value through profit and loss according to purpose of bank's business model.

- All financial liabilities at fair value are initially recognised on the date when the bank becomes party to contractual conditions of financial instrument.

- Classified financial liabilities are subsequently measured at amortised cost based on amortised cost by using effective interest rate.

- Financial liabilities at fair value through profit and loss are subsequently measured at fair value and change in fair value related to change in credit rating degree of the bank is recognised in statement of other comprehensive income whilst the outstanding amount from change in fair value is presented in profit and loss.

**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 profit and loss and financial liabilities at amortised 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 profit and loss has been previously recognised in the fair value reserve of financial investments at fair value through statement of other comprehensive income is recognised in statement of profit and loss.

- As of January 1, 2019, any accumulated profit or loss recognised 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 recognised in profit and loss upon disposal of such asset. Any share resulted or held from the asset qualified for disposal (eligible for disposal) shall be recognised as separate asset or liability.

- When the bank makes transactions whereby it transfers assets that have been previously recognised 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 recognised 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 recognised at fair value and the value resulted from adjusting aggregate book value shall be recognised 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 recognised in the statement of profit and loss.
- If the cash flows of adjusted asset recognised at amortised cost do not materially differ, the adjustment shall not result in exclusion of financial asset.

**Applicable Policy as of January 1, 2019**

- If the terms of financial asset are amended due to financial difficulties of the borrower and the asset had not been excluded, the asset impairment shall be measured by using interest rate before adjustment.

**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 recognised according to the amended terms at fair value. The difference between book value of old financial liability and new financial liability shall be recognised in accordance with amended terms in the profit and loss.

**Offsetting financial assets and liabilities**

Financial assets and liabilities are offset when there is a legally enforceable right to offset the recognised 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. Measurement of fair values**

**Applicable Policy as of January 1, 2019**

- 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.

**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.

**Applicable Policy before January 1, 2019**

The fair values of quoted investments in active markets are based on current bid price. If there is no active market or a current bid price for a financial asset, the Bank establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by the participants in the market, and if the Bank could not assess the fair value of the equity instruments classified at fair value through other comprehensive income, its value shall be assessed at cost less impairment.

## G. Financial derivatives instruments and hedge accounting

Derivatives are recognised 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 profit and loss 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 recognised or confirmed commitments (fair value hedges).
2. Hedges of future cash flows risks expected to be substantially attributable to a recognised 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 recognised in the statement of profit and loss, 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 recognised in "net interest income" item. Whilst the effective changes in fair value for future currency contracts is recognised in "net income of financial investments at fair value through profit and loss" item.

Non-effective in all contracts and relevant hedged items included in the previous paragraph is recognised in "Net income of financial investments at fair value through profit and loss" 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 amortised cost method should be amortised 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 recognised in statement of other comprehensive income. Profits and losses related to non-effective portion are immediately recognised in "Net income of financial investments at fair value through profit and loss" item.

Amounts accumulated in statement of other comprehensive income are carried to statement of profit and loss 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 recognised in the statement of profit and loss when the forecasted transaction is finally recognised. 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 profit and loss.

### G/3 Hedges of net investment

Profits or losses on the hedging instrument relating to the effective portion of the hedge are recognised in statement of other comprehensive income while any profits or losses relating to the ineffective portion are immediately recognised in the statement of profit and loss. 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 profit and loss.

### 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 recognised in the statement of profit and loss under "net income of financial investments at fair value through profit and loss". 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 profit and loss are included in statement of profit and loss under 'Net income from financial instruments at fair value through profit and loss'.

### H. Embedded derivatives

**Applicable policy as of January 1, 2019**

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 profit and loss.
- 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 recognised in profit and loss 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.

**Applicable Policy before January 1, 2019**

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:

- Measuring the original contract itself in a way other than fair value through profit and loss.
- 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 recognised in profit and loss 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.

According to the effective interest rate method, the amortised cost of an asset or financial liability is calculated and allocation of income revenues or expenses yield is distributed throughout the life of related instrument. The effective interest rate represents the rate used to discount future cash flows expected to be paid or collected during the expected life of the financial instrument, or less time if appropriate in order to accurately determine the book value of an asset or financial liability. When calculating the effective interest rate, the Bank estimates the cash flows considering all terms of the financial instrument contract (such as early payment options) but does not take into account future credit losses. Calculation method includes all fees paid or received between parties to the contract that are part of the effective interest rate, as well as cost of the transaction and any bonuses or discounts.

## Notes to the financial statements
## For the financial period ended 31 March 2019

When loans or receivables are classified as impaired loans and debts, the related interest income is not recognised but is rather carried off the financial statements in marginal records and is recognised under revenues according to cash basis as per the following:

- When collected and after the recovery of all arrears for consumer and real estate loans for personal housing and small loans for economic activities.

For rescheduled corporate loans, cash basis is also applied, where the interest subsequently calculated is given in accordance with the loan rescheduling contract, until 25% of the rescheduling instalments are repaid provided that the customer continues to make payments on a regular basis, the interest calculated on the loan outstanding is recognised in revenues (interest on regular rescheduling balance) without marginal interest before rescheduling which is not recognised as revenues except after paying all the loan balance in the financial position before rescheduling (marginal interest calculated before scheduling).

### 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 profit and loss, are recognised 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 recognised but is rather carried off the financial statements in marginal records and is recognised 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 recognised in revenues (interest on regular scheduling balance) without marginal interest before scheduling which is not recognised 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 recognised 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 recognised under revenues according to the cash basis when interest income is recognised in accordance with item (I). Fees that generally represent a complementing part of the financial asset effective rate are recognised 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 recognised as adjustment to the effective interest rate of the loan. If the commitment period passed without issuing the loan, commitment fees are recognised as income at the end of the commitment period.

Fees related to debt instruments measured at its fair value are recognised as income at initial recognition. Fees related to marketing of syndicated loans are recognised 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 recognised in statement of profit and loss upon completion of concerned transaction. Fees of management consultation and other services are usually recognised on a time-apportion basis over the period of performing the service. Financial planning and custody services fees provided on long periods are recognised over the period in which the service is provided.

### K. Dividends income

Dividends are recognised in the statement of profit and loss when the right to receive those dividends is established.

### L. Impairment of financial assets

**Applicable Policy as of January 1, 2019**

- Impairment losses from expected credit loss of subsequent financial instruments that are not measured at fair value are recognised through profit and loss, 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 recognised in investments value of equity instruments.

**Notes to the financial statements**
**For the financial period ended 31 March 2019**

**Effect of Applying IFRS 9 on credit risks:**

IFRS 9 "Financial Instruments" is a replacement for IAS 39 "Recognition and Measurement" and EAS 26 "Recognition and Measurement". The Standard includes requirements of recognition and measurement, impairment and hedging account in general.

IFRS 9 issued in 2014 supersedes all precedent publications and shall mandatory apply for the periods as of or after January 1, 2019 (According to instructions of the Central Bank of Egypt). IFRS provides a new model for impairment based on expected losses that have implementation range wider than IAS 39.

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

**1. Rating and measurement of financial assets:**

- The table below shows reconciliation of measurement methods in accordance with the Central Bank of Egypt's instructions issued on December 16, 2008, IFRS (9) of the bank as at March 31, 2019 and its amendments issued on February 26, 2019:

| | **In accordance with instructions of The Central Bank of Egypt dated December 16, 2008** | **According to IFRS (9)** |
|---|---|---|
| **Assets** | | |
| Cash and Due from Central Bank | Amortised cost | Amortised cost |
| Due from banks | Amortised cost | Amortised cost |
| Loans and facilities to customers | Amortised cost | Amortised cost |
| Financial derivatives | Through profit and loss | Through profit and loss |
| Treasury bills | Amortised cost | At fair value through other comprehensive income |
| Financial Investments at fair value through other comprehensive income | At fair value through other comprehensive income | At fair value through other comprehensive income |
| Financial investments at amortised cost | Amortised cost | Amortised cost |
| Financial investments through profit and loss | Amortised cost | through profit and loss |
| Investment in associates | Equity method | Equity method |
| Other assets | Amortised cost | Amortised cost |
| Intangible assets | Amortised cost | Amortised cost |
| Fixed assets | Amortised cost | Amortised cost |
| Deferred tax assets | Amortised cost | Amortised cost |
| **Liabilities** | | |
| Due to banks | Amortised cost | Amortised cost |
| Customers' deposits | Amortised cost | Amortised cost |
| Other loans | Amortised cost | Amortised cost |
| Other liabilities | Amortised cost | Amortised cost |
| Retirement benefit obligations | Amortised cost | Amortised cost |
| Other provisions | Amortised cost | Amortised cost |
| Current income tax liabilities | Amortised cost | Amortised cost |

## 2. 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 addition to complying with the agreed upon payment schedule, and the absence of high risk. | 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 disbursement of the instrument. | For a financial instrument to be classified as a Stage 3 instrument, it must be consider credit impaired. |
| 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):**

o **(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.

o **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 Standards:**

- 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 authorised 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):**
  - Value at default equals current balance plus unused value of the authorised 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.

  - Furthermore, the bank calculates the provisions needed to impair the assets exposed to credit risk including credit-related commitments based on ratios set by the Central Bank of Egypt. If the impairment loss provision required as per the rules of CBE increases over the required for preparing financial statements according to the Egyptian Accounting Standards. general banking risks reserve shall be set aside within the equity less retained earnings equal to such increase. This reserve is periodically adjusted to increase and decrease so that the amount of increase between the two provisions is always equal. Such reserve is non-distributable.

  - Following is a table of the worthiness levels for institutions in accordance with the internal assessment bases compared to the Central Bank of Egypt and the provision ratios required for the impairment of the assets exposed to credit risk:

| CBE Rating | Rating description | Provision ratio due to Corporate Customers | Provision ration due to Retail customers | Internal rating | Internal rating description |
|---|---|---|---|---|---|
| 1 | Low Risk | Zero | Zero | 1 | Preforming Loans |
| 2 | Moderate Risk | 1 % | 1 % | 1 | Preforming Loans |
| 3 | Satisfactory Risk | 1 % | 3 % | 1 | Preforming Loans |
| 4 | Appropriate Risk | 2 % | 3 % | 1 | Preforming Loans |
| 5 | Acceptable Risk | 2 % | 3 % | 1 | Preforming Loans |
| 6 | Marginally Acceptable Risk | 3 % | 3 % | 2 | Regular Monitoring |
| 7 | Watch list | 5 % | 3 % | 3 | Watch list |
| 8 | Substandard | 20 % | 20 % | 4 | Non-Preforming Loans |
| 9 | Doubtful | 50 % | 50 % | 4 | Non-Preforming Loans |
| 10 | Bad | 100% | 100% | 4 | Non-Preforming Loans |

**Summary of expected credit losses calculation results on position of March 2019:**
Second: Expected credit loss according to Credit Rating Stages of IFRS 9 in accordance with items exposed to risk

| Items exposed to credit risks | | Credit Rating Stages according to IFRS 9 Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|---|
| | Value at risk | 4,234,162 | 92,432 | 18,163 | 4,344,757 |
| | Expected Credit Loss | (28,414) | (1,212) | (3,195) | (32,821) |
| **Retail customers** | **Net carrying value** | **4,205,748** | **91,220** | **14,968** | **4,311,936** |
| | Value at risk | 22,259658 | 10,900,160 | 901,381 | 34,061,199 |
| **Corporates and** | Expected Credit Loss | (76,830) | (104,343) | (397,043) | (578,216) |
| **institutional clients** | **Net carrying value** | **22,182828** | **10,795,817** | **504,338** | **33,482983** |
| | Value at risk | 1,672,500 | 597,005 | - | 2,269,505 |
| | Expected Credit Loss | (8,354) | - | - | (8,354) |
| **Banks** | **Net carrying value** | **1,664,146** | **597,005** | - | **2,261,151** |
| | Value at risk | 28,082,776 | - | - | 28,082,776 |
| | Expected Credit Loss | (122,661) | - | - | (122,661) |
| **Investments** | **Net carrying value** | **27,960,115** | - | - | **27,960,115** |
| | Value at risk | 56,249,096 | 11,589,597 | 919,544 | 68,758,237 |
| | Expected Credit Loss | (236,259) | (105,555) | (400,238) | (742,052) |
| **Total** | **Net carrying value** | **56,012,837** | **11,484,042** | **519,306** | **68,016,185** |

