



**ANNUAL REPORT  
2014**



**AIBK**

**بنك الاستثمار العربي**  
**Arab Investment Bank**



Arab Investment Bank AIBK started its operations as federal joint stock company, established by presidential council decree no. 1 of 1974, with paid capital US \$40 million increased to 600 million Egyptian Pounds, out of which the contribution of National Investment Bank is 91.42% and the contribution of Federation of Arab Republic is 8.58%.

Arab Investment Bank AIBK is an investment and business bank operating under the supervision of Central Bank of Egypt, provides full range of highest-level banking and financial services to enterprises of all sizes, institutions, individuals and households, in both local and foreign currencies, through 16 commercial branches and 2 Islamic branches.

Recently the bank is expanding geographically by opening a series of new branches and expanding ATM network.

## Board of Directors

**Mr. Mohamed Hany Seif-El-Nasr**  
Chairman and Executive Managing Director

<b>Ms. Rafahya El Sayed Hussein</b>	Representing the Central Bank of Egypt
<b>Mr. Alaa El Din Fekry El Sayed</b>	Representing the National Investment Bank
<b>Ms. Nadia El Sayed Hashem</b>	Representing the National Investment Bank
<b>Mr. Hesham Lotfy Eissa</b>	Representing the National Investment Bank
<b>Mr. Ramadan Ahmed Ebrahim</b>	Representing the National Investment Bank
<b>Mr. Alaa Mohamed Ebrahim</b>	Representing the Federation of Arab Maritime

Board Secretary

**Ms. Mona Ahmed Ramadan**

## Chairman Message

The Chairman and Managing Director's Opening Statement concerning the 2014 Annual Report Owing to AIBK's strategic guidelines and ambition to achieve greater expansion and competition, through providing distinctive services, multiplying the volume of work, diversifying its activities, all based on well-studied policies of modernization and development, in addition to facing challenges and maintaining a safe risk level, this has positively reflected on the outcome of AIBK's activities and its position in the Egyptian banking market.



This being the consequence of an inclusive development plan that started three years ago to maintain AIBK's position and to improve its internal systems.

The IT systems have been upgraded by Temenos, a company specialized in developing banking software systems. AIBK is currently operating according to the upgraded system alongside with the old system until it can fully shift to the upgraded one. The new technological system T24's significance lies in its ability to introduce and implement high quality banking system applications for the automation of all banking operations and dealings for all of the Bank's products and services, in addition to minimizing operational risks of banking transactions.

AIBK succeeded in 2014 to open 6 new branches (Fifth Settlement, Obour, Arab Mall, Tenth of Ramadan, El Minia, Zamalek Club Fence) to reach a total of 18 branches. This figure is expected to be doubled by adding 17 new branches to reach a total of 35. AIBK has also increased the number of ATM machines supported by modern systems in all communities, that is besides providing integrated saving deposit products meeting the demand of most sectors.

AIBK has shown great interest in financing SME's, which is considered the primary means for achieving development and creating successful and stable business opportunities, leading to activating the national economy in a rapid and effective way, for which AIBK has launched a new program called 'Shurkaa'.

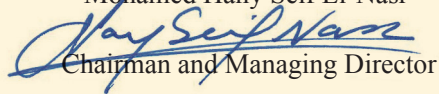
AIBK is also interested in syndicated loans and will be participating in several syndicated loans during the upcoming period to finance the Suez Canal Axis Development Project, the One and a Half Million Feddans Projects, the National Roads Project and other national projects that aim to serve Egyptian citizens and boost development.

AIBK has undertaken the overall restructuring of all of its sectors during the last three years, which has led to a great leap in its performance indicators. This is also owing to AIBK's experienced and professional labor force who were adequately qualified and trained, besides benefiting from required external resources to carry out banking and

credit operations of rare specializations. This has led to a great leap in the volume of deposits, to exceed double its size, from EGP 3 billion in 2011 to approximately EGP 6.5 billion in 2014, i.e. an increase of 70%, while maintaining a high quality portfolio and a relevant good risk level. In parallel, AIBK worked on decreasing the distress/ debt portfolio to a great extent and reaching required settlements with AIBK's non-complying clients, which was fully covered by appropriations as required by the Central Bank of Egypt (CBE).

I would like to thank all AIBK's employees for their great efforts and contributions and for their devotion, which has reflected in the outcome of AIBK's business.

Best regards,

Mohamed Hany Seif El-Nasr  
  
Chairman and Managing Director

## Executive Committee

<b>Mr. Mohamed Hany Seif El Nasr</b> Chairman and Managing Director	Head of Committee
<b>Mr. Medhat Lotfy Hassouna</b> Principle General Manager	Committee Deputy
<b>Ms. Gihan El Nahas</b> Senior General Manager	Committee Member
<b>Mr. Mohamed Ibrahim Abdel Hady</b> General Manager – Corporate Finance Sector	Committee Member
<b>Mr. Alaa Abo Nosier Mahmoud</b> General Manager – Risk Sector	Committee Member
<b>Mr. Wagdy Abd El Aziz</b> General Manager – Legal Sector	Committee Member
<b>Mr. Abd-El-Reheem Hussein Abd-El-Majeed</b> General Manager – Internal Audit Sector	Committee Member
<b>Ms. Mona Ahmed Ramdan</b> General Manager – Board Secretary	Committee Secretary



## Audit Committee

<b>Mr. Hesham Lofty Hussein</b>	Head of Committee
<b>Mr. Alaa El-Din Fekry El Sayed Hussein</b>	Committee Member
<b>Ms. Rafahya El Sayed Hussein</b>	Committee Member
<b>Board Secretary General Manager</b>	Committee Secretary

With **Internal Audit Sector General Manager** presence

## Risk Committee

<b>Ms. Rafahya El Sayed Hussein</b>	Head of Committee
<b>Ms. Nadia El Sayed Hashem</b>	Committee Member
<b>Mr. Ramadan Ahmed Ebrahim</b>	Committee Member
<b>Board Secretary General Manager</b>	Committee Secretary

With **Risk Sector General Manager** presence

## Governance, Nominations, Salaries and incentive Committee

<b>Mr. Alaa El Din Fekry El Sayed Hussein</b>	Head of Member
<b>Mr. Reda Abd El Fattah Farahat</b>	Committee Member
<b>Dr. Rania Abd El Moneim El Mashat</b>	Committee Member
<b>Board Secretary General Manager</b>	Committee Secretary

With **Human Resources Sector General Manager** presence  
With **Governance Sector General Manager** Presence

Both Respectively

## Auditors' Report

**Auditors' Report**  
**To the Shareholders of**  
**Arab Investment Bank**  
**"Federal Joint Stock Company"**

### **Report on the financial statements**

We have audited the accompanying financial statements of the Arab Investment Bank "Federal Joint Stock Company" which comprise the balance sheet as at December 31, 2014, and the income statement, statement of changes in shareholders' equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Management's Responsibility for the Financial Statements**

These financial statements are the responsibility of the Bank's management. Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Central Bank of Egypt's rules, pertaining to the preparation and presentation of the financial statements of banks and the recognition and measurement bases approved by the board of directors of the Central Bank of Egypt at December 16, 2008, and in the light of the prevailing Egyptian laws. Management's responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error. Management's responsibility also includes selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

### **Auditors' Responsibility**

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

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

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2014 and of its financial performance and its cash flows for the year then ended in accordance with the Central Bank of Egypt's rules pertaining to the preparation and the presentation of the financial statements of banks, the recognition & measurement basis approved by the board of directors of the Egyptian Central Bank at December 16, 2008 and in the light of the Egyptian laws and regulations relating to the preparation of these financial statements.

## Report on other legal and regulatory requirements

According to the information and explanations given to us during the financial year ended December 31, 2014, no contravention of Central Bank, Banking and Monetary institution law No. 88 of 2003 and articles of incorporation was noted. The bank maintains proper books, which include all that is required by law and by the status of the Bank; the financial statements are in agreement thereto. The financial information included in the Board of Directors' report, prepared in accordance with the Law No. 159 of 1981 and its executive regulations is in agreement with the bank's book of account, in so far as such information is recorded therein.