**Third: Loans and facilities**

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

| | 000' EGP **31 March 2019** | 31 December 2018 |
|---|---|---|
| | **Loans and facilities To customers** | Loans and facilities To customers |
| Neither past due nor impaired | **36,351,089** | 37,676,701 |
| Past due but not impaired | **1,135,322** | 667,385 |
| Impaired | **919,545** | 1,065,711 |
| Total | **38,405,956** | 39,409,797 |
| **Less:** | | |
| Impairment loss provision | **(729,829)** | (756,346) |
| Interest in suspense | **-** | (9,457) |
| Net | **37,676,127** | 38,643,994 |

**Notes to the financial statements**
**For the financial period ended 31 March 2019**

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

**31 March 2019 (000' EGP)**

| Credit Rating Stages | Retail | | | | | | |
|---|---|---|---|---|---|---|---|
| | Overdrafts | Credit cards | Personal loans | Mortgage | Overdrafts | Direct loans | Total loans and facilities to customers and banks |
| Stage 1 | 616,987 | 106,381 | 3,436,212 | 51,632 | 2,264,993 | 19,171,603 | 25,647,808 |
| Stage 2 | 13,539 | 1,176 | 70,521 | 453 | 2,792,972 | 7,824,620 | 10,703,281 |
| | 630,526 | 107,557 | 3,506,733 | 52,085 | 5,057,965 | 26,996,223 | 36,351,089 |

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

31 December 2018 (000' EGP)

| Rating | Retail | | | | Corporate | | |
|---|---|---|---|---|---|---|---|
| | Overdrafts | Credit cards | Personal loans | Mortgage | Overdrafts | Direct loans | Total loans and facilities to customers and banks |
| Performing loans | 447,666 | 69,698 | 2,470,512 | 22,744 | 4,009,900 | 25,461,221 | 32,481,741 |
| Regular follow up | 32,515 | 24,048 | 855,346 | 17,948 | 715,978 | 3,203,506 | 4,849,341 |
| Watch list | - | - | - | - | 142,675 | 202,944 | 345,619 |
| | 480,181 | 93,746 | 3,325,858 | 40,692 | 4,868,553 | 28,867,671 | 37,676,701 |

## Notes to the financial statements
## For the financial period ended 31 March 2019

**Loans and facilities with past dues but 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:

**31 March 2019 (000' EGP)**

| | Retail | | | | |
|---|---|---|---|---|---|
| | **Overdrafts** | **Credit cards** | **Personal loans** | **Mortgage** | **Total** |
| Past dues up to 30 days | - | 1,256 | 17,157 | 18 | **18,431** |
| Past due 30 to 60 days | - | 338 | 4,181 | 1 | **4,520** |
| Past due 60 to 90 days | - | 83 | 6,618 | 41 | **6,742** |
| **Total** | **-** | **1,677** | **27,956** | **60** | **29,693** |

| | Corporate | | | | |
|---|---|---|---|---|---|
| | **Overdrafts** | **Direct loans** | **Syndicated loans** | **Other loans** | **Total** |
| Past dues up to 30 days | - | 211,919 | - | - | **211,919** |
| Past due 30 to 60 days | - | 889,612 | - | - | **889,612** |
| Past due 60 to 90 days | - | 4,098 | - | - | **4,098** |
| **Total** | **-** | **1,105,629** | **-** | **-** | **1,105,629** |

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 2018 (000' EGP)

| | Retail | | | | |
|---|---|---|---|---|---|
| | **Overdrafts** | **Credit cards** | **Personal loans** | **Mortgage** | **Total** |
| Past dues up to 30 days | - | 4,378 | 11,927 | - | 16,305 |
| Past due 30 to 60 days | - | 76 | 3,900 | - | 3,976 |
| Past due 60 to 90 days | - | 150 | 3,526 | - | 3,676 |
| Total | - | 4,604 | 19,353 | - | 23,957 |

| | Overdrafts | Direct loans | Corporate Syndicated loans | Other loans | Total |
|---|---|---|---|---|---|
| Past dues up to 30 days | - | 517,665 | - | - | 517,665 |
| Past due 30 to 60 days | - | 89,461 | - | - | 89,461 |
| Past due 60 to 90 days | - | 36,302 | - | - | 36,302 |
| Total | - | 643,428 | - | - | 643,428 |

**Loans and facilities subject to individual impairment**

- **Loans and facilities to customers**

Balance of Loans and facilities subject to individual impairment amounted, before taking into consideration cash flows from collaterals, to EGP 919,545 compared to EGP 1,065,711 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 :

000' EGP

**31 March 2019**

| | Retail | | | | Corporate | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Overdrafts** | **Credit cards** | **Personal loans** | **Mortgage** | **Overdrafts** | **Direct loans** | **Syndicated loans** | **Other loans** | **Total** |
| **Indivdual loans subject to impairment** | 27 | 2,143 | 15,994 | - | 535,401 | 365,980 | - | - | **919,545** |
| **Fair value of collaterals** | - | 595 | 14,372 | - | 392,303 | 27,489 | - | - | **434,759** |

000' EGP

31 December 2018

| | Retail | | | | Corporate | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Valuation | Overdrafts | Credit cards | Personal loans | Mortgage | Overdrafts | Direct loans | Syndicated loans | Other loans | Total |
| Individual loans subject to impairment | 4,899 | 2,018 | 97,820 | 1,200 | 566,731 | 393,043 | - | - | 1,065,711 |
| Fair value of collaterals | - | - | 37,252 | - | 354,315 | 58,779 | - | - | 450,346 |

### M. Impairment of non-financial assets

Assets that do not have definite life time -except for goodwill- 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 recognised 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 profit and loss.

## N. Fixed assets

- Lands and buildings are primarily represented in head offices, branches and offices. All assets are presented at historical cost less depreciation and impairment losses. Historical cost includes expenses associated directly with acquiring fixed assets items.

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

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

| | |
|---|---|
| Buildings | 50 years |
| Furniture and safes | From 10 to 40 years |
| Typewriters, calculators, and air conditioners | 8 years |
| Motor vehicales | 5 years |
| Computers and core systems | 5 years |
| Fixtures and fittings | 5 years |

- Residual values and useful lives of fixed assets are reviewed on date of financial statements and are adjusted if necessary. Depreciable Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recovered. An asset's carrying amount is written down immediately to its recoverable value if the asset's carrying amount exceeds its estimated recoverable amount.
- The recoverable amount is the higher of the asset's net selling amount and value in use. Profits and losses on disposals from fixed assets are determined by comparing net proceeds with carrying amount. Profits/ (losses) are included in other operating income (expenses) in the statement of profit and loss.

## O. Intangible assets

### O/1 Computer Software

Expenses related to development of maintenance of computer are recognised as expense in statement of income when incurred. Expenses related directly to specific software controlled by the bank and expected to generate economic benefits exceeding its cost for more than one year are recognised as intangible asset. Direct expenses include cost of employees in software development team in addition to appropriate share from relevant general expenses.
The expenses which lead to the increase or expansion in the performance of computer software beyond their original specifications are recognised as a development cost and are added to the original software cost.

The computer software cost recognised as an asset is amortised over the expected useful life of no more than five years.

### O/2 Other intangible assets

These comprise intangible assets other than goodwill and computer software (including but not limited to trademarks, licenses, lease rewards).

Other intangible assets are recognised at cost of acquisition and amortised on a straight-line basis or on the basis of expected economic benefits over the estimated useful lives. For assets that do not have a definite useful life, they are not amortised, but impairment is tested annually and the impairment value (if any) is charged to the statement of profit and loss.

### P. 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.

### Q. Leases

Finance leases are accounted for in accordance with Law 95 of 1995 concerning Finance Lease if the contract grants the right to the lessee to purchase the asset on a specified date and at a specified value; and the contract period represents at least 75 % of the expected useful life of the asset, or the present value of the total lease payments represents at least 90% of the value of the asset. Other leases are considered operating lease.

### Q/1 Leasing (lessee)

Finance lease contracts, lease costs including maintenance expense of leased assets are recognised under expenses in the statement of profit and loss in the year incurred. If the Bank decides to exercise the right to purchase the leased assets, the cost of this right of purchase is capitalised as an asset within the fixed asset and depreciated over the assets' expected remaining useful life in the same way used with similar assets.

Payments made under operating leases, less any discounts received from the lessor, are recognised as expense in the statement of profit and loss on a straight-line basis over the period of the lease.

### Q/2 Leasing (lessor)

For financing lease assets, these are recognised as fixed assets in the balance sheet and are depreciated over the expected useful life of the related asset in the same method followed with similar assets. Lease income is recognised on the basis of the interest rate on the lease contract as well as an amount equal to the cost of depreciation for the year. The difference between the lease income recognised in the statement of profit and loss and the total accounts of the finance lease customers is carried to the financial position until the lease expires and is used to offset the net carrying amount of the leased asset. Maintenance and insurance expenses are carried to statement of income when incurred to the extent that is not carried to the tenant.

Where there is objective evidence that the Bank will not be able to collect all the financial lease receivables, they are reduced to the expected recoverable amount.

As for operating lease assets, they are presented within fixed assets in the financial position and are depreciated over the asset's expected useful life using the same method applicable to similar assets. The lease income less any discount granted to the lessee will be recognised using the straight line method over the contract term.

### R. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include balances due within three months from the date of acquisition, which includes cash and balances with central banks other than the mandatory reserve, and balances with banks and other government notes.

### S. Other provisions

Other provisions are recognised when there is a present legal or constructive obligation as a result of past events; it is probable that an outflow of bank's resources will be required to settle the obligation; with the probability to estimate reliable amount

Where there are a number of similar obligations, the outflow required for settlement is determined, taking into consideration the group of obligations as a whole. The provision is recognised even if the likelihood of an outflow with respect to an item in the group is minimal.

Provisions no longer required fully or partially are reversed in other operating income (expenses).

The current value of payments to settle the obligations that must be settled after one year from the financial position date using an appropriate rate in accordance with the terms of settlement, without being affected by the prevailing tax rate, which reflects the time value of money. If the settlement term is less than one year, the estimated value of the obligation is calculated unless it has a material impact; otherwise, it is calculated at the current value.

### T. Employee benefits

#### Social Insurance:

The bank shall pay contributions to the General Authority for Social Insurance and shall not bear any additional liabilities once such contributions are paid. These periodic contributions are carried to statement of profit and loss for the period in which they are realized and are listed in employees' benefits.

#### Employees' Profit Share:

The bank pays a percentage of the cash dividends expected to be distributed as profit share to the employees, The employees' profit share is recognized as a part of dividends through equity and as liabilities when approved by the Bank's shareholders general assembly meeting, No liability is recognized in employees' undistributed profit share.

#### Collective Insurance Policies:

The bank and employees contribute to collective insurance policies by a percentage from employees' salaries and the monthly contributions are set aside. The bank has no additional liabilities after payment of contributions. The prepaid contributions are recognised within the assets to the extent that the advance payment result in future payments or cash refund.

#### Other retirement benefits obligations:

The bank provides health care for retired persons after end of service and entitlement of these benefits is usually conditional on the employee remaining in service until retirement age and completing a minimum period of service. Expected costs for these benefits are entitled over the employment period by using accounting method similar to the method used in defined benefit plans.

### U. Income tax

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

The income tax is recognised on the basis of the net taxable profit using the effective tax rate at the balance sheet date in addition to previous years tax adjustments.

Deferred tax arising from temporary time differences between the carrying amount of assets and liabilities are recognised in accordance with the accounting bases and the value based on the tax bases. Deferred tax is determined based on the method used to realise or settle the current values of these assets and liabilities using the tax rates prevailing at the balance sheet date.

The Bank's deferred tax assets are recognised if it is probable that sufficient taxable profits will be realised in the future whereby the asset can be utilised. 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.

### V. Borrowing

Borrowings are recognised initially at fair value less the cost of obtaining the loan. Borrowings are subsequently stated at amortised cost; any difference between net proceeds and the redemption value is recognised in the statement of profit and loss over the period of the borrowings using the effective interest method.

### W. Capital

#### W/1 Capital Cost

Issuance costs directly attributable to issuance of new shares, or shares for acquisition of a business, or share options issued are presented as a deduction from equity and in net proceeds after tax.

#### W/2 Dividends

Dividends are recognised in equity in the period in which they are approved by the general assembly of shareholders. These dividends include the employees' profit share and Board of Directors' remunerations as stipulated by the Articles of Association and the Law.

Net profits of the bank are annually distributed after deduction of all general expenses and other costs as follows:

1) An amount of 5 % is deducted from the profits to form the statutory reserve. Such set aside shall cease when the reserve reaches an amount equivalent to 100% of the paid up capital. Once the reserve reaches below that limit, deduction should resume again.
2) Then, the amount required for distributing the first share of profits amounting 5% paid to shareholders based on the value of their shares shall be set aside provided that if the profit for any year does not allow distribution of this share, it shall not be claimed from profits of the following years.
3) Afterwards, 10% of the profits are allocated to the staff and workers of the bank, and are distributed according to the rules proposed by the Board of Directors and approved by the General Assembly which should not exceed the sum of annual wages of the bank's workers.
4) No more than 10% of the remaining profit shall be allocated as a remuneration for the Board of Directors.
5) The remaining profit is distributed to shareholders as an additional share from profits or carried to the following year based on the Board of Directors approval.

### X. Custodial Activities

The Bank performs custodial activities that result in ownership or management of assets on behalf of individuals, trusts, and retirement benefit funds. These assets and the related profits are excluded from the Bank's financial statements as they are not duly owned by the Bank.

### Y. Comparative figures

Where necessary, comparative figures are reclassified to conform to changes in presentation in the disclosure period.

## 3. 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 minimise 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 the failure of the counterparty to fulfil its commitments. Credit risk is one of most significant risks to the Bank. Therefore, the management carefully manages its exposure to such risk. The credit risk is represented principally in lending activities that give rise to loans and facilities and the investment activities that result in debt instruments included in the Bank's assets in addition to off-balance sheet financial instruments such as loan commitment. Credit risk management and control processes are conducted by the team of credit risk management at the Department of Risk Management that submits its reports periodically to the Committee of the Board, credit committees, senior management and heads of each business unit.

### A/1 <u>Credit risk measurement</u>

**Loans and facilities to banks and customers**

- To measure credit risk relating to Loans and facilities to banks and customers, the Bank considers three components as follows:

*Probability of default - by the client or third party towards fulfilment of its contractual obligations.
*Current position and its likely future development, from which the Bank derives the (Exposure at default balance)
.

- The day-to-day management of the Bank's activity involves those credit risk measures that reflect the expected loss (the expected loss model) required by the Basel Committee for Banking Supervision. Operational measures may be in conflict with the impairment charge in accordance with EAS 26 which depends on the realised losses in the financial statements date (model of realized losses) rather than expected losses (Note A/3).

- The Bank assesses probability of default at the level of each customer using internal assessment techniques to classify worthiness tailored to the different types of customers. These techniques were developed internally and take into account the statistical analysis, along with personal judgement of credit officials to reach the appropriate credit worthiness rating. Bank's customers are segmented into four rating classes. Credit worthiness structure used by the Bank as shown in the following table reflects probability of default for each rating, which means basically that the credit positions migrate among categories depending on the change in the assessment of the probability of default. The assessment techniques are reviewed and updated when necessary The Bank periodically assesses the performance of the techniques of credit worthiness rating and capability to forecast the cases of default.

**The Bank's internal rating categories**

| Rating | Description |
|---|---|
| 1 | Performing loans |
| 2 | Regular Follow-up |
| 3 | Watch list |
| 4 | Non-performing loans |

- The position exposure at default is based on the amounts the Bank expects to be outstanding at the time of default. For example, as for loans, this position is the nominal value. As for commitments, the Bank includes all actual withdrawals in addition to any withdrawals expected to occur until the date of late payment, if any.

- Default loss or sharp loss represents the Bank's expectation of the extent of loss when the debt is claimed, when late payment occurs. This is represented by the loss percentage to the loan that differs according to the type of debtor, the priority of the claim, and the availability of guarantees or any other credit hedging.

**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.

**Notes to the financial statements**
**For the financial period ended 31 March 2019**

- 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 recognised 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 bad debts amounted EGP 1,596 during the period ended on March 31, 2019.

| Bank's rating | 31 March 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| | Loans and facilities % | Impairment loss provision % | Loans and facilities % | Impairment loss provision % |
| Stage 1 | 68,98% | 17,22% | 86,3% | 19,9% |
| Stage 2 | 28,62% | 17,27% | 10,1% | 7,7% |
| Stage 3 | 2,40% | 65,51% | 3,6% | 72,4% |
| | 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

| | 31 March 2019 000' EGP | 31 December 2018 000' EGP |
|---|---|---|
| **Balance Sheet items exposed to credit risks** | | |
| Due from banks | **2,909,538** | 3,133,484 |
| Loans and facilities to banks and customers | | |
| Retail loans: | | |
| - Overdrafts | **630,553** | 485,080 |
| - Credit cards | **109,976** | 100,367 |
| - Personal loans | **3,552,084** | 3,443,032 |
| - Mortgage | **52,144** | 41,891 |
| Corporate loans: | | |
| - Overdrafts | **5,593,367** | 5,435,296 |
| - Direct loans | **28,467,832** | 29,904,131 |
| Financial investments: | | |
| Debt instruments - bonds | **2,829,093** | 3,197,834 |
| Debt instruments - treasury bills | **19,623,864** | 23,100,807 |
| Other assets | **722,031** | 553,207 |
| **Total** | **64,490,482** | 69,395,129 |
| **Off-balance sheet items exposed to credit risk** | | |
| Acceptance documents | **1,103,432** | 1,070,746 |
| Letters of guarantee | **3,762,450** | 3,934,060 |
| Letters of credit Import / Export | **1,406,926** | 2,109,637 |
| Collaterals upon other banks requests or by their warranty | **2,836,540** | 3,243,593 |
| | **9,109,348** | 10,358,036 |

**Notes to the financial statements**
**For the financial period ended 31 March 2019**

**A/5 Debt instruments and treasury bills**

The table below represents debt instruments analysis in accordance with the rating agencies at the end of financial period according to Fitch Rating as on March 31, 2019.

| | | | 000' EGP |
|---|---|---|---|
| | Treasury bills | Investments in securities | Total |
| B | 19,623,864 | 2,829,093 | 22,452,957 |
| Total | 19,623,864 | 2,829,093 | 22,452,957 |

## (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 profit and loss 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 amortised 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:

**Notes to the financial statements**
**For the financial period ended 31 March 2019**

**As at 31 March 2019**
**Equivalent in EGP 000'**

| | EGP | USD | Euro | GBP | Other currencies | Total |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash and Due from Central Bank | 3,566,314 | 1,948,937 | 81,495 | 4,858 | 22,278 | 5,623,882 |
| Due from banks | 417,290 | 1,824,380 | 439,771 | 72,095 | 152,170 | 2,905,706 |
| Loans and facilities to customers | 22,132,962 | 13,852,798 | 1,688,060 | 113 | 2,194 | 37,676,127 |
| Financial derivatives | 1,040 | - | - | - | - | 1,040 |
| Financial investments: | | | | | | |
| - At fair value through other comprehensive income, | 14,876,559 | 5,523,186 | 375 | - | - | 20,400,120 |
| At amortised cost | 1,958,885 | - | - | - | - | 1,958,885 |
| - Investments in associates | 34,857 | - | - | - | - | 34,857 |
| - At fair value through profit or loss | 37,855 | - | - | - | - | 37,855 |
| Other assets | 1,629,018 | 104,744 | 13 | 2 | 24 | 1,733,801 |
| **Total financial assets** | 44,654,780 | 23,254,045 | 2,209,714 | 77,068 | 176,666 | 70,372,273 |
| **Financial liabilities** | | | | | | |
| Due to banks | 1,556,103 | 4,151,009 | - | - | 130 | 5,707,242 |
| Customers' deposits | 34,932,072 | 15,661,116 | 2,220,088 | 76,599 | 180,474 | 53,070,349 |
| Other loans | 76,025 | 3,427,150 | - | - | - | 3,503,175 |
| Other provisions | 151,035 | 22,124 | 3,107 | - | - | 176,266 |
| Other liabilities | 7,766,654 | 148,057 | 352 | 97 | 81 | 7,915,241 |
| **Total financial liabilities** | 44,481,889 | 23,409,456 | 2,223,547 | 76,696 | 180,685 | 70,372,273 |
| Net financial position March 31, 2019 | 172,891 | (155,411) | (13,833) | 372 | (4,019) | - |
| As of 31 December 2018 | | | | | | |
| Total financial assets | 44,100,122 | 26,727,773 | 2,413,973 | 94,460 | 159,782 | 73,496,110 |
| Total financial liabilities | 44,118,504 | 26,699,393 | 2,431,333 | 96,032 | 150,848 | 73,496,110 |
| Net of financial position for the balance sheet - as of 31 December 2018 | (18,382) | 28,380 | (17,360) | (1,572) | 8,934 | - |

**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 categorised by the earlier repricing or maturity dates:

## Notes to the financial statements
## For the financial period ended 31 March 2019

(000" EGP)

| As at 31 March 2019 | Up to one month | Over 1 month to 3 months | Over 3 months to 1 year | Over 1 year to 5 years | Over 5 years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash and Due from Banks | - | 1,761,265 | - | - | - | 3,862,617 | 5,623,882 |
| Due from banks | 2,498,502 | - | - | - | - | 407,204 | 2,905,706 |
| Loans and facilities to customers gross (before deducting provisions) | 5,837,999 | 4,540,363 | 11,470,322 | 15,882,983 | 674,289 | - | 38,405,956 |
| Financial derivatives | 1,040 | - | - | - | - | - | 1,040 |
| **Financial investments:** | | | | | | | |
| At fair value through other comprehensive income. | - | 74,702 | 19,552,349 | 282,310 | 490,759 | - | 20,400,120 |
| At amortised cost | - | - | - | 527,897 | 1,430,988 | - | 1,958,885 |
| Investments in associates | - | - | - | - | 34,857 | - | 34,857 |
| At fair value through profit and loss | 37,855 | - | - | - | - | - | 37,855 |
| **Total financial assets** | 8,375,396 | 6,376,330 | 31,022,671 | 16,693,190 | 2,630,893 | 4,269,821 | 69,366,301 |
| **Financial liabilities** | | | | | | | |
| Due to banks | 5,707,242 | - | - | - | - | - | 5,707,242 |
| Customers' deposits | 20,818,809 | 10,008,117 | 4,216,989 | 16,612,812 | 606,186 | 807,436 | 53,070,349 |
| Other loans | - | - | - | 648,190 | 2,854,985 | - | 3,503,175 |
| **Total financial liabilities** | 26,526,051 | 10,008,117 | 4,216,989 | 17,261,002 | 3,461,171 | 807,436 | 62,280,766 |
| **Interest repricing Gap as of 31 March 2019** | (18,150,655) | (3,631,787) | 26,805,682 | (567,812) | (830,278) | 3,462,385 | 7,087,535 |

| As at 31 December 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total financial assets | 6,897,190 | 10,036,961 | 28,073,464 | 21,575,877 | 4,104,655 | 1,998,722 | 72,686,869 |
| Total financial liabilities | 27,275,289 | 10,738,661 | 7,038,687 | 16,652,503 | 3,579,876 | 725,484 | 66,010,500 |
| Interest re-pricing gap as of 31 December 2018 | (20,378,099) | (701,700) | 21,034,777 | 4,923,374 | 524,779 | 1,273,238 | 6,676,369 |

**(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 behaviour 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.