### Auditors

Ahmed Zakarya Abd El-Hameed

(KPMG Hazem Hassan)

Public Accountants & Consultants

Dr. Sherif El-Sokary

(Crowe Horwath Dr. A.M. Hegazy & Co)

Public Accountants & Consultants

Ola Abd El-Moneem Amean

Central Auditing Organization

Cairo: June 04, 2015

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



**Arab Investment Bank  
(Federal Joint Stock Company)  
Balance Sheet As at December 31, 2014**

	Note (no.)	December 31, 2014 EGP (000)	December 31, 2013 EGP (000)
<b>ASSETS</b>			
Cash and balances with central Bank of Egypt	(15)	529 981	256 406
Due from banks	(16)	495 237	790 816
Treasury bills	(17)	1 009 613	736 857
Loans and advances to customers	(18)	3 219 820	2 686 377
Financial assets held for trading	(19)	3 813	-
<b>Financial Investments</b>			
Available for sale	(20)	920 233	324 674
Held to maturity	(20)	1 467 443	920 583
Investment in associated companies	(21)	107 757	104 603
Intangible assets	(22)	2 222	827
Other assets	(23)	142 848	111 468
Fixed assets	(24)	58 901	47 425
<b>TOTAL ASSETS</b>		<b>7 957 868</b>	<b>5 980 036</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Due to banks	(25)	464 520	27 756
Customers' deposits	(26)	6 550 079	5 090 885
Other liabilities	(27)	163 476	126 195
Provisions	(28)	37 815	27 875
Deferred tax liability	(29)	92	1 093
<b>TOTAL LIABILITIES</b>		<b>7 215 982</b>	<b>5 273 804</b>
<b>EQUITY</b>			
Paid-up capital	(30)	600 000	500 000
Reserves	(31)	87 118	147 652
Retained earnings (including net profit of the year)	(32)	54 768	58 580
<b>TOTAL EQUITY</b>		<b>741 886</b>	<b>706 232</b>
<b>Total Liabilities and Equity</b>		<b>7 957 868</b>	<b>5 980 036</b>

The accompanying notes from Page (5) to page (55) form an integral part of these financial statements and to be read therewith.

Mona Mokhtar  
*Mona Mokhtar*  
G.M Financial & Plan Dep

Mohamed Hanny Sef El-Nasr  
*Mohamed Hanny Sef El-Nasr*  
Chairman and Managing Director

Independent Auditors' Report "attached".

Auditors

Ahmed Zakaria Abd El-Hamid  
(KPMG Hazem Hassan)

Dr. Sherif El-Sokary  
*Dr. Sherif El-Sokary*  
(Crowe Dr. A.M. Hegazy & Co.)

Fatma Mohamed Salah El Din El Minshawy  
*Fatma Salah*  
Central Auditing Organization

**Arab Investment Bank**  
**(Federal Joint Stock Company)**  
**Income Statement**  
**For the Financial year Ended December 31, 2014**

	<b>Note</b>	<b>Financial year ended 31/12/2014 EGP (000)</b>	<b>Financial year ended 31/12/2013 EGP (000)</b>
Interest from loans & similar income	(6)	663 925	533 867
Interest on deposits & similar expenses	(6)	(387 333)	(329 425)
<b>Net interest income</b>		<b>276 592</b>	<b>204 442</b>
Fees and commissions income	(7)	116 455	89 749
Dividends income	(8)	2 602	2 167
Net trading income	(9)	60 037	4 246
Profits from financial investments	(20)	18 306	21 043
Impairment of loan losses	(12)	(54 045)	(16 166)
Administrative expenses	(10)	(262 307)	(238 700)
Other operating (expenses) income	(11)	(44 442)	22 169
<b>Net profit of the year before taxes</b>		<b>113 218</b>	<b>88 950</b>
Income tax expenses	(13)	(57 185)	(37 015)
<b>Net profit for the year</b>		<b>56 033</b>	<b>51 935</b>
<b>Earnings Per Share</b>	(14)	<b>0.93</b>	<b>1.04</b>

**Arab Investment Bank**  
**(Federal Joint Stock Company)**  
**Statement of Changes in Shareholders' Equity For the financial year ended December 31, 2014**

	Capital	Special Reserve	Capital Reserve	Legal Reserve	General Reserve	Fair value Reserve For A.F.S investments	Reserve of General Bank Risk	Retained Earnings	Total
	EGP (000)	EGP (000)	EGP (000)	EGP (000)	EGP (000)	EGP (000)	EGP (000)	EGP (000)	EGP (000)
<b>Balance as of January 1, 2013</b>	500 000	251	11 455	17 109	97 117	(13 677)	3 234	16 390	631 829
Net Profit for the Year 2013	-	-	-	-	-	-	-	51 933	51 935
Net change in fair value for AFS Investments	-	-	-	-	-	22 418	-	-	22 418
Transferred to reserve of general bank risk	-	-	-	-	-	-	9 651	(9 651)	-
Transferred to capital reserve	-	-	94	-	-	-	-	(94)	-
<b>Balance as of 31 December 2013 before dividends</b>	500 000	251	11 549	17 109	97 117	8 741	12 885	58 580	786 232
Transferred to legal reserve	-	-	-	2 592	-	-	-	(2 592)	-
Transferred to general reserve	-	-	-	-	13 194	-	-	(13 194)	-
Dividends	-	-	-	-	-	-	-	(29 600)	(29 600)
<b>Balances as of 1 January 2014 after dividends</b>	500 000	251	11 549	19 701	110 311	8 741	12 885	13 194	676 632
Net Profit for the Year 2014	-	-	-	-	-	-	-	56 033	56 033
Transferred to increase in the capital	100 000	-	-	-	(100 000)	-	-	-	-
Transferred to reserve of general bank risk	-	-	-	-	-	-	1 077	(1 077)	-
Transferred to Capital Reserves	-	-	13 382	-	-	-	-	(13 382)	-
Net change in fair value for AFS Investments	-	-	-	-	-	9 221	-	-	9 221
<b>Balance as of 31 December 2014</b>	600 000	251	24 931	19 701	10 311	17 962	13 562	54 768	741 886

**Arab Investment Bank**  
**(Federal Joint Stock Company)**  
**Statement of cash flows**  
**For the financial year ended December 31, 2014**

	Note	Financial year ended 31/12/2014 EGP (000)	Financial year ended 31/12/2013 EGP (000)
<b>Cash flows from operating activities</b>			
Net Profit before taxes		113 218	88 950
<u>Adjustments to reconcile net profit to net cash flows from operating activities</u>			
Depreciation		11 640	7 768
Intangible assets depreciation		2 154	-
Impairment of loan losses		54 045	16 166
Other provisions used other than loan loss provisions		9 847	5 385
Gain from sale of fixed assets		( 13 382)	( 94)
Revaluation differences of trading financial assets		( 3 813)	-
(Gain) from sale of financial investments available for sale		( 2 814)	( 3 162)
Undistributed gains from investments in associated companies		( 16 374)	( 18 799)
Revaluation differences of available for sale investments		( 784)	( 746)
Amortization of (discount) premium of available for sale and held to maturity investments		( 27 482)	4 998
Impairment losses of available for sale investment		882	918
Revaluation differences for provisions other than loans provision in foreign currency		93	( 240)
Collection from bad debt previously written off		1 602	-
Used provisions excluding loans provision		-	( 12 367)
<b>Operating income before changes in assets and liabilities from operating activities</b>		<u>128 832</u>	<u>88 777</u>
<b>Net decrease (increase) in assets</b>			
Due from banks		31 719	( 464 274)
Treasury bills		( 174 006)	( 288 408)
Loans and advances to customers		( 589 162)	( 420 564)
Other assets		( 31 308)	52 199
<b>Net (decrease) increase in liabilities</b>			
Due to banks		436 764	( 247 555)
Customers' deposits		1 459 194	1 575 255
Other Liabilities		25 853	28 246
Income tax paid		( 45 757)	( 38 279)
<b>Net cash flows provided from operating activities</b>		<u>1 242 129</u>	<u>285 397</u>
<b>Cash flows from investing activities</b>			
Proceeds from sale of fixed assets		13 382	383
Payments for purchase of fixed assets & branches preparation		( 23 116)	( 35 983)
Payments for purchase of intangible assets		( 3 549)	( 882)
Proceeds from selling of financial investment other than financial assets held for trading		327 954	266 423
Dividends received		13 217	12 200
Payments for purchase financial investment other than financial assets held for trading		( 1 431 952)	( 468 031)
<b>Net cash flows (used in) investing activities</b>		<u>( 1 104 064)</u>	<u>( 225 890)</u>
<b>Cash flows from financing activities</b>			
Dividend paid		( 29 600)	( 37 000)
<b>Net cash flows used in financing activities</b>		<u>( 29 600)</u>	<u>( 37 000)</u>
<b>Net increase in cash and cash equivalents during the year</b>		108 465	22 507
Cash and cash equivalents at beginning of the year		132 056	109 549
<b>Cash and cash equivalents at end of the year</b>		<u>240 521</u>	<u>132 056</u>
<b>Cash and cash equivalents are represented in:</b>			
	(33)		
Cash and balances with Central Bank of Egypt		529 981	256 406
Due from banks		495 237	790 816
Treasury bills		1 044 138	736 857
Due from Central Bank of Egypt within the required reserve percentage		( 461 002)	( 206 634)
Bank Deposits		( 422 445)	( 708 532)
Treasury bills due in more than 3 months		( 945 388)	( 736 857)
<b>Cash and cash equivalents at end of the year</b>		<u>240 521</u>	<u>132 056</u>

## Notes to the financial statements

### For the financial year ended 31 December 2014

#### 1. Background

Arab Investment Bank (Previously- The Federal Arab Bank for Development and Investment) provides corporate, retail and investment banking services in Arab Republic of Egypt through its head office located in Cairo (8<sup>th</sup> Abd Elkhalek Tharwat st.) and 18 branches and the bank employs (839) employees at the balance sheet date.