**Notes to the financial statements**
**For the financial period ended 31 March 2019**

(000' EGP)

**31 March 2019**

| | Up to one month | Over 1 month to 3 months | Over 3 months to 1 year | Over 1 year to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| **Due to banks** | 5,707,242 | - | - | - | - | 5,707,242 |
| **Customers' deposits** | 22,043,231 | 10,008,117 | 4,216,989 | 16,195,826 | 606,186 | 53,070,349 |
| **Other loans** | - | - | - | 1,684,617 | 1,818,558 | 3,503,175 |
| **Total financial liabilities** | 27,750,473 | 10,008,117 | 4,216,989 | 17,880,443 | 2,424,744 | 62,280,766 |
| **Total financial assets** | 12,598,294 | 10,374,472 | 27,475,260 | 17,580,866 | 1,323,227 | 69,352,119 |

31 December 2018

(000' EGP)

| | Up to one month | Over 1 month to 3 months | Over 3 months to 1 year | Over 1 year to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Financial liabilities | | | | | | |
| Due to banks | 5,856,433 | 3,384,448 | - | - | - | 9,240,881 |
| Customers' deposits | 22,636,965 | 9,906,901 | 3,993,375 | 15,994,702 | 626,976 | 53,158,919 |
| Other loans | - | - | - | 1,729,772 | 1,880,928 | 3,610,700 |
| Total financial liabilities | 28,493,398 | 13,291,349 | 3,993,375 | 17,724,474 | 2,507,904 | 66,010,500 |
| Total financial assets | 11,032,044 | 19,772,635 | 17,410,778 | 22,690,659 | 1,780,754 | 72,686,870 |

**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

(000' EGP)

| 31 March 2019 | Up to one month | Over 1 month to 3 months | Over 3 months to 1 year | Over 1 year to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **IRS derivatives** | | | | | | |
| **Outflows** | - | - | - | 173,196 | - | 173,196 |
| **Inflows** | - | - | - | 173,196 | - | 173,196 |
| **Total outflows** | - | - | - | 173,196 | - | 173,196 |
| **Total inflows** | - | - | - | 173,196 | - | 173,196 |

| 31 December 2018 | Up to one month | Over 1 month to 3 months | Over 3 months to 1 year | Over 1 year to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| IRS Derivatives | | | | | | |
| Outflows | - | - | - | 179,136 | - | 179,136 |
| Inflows | - | - | - | 179,136 | - | 179,136 |
| Total outflows | - | - | - | 179,136 | - | 179,136 |
| Total inflows | - | - | - | 179,136 | - | 179,136 |

**Notes to the financial statements**
**For the financial period ended 31 March 2019**
**Off-financial position items**
According to the table stated below under Note (33)

**31 March 2019**

(000' EGP)

| | Not later than 1 year | More than 1 year and less than 5 years | Over 5 years | Total |
|---|---|---|---|---|
| **Financial collaterals, accepted bills and other financial facilities** | **9,109,348** | **-** | **-** | **9,109,348** |
| **Operating lease commitments** | **22,282** | **110,397** | **35,331** | **168,010** |
| **Capital commitments resulting from the acquisition of fixed assets** | **188,608** | **-** | **-** | **188,608** |
| **Total** | **9,320,238** | **110,397** | **35,331** | **9,465,966** |

(000' EGP)

| | Not later than 1 year | More than 1 year and less than 5 years | Over 5 years | Total |
|---|---|---|---|---|
| Financial collaterals, accepted bills and other financial facilities | 10,358,036 | - | - | 10,358,036 |
| Operating lease commitments | 17,029 | 87,294 | 33,055 | 137,378 |
| Capital commitments resulting from the acquisition of fixed assets | 220,040 | - | - | 220,040 |
| Total | 10,595,105 | 87,294 | 33,055 | 10,715,454 |

**Notes to the financial statements**
**For the financial period ended 31 March 2019**

**(D) Fair value of financial assets and liabilities**

**D/1 Financial instruments measured at fair value using valuation techniques**

- The bank does not have financial instrumenst measured at estimated fair value using a valuation method.

**D/2 Financial instruments not measured at fair value**

- The table below summarises the carrying value and the fair value for financial assets and liabilities not presented in the Bank's statement of financial position at their fair value:

(000' EGP)

| | Carrying value | | Fair value | |
|---|---|---|---|---|
| | **31 March 2019** | 31 December 2018 | **31 March 2019** | 31 December 2018 |
| **Financial assets** | | | | |
| Due from banks | **2,905,706** | 3,133,484 | **2,905,706** | 3,133,484 |
| Loans and facilities to customers | **37,676,127** | 39,409,797 | **38,273,946** | 39,274,336 |
| **Financial investments:** | | | | |
| At fair value through other comprehensive income. | | | | |
| Equity instruments – unqouted | **6,882** | 7,230 | **6,882** | 7,230 |
| At amortised cost | | | | |
| - Debt instruments - qouted | **1,945,228** | 2,264,972 | **1,838,700** | 2,140,157 |
| **Financial liabilities** | | | | |
| Due to banks | **5,707,242** | 9,240,881 | **5,707,242** | 9,240,881 |
| Customers' deposits | **53,070,349** | 53,158,919 | **54,987,031** | 55,078,801 |
| Other loans | **3,503,175** | 3,610,700 | **3,498,194** | 3,592,553 |

**Due from banks**

Value of overnight placements and deposits bearing variable interest rate represents its current value. The expected fair value for deposits bearing variable interest rate is estimated based on the discounted cash flows using the interest rate prevailing in the financial markets for debts with similar credit risk and due dates.

**Loans and facilities to customers**

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

**Investments in securities**

Investments in securities shown in the above table include only assets that are bearing interest and held-to-maturity. Assets are evaluated at fair value through other comprehensive income except for equity instruments which the Bank has been unable to reliably estimate their fair value.

Fair value of held-to-maturity financial assets is determined based on market prices or brokers prices.

**Due to banks and customers**

The estimated fair value of deposits of indefinite maturity, which includes interest-free deposits, represents the amount that will be paid on call.

The fair value for deposits that carry a fixed interest and other borrowings not traded in an active market is determined based on discounted cash flows using the interest rate on the new debts with similar maturity date.

**Issued debt instruments**

The aggregate fair value is calculated based on prevailing market prices. For those notes whose quoted market prices are not available, a discounted cash flow model is used based on the current rate appropriate for the remaining term to maturity.

## (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.

**Notes to the financial statements**
**For the financial period ended 31 March 2019**

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 amortised 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 amortisation 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:

**Notes to the financial statements**
**For the financial period ended 31 March 2019**

| | 31 March 2019<br>000' EGP | 31 December 2018<br>000' EGP |
|---|---|---|
| **Tier 1 (Basic capital)** | | |
| Share capital | 1,500,000 | 1,500,000 |
| General reserve | 606,773 | 606,773 |
| Legal reserve | 381,661 | 381,661 |
| Capital reserve | 123,340 | 123,340 |
| Risks reserve of IFRS 9 | - | 268,347 |
| General risk reserve | 173,285 | - |
| Retained earnings | 2,979,420 | 2,979,420 |
| Quarterly profit and loss | 509,991 | - |
| Disposals | (66,779) | (66,705) |
| **Total core capital** | 6,207,691 | 5,792,836 |
| **Tier 2 (Cushion capital)** | | |
| Equivalent to the general risk provision | 304,861 | 268,939 |
| Loans/subordinated deposits | 952,578 | 985,248 |
| 45% of increase in fair value over carrying value of financial investments at fair value through other comprehensive income, at amortised cost and subsidiaries and associates | 54,218 | 13,902 |
| 45% of special reserve | - | 4,142 |
| **Total subordinated capital** | 1,311,657 | 1,272,231 |
| **Total Capital adequacy after disposals** | 7,519,348 | 7,065,067 |
| **Risk-weighted assets and contingent liabilities** | | |
| Total credit risk | 32,409,887 | 29,968,024 |
| Capital requirements for market risk | 29,420 | 165,863 |
| Capital requirements for operational risk | 4,342,004 | 4,342,004 |
| Value of waive border assesments for the 50 largest client | 5,911,806 | 4,729,921 |
| **Total risk-weighted assets and contingent liabilities** | 42,693,117 | 39,205,812 |
| **Capital adequacy ratio (%)** | 17.61% | 18.02% |

**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".

**Notes to the financial statements**
**For the financial period ended 31 March 2019**

| | 31 March 2019 | 31 December 2018 |
|---|---|---|
| | 000' EGP | 000' EGP |
| **Tier 1 of Capital after disposals (1)** | 6,207,691 | 5,792,836 |
| Cash and Due from Central Bank | 5,623,882 | 3,951,317 |
| Balances due from banks | 2,905,706 | 2,953,484 |
| Investments through profit and loss | 37,855 | - |
| Financial investments at fair value through other comprehensive income. | 20,400,120 | 24,046,302 |
| Investments at amortised cost | 1,958,885 | 2,286,722 |
| Investments in associates | 34,857 | 37,531 |
| Loans and facilities to customers | 38,005,717 | 38,869,953 |
| Fixed assets (after deducting impairment provision and accumulated depreciation) | 347,013 | 325,489 |
| Other assets | 1,386,789 | 1,251,270 |
| Deductible exposures (some of Capital base Tier 1 deductions) | (56,558) | (53,047) |
| **Total Exposures of in-balance sheet items after Tier 1 deductions** | 70,644,266 | 73,669,021 |
| Replacement cost | 1,343 | 2,019 |
| Expected future value | 867 | 896 |
| **Total exposures resulted from derivatives contracts** | 2,210 | 2,915 |
| **Total exposures resulted from financing securities operations** | - | - |
| **Total exposures of in-balance sheet items, derivatives contracts and financing securities operations** | 70,646,476 | 73,671,936 |
| Letters of credit - Importing | 280,553 | 417,499 |
| Letters of credit - Exporting | 832 | 4,428 |
| Letters of guarantee | 1,881,225 | 1,967,030 |
| Letters of guarantee upon other banks' request or by their warranty | 1,418,270 | 1,621,797 |
| Accepted bills | 1,103,432 | 1,070,746 |
| **Total contingent liabilities** | 4,684,312 | 5,081,500 |
| Capital commitments | 188,608 | 220,040 |
| Legal claims | 14,358 | 14,529 |
| Commitments for operating lease contracts | 168,010 | 137,378 |
| **Commitments for loans, guarntees and facilities (unused limits) with original due date** | | |
| Irrevocable more than one year | 426,468 | 132,866 |
| Irrevovable one year or less | - | - |
| Unconditional revocable at any time by the bank and without prior notice, or that includes provisions of self- cancel because of the deterioration of the creditworthiness of the borrower | 652,520 | 1,147,926 |
| **Total commitments** | 1,449,964 | 1,652,739 |
| **Total off balance sheet exposures** | 6,134,276 | 6,734,239 |
| **Total in-balance sheet and off-balance sheet exposures (2)** | 76,780,752 | 80,406,175 |
| **Financial leverage ratio (1/2)** | 8,08% | 7,20% |

**Notes to the financial statements**
**For the financial period ended 31 March 2019**

## 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. Income taxes

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

The income taxes based on net taxable profit are recognised 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 recognised if it is probable that sufficient taxable profits will be realised in the future whereby the asset can be utilised. 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

| | 31 March 2019<br>000' EGP | 31 March 2018<br>000' EGP |
|---|---|---|
| **Interest income from loans and similar revenues:** | | |
| **Loans and facilities:** | | |
| Customers | **1,171,895** | 1,180,463 |
| Treasury bills | **759,274** | 251,386 |
| Deposits and current accounts | **49,838** | 95,736 |
| Investments in debt instruments at fair value through profit and loss and other comprehensive income | **91,207** | 119,102 |
| **Total** | **2,072,214** | 1,646,687 |
| **Cost of deposits and similar costs from:** | | |
| **Deposits and current accounts** | | |
| Banks | **(117,833)** | (129,896) |
| Customers | **(1,138,614)** | (820,469) |
| | **(1,256,447)** | (950,365) |
| Other loans | **(45,819)** | (44,829) |
| **Total** | **(1,302,266)** | (995,194) |
| **Net** | **769,948** | 651,493 |

**Notes to the financial statements**
**For the financial period ended 31 March 2019**

## 6. Net fees and commission income

| | 31 March 2019<br>000' EGP | 31 March 2018<br>000' EGP |
|---|---|---|
| **Fees and commission revenues:** | | |
| Fees and commissions related to credit | 75,623 | 140,881 |
| Custody fees | 1,374 | 2,185 |
| Other fees | 24,399 | 55,399 |
| | 101,396 | 198,465 |
| **Fees and commission expenses:** | | |
| Other fees paid | (4,942) | (5,241) |
| **Net** | 96,454 | 193,224 |

## 7. Dividends

| | 31 March 2019<br>000' EGP | 31 March 2018<br>000' EGP |
|---|---|---|
| Financial investments at fair value through other comprehensive income. | - | 260 |
| | - | 260 |

## 8. Net income from financial investments at fair value through profit and loss

| | 31 March 2019<br>000' EGP | 31 March 2018<br>000' EGP |
|---|---|---|
| **Foreign exchange operations:** | | |
| Profits on foreign currency operations | 33,313 | 16,747 |
| Profits (loss) on valuation of exchange interest swaps | (675) | 1,620 |
| Valuation of equity instruments through profits and losses | 22,702 | - |
| | 55,340 | 18,367 |

## 9. Gains (losses) from financial investments

| | 31 March 2019<br>000' EGP | 31 March 2018<br>000' EGP |
|---|---|---|
| Gains (loss) on sale of treasury bills | 4,280 | 1,910 |
| Financial investments impairment losses | (327) | - |
| | 3,953 | 1,910 |

## 10. Share of results from associates

| | 31 March 2019<br>000' EGP | 31 March 2018<br>000' EGP |
|---|---|---|
| International Company for postal services | (2,974) | - |
| Al Watani Capital Company for asset management | 300 | - |
| | (2,674) | - |

**Notes to the financial statements**
**For the financial period ended 31 March 2019**

## 11. General and administrative expenses

| | 31 March 2019<br>000' EGP | 31 March 2018<br>000' EGP |
|---|---|---|
| **Staff cost** | | |
| Wages and salaries | 95,834 | 96,171 |
| Social insurance | 6,010 | 4,055 |
| **Pension other benefits cost:** | | |
| Defined contribution plan | 11,211 | 11,106 |
| | 113,055 | 111,332 |
| Other administrative expenses | 123,662 | 107,145 |
| **Total** | 236,717 | 218,477 |

## 12. Other operating income (expenses)

| | 31 March 2019<br>000' EGP | 31 March 2018<br>000' EGP |
|---|---|---|
| Valuation Losses of assets and liabilities balances in monetary foreign currencies other than trading | (6,204) | (211) |
| Assets' revenues reverted to the Bank in settlement of debts | 9,354 | 5 |
| Assets' expenses reverted to the Bank in settlement of debts | (196) | (62) |
| Gains/loss on sale of fixed assets | (19) | 63,858 |
| Finance and operating lease expenses | (11,106) | (6,095) |
| Other provisions | 142 | (10,500) |
| Others | 145 | 814 |
| | (8,168) | 47,809 |

## 13. Income tax expenses

| | 31 March 2019<br>000' EGP | 31 March 2018<br>000' EGP |
|---|---|---|
| Current income tax | 216,842 | 145,815 |
| Deferred tax | (63,485) | 126 |
| | 153,357 | 145,941 |

Additional information on deferred income tax was presented in Note (29). Taxes on the Bank's profits are different from the value resulting from the application of tax rates as follows:

**Tax reconciliation:**

| | 31 March 2019 | | 31 March 2018 | 000' EGP |
|---|---|---|---|---|
| | Tax Base | Taxation | Tax base | Taxation |
| Accounting profit before tax | 663,348 | | 642,836 | |
| **Income tax calculated according to accounting profit** | | 149,253 | | 144,638 |
| **Total income tax calculated according to accounting profit** | | 149,253 | | 144,638 |
| **Add / (less):** | | | | |
| Non deductible expenses | 7,356 | | - | |
| Income not subject to tax | - | | (260) | |
| Impact of retained provisions and yields | 58,966 | | 5,346 | |
| Tax settlements due to deferred tax | (63,485) | | - | |
| Other deductions | - | | 249 | |
| Net tax pool | 666,185 | | 648,171 | |
| Income tax according to tax return | | 152,090 | | 145,936 |
| Treasury bills and bonds tax | | 1,267 | | 5 |
| Income tax | | 153,357 | | 145,941 |
| Effective tax rate | | 23,12% | | 22,70% |

## 14. Cash and Due from Central Bank

| | 31 March 2019 000' EGP | 31 December 2018 000' EGP |
|---|---|---|
| Cash | 622,437 | 1,197,680 |
| Due from central bank (within the required reserve percentage) | 5,005,846 | 2,573,637 |
| Impact of applying IFRS (9) | (4,531) | - |
| Less: Provision for expected credit losses | 130 | - |
| | 5,623,882 | 3,771,317 |
| Non-interest bearing balances | 3,862,617 | 1,881,199 |
| Fixed interest balances | 1,761,265 | 1,890,118 |
| | 5,623,882 | 3,771,317 |

**Notes to the financial statements**
**For the financial period ended 31 March 2019**

## 15. Due from banks

| | 31 March 2019<br>000' EGP | 31 December 2018<br>000' EGP |
|---|---|---|
| Current accounts | 802,228 | 511,083 |
| Deposits | 1,467,277 | 2,442,401 |
| | 2,269,505 | 2,953,484 |
| Due from central bank (within the required reserve percentage) | 640,155 | 180,000 |
| Impact of applying IFRS (9) | (122) | - |
| Less: Provision for expected credit losses | (3,832) | - |
| | 2,905,706 | 3,133,484 |
| Non-interest bearing balances | 407,204 | 117,522 |
| Variable interest balances | 2,498,502 | 3,015,962 |
| | 2,905,706 | 3,133,484 |
| Current balances | 2,680,552 | 3,133,484 |
| Non-current balances | 225,154 | - |
| | 2,905,706 | 3,133,484 |

## 16. Loans and facilities to customers

| | 31 March 2019<br>000' EGP | 31 December 2018<br>000' EGP |
|---|---|---|
| Loans for customers | 36,949,476 | 38,043,447 |
| Murabaha | 1,456,480 | 1,366,350 |
| **Total loans and facilities to customers** | 38,405,956 | 39,409,797 |
| Less: | | |
| Impairment loss provision | (729,829) | (756,346) |
| Interest in suspense | - | (9,457) |
| **Net** | 37,676,127 | 38,643,994 |

| | 31 March 2019<br>000' EGP | 31 December 2018<br>000' EGP |
|---|---|---|
| **Retail** | | |
| Overdrafts | 630,553 | 485,080 |
| Credit cards | 109,976 | 100,367 |
| Personal loans | 3,552,084 | 3,443,032 |
| Real estate loans | 52,144 | 41,891 |
| **Total (1)** | 4,344,757 | 4,070,370 |
| **Corporates, including small loans to economic activities** | | |
| Overdrafts | 5,593,367 | 5,435,296 |
| Direct loans | 28,467,832 | 29,904,131 |
| **Total (2)** | 34,061,199 | 35,339,427 |
| **Total loans and facilities to customers (1+2)** | 38,405,956 | 39,409,797 |
| Less: | | |
| Impairment loss provision | | |
| Interest in suspense | (829,729) | (756,346) |
| | - | (9,457) |
| **Net** | 37,676,127 | 38,643,994 |

**Provision for impairment losses:**

The provision for impairment losses analysis for Loans and facilities to customers as follows:

**31 March 2019**

| | Retail<br>000' EGP | Corporate<br>000' EGP | Total<br>000' EGP |
|---|---|---|---|
| Balance at the beginning of the period | 40,440 | 715,906 | 756,346 |
| Impact of applying IFRS (9) | (21,309) | (59,770) | (81,079) |
| Less: Provision for expectd credit losses | 15,218 | 22,757 | 37,975 |
| Formed during the period | 100 | 14,668 | 14,768 |
| Proceeds from previous dead loans | - | 18,104 | 18,104 |
| Foreign exchange translation differences | - | (14,689) | (14,689) |
| Used during the period | (1,596) | - | (1,596) |
| **Balance at the end of the period** | 32,853 | 696,976 | 729,829 |

31 December 2018

| | Retail<br>000' EGP | Corporates<br>000' EGP | Total<br>000' EGP |
|---|---|---|---|
| Balance at the beginning of the year | 28,374 | 1,237,847 | 1,266,221 |
| Formed/returned during the year | - | 52,237 | 52,237 |
| Provisions no longer required | - | (20,300) | (20,300) |
| Proceeds from previous dead loans | - | 48,416 | 48,416 |
| Differences of revaluation of balances of provisions in foreign currencies | - | 9,757 | 9,757 |
| Transferred from corporate provisions into the individuals | 14,929 | (14,929) | - |
| Used during the period | (2,863) | (597,122) | (599,985) |
| Balance at the end of the year | 40,440 | 715,906 | 756,346 |

## 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 recognised 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 favour 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 favourable or unfavourable 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:

000' EGP

| | 31 March 2019 | | | 31 December 2018 | | |
|---|---|---|---|---|---|---|
| **Derivatives retained at fair value through profit and loss** | **Contractual Default amount** | **Assets** | **Liabilities** | Contractual Default amount | Assets | Liabilities |
| **Interest rate swaps** | 173,196 | 1,040 | - | 179,136 | 1,716 | - |
| **Total derivatives** | 173,196 | 1,040 | - | 179,136 | 1,716 | - |