Arab Investment Bank (Previously- The Federal Arab Bank for Development and Investment) was established on February 20, 1974, pursuant to the presidential Council decree no. (1) Of 1974.

According to the Extraordinary General Assembly decision on June 3, 2013 the name of the bank has been modified to be Arab Investment Bank instead of The Federal Arab Bank for Development and Investment

#### 2. Summary of Significant 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 years presented, unless otherwise stated.

##### A) Basis of Preparation

The financial statements are prepared in accordance with Central bank of Egypt instructions approved by its board of directors on December 16, 2008 in addition to the historical cost convention basis, modified by the revaluation of assets and liabilities held for trading, assets and liabilities originally valued with fair value through profits and losses, and available for sale investments, and all financial derivatives contracts, these financial statements were prepared in accordance with relevant local laws .

##### B) Associates company

- Associates are all entities which the bank owns direct or indirect significant effect but not control, generally the bank owns 20% to 50% of the voting rights.
- The purchase method is used to account for the acquisition of companies by the bank. The cost of an acquisition is measured with the fair value of the assets or asset given or/and equity instruments issued and loans assumed on behalf of the acquired company at the date of exchange, plus costs directly attributable to the acquisition. Net assets including specific contingent liabilities assumed in a business combination are measured at their fair value at the acquisition date, irrespective of the minority interest. The excess of acquisition cost over the bank's share fair value in the net assets acquired is recorded as goodwill.
- If the acquisition cost is less than the fair value, the differences is recognized directly in the income statement under the item "Other operating income (expenses)"

- Accounting for investment associates is recorded by using equity method. According to this method, investment recorded upon acquisition at cost, then the balance of investment is increased or decreased by the amount of change in bank share in the equity of associate company after the acquisition date, then the investment balance is decreased by the amounts of dividends distributed by associate companies.
- If there are subject evidences for an impairment loss of associate company, the value of Loss is calculated as the difference between the book value of investment and the higher of discontinued expected future cash flow with current market rate and net salvage value for each single investment.

The book value of the asset is reduced directly and the value of loss is recognized directly in income statement under "financial investment income (loss)". If any later time, the decrease and increase in impairment can be subjectively linked with an event occurring after recording the impairment value of impairment previously recognized loss can be recovered to income statement and the book value of investment mustn't be more than its cost in the date of impairment loss cancelation if this impairment loss is not recognized.

### **C) Segment Reporting**

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

### **D) Translation of Foreign Currencies**

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

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

#### **D/2 Translation of Foreign Currencies**

The bank maintains its accounts in Egyptian pound and records transactions in foreign currencies during the financial year on the basis of prevailing exchange rates at the date of the transaction, Monetary assets and liabilities denominated in foreign currencies are retranslated at the end of the financial period on the basis of prevailing exchange rates at that date. Foreign exchange gains and losses resulting from the settlement and translation of such transactions and balances are recognized in the income statement and reported under the following items:

- Net trading income or net income from financial instruments classified at fair value through profit and loss for assets / liabilities held for trading or those classified at fair value through profit and loss.
- Other operating Income (expense) for the other items.
  - Changes in fair value of financial instruments denominated in foreign currency classified as available for sale investments (debt instruments) is analysed between valuation differences resulting from changes in amortized cost of the instrument, differences resulted from



changes in the prevailing exchange rates, and differences resulted from changes in the fair value of the instrument. Those changes are recognized in the income statement as income on loans and similar items regarding changes in amortised cost and differences related to changes in the exchange rate are recognised as other operating income (expense), and changes in fair value of available-for-sale investments are recognized in equity (fair value reserve - available for sale investments).

- Valuation differences resulting from non-monetary items include profits and losses resulting from changes in fair value such as equity instruments held at fair value through profits and losses, while valuation differences resulting from equity instruments classified as financial investments available for sale are recognized as “fair value reserve – available for sale investments” under the equity caption.

## **E) Financial Assets**

The Bank classifies its financial assets into the following categories:

Financial assets at fair value through profit or loss, loans, receivables, held-to-maturity investments, and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

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

- This category includes: financial assets held for trading, and those designated at fair value through profit or loss at inception.
- A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.
- Financial assets are designated at fair value through profit or loss in the following cases:
  - When managing certain investments, such as equity investments, at a fair value basis in accordance with a documented risk management or investment strategy and reporting to key management personnel on that basis.
  - Financial instruments, such as debt securities held-to-maturity, containing one or more embedded derivatives which significantly modify the cash flows, are designated at fair value through profit and loss.

### **E/2 Loans and advances**

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

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

### **E/3 Held-to-maturity financial investments**

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the bank has positive intent and ability to hold to maturity. Reclassification will be made to Available-for sale category in case the bank has, during the current financial year sold or reclassified more than an insignificant amount of held to maturity investments before maturity other than those allowed in specific circumstances as specified by the Central Bank of Egypt.

### **E/4 Financial Investments Available for Sale**

Available for sale financial assets are those non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

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

- Purchases or sales of financial assets at fair value through profit and loss, held to maturity financial investments, and available for sale financial investments are recognized at the trade date which is the date the bank is committed to purchase or sell the financial asset.
- Financial assets that are not classified at fair value through profit and loss at initial recognition are recognized at fair value plus transaction cost, while the financial assets classified as at fair value through profit and loss are initially recognized at fair value only and the transaction cost is recognized in the profit and loss under “net trading income”
- Financial assets are derecognized when the rights to receive cash flows have expired or when the bank transfer all asset risks and rewards to another party, while a financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired.
- Available for sale financial investments and financial assets designated at fair value through profit and loss are subsequently measured at fair value. While loans and advances and held to maturity investments are measured subsequently at amortized cost.
- Gains and losses arising from changes in fair value of financial assets designated at fair value through profit and loss are recorded in income statement during the year it occurred, while gains and losses arising from changes in fair value of available for sale financial investments are recognized in “fair value reserve for available for sale investments” in equity until the financial asset is sold, or impaired at which time, the cumulative gain or loss previously recognized in equity should be recognized in profit or loss.
- Interest income related to monetary assets classified as available for sale is recognized based on the amortized cost method in profit and loss. The foreign currency revaluation differences related to available for sale investments are recognized in the profit and loss. Dividends related to available for sale equity instruments are recognized in the profit and loss when they are declared.
- The fair values of quoted investments in active markets are based on current bid prices. If there is no active market 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 market

participants, if the Bank could not assess the value of the equity classified as available for sale, these instruments should be valued at cost less of any impairment losses.

- Debt instruments can be reclassified from the available for sale investments to “loans and receivables” or “financial assets held to maturity” using fair value when the bank has the intention and ability to hold the instrument on the future or till maturity. Any related profits or losses that have been previously recognized in equity are treated as follows:
  - i. Financial assets with fixed or determinable payments and fixed maturity valued at amortized cost, using the effective interest method. The difference between the amortized cost using the effective interest method and the repayment value is amortized using the effective interest rate method.
  - ii. In case of financial asset’s impairment any profits or losses previously recognized in equity is recognized in profit and loss.
- Profits and losses related to the financial assets without fixed or determinable maturity are recorded in equity till selling or disposing it. In case of impairment, profit and losses that have been previously recognized directly in equity are recognized in the profit and loss.
- If the Bank changes its estimates regarding payments or proceeds, the book value of a financial asset (or group of financial assets) has to be adjusted to reflect the actual cash inflows and the change in this estimate through calculating the present value of estimated future cash flows using the effective interest rate for the financial instrument. This adjustment is recognized as either income or expense in the profit and loss.
- In all cases, if the bank re-classified financial asset in accordance with what is referred to above and the Bank subsequently increase its future cash proceeds estimates resulted from an increase in the recoverable amount from its cash receipts, this increase is recognized as an adjustment to the effective interest rate not as an adjustment in the book value of the asset at the date of change in estimate.

#### **E/5 Offsetting between financial instruments**

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

Treasury bills, Repos and reverse Repos agreements are netted on the balance sheet and disclosed under treasury bill and other government notes.

#### **E/6 Financial derivatives instruments and hedge accounting**

- Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.
- Changes in the fair value of derivatives that do not qualify for hedge accounting are recognized in statement of income under ‘Net income from trading’. However, gains and

losses arising from changes in the fair value of derivatives that are managed in conjunction with financial assets or liabilities at fair value through profit or loss are included in “net income from financial assets or liabilities at fair value through profit or loss”.

- The derivatives are measured by its fair value changes in fair value recognized in income statement under the article net trading income. The embedded derivatives are not separated if the bank decides to classify the entire compound contract by the fair value through profits and losses. Recognizing the profits and losses resulted from the fair value depends on whether the derivative is a covering instrument provision and according to the nature of the covered item; the bank classifies some of the derivatives as one of the following:
  - Hedging of the fair value of recognized assets and liabilities or confirmed commitments (fair value hedging)
  - Risk hedging of future highly expected cash flows related to a recognizes asset or liability or related to an expected transaction (cash flows hedging)
- Hedging accounting is used for provision derivative for that purpose if the needed conditions are available. At the beginning of the transaction the bank documents the relations between the covered items and hedging instruments, also the objectives of risk management and the strategy of having different hedging transactions. At the beginning of hedging and consciously, the bank documents the estimation of whether the derivative used in hedging transactions are effective in facing the changes in the fair value or cash flows of the covered items.

#### **E/6/1 Fair value hedging:**

The changes in the fair value of qualified derivatives provisions for hedging of the fair value are recognized in the income statement, this with any change in the fair value related to the risk of the covered asset or liability. The effective changes in the fair value of return transfers contracts and the related covered items are added to the net return and effective changes in the fair value of the future currency contracts are added to net trading income. Inefficiency in all of the contracts and the related covered items mentioned in the previous paragraph are added to the net trading income. If the hedging is no longer following the hedging accounting procedures, the modification added to the book value of the covered items recorded by the amortized cost method, this is through charging it against the profits and losses along the period till its maturity. Amendments in covered equity instrument's book value remain within the owners' equity till it has been excluded.

#### **E/6/2 Cash flows hedging:**

The effective part in the changes in the fair value of the qualified derivative provision to cover the cash flows is recognized as owners' equity, while the profit and losses related to the ineffective part are recognized immediately as (net trading income) in the income statement. The amounts accumulated in the owners' equity are transferred to the income statement in the same periods that the covered item has an effect on profits and losses, profits and losses related to the effective part of the currency transfers and options are added to the net trading item. When the hedging instrument is being due or sold, or when the hedging is no longer

following the hedging accounting procedures, the profits and losses accumulated in the owners' equity in that time remain within the owners' equity item and it is recognized in the income statement when the expected transaction is finally recognized. But if the expected transaction is no longer expected to occur then the profits and losses accumulated in the owners' equity are immediately transferred to the income statement.

**E/6/3 Unqualified derivative of hedging accounting:**

Changes in the fair value of the unqualified derivatives of hedging accounting are being recognized in the (net trading income) item. In the income statement, the profits and losses resulted from the changes in the fair value is recognized as (net income of classified financial instruments valued by the fair value of profits and losses), this is through the profits and losses resulted from the changed in the fair value of derivatives managed in relation to the classified assets and liabilities in the profits and losses.

**F) Recognizing first day's deferred profits and losses**

Considering the tools that evaluate the fair value, the transaction price is considered to be the best instrument to evaluate the fair value on the transaction date (fair value of delivered or received return) unless the fair value of the instrument on that date is indicated depending in the transaction's price in published market or using evaluation modules. When the bank has a long term transaction, its fair value is specified using evaluation modules that their inputs may not all be from the published market rates or prices, those financial instruments are recognized according to transaction price which is the best indication of the fair value. Although the value calculated from evaluation modules may be different, and the difference between the transaction price and the amount resulted from the module is not immediately recognized as first day's profits and losses and it is listed as other assets in the case of loss, and as other liabilities in the case of profit.

The timing of recognizing the deferred profit and loss is specified separately for each case through its amortization on the transaction or when it is possible to identify the instrument's fair value using published market's inputs or by approving it when adjusting the transactions, the instruments is measured by the fair value, the subsequent changes in the fair value are immediately recognized in the income statement.

**G) Interest Income and Expense**

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognized within 'interest income' and 'interest expense' in the income statement 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 allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to 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, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once loans or debts are classified as nonperforming or impaired, the revenue of the interest income will not be recognized and will be recorded off balance sheet and recognized as income subsequently based on cash basis according to the following :

- When it is collected and this is after redeeming all dues of consumer loans and personnel mortgages also small loans for economic activities.
- For corporate loans, interest income is recognized on a cash-basis after the bank collects 25 % of the rescheduled instalments and when these instalments continue to be paid for at least one year. If a loan continues to be performing thereafter, interest accrued on the principal then outstanding starts to be recognized in revenues. Interest that is marginalized prior to the date when the loan becomes performing is not recognized in profit or loss except when the total balance of loan, prior to that date, is paid in full.

#### **H) Fees and Commissions**

Fees charged for servicing a loan or facility that is measured at amortized cost, are recognized as revenue as the service is provided. Fees and commissions on non-performing or impaired loans or receivables cease to be recognized as income and are rather recorded off balance sheet. These are recognized as revenue - on the cash basis – only when interest income on those loans is recognized in profit or loss, at which time, fees and commissions that are an integral part of the effective interest rate of a financial asset are treated as adjustment to the effective interest rate of that financial asset.

Commitment fees received by the bank to originate a loan are deferred if it is probable that the bank will enter into a specific lending arrangement and are regarded as a compensation for an ongoing involvement with the acquisition of the financial instrument and recognized as an adjustment to the effective interest rate. If the commitment expires without the bank making the loan, the fees are recognized as revenue on expiry.

Fees related to debt instruments which are measured at fair value are recognized under revenue at initial recognition. The fees for promotion of joint loans are recognized within revenues upon completing the promotion process without retaining any part of the loan by the bank, or if the bank maintains a part thereof with the actual interest rate available to other participants.

Fees and commissions that are earned on negotiating or participating in the negotiation of a transaction in favour of another entity, such as arrangements for the allotment of shares or another financial instrument or acquisition or sale of an enterprise on behalf of a client, are recognized as revenue when the transaction has been completed. Administrative consultations and other service fees are usually recognized as revenue on a straight-line basis over the period in which the service is rendered. Fees from financial planning management and custodian



services provided to clients over long periods are usually recognized as revenue on a straight-line basis over the period in which these services are rendered.

### **I) Dividends**

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

### **J) Purchase of Resale Agreements, and sale & repurchase agreements**

Financial instruments sold under repurchase agreements, are not derecognized from the books. These are shown in the assets side as an addition to the "treasury bills and other governmental notes" line item in the balance sheet. On the other hand, the bank's obligation arising from financial instruments acquired under resale agreements, is shown as a deduction from the "treasury bills and other governmental notes" line item in the balance sheet. Differences between the selling and repurchase price or between the purchase and resale price is recognized as interest expense or income throughout the period of agreements using the effective interest rate method.

### **K) Impairment of financial Assets**

#### **K/1 Financial Assets Measured at Amortized Cost**

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

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor.
- A breach of contract, such as a default or delinquency in interest or principal payments.
- It becoming probable that the borrower will enter bankruptcy or financial re-organization.
- Deterioration of the competitive position of the borrower.
- The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider.
- Impairment in the value of collaterals; or
- Deterioration in the creditworthiness of the borrower.

An objective evidence for impairment loss of the financial asset includes observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, such as the increase of default cases with respect to a banking product.

The estimated period between the date in which the loss occurred and the date on which the impairment loss has been identified for each specific portfolio. In general, the periods used vary between three months and 12 months; in exceptional cases, longer periods are warranted.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant in this respect the following should be considered:

- If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment based on the historical loss rates.
- Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.
- If no impairment losses result from the previous assessment of impairment in this case the asset included in a collective assessment of impairment.
- Provision amount of impairment loss is measured by the difference between the asset's book value and the present value of the expected future cash flows excluding the future credit losses that have not been incurred yet, deducted from the use of actual return rate of the financial asset. The book value of the asset is decreased by the provision of impairment loss. The impairment loss is recognized as credit losses in the income statement.
- If the loan or investment held to maturity has a variable interest rate, the discount rate used to measure any impairment losses is the original effective contractual interest rate. Where practicable, the bank measures the impairment losses based on the fair value of the instrument using declared market prices. In the case of collateralized financial assets, the addition of the present value of the expected future cash flows that may originate from the execution of and sale of the collateral after deducting the related expenses must be observed.
- For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.
- For the purposes of evaluation of impairment for a group of a financial assets according to historical default ratios future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.
- Estimates of changes in future cash flows for groups of assets should reflect and be

directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

#### **K/2 Available for Sale Financial Investments**

At each balance sheet date, the bank assesses whether there is objective evidence that any financial assets or a group of financial assets classified as available for sale or held to maturity has been impaired. A significant or prolonged decline in the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is an objective evidence that the assets is impaired.