**Notes to the financial statements**
**For the financial period ended 31 March 2019**

## 18. Financial investments

| | 31 March 2019<br>000' EGP | 31 December 2018<br>000' EGP |
|---|---|---|
| **Financial investments at fair value through other comprehensive income** | | |
| Debt instruments – unqouted- treasury bills | 19,623,864 | 23,100,807 |
| Debt instruments – unqouted- bonds | 587,897 | 648,897 |
| Debt instruments – quoted in the market | 282,310 | 283,966 |
| Investment funds at fair value | | |
| Al Mezan Fund | 5,676 | 6,750 |
| Ishraq Fund | 5,433 | 7,385 |
| Namaa Fund | 5,402 | 8,017 |
| AlHayah Fund | 5,317 | 5,000 |
| Equity instruments: | | |
| Unqouted: | 6,882 | 7,230 |
| Impact of applying IFRS (9) | (138,740) | - |
| Less: Provision for expected credit losses | 16,079 | - |
| **Total financial investments at fair value through other comprehensive income (1)** | 20,400,120 | 24,068,052 |
| **Financial investments at amortised cost** | | |
| Debt instruments -at amortised cost: | | |
| Fixed interest debt instruments listed in the market | 1,958,885 | 2,264,972 |
| **Total of financial investments at amortised cost (2)** | 1,958,885 | 2,264,972 |
| **Financial assets at fair value through statement of other comprehensive income.** | | |
| Investment funds at fair value | | |
| Al Meezan Fund | 16,216 | - |
| Ishraq Fund | 9,384 | - |
| AlHayah Fund | 5,318 | - |
| Enmaa Fund | 6,937 | - |
| **Total of financial investments at fair value through profit and loss (3)** | 37,855 | - |
| **Total financial investments (1+2+3)** | 22,396,860 | 26,333,024 |
| Current balances | 22,389,977 | 26,325,794 |
| Non-current balances | 6,883 | 7,230 |
| | 22,396,860 | 26,333,024 |
| Fixed interest debt instruments | 22,469,035 | 26,298,642 |
| | 22,469,035 | 26,298,642 |

**Notes to the financial statements**
**For the financial period ended 31 March 2019**

| | Financial investments at FVTOCI 000' EGP | Financial investments at amortised cost 000' EGP | Financial investments at FVTPL 000' EGP | Total 000' EGP |
|---|---|---|---|---|
| **Balance at January 1, 2019** | **24,068,053** | **2,264,972** | **-** | **26,333,025** |
| Additions | **13,598,522** | **-** | **-** | **13,598,522** |
| Transferred from investments at fair value through other comprehensive income. | **-** | **-** | **37,855** | **37,855** |
| Disposals (sales/ redemption) | **(17,055,297)** | **(325,000)** | **-** | **(17,380,297)** |
| Differences from valuation of monetary assets in foreign currencies | **(196,445)** | **-** | **-** | **(196,445)** |
| Profits from change in fair value | **117,814** | **13,657** | **-** | **131,471** |
| Amortised cost during the year | **(9,866)** | **5,256** | **-** | **(4,610)** |
| Less: Provision for expected credit losses | **(122,661)** | **-** | **-** | **(122,661)** |
| **Balance at March 31, 2019** | **20,400,120** | **1,958,885** | **37,855** | **22,396,860** |
| Balance at 1 January 2018 | 830,864 | 3,854,057 | - | 4,684,921 |
| Reclassification of treasury bills due to application of IFRS 9 | 23,100,807 | - | | 23,100,807 |
| Additions | 122,319 | - | - | 122,319 |
| Disposals (sale/ redemption) | (10,278) | (1,593,230) | - | (1,603,508) |
| Transferred from investments at amortised cost into investments in the fair value through profits and losses | 21,750 | (21,750) | - | - |
| Differences from valuation of monetary assets in foreign currencies | 8,700 | - | - | 8,700 |
| Profits from change in fair value | (6,053) | - | - | (6,053) |
| Amortised cost during the year | (57) | 25,895 | - | 25,838 |
| Balance at 31 December 2018 | 24,068,052 | 2,264,972 | - | 26,333,024 |

## 19. Investments in associates

The Bank's shareholding in associates is as follows:

| | 31 March 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| **Associates** | **000' EGP** | **Share %** | 000' EGP | Share % |
| International Company for Postal Services | **14,140** | **20,00** | 17,114 | 20,00 |
| Al-Watany Capital Assets Management | **20,717** | **49,99** | 20,417 | 49,99 |
| | **34,857** | | 37,531 | |

**Most important financial information and bank's shareholding to affiliates in accordance with financial statements as at December 31, 2018**

000' EGP

| Statement | Nature of relation | Region | Company's assets | Total liabilities (without equity) | Revenues of company | Net income of the company | Share of the bank | Share % |
|---|---|---|---|---|---|---|---|---|
| International Company for Postal Services | Associate | Egypt | 131,319 | 49,112 | 71,473 | 40,992 | 17,114 | 19.9% |
| Al-Watany Capital Assets Management | Associate | Egypt | 43,150 | 1,715 | 9,561 | 2,907 | 20,417 | 49.99% |

- All financial investments in associates are unquoted.

## 20. Other assets

| | 31 March 2019 | 31 December 2018 |
|---|---|---|
| | **000' EGP** | 000' EGP |
| Accrued revenues | **432,965** | 413,068 |
| Advances to purchase fixed assets | **241,434** | 86,460 |
| Assets reverted to the Bank in settlement of debts (after deduction of impairment) | **47,632** | 53,676 |
| Other assets held-for-sale* | **35,616** | 35,616 |
| Collective insurance policy | **62,672** | 64,868 |
| Prepaid expenses | **146,795** | 162,676 |
| Insurance and petty cash | **50,435** | 40,907 |
| Prepaid interest expense | **1,948** | 3,126 |
| Other | **215,350** | 297,558 |
| | **1,234,847** | 1,157,955 |

*This item represents the bank's share of 81.8% in the subsidiaries held for sale and its book value is expected to be refunded primarily from the sale deal not continuous use of it. It has been classified under this item due to the fulfilment of classification conditions including available for sale immediately because of its status. The Management has an active plan and program and are seriously marketed.

## 21. Fixed assets

| | Lands* 000' EGP | Buildings* 000' EGP | Core systems 000' EGP | Vehicales 000' EGP | Fittings and fixtures 000' EGP | Machones and Equipments 000' EGP | Furniture 000' EGP | Others 000' EGP | Total 000' EGP |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at January 1, 2018** | | | | | | | | | |
| Cost | 22,928 | 221,591 | 94,271 | 5,134 | 146,222 | 30,765 | 34,362 | 15,001 | 570,274 |
| Accumulated depreciation | - | (43,110) | (58,520) | (4,593) | (107,538) | (17,868) | (17,570) | (9,741) | (258,940) |
| Net book value at 1 January 2018 | 22,928 | 178,481 | 35,751 | 541 | 38,684 | 12,897 | 16,792 | 5,260 | 311,334 |
| Additions | - | 5,312 | 10,490 | 4,760 | 58,629 | 8,787 | 3,967 | 4,416 | 96,361 |
| Disposal of assets | (15,545) | (23,923) | (8,943) | - | (529) | (4,277) | (11,235) | (4,221) | (68,673) |
| Disposal of depreciations | - | 5,619 | 8,888 | - | 411 | 4,246 | 8,600 | 4,185 | 31,949 |
| Cost of depreciation | - | (4,080) | (11,986) | (906) | (21,575) | (3,222) | (2,385) | (1,328) | (45,482) |
| Net carrying value at December 31, 2018 | 7,383 | 161,409 | 34,200 | 4,395 | 75,620 | 18,431 | 15,739 | 8,312 | 325,489 |
| **Balance at 31 December 2018** | | | | | | | | | |
| 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 carrying value at December 31, 2018 | 7,383 | 161,409 | 34,200 | 4,395 | 75,620 | 18,431 | 15,739 | 8,312 | 325,489 |
| Net book value at 1 January 2019 | 7,383 | 161,409 | 34,200 | 4,395 | 75,620 | 18,431 | 15,739 | 8,312 | 325,489 |
| Additions | - | 2,660 | 1,918 | - | 20,793 | 4,626 | 2,286 | 267 | 32,550 |
| Disposal of assets | - | - | (61) | - | - | (10) | (181) | (151) | (403) |
| Disposal of depreciations | - | | 60 | | | 9 | 59 | 141 | 269 |
| Cost of depreciation | - | (995) | (2,854) | (276) | (4,922) | (973) | (518) | (354) | (10,892) |
| Net carrying value at March 31, 2019 | 7,383 | 163,074 | 33,263 | 4,119 | 91,491 | 22,083 | 17,385 | 8,215 | 347,013 |
| **Balance at March 31, 2019** | | | | | | | | | |
| Cost | 7,383 | 205,640 | 97,675 | 9,894 | 225,115 | 39,891 | 29,199 | 15,312 | 630,109 |
| Accumulated depreciation | - | 42,566) | (64,412) | (5,775) | (133,624) | (17,808) | (11,814) | (7,097) | (283,096) |
| Net carrying value at March 31, 2019 | 7,383 | 163,074 | 33,263 | 4,119 | 91,491 | 22,083 | 17,385 | 8,215 | 347,013 |

* The fixed assets on the date of balance sheet includes a sum of EGP 114,893 - net represents 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.

**Notes to the financial statements**
**For the financial period ended 31 March 2019**

## 22. Intangible assets

| | Computers programs | Other assets | Total |
|---|---|---|---|
| | 000' EGP | 000' EGP | 000' EGP |
| **Cost at January 1, 2019** | 85,060 | 12,050 | 97,110 |
| Additions | 1,117 | - | 1,117 |
| **Cost at March 31, 2019** | 86,177 | 12,050 | 98,227 |
| **Accumulated depreciation at January 1, 2019** | (20,299) | (2,670) | (22,969) |
| Amortization of the period | (3,958) | (302) | (4,260) |
| **Aggregate depreciation at 31 March 2019** | (24,257) | (2,972) | (27,229) |
| **Net book value at 31 March 2019** | 61,920 | 9,078 | 70,998 |
| **Net book value at 31 December 2018** | 64,761 | 9,380 | 74,141 |

## 23. Due to banks

| | 31 March 2019 000' EGP | 31 December 2018 000' EGP |
|---|---|---|
| **Local banks** | | |
| Deposits | 1,545,000 | 1,780,000 |
| | 1,545,000 | 1,780,000 |
| **External banks** | | |
| Current accounts | 40,177 | 161,089 |
| Deposits | 4,122,065 | 7,299,792 |
| | 5,707,242 | 9,240,881 |
| Non-interest bearing balances | 40,017 | 160,812 |
| Fixed interest balances | 5,667,225 | 9,080,069 |
| | 5,707,242 | 9,240,881 |
| Current balances | 5,707,242 | 9,240,881 |
| | 5,707,242 | 9,240,881 |

**Notes to the financial statements**
**For the financial period ended 31 March 2019**

## 24. Customers' deposits

| | 31 March 2019<br>000' EGP | 31 December 2018<br>000' EGP |
|---|---|---|
| Demand deposits | **14,076,427** | 15,233,379 |
| Time and call deposits | **15,390,995** | 15,978,187 |
| Certifcates of deposits | **16,717,390** | 15,890,567 |
| Saving deposits | **5,661,115** | 5,331,302 |
| Other deposits | **1,224,422** | 725,484 |
| **Total** | **53,070,349** | 53,158,919 |
| Fnancial institutions and corporate deposits | **25,246,816** | 26,801,749 |
| Individual deposits | **27,823,533** | 26,357,170 |
| | **53,070,349** | 53,158,919 |
| Non-interest bearing balances | **807,436** | 725,484 |
| Interest bearing balances | **52,262,913** | 52,433,435 |
| | **53,070,349** | 53,158,919 |
| Current balances | **36,268,337** | 36,537,241 |
| Non-current balances | **16,802,012** | 16,621,678 |
| | **53,070,349** | 53,158,919 |

## 25. Other loans

| | 31 March 2019<br>000' EGP | 31 December 2018<br>000' EGP |
|---|---|---|
| European Bank for reconstruction and Development Loan | **846,434** | 875,463 |
| IFC Loan | **324,742** | 335,880 |
| Arab Fund for Economic and Social Development Loan | **865,980** | 895,680 |
| SANAD for financing of small and micro enterprises Loan | **96,220** | 99,520 |
| France's Development organization Loan | **341,196** | 352,898 |
| Subordinated Loan (National Bank of Kuwait – Kuwait)* | **952,578** | 985,248 |
| Loans of the Central Bank of Egypt initiatives | **76,025** | 66,011 |
| | **3,503,175** | 3,610,700 |

*According to Note No (32.b Transactions with related parties) the item represents subordinated loan from National Bank of Kuwait.