During Periods start from First of January 2009, The Decrease Consider significant cause it become 10% From cost of book value and the decrease consider to be extended if it continue for period more than 9 months, and if the mentioned evidences become available then the accumulated loss to be post from the equity and disclosed at the income statement, impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement.

#### **L) Real-estate investment**

Real-estate investment is requested in land & Buildings owned by the bank for gain rental revenues or capital appreciation. Therefore it doesn't include real-estate assets used in the bank's operations or which was received in settlement of the bank's liability. Investment is accounted by the same method applied for fixed assets.

#### **M) Intangible assets**

##### **M/1 Computer programs**

Expenses related to improvement & maintenance of computer programs are recognized as expenses in income statement when incurred. Recognized as an intangible asset expenses related directly with definite programs and under the bank control & expected to generate economical benefits which exceed its cost for more than one year. Direct expenses includes labour cost in the program improvement team in addition to appropriate average of related general expenses and it is recognized as an improvement cost in the expenses that leads to an increased expansion or performance of the computer program more than its original standards, it is added to the program cost.

Computer programs' costs which are recognized as an asset are depreciated over its life time within a period of not more than 3 years.

## **M/2 Other intangible assets**

Represented in the intangible assets other than goodwill and computer programs for example (trademarks, license, and rental contracts benefits). Intangible assets are recorded by acquisition cost and are amortized by straight line method or the economic benefits expected, along its estimated useful life. Considering assets with no definite useful life, they are not amortized but its impairment loss is yearly examined and recorded (if found) in the income statement.

## **N Fixed Assets**

Land and buildings comprise mainly branches and offices. All fixed assets are carried at historical cost net of accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the items.

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

Depreciation is charged so as to write off the cost of assets, other than land which is not depreciated, over their estimated useful lives, using the straight-line method to the extent of their estimated residual values based on the following annual rates:

- Buildings 20 years
- Furniture & safe 10 years
- Machinery and equipment 8 years
- Transportation vehicles 5 years
- Computers & Automated systems 5 years
- Advances& instalments 3 years

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

The recoverable amount of an asset is the higher of the asset's net realizable value or value in use. Gains and losses on disposals are determined by comparing proceeds with relevant carrying amount. These are included in profit or loss in other operating income (expenses) in the income statement.

## **O) Non-financial asset impairment**

Assets without definite useful life are not depreciated & it is being tested annually for impairment. Assets are tested for impairment of events or circumstances indicated that the book value may not be recoverable.

Then the impairment is recognized & decreasing the assets value by the amount of the asset's book value exceeding the recoverable value.

The recoverable values represent the net asset's sale value or the assets usable value whichever is higher.

In order to estimate the impairment, asset is joined to smallest possible generating-cash unit. Non-financial assets with impairment are being reviewed to check if there is any impairment to be credited to the income statement at the date of preparing the financial statement.

### **P) Rental**

Payments are recorded in operating rent account after deducting any discounts received from the lesser in the expenses in the income statement according to straight line method within the contract period.

### **Q) Cash and Cash Equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition; they include cash and balances due from central bank of Egypt-other than those within the mandatory reserve, current accounts with banks and treasury bills and other government notes.

### **R) Other Provisions**

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

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions which negated the purpose of wholly or partly repaid within the item other operating income (expense).

### **S) Financial collateral contracts**

Financial collateral contract is the contract issued by the bank to collateral loans or debit current accounts presented to its customers from other parties and it is required from the bank to pay certain payments to compensate the beneficiaries of carried loss because debit payment in the due date according to the debt instrument's conditions. These financial collaterals are presented to banks, financial institutions and other parties on behalf of the bank's customers. Initial recognition in the financial statements is recorded by the fair value at the date of granting the collateral which may reflect the collateral fees. Later on, the bank's liability is measured by the virtue of the collateral on the basis of the initial recognition amount less the amortization to recognize the collateral fees in the income statement by the straight line method over

the collateral lifetime, or the best estimation of the needed payments to adjust any financial liability resulted from the financial collaterals on the balance sheet date which is higher. These estimations are specified according to the experience in similar transactions and historical losses and also by the management's judgment.

Any increase in the liabilities resulted from financial collaterals, is recognized in the income statement as other operating revenues (expenses).

## **T) Labour benefits**

### **T/1 Pension liabilities**

The bank is committed to pay the contributions to the Social Insurance Public Authority, with no other liabilities after paying these contributions. Those contributions are recorded periodically in the income statement in its maturity year and are listed as labor benefits.

The bank has insurance fund for the employees of the bank, which was founded 26/1/1979 Working according to law no. 54 for year 1975 and its executive regulations, in the purpose of granting compensation and insurance benefits for the members, this pension fund and its amendments are implemented on all of the employees of the bank's head office and its branches.

The bank is committed to pay the annual and monthly subscription to the fund according to the funds regulation and its amendments. No other liabilities on the bank after the payment of the subscription. Those subscriptions are recognized as administrative expenses when they come due.

The prepaid subscriptions are recognized as assets to the limit that the deposit leads to reduce the future payments or to a refund.

## **U) Income Taxes**

Income tax expense on the year's profit or loss includes the sum of the tax currently payable and deferred tax and is recognized in the income statement, except when they relate to items that are recognized directly in equity, in which case the tax is also recognized in equity.

Income tax is recognized based on net taxable profit using the tax rates applicable at the date of the budget in addition to tax adjustments for previous years.

Deferred taxes is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized, the carrying amount of deferred tax assets is reviewed



at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. However, when it is expected that the tax benefit will increase, the carrying amount of deferred tax assets shall increase to the extent of previous reduction.

### **V) Borrowing**

Loans obtained by the bank are initially recognized at fair value net of transaction costs incurred in connection with obtaining the loan. Borrowings are subsequently measured at amortized cost, with the difference between net proceeds and the value to be paid over the borrowing period, recognized in profit or loss using the effective interest rate method.

### **W) Capital**

#### **W/1 Cost of capital**

The issuance expenses that are related directly with issuing new shares or shares of acquiring entity or issuance options, are presented as a deduction from owners' equity and the net revenues after tax.

#### **W/2) Dividends**

Dividends are recognized when the general assembly of shareholders approves them. Dividends include the employees' profit share and the board of directors' remuneration as prescribed by the bank's articles of association and the corporate law.

### **X) Comparative Figures**

Comparative figures are reclassified, where necessary, to conform with changes in the current period's presentation.

## **3. Management of Financial Risks**

The bank, as a result of conducting its activities, is exposed to various financial risks. Since financial activities are based on the concept of accepting risks and analyzing and managing individual risks or group of risks altogether, the bank aims at achieving a well-balanced risks and relevant rewards, as appropriate and to reduce the probable adverse effects on the bank's financial performance. The most important types of risks are credit risk, market risk, liquidity risk and other operating risks. The market risk comprises foreign currency risk, interest rate risk and other pricing risks.

The risk management policies have been laid down to determine and analyze the risks, set limits to the risks and control them through reliable methods and up-to-date systems. The bank regularly reviews the risk management policies and systems and amendments thereto, so that they reflect the changes in markets, products and services and the best up-to-date applications.

Risks are managed in accordance with preapproved policies by the board of directors. The risk

management department identifies, evaluates and covers financial risks, in close collaboration with the bank's various operating units. The board of directors provides written rules which cover certain risk areas, such as credit risk, foreign exchange risk, interest rate risk and the use of derivative and non-derivative financial instruments. Moreover, the risk department is responsible for the periodic review of risk management and the control environment independently.

### **A) Credit Risk**

The bank is exposed to the credit risk which is the risk resulting from failure of the client to meet its contractual obligations towards the Bank. The credit risk is considered to be the most significant risk for the bank, therefore requiring careful management. The credit risk manifests itself in the lending activities and debt instruments in bank's assets as well as off balance sheet financial instruments, such as letters of credit and letters of collateral. The credit risk management and control are centralized in a credit risk management team in Bank Risk management department and reported to the Board of Directors and head of each business unit regularly.

In measuring credit risk of loan and advances to customers and to banks at a counterparty level, the Bank's rating system is based on three key pillars:

- The 'probability of default' by the client or counterparty on its contractual obligations;
- Current exposures to the counterparty and its likely future development, from which the Bank derive the (exposure at default)
- The likely recovery ratio on the defaulted obligations (the loss given default).

These credit risk measurements, which reflect expected loss The operational measurements can be contrasted with impairment allowances required under Central Bank of Egypt's rules, pertaining to the preparation and presentation of the financial statements of banks and the recognition and measurement bases approved by the board of directors of the Central Bank of Egypt at December 16, 2008, which are based on losses that have been incurred at the balance sheet date rather than expected losses.

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical analysis with credit officer judgment and are validated, where appropriate, by comparison with externally available data. Clients of the Bank are segmented into four rating classes. The Bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes.

The rating tools are kept under review and upgraded as necessary. The Bank regularly validates the performance of the rating and their predictive power with regard to default events.

Bank's internal ratings scale and mapping of external ratings

<b>Bank's Rating</b>	<b>Description of the grade</b>
1	Good debts
2	Normal watch-list
3	Special watch-list
4	Nonperforming loans

And the loans expose to default depend on the banks expectation for the outstanding amounts when default occur. Loss given default or loss severity represents the Bank expectation of the extent of loss on a claim should default occur. It is expressed as percentage loss per unit of exposure and typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit mitigation.

#### **Debt Instruments, Treasury Bills and Bills**

For debt securities and other bills, external rating such as Standard & Poor's rating or their equivalents are used by bank Risk department for managing of the credit risk exposures, and if this rating is not available, then other ways similar to those used with the credit customers are uses. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

#### **A/2 Risk limit control and mitigation policies**

The bank manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and banks, and to industries and countries. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by individual, counterparties, product, and industry sector and by country are approved quarterly by the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

## **Collaterals**

The bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Mortgage business assets such as premises, inventory and accounts receivable;
- Mortgage financial instruments such as debt securities and equities

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit advances are generally unsecured. In addition, in order to minimize the credit loss the bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other governmental securities are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

## **Derivatives**

The bank maintains strict control limits on net open derivative positions (i.e., the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the bank (i.e., assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or negotiable values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements.

Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the bank requires margin deposits from counterparties.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Bank market transactions on any single day.

## **Commitments Related to Credit**

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Collaterals and standby letter of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, collaterals or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused

commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments

### A/3 Impairment and Provisions Policies

The internal rating systems described in Note a.1 focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognized for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment.

The impairment provision shown in the balance sheet at the period-end is derived from each of the four internal rating grades. However, the majority of the impairment provision comes from the bottom two grades. The table below shows the percentage of the Bank's in balance sheet items relating to loans and advances and the associated impairment provision for each of the Bank's internal rating categories:

Bank evaluation	December 31, 2014		December 31, 2013	
	Loans and Advances %	Impairment losses provision %	Loans and Advances %	Impairment losses provision %
Performing loan	57.41	3.29	55.03	3.68
Regular watching	17.13	2.96	13.80	2.16
Watch-list	6.95	9.66	9.59	7.04
Nonperforming loans	18.51	84.09	21.58	87.12
	100%	100%	100%	100%

The internal rating tools assists management to determine whether objective evidence of impairment according to the basis of preparing and previewing the financial statements of banks , assurance and measurements basis held by board of directors of central bank of Egypt at 16th of December 2008 and based on the following criteria set out by the Bank:

- Cash flow difficulties experienced by the borrower
- Breach of loan covenants or conditions
- Initiation of bankruptcy proceedings
- Deterioration of the borrower's competitive position
- Bank granted concessions may not be approved under normal circumstances, for economic, legal reasons, or financial difficulties facing the borrower
- Deterioration in the value of collateral
- Deterioration in the credit situation

The Bank's policy requires the review of all financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment

allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts.

The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Impairment loss provision is formed on homogenous experience of loan losses, available personal judgment of bank management and statistical methods .

#### **A/4 Bank Risks Measurement General Model**

In addition to the four categories of measuring credit worthiness discussed in disclosure 1.a the management makes small groups more detailed according to the CBE rules. Assets facing credit risk are classified to detailed conditions relying greatly on customer's information, activities, financial position and his regular payments to his debts.

The bank calculates the provisions needed for assets impairment in addition to credit regulations according to special percentages determined by CBE. In the case of increase of impairment loss provision needed according to CBE than that for purposes of making the financial statements according to the EAS, the general banking risk reserve is included in owners equity deducted from the retained earning with this increase, this reserve is modified with periodic basis with the increase and decrease, which equals the increase in provisions and this reserve is not distributed.

And this are categories of institutional worthiness according to internal ratings compared with CBE ratings and rates of provisions needed for assets impairment related to credit risk:

Classification of the Central Bank of Egypt	Classification Significance	Required provision rate	Internal classification	Internal classification Significance
1	Low risks	Zero	1	Performing loans
2	Average Risk	1%	1	Performing loans
3	Satisfactory risks	1%	1	Performing loans
4	Reasonable Risk	2%	1	Performing loans
5	Acceptable Risk	2%	1	Performing loans
6	Marginally Acceptable risk	3%	2	Regular watching
7	Watch list	5%	3	Watch List
8	Substandard	20%	4	Non performing loans
9	Doubtful	50%	4	Non performing loans
10	Bad Debt	100%	4	Non performing loans



## A/5 Maximum limits for Credit risk before Collateral

EGP (000)

Items exposed to credit risk In Balance sheet		December31,2014	December31, 2013
Treasury Bills, other Governmental Notes and trading financial assets		1 009 613	736 857
<b>Loans and advances to customers</b>			
<b>Retail loans</b>	Overdrafts	111 924	84 699
	personal loans	86 730	76 720
<b>Corporate loans</b>	Overdrafts	2 436 031	2 061 092
	Direct Loans	408 428	404 922
	Syndicated loans	920 479	735 524
	other loans	86	96
<b>Financial investments</b>	debt instruments	2 308 464	1 176 365
	Other assets	142 848	111 468
<b>Total</b>		<b>7 424 603</b>	<b>5 387 743</b>
<b>Off Balance sheet items exposed to credit risk</b>	Accepted discounted bills	71 539	32 204
	Letter Of Credit	257 973	407 052
	Letter Of guarantee	1 123 141	966 831
<b>Total</b>		<b>653 452 1</b>	<b>087 406 1</b>

The above table represents the Maximum bank exposure to credit risk at December 31, 2014 and at December 31, 2013, without taking account of any collateral held. For in balance sheet items, the exposures set out above based on net carrying amounts as reported in the balance sheet.

As shown above, 53.39 % of the total maximum exposure is derived from loans and advances to banks and customers at December 31, 2014 against 62.42 % at December 31,2013; while 31.09 % at December 31,2014 represents investments in debt instruments against 21.83% as at December 31,2013.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the bank resulting from both its loan and advances portfolio and debt Instruments based on the following:

- 79.16 % of the loans and advances portfolio is categorized in the top two grades of the internal rating system of the loans portfolio and credit advances at 31/12/2014 against 66.40% at 31/12/2013

- 81.49% of the loans and advances without accruals or impairment indicators at 31/12/2014 against 74.10% at 31/12/2013.
- 99.23 % at December 31, 2014 against 98.90% in 31/12/2013 of the investments in debt instruments are represented in governmental instruments.

### A/6 Loans and Advances

Following is the position of loans and advances balances to the Clients and Banks in terms of credit solvency:

EGP (000)

	December 31, 2014 Loans and advances to customers	December 31, 2013 Loans and advances to customers
Neither past due nor impaired	3 137 748	2 491 907
Past due but not impaired	92 090	145 458
Subject to impairment	733 840	725 688
<b>Total</b>	<b>3 963 678</b>	<b>3 363 053</b>
Less:		
Interest In Suspense	(129 370)	(124 596)
Profits of foreign Islamic operations	(14 036)	(11 435)
Provision for impairment losses	(600 452)	(540 645)
<b>Net</b>	<b>3 219 820</b>	<b>2 686 377</b>

Provision of impairment losses represents as at December 31, 2014 an amount of 452 600 thousands Egyptian pound against 540 645 thousand pounds at December 31, 2013 including 546 355 thousands Egyptian pound as at December 31, 2014 against 489 838 thousands Egyptian pound as of December 31, 2013 represents impairment of individual loans and the rest amounted 56 076 thousand Egyptian pound represents impairment of grouped credit portfolio.

Note (18) including additional information about Provision of impairment losses.

### Loans and advances without unpaid balances and is not impaired:

The credit quality of the portfolio of loans and advances without unpaid balances and is not impaired is evaluated by referring to the internal evaluation used by the bank.