**Notes to the financial statements**
**For the financial period ended 31 March 2019**

### 26. Other liabilities

| | 31 March 2019<br>000' EGP | 31 December 2018<br>000' EGP |
|---|---|---|
| Accrued interest | 447,196 | 462,951 |
| Unearned revenue | 28,016 | 27,209 |
| Accrued expenses | 76,654 | 59,831 |
| creditors | 456,936 | 59,004 |
| Other miscellaneous creditors | 42,876 | 47,747 |
| | 1,051,678 | 656,742 |

### 27. Retirement benefits obligations

| | 31 March 2019<br>000' EGP | 31 December 2018<br>000' EGP |
|---|---|---|
| **Retirement benefits obligation in balance sheet:** | | |
| Medical benefits after retirement | 76,682 | 71,784 |
| | 76,682 | 71,784 |
| **Realized amounts in income statement:** | | |
| Medical benefits after retirement | 4,898 | 17,807 |
| | 4,898 | 17,807 |

**Liabilities during the period**

| | 31 March 2019<br>000' EGP | 31 December 2018<br>000' EGP |
|---|---|---|
| **Balance at the beginning of the period / financial year** | 71,784 | 59,058 |
| Cost of current services | 1,571 | 6,425 |
| Interest expense | 3,327 | 8,845 |
| Actuarial losses (gains) | - | (73) |
| Paid benefits | - | (2,471) |
| **Balance at the end of the period / financial year** | 76,682 | 71,784 |

## 28. Other provisions

31 March 2019

000' EGP

| | Claims Potential Provision | Liabilities Contingent 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 | - | 195,580 | - | - | 195,580 |
| Charged during the period | - | - | - | 141 | 141 |
| Foreign exchange valuation differences | - | (576) | (165) | (184) | (925) |
| Used during the period | - | - | - | (31) | (31) |
| Balance at the end of the period | 9,046 | 153,841 | 7,069 | 6,310 | 176,266 |

31 December 2018

000' EGP

| | Claims Potential Provision | Liabilities Contingent Provision | Legal Provision | Bank operation risk provision | Total |
|---|---|---|---|---|---|
| Balance at the beginning of the year | 85,178 | 70,991 | 3,154 | 7,264 | 166,587 |
| Charged during the year | 17,500 | - | 4,774 | 280 | 22,554 |
| Foreign exchange translation differences | | 15 | (11) | 128 | 132 |
| Provisions no longer required | (8,745) | - | - | (82) | (8,827) |
| Used during the financial year | (84,887) | (1,580) | (683) | (1,206) | (88,356) |
| Balance at the end of the year | 9,046 | 69,426 | 7,234 | 6,384 | 92,090 |

## 29. 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 | |
|---|---|---|---|---|
| | **31 March 2019** | 31 December 2018 | **31 March 2019** | 31 December 2018 |
| | **000' EGP** | 000' EGP | **000' EGP** | 000' EGP |
| Fixed assets depreciation | **-** | - | **(21,143)** | (19,486) |
| Provisions (other than loans provision) | **102,086** | 36,945 | **-** | - |
| Total tax assets (liabilities) | **102,086** | 36,945 | **(21,143)** | (19,486) |
| Net tax assets (liabilities) | **80,943** | 17,459 | **-** | - |

**Deferred tax assets and liabilities movement:**

| | Deferred tax assets | | Deferred tax liabilities | |
|---|---|---|---|---|
| | **31 March 2019** | 31 December 2018 | **31 March 2019** | 31 December 2018 |
| | **000' EGP** | 000' EGP | **000' EGP** | 000' EGP |
| **Balance at the beginning of the period/ year** | **36,945** | 9,486 | **(19,486)** | (16,080) |
| **Additions** | **65,141** | - | **-** | - |
| **Disposals** | **-** | 27,459 | **(1,657)** | (3,406) |
| **Balance at the end of the period / year** | **102,086** | 36,945 | **(21,143)** | (19,486) |

## 30. Shareholders' rights

### A. Authorized Capital

The authorized capital amounted to EGP 2.5 billion.

### B. Issued and paid up capital:

The issued and paid up capital amounted EGP 1.5 billion divided into 150 millions share each amounting EGP 10, nominal value.

**Notes to the financial statements**
**For the financial period ended 31 March 2019**

### C. Reserves:

- According to the Bank's Articles of Association, a percentage of 5% from the annual net profits shall be set aside for the legal reserve. The legal reserve shall cease when its balance reaches equivalent to 100% of the issued and paid-up capital.

- According to the Central Bank of Egypt's instructions, the reserve balance shall be disposed only after referring to the Central Bank.

| | **31 March 2019** | 31 December 2018 |
|---|---|---|
| | **000' EGP** | 000' EGP |
| Legal reserve | **381,661** | 285,044 |
| General reserve | **606,773** | 406,773 |
| Special reserve | **-** | 9,205 |
| Capital reserve | **123,340** | 53,296 |
| General banking risk reserve | **37,750** | 106,386 |
| IFRS9 risk reserve | **-** | 268,347 |
| Fair value reserve - financial investments available for sale | **120,486** | (10,951) |
| General risk reserve | **173,285** | - |
| **Total reserves** | **1,443,295** | 1,118,100 |
| **Fair value reserve - financial investments at fair value Through other comprehensive income** | | |
| Balance at the beginning of the period | **(10,951)** | (23,392) |
| Impact of IFRS 9 upon initial recognition | **(64,677)** | - |
| Net change in fair value | **168,591** | - |
| Net profits from change in fair value | **27,558** | 12,365 |
| Valuation differences of financial investments at fair value through income Other comprehensive foreign currencies | **(35)** | 76 |
| | **120,486** | (10,951) |

### D. Retained earnings

| | 31 March 2019<br>000' EGP | 31 December 2018<br>000' EGP |
|---|---|---|
| **Retained earnings movement:** | | |
| Balance at the beginning of the period/ year | **3,734,588** | 2,415,249 |
| Transfer from profit of the period/year | **509,991** | 2,002,381 |
| Dividends | **(388,508)** | (339,111) |
| Transferred to reserves | **(366,661)** | (343,931) |
| **Balance at the end of the period/ year** | **3,489,410** | 3,734,588 |

### E. Differences of applying IFRS 9:

| | 000' EGP |
|---|---|
| **Impact of expected credit loss recognition** | |
| **Provisions formed 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 loss provisions according to IFRS 9** | |
| Credit loss provision for balance 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** | |
| **Differences of applying IFRS (9)** | **172,903** |

## Notes to the financial statements
## For the financial period ended 31 March 2019

- The following table shows matching between book values according to the Central Bank of Egypt's instruction issued on December 16, 2008 and book values according to IFRS (9) of the bank as of December 31, 2018 as amended on February 26, 2019:

| | Book value according to the existing instructions of the Central Bank of Egypt | Reclassification | Remeasurement | Impact of expected credit losses | Book value according to IFRS (9) |
|---|---|---|---|---|---|
| | 000' EGP | 000' EGP | 000' EGP | 000' EGP | 000' EGP |
| **Assets** | | | | | |
| Cash and Due from Central Bank | 3,771,317 | - | - | (4,531) | 3,766,786 |
| Due from banks | 3,133,484 | - | - | (122) | 3,133,362 |
| Loans and facilities to customers | 38,643,994 | - | - | 81,079 | 38,725,073 |
| Treasury bills | 23,100,807 | (23,100,807) | - | - | - |
| Financial investments at fair value through other comprehensive income | 945,495 | 23,106,257 | (64,677) | (138,740) | 23,848,335 |
| Financial investments at amortised cost | 2,286,722 | (21,750) | - | - | 2,264,972 |
| Financial investments through profit and loss | - | 16,300 | 20,695 | - | 36,995 |
| Other provisions | 92,090 | - | - | 110,589 | 202,679 |

### 31. Cash and cash equivalent

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:

| | 31 March 2019 | 31 December 2018 |
|---|---|---|
| | 000' EGP | 000'EGP |
| Cash and Due from Central Bank | 5,623,882 | 3,771,317 |
| Due from banks | 2,905,706 | 3,133,484 |
| Due from central banks (within the mandatory reserve percentage) | (5,001,446) | (2,573,637) |
| **Cash and cash equivalents** | 3,528,142 | 4,331,164 |

## 32. Related parties transactions

The bank is a subsidiary of the parent company, National Bank of Kuwait, that holds almost 94.93% of ordinary shares whilst the remaining percentage almost (5.07%) is owned by other shareholders exceeding two thousand shareholders and no one holds 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

| | Associates | |
|---|---|---|
| | **31 March 2019**<br>**000' EGP** | 31 December 2018<br>000'EGP |
| **Due to customers** | | |
| **Current account** | **434** | 855 |
| **Deposits** | **1,000** | - |
| | **1,434** | 855 |
| **Due from customers** | | |
| Other debit balances | 40 | 40 |
| **Balance at the end of the period/ year** | 40 | 40 |

National Bank of Kuwait

| | **31 March 2019**<br>**000' EGP** | 31 December 2018<br>000'EGP |
|---|---|---|
| **Due from banks** | **100,045** | 130,405 |
| **Due to banks** | **3,645,749** | 4,108,876 |

### B. Subordinated loan of National Bank of Kuwait:

| | **31 March 2019**<br>**000' EGP** | 31 December 2018<br>000'EGP |
|---|---|---|
| Nominal value at the end of period/year | 952,578 | 985,248 |
| | 952,578 | 985,248 |

The bank obtained a loan from National Bank of Kuwait, Kuwait amounting 55 million dollars equivalent to EGP 952,578 from National Bank of Kuwait denominated by US Dollars when preparing the financial statements at EGP 17,3196 for 10 years commencing from March 29, 2017 till March 29, 2027 to be repriced annually. The subordinated loan agreement stipulates that the National Bank of Kuwait accepts and undertakes to arrange repayment of loan to the bank in case of liquidation after depositors' and creditors' rights. The bank also undertakes to repay the loan in full on maturity date at interest rate of 4.79706% per annum.