## Loans and advances to Customers and Banks in net as of December 31, 2014

EGP (000)

Valuation	Retail		Corporate				Total loans and advances to customers
	Overdrafts	Personal loans	Overdrafts	Direct loans	Syndicated loans	Other loans	
Performing loans	106 718	83 512	1 378 233	187 483	513 937	86	2 269 969
Regular watching	-	-	192 990	140 050	384 225	-	717 265
Watch list	-	-	141 805	8 709	-	-	150 514
<b>Total</b>	<b>106 718</b>	<b>83 512</b>	<b>1 713 028</b>	<b>336 242</b>	<b>898 162</b>	<b>86</b>	<b>3 137 748</b>

## Loans and advances to Customers and Banks as of December 31, 2013

EGP (000)

Valuation	Retail		Corporate				Total loans and advances to customers
	Overdrafts	Personal loans	Overdrafts	Direct loans	Syndicated loans	Other loans	
Performing loans	78 853	73 522	1 096 362	195 718	394 624	96	1 839 175
Regular watching	-	-	99 388	90 486	201 921	-	391 795
Watch list	-	-	129 319	14 719	116 899	-	260 937
<b>Total</b>	<b>78 853</b>	<b>73 522</b>	<b>1 325 069</b>	<b>300 923</b>	<b>713 444</b>	<b>96</b>	<b>2 491 907</b>

## Loans and advances past due but not subject to impairment

Unless other information is available to indicate the contrary. Customers' loans and advances with neither past due but not impaired. The fair values of the collateral related thereto are represented as follows:

### December 31, 2014

EGP (000)

	Retail		
	Overdrafts	Personal loans	Total
Past due 30 days	--	183	183
	Corporate		
	Overdrafts	Direct loans	Total
Past due more than 90 until 120 days	91 329	578	91 907
Fair value of collateral	90 251	798 583	888 834

At the time of initial recording loans and advances, fair value of collateral is assessed based on the valuation techniques usually used with similar assets. In subsequent period, the fair value is updated at the market prices or similar assets prices.

#### December 31, 2013

EGP (000)

	Retail		
	Overdrafts	Personal loans	Total
Past due 30 days	--	62	62
	Corporate		
	Overdrafts	Personal loans	Total
Past due more than 90 until 120 days	123 791	21 605	145 396
Fair value of collateral	67 877	301 549	369 426

#### Loans and advances subject to impairment individually

Customers' loans and advances

Loans and advances assessed on an individual basis before cash flows from collaterals are amounted 713 463 thousands Egyptian Pound as at December 31, 2014 against 725 688 thousands Egyptian Pound as at December 31, 2013

Following is an analysis of the total value of the loans and advances individually subject to impairment including the fair value of the collaterals that the bank received in return for such loans:

#### December 31, 2014

EGP (000)

	Retail		Corporate				Total loans and advances to customers
	Overdrafts	Personal loans	Overdrafts	Direct loans	Syndicated loans	Other loans	
Subject to impairment individually	5 206	3 035	631 674	71 608	22 317	-	733 840
Fair value of collaterals	3	-	71 222	-	-	-	71 225

December 31, 2013

EGP (000)

	Retail		Corporate				Total loans and advances to customers
	Overdrafts	Personal loans	Overdrafts	Direct loans	Syndicated loans	Other loans	
Subject to impairment individually	5 846	3 136	612 232	82 394	22 080	-	725 688
Fair value of collaterals	-	1 415	87 931	-	-	-	89 346

### Restructuring Loans and Advances:

Restructuring activities include extended payment arrangements; execute obligatory management programs, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to long term loans; in particular customer finance loans Renegotiated loans that would otherwise be past due or impaired totalled at the of the financial period, especially customers' funded loans. Loans that were being renegotiated amounted 69 309 thousands Egyptian Pound against 42 715 thousands Egyptian Pound as at December 31, 2013.

EGP (000)

	December 31, 2014	December 31, 2013
<b>Loans and advances to customers</b>		
<b>Corporate</b>		
Overdrafts	16 975	32 474
Direct loans	58 246	10 155
<b>Individuals</b>		
Overdrafts	10 773	51
Personal loans	290	35
<b>Total</b>	<b>86 284</b>	<b>42 715</b>

#### A/7 Debt instruments and treasury bills

The following table represents the analysis of debt instruments and other treasury bills according to the evaluation agencies at 31/12/2014, based on Standard & Poor's evaluation and equivalents:

EGP (000)

	Treasury bills	Financial investments in securities	Total
AAA	-	15 172	15 172
AA- to AA+	-	1 184	1 184
A- to A+	-	9 331	9 331
Less A-	1 009 613	2 282 776	3 292 389
	<b>1 009 613</b>	<b>2 308 463</b>	<b>3 318 076</b>

#### A/8 Acquisition of collaterals

The bank did not acquire any collateral during the current year.

#### A/9 The concentration of financial assets exposed to credit risks

##### Geographical segments:

The following table represents the analysis of the most important bank's credit risks measured at the book value, allocated according to the geographical segment at 31/12/2014. While preparing this table, risks were allocated to the geographical segments according to the areas related to the bank's customers.

##### Arab Republic of Egypt

EGP (000)

	Cairo	Alexandria and the Delta and Sinai	Total
Treasury bills	1 009 613	-	1 009 613
	<b>Loans &amp; advances to customers</b>		
	<b>Retail</b>		
Overdrafts	99 626	12 298	111 924
Personal loans	2 109 242	7 570	86 730
	<b>Corporate</b>		
Overdrafts	79 160	326 789	2 436 031
Direct loans	405 752	2 676	408 428



	Cairo	Alexandria and the Delta and Sinai	Total
Syndicated loans	920 479	-	920 479
Other loans	86	-	86
<b>Financial Investments</b>			
Debt instruments	2 308 464	-	2 308 464
Other Assets	142 848	-	142 848
<b>Total as of December 31, 2014</b>	<b>7 075 270</b>	<b>349 333</b>	<b>7 424 603</b>
<b>Total as of December 31, 2013</b>	<b>5 131 044</b>	<b>256 699</b>	<b>5 387 743</b>

The following table represents the analysis of the most important bank's credit risk in book value, allocated according to the customers' activity:

#### Arab Republic of Egypt

EGP (000)

31/12/2014	Financial Institutions	Industrial Institutions	Real estate activity	Wholesale and retail trade	Governmental sector	Other Activity	Individuals	Total
<b>Treasury bills</b>	-	-	-	-	1 009 613	-	-	1 009 613
<b>Loans &amp; advances</b>								
<b>Retail</b>								
Overdrafts	-	-	-	-	-	-	111 924	111 924
Personal loans	-	-	-	-	-	-	86 730	86 730
<b>Corporate</b>								
Overdrafts	400 872	617 015	822 979	-	-	595 165	-	2 436 031
Direct loans	31 430	322 170	16 456	-	-	38 372	-	408 428
Syndicated loans	580 306	178 680	8 110	-	-	153 383	-	920 479
Other loans	-	-	-	-	-	86	-	86
<b>Financial Investments</b>								
Debt instruments	-	25 688	-	-	2 282 785	-	-	2 308 473
Other Assets	1 184	-	15 172	-	117 161	9 331	-	142 848
<b>Total as of December 31, 2014</b>	<b>1 013 792</b>	<b>1 143 553</b>	<b>862 717</b>	<b>-</b>	<b>3 409 559</b>	<b>796 337</b>	<b>198 654</b>	<b>7 424 612</b>
<b>Total as of December 31, 2013</b>	<b>19 137</b>	<b>890 143</b>	<b>1 151 499</b>	<b>719 696</b>	<b>1 804 535</b>	<b>641 218</b>	<b>161 515</b>	<b>5 387 743</b>

## B) Market Risk

The bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios.

The market risks arising from trading and non-trading activities are concentrated in Bank risk exposure department and monitored by two teams separately. Regular reports are submitted to the Board of Directors and heads of each business unit.

Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with customers or with the market. Non-trading portfolios primarily arise from the interest rate management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Bank's held-to-maturity and available-for-sale investments.

The bank uses the method of relating debit interest rate with credit interest rate to avoid the risk of fluctuations in interest rate. The bank also depends on fluctuated interest rate which does not exceed 3 months except in specific cases interest rates are specified for longer period relating resources portfolio with application portfolio to get return that covers its costs. In addition the bank should not exceed the following:

- The surplus amount of any foreign currency positions for 1 % from the capital base
- The total surplus of foreign currency positions for 2 % from capital base
- The total shortage amount in the position of any currency for 10 % from capital base
- The total shortage of (local/foreign) currency positions for 20 % from capital base

### B/1 Summary on the Value at Risk of trading portfolios

EGP (000)

	December 31, 2014			December 31, 2013		
	Average	Higher	Lower	Average	Higher	Lower
Interest rate risk	42 137	62 050	9 331	70 878	79 494	62 831
<b>Total value at risk</b>	<b>42 137</b>	<b>62 050</b>	<b>9 331</b>	<b>70 878</b>	<b>79 494</b>	<b>62 831</b>

- The increase of VAR especially the interest rate risk, mainly relates to the increased volatility of market interest rates in global principal financial markets.