**C. Transactions with Al Watany Capital Asset Management Company (S.A.E)**

| | 31 March 2019 000' EGP | 31 December 2018 000' EGP |
|---|---|---|
| Mutual funds Management fees | **354** | 332 |
| Interest expenses | **229** | 4 |

**D. The total amount of salaries and wages paid for the top 20 banks employees is EGP 10,213 with a monthly average salary EGP 3.404 for the financial period ended on preparation of financial statements.**

## 33. Contingent liabilities and commitments

### A. Legal claims

There are lawsuits filed against the Bank at the financial period ended on preparation of the financial statements amounted EGP 14,358. Provisions were formed 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 commitments

The Bank's total capital commitments related to purchasing of buildings and computer systems amounted to EGP 188,608 as at the financial period ended on preparation of financial statements, compared to EGP 220,040 as at the comparative period. The management is confident enough that net revenues will be generated and there will be sufficient finance to pay these commitments.

### C. Commitments for guarantees and contingent liabilities

The Bank's commitments related to guarantees and contingent liabilities are represented in the following:

| | 31 March 2019 000' EGP | 31 December 2018 000' EGP |
|---|---|---|
| Acceptances securities | **1,103,432** | 1,070,746 |
| Letters of guarantee | **3,762,450** | 3,934,060 |
| Letters of credit (import and export) | **1,406,926** | 2,109,637 |
| Collaterals upon other banks' request or by their warranty | **2,836,540** | 3,243,593 |
| **Total** | **9,109,348** | 10,358,036 |

### D. Commitments for operating lease contracts

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

| | 31 March 2019 000' EGP | 31 December 2018 000' EGP |
|---|---|---|
| Less than 1 year | **22,282** | 17,029 |
| More than 1 year and less than 5 years | **110,397** | 87,294 |
| Over 5 years | **35,331** | 33,055 |
| | **168,010** | 137,378 |

## Notes to the financial statements
## For the financial period ended 31 March 2019

### 34. Finance lease liabilities

The bank entered into an agreement with International Company for Finance Lease (INCOLEASE) to sell properties (lands) which had been transferred to the bank, in addition to some branches and tangible assets in consideration of a rent amount. The bank also granted INCOLEASE Company loans with the same sale amounts as follows:

| | Selling amount | | Finance Lease instalment | | |
|---|---|---|---|---|---|
| **Description** | **Amount** | **Currency** | **Amount** | **Currency** | **period** |
| Nozha branch | 4,208 | 000' EGP | 51 | 000' EGP | Monthly |
| Hegaz branch | 5,076 | 000' EGP | 61 | 000' EGP | Monthly |
| Al Nasr branch | 8,262 | 000' EGP | 81 | 000' EGP | Monthly |
| Mosadak branch | 11,573 | 000' EGP | 114 | 000' EGP | Monthly |

### 35. Distribution of assets and liabilities, contingent liabilities and commitments:

| | Local Currency 000'EGP | Foreign currency 000' EGP |
|---|---|---|
| **First: Assets:** | | |
| **A- Balances with banks** | 417,290 | 2,488,416 |
| | 417,290 | 2,488,416 |
| **B- Loans for customers and banks** | | |
| Agriculture sector | 549,488 | - |
| Industry sector | 14,348,354 | 11,427,603 |
| Commercial sector | 2,312,757 | 526,369 |
| Services sector | 1,185,533 | 3,652,885 |
| Family sector | 4,028,853 | 365,156 |
| Other sectors | 8,958 | - |
| | 22,433,943 | 15,972,013 |
| Loans provision | (300,982) | (428,847) |
| **Net loans** | 22,132,961 | 15,543,166 |

**Notes to the financial statements**
**For the financial period ended 31 March 2019**

| | Local Currency 000'EGP | Foreign currency 000' EGP |
|---|---|---|
| **Second: Liabilities:** | | |
| **A- Due to banks** | 1,556,103 | 4,151,139 |
| | 1,556,103 | 4,151,139 |
| **B- Customers' deposits** | | |
| Agriculture sector | 131,032 | 67,596 |
| Industry sector | 5,853,158 | 4,508,804 |
| Commercial sector | 1,554,040 | 619,361 |
| Services sector | 1,889,224 | 3,131,861 |
| Family sector | 22,078,961 | 7,611,547 |
| Other sectors | 3,442,737 | 2,182,028 |
| | 34,949,152 | 18,121,197 |
| **C- Contingent liabilities** | | |
| Letters of guarantee | 3,050,623 | 711,827 |
| Collaterals upon other banks' request pr by their warranties | 179,243 | 2,657,298 |
| Letters of credit (import and export) | 18,275 | 1,388,650 |
| Accepted bills for supplier facilities | 5,380 | 1,098,051 |
| | 3,253,521 | 5,855,826 |

## 36. Geographical distribution of loan balances:

| | Local Currency 000'EGP | Foreign currency 000' EGP |
|---|---|---|
| Cairo | 15,397,558 | 13,272,501 |
| 6th of October City | 870,836 | 345,141 |
| Alexandria | 1,703,381 | 1,032,942 |
| Gharbia | 126,633 | 47,606 |
| Damietta | 39,120 | 607 |
| Sharqia | 448,669 | 180,566 |
| Dakahlia | 367,159 | 227,295 |
| Qalyubia | 136,100 | 175,274 |
| Giza | 3,111,090 | 682,692 |
| Asyut | 82,634 | 1,710 |
| Sohag | 90,084 | 3,637 |
| Red Sea | 55,811 | 1,989 |
| South Sinai | 4,868 | 53 |
| | 22,433,943 | 15,972,013 |
| Less: | | |
| Impairment loss provision | (300,982) | (428,847) |
| **Net Loans** | 22,132,961 | 15,543,166 |

## 37. Geographical distribution of loan balances

| | Local Currency 000'EGP | Foreign currency 000' EGP |
|---|---|---|
| Cairo | 21,353,953 | 10,657,900 |
| 6th of October City | 1,070,958 | 1,171,556 |
| Alexandria | 3,245,670 | 3,393,552 |
| Gharbia | 374,862 | 147,778 |
| Damietta | 204,164 | 31,271 |
| Sharqia | 327,745 | 212,810 |
| Dakahlia | 751,041 | 288,376 |
| Qalyubia | 414,909 | 150,534 |
| Giza | 6,220,227 | 1,893,522 |
| Asyut | 352,306 | 38,951 |
| Sohag | 435,278 | 47,279 |
| Red Sea | 158,354 | 73,836 |
| South Sinai | 39,685 | 13,832 |
| | 34,949,152 | 18,121,197 |

## 38. Mutual funds

### A. Investment Fund of National Bank of Kuwait, Egypt (with periodic return and capital growth "Al Meezan")

The fund is one of the banking activities authorised for the Bank by the Capital Market Law No 95 of 1992 and its Executive Regulations. The fund is managed by Al Watani Capital Company for Managing Investments Funds. The investment certificates of this fund reached 1,350,000 certificates with an amount of EGP 135,000 of which 67,500 certificates (with nominal value of EGP 6,750) were allocated to the Bank to undertake the fund's activity.

The redeemable amount of the certificate at the balance sheet date was EGP 324.32622 and the Fund's certificates outstanding at the same date amounted to 71,200 certificates as the net assets of the Fund as at March 31, 2019 amounted to EGP 23,092,027.

The bank purchased 17,500 certificates at fair value of EGP 5,675,709 through statement of comprehensive income

The bank purchased 50,000 certificates at fair value of EGP 16,216,311 through statement of income.

In accordance with the fund's management contract and the subscription prospectus, National Bank of Kuwait, Egypt receives fees and commissions of 3.5 per thousand against its supervision of the Fund and other administrative services it performs. The total commissions amounted to EGP 18,509 for the financial period ended 31 March 2019 included in fees and commissions/other fees in the statement of income.

## Notes to the financial statements
## For the financial period ended 31 March 2019

### B. Investment Fund of National Bank of Kuwait - Egypt (For EGP liquidity with the cumulative daily return "Ishraq")

The fund is one of the banking activities authorised for the Bank by the Capital Market Law No 95 of 1992 and its Executive Regulations. The fund is managed by Al Watani Capital Company for Managing Investments Funds. The investment certificates of this fund reached 14,898,379 certificates with an amount of EGP 148,983 of which 600,000 certificates (with nominal value of EGP 600,000) were allocated to the Bank to undertake the fund's activity.

The bank purchased 220,000 certificates at fair value of EGP 5,432,827 through statement of comprehensive income.

The bank purchased 380,000 certificates at fair value of EGP 9,383,975 through statement of income.

The redeemable amount of the certificate at the balance sheet date was EGP 24.69467 and the Fund's certificates outstanding at the same date amounted to 21,506,300 certificates as the net assets of the Fund as at March 31, 2019 amounted to EGP 531,092,059.

In accordance with the fund's management contract and the subscription prospectus, the Bank receives fees and commissions of 4.5 per thousand against its supervision of the Fund and other administrative services it performs. The total commissions amounted to EGP 540,333 for the financial period ended 31 March 2019 included in fees and commissions/other fees in the statement of income.

### C. Investment Fund of National Bank of Kuwait, Egypt (With Cumulative Return and Periodic Distribution "Al Hayat")

The fund is one of the banking activities authorised for the Bank by the Capital Market Law No 95 of 1992 and its Executive Regulations. The fund is managed by Al Watani Capital Company for Managing Investments Funds. The investment certificates of this fund reached 5,000,000 certificates with an amount of EGP 50,000,000 of which 500,000 certificates with nominal value of EGP 5,000,000 were allocated to the Bank to undertake the fund's activity.

The bank purchased 250,000 certificates at fair value of EGP 5,317,650 through statement of comprehensive income.

The bank purchased 250,000 certificates at fair value of EGP 5,317,650 through statement of income.

The redeemable amount of the certificate at the balance sheet date was EGP 21.2706 and the Fund's certificates outstanding at the same date amounted to 526,386 certificates as the net assets of the Fund as at March 31, 2019 amounted to EGP 11,196,543.

In accordance with the fund's management contract and the subscription prospectus, National Bank of Kuwait, Egypt receives fees and commissions of 6 per thousand against its supervision of the Fund and other administrative services it performs. The total commissions amounted to EGP 16,364 for the financial period ended 31 March 2019 included in fees and commissions/other fees in the statement of income.

**D. Investment Fund of National Bank of Kuwait, Egypt for Securities (With Capital Growth and Periodic Distribution "Namaa")**

The fund is one of the banking activities authorised for the Bank by the Capital Market Law No 95 of 1992 and its Executive Regulations. The fund is managed by Al Watani Capital Company for Managing Investments Funds. The investment certificates of this fund reached 6,081,969 certificates with an amount of EGP 60,820 of which 685,334 certificates with nominal value of EGP 6,853,340 were allocated to the Bank to undertake the fund's activity.

The bank purchased 300,000 certificates at fair value of EGP 5,400,939 through statement of comprehensive income

The bank purchased 385,334 certificates at fair value of EGP 6,937,218 through statement of income

The redeemable amount of the certificate at the balance sheet date was EGP 18.00313 and the Fund's certificates outstanding at the same date amounted to 712,111 certificates as the net assets of the Fund as at March 28, 2019 amounted to EGP 12,820,224.

In accordance with the fund's management contract and the subscription prospectus, National Bank of Kuwait, Egypt receives fees and commissions of 6 per thousand against its supervision of the Fund and other administrative services it performs. The total commissions amounted to EGP 18,691 for the financial period ended 31 March 2019 included in fees and commissions/other fees in the statement of income.

## 39. Earnings per share

| | **31 March 2019**<br>**000' EGP** | 31 March 2018<br>000' EGP |
|---|---|---|
| Net profit for the period | **509,991** | 496,895 |
| | **509,991** | 496,895 |
| Employees' share | **(50,999)** | (49,690) |
| | **458,992** | 447,205 |
| Average number of shares | **150,000** | 150,000 |
| Earning per Share (EGP/share) | **3.06** | 2.98 |