- The three previous values exposed to risk results are calculated independently from concerned centres and historical movements of market. The total amount exposed to risk for trading and for non-trading does not express the amount exposed to risk at the bank due to the relation between risks types and portfolio types and what follows for different impacts.

## B/2 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarizes the Bank's exposure to foreign currency exchange rate risk and Bank's financial instruments at carrying amounts, categorized by currency.

### Foreign currency risk on the financial instruments

EGP (000)

December 31, 2014	US Dollar	Euro	Jap. Yen	Sterling Pound	Other Currencies
<b>Financial Assets</b>					
Cash and Due From Central Bank	19 023	602	-	18	-
Due from banks	6 284	1 564	10 465	8 713	99
Treasury bills	19 100	9 500	-	-	-
Loans & Advances to customers	161 683	2 753	12 848	19	-
<b>Financial investments</b>					
Available for sale	6 748	-	-	-	-
Held to maturity	2 501	-	-	-	-
Other assets	3 824	502	-	75	1
<b>Total financial assets as of December 31, 2014</b>	<b>219 163</b>	<b>14 921</b>	<b>23 313</b>	<b>8 825</b>	<b>100</b>
<b>Financial liabilities</b>					
Balances due to banks	26 000	1 000	-	-	-
Customer's deposits	140 590	12 970	14 003	8 791	-
Provision for impairment losses	36 458	-	-	-	-
Other provisions	708	-	-	-	-
Other liabilities	19 235	1 113	8 916	20	-
<b>Total financial liabilities as of December 31, 2014</b>	<b>222 991</b>	<b>15 083</b>	<b>22 919</b>	<b>8 811</b>	<b>-</b>
<b>Net financial position of the balance sheet as of December 31, 2014</b>	<b>(3 828)</b>	<b>(162)</b>	<b>394</b>	<b>14</b>	<b>100</b>
<b>Total financial assets as of December 31, 2013</b>	<b>162 672</b>	<b>26 804</b>	<b>-</b>	<b>3 628</b>	<b>105</b>
<b>Total financial liabilities as of December 31, 2013</b>	<b>165 202</b>	<b>27 027</b>	<b>-</b>	<b>3 562</b>	<b>1</b>
<b>Net financial position of the balance sheet as of December 31, 2013</b>	<b>(2 530)</b>	<b>(223)</b>	<b>-</b>	<b>66</b>	<b>104</b>

### B/3 Interest rate Risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may profit decrease in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate reprising that may be undertaken, which is monitored daily by Risk Dept. The following table summarizes the risk that the bank faces the change in the return value including the book value of financial instruments allocated based on the re-pricing dates or due dates price whichever is sooner.

EGP (000)

December 31, 2014	Up to 1 month	More than 1 month to 3 months	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years	Without return	Total
<b>Financial Assets</b>							
Cash and Due From Central Bank	-	-	-	-	-	529 981	529 981
Due from banks	253 903	11 181	157 361	-	-	72 792	495 237
Treasury Bills	285 443	313 317	410 853	-	-	-	1 009 613
Loans & Advances to customers	442 265	218 061	705 945	255 510	973 875	1 368 022	3 963 678
<b>Financial investments</b>							
Available for sale	-	-	90 046	271 953	558 234	-	920 233
Held to maturity	-	-	366 147	462 152	639 144	-	1 467 443
Associated Company	-	-	-	-	107 757	-	107 757
Other assets	-	-	-	-	-	142 848	142 848
Financial assets held for trading	3 813	-	-	-	-	-	3 813
<b>Total financial assets</b>	<b>985 424</b>	<b>542 559</b>	<b>1 730 352</b>	<b>989 615</b>	<b>2 279 010</b>	<b>2 113 643</b>	<b>8 640 603</b>
<b>Financial liabilities</b>							
Balances due to banks	428 820	35 700	-	-	-	-	464 520
Customer's deposits	1 264 572	548 255	568 358	1 844 017	741 017	1 583 860	6 550 079
Other financial liabilities	-	-	-	-	-	163 476	163 476
<b>Total financial liabilities</b>	<b>1 693 392</b>	<b>583 955</b>	<b>568 358</b>	<b>1 844 017</b>	<b>741 017</b>	<b>1 747 336</b>	<b>7 178 075</b>
<b>Re-pricing gap</b>	<b>(707 968)</b>	<b>(41 396)</b>	<b>1 161 994</b>	<b>(854 402)</b>	<b>1 537 993</b>	<b>366 307</b>	<b>1 462 528</b>

December 31, 2013							
Total financial assets	887 196	450 719	1 605 219	1 008 270	1 500 545	1 156 511	6 608 460
Total financial liabilities	976 482	443 332	619 135	1 467 652	198 826	1 539 410	5 244 837

### C) Liquidity Risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

#### Liquidity Risk Management

- The Bank's liquidity management process, as carried out within the Bank and monitored by Risk Management Dept, includes:
  - Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or is borrowed by customers.
    - The Bank maintains an active presence in global money markets to enable this to happen.
  - Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow.
  - Monitoring balance sheet liquidity ratios against internal and requirements of central bank of Egypt
  - Managing the concentration and profile of debt maturities.
  - Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.
  - Risk Management Dept. also monitors unmatched medium-term assets, the level and type of un drawn lending commitments, the usage of overdraft advances and the impact of contingent liabilities such as standby letters of credit and guarantees.

#### Funding approach

Sources of liquidity are regularly reviewed by a separate team in the Risk Management (Assets & liabilities), to maintain a wide diversification by currency, provider, product and term.

The available assets to cover all the liabilities and the loan's obligations include cash, balances at Central bank, dues from banks, treasury bills, other governmental securities and loans and advances to customers and banks, customers' loans that are due within a year are extended partially for the ordinary activity of the bank. In addition, some of debt instruments, treasury bills and governmental securities are mortgaged to guarantee the liabilities, the bank has the ability to cover the net unexpected cash flows through the sale of financial securities and finding other funding resources.

## **D) Financial Assets and Liabilities Fair Value**

D/1 According to the applied valuation bases used in evaluating banks' assets and liabilities included in the notes attached to the financial statements the fair value of the financial assets and liabilities do not significantly differ from its book value at the balance sheet date.

## **E) Capital Management**

The Bank's objectives when managing capital, which consists of another items in addition of owner's equity stated in balance sheet are:

- To comply with the legal requirements in Egypt.
- To safeguard the Bank's ability to continue as ongoing concern so that it can continue to provide returns for shareholders and stakeholders and other parties that deal with the bank.
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee as implemented by the Central bank Of Egypt, for supervisory purposes. The required information is filed with the Authority on a quarterly basis.

### **Central bank Of Egypt requires the following:**

Hold the minimum level of the issued and paid up capital of EGP500 Million

Maintain a ratio of total regulatory capital to the risk weighted asset or above the agreed minimum of 10%.

### **The nominator of capital adequacy standard consists of two tiers:**

#### **Tier One:**

Tier one, consisting of paid-in capital (after deducting the book value of treasury shares), and retained earnings and reserves resulting from the distribution of profits with the exception of banking risk reserve and deducting there from previously recognized goodwill and any transferred loss

#### **Tier Two:**

Qualifying subordinated loan capital, which consists of the equivalent of the risk allocation according to the principles of credit issued by the Central Bank of Egypt for not more than 1.25% of total assets and liabilities weighted with risk, loans / deposits support in excess of the schedule of five years (with consumption of 20% of their value in each year of the last five years of the schedule) and 45% of the increase between the fair value and book value for each of the financial investments available for sale and held to maturity in subsidiaries.

When calculating the total dominator of capital adequacy, it shall not exceed the capital cushions (Qualifying subordinated loan capital) for share capital and loans not to increase



(deposits) support for half of the share capital. Assets are risk weighted ranging from zero to 100% classified by the relation of the debtor to all each asset to reflect the credit risk associated with it, taking the cash collateral account. These are used for the treatment of off balance sheet items after adjustments to reflect the nature of contingency and the potential loss of those amounts

The weighted asset risk weights ranging from zero to 100% classified by the nature of the debtor all out to reflect the credit risk associated with it, taking the cash collateral account. Are used for the treatment of amounts outside the budget after adjustments to reflect the nature of spin-off and the potential loss of those amounts

The bank had complied with all the local capital requirements during the past two years. The following table summarizes the Tier 1 and Tier 2 capital components and the capital adequacy ratio at the end of these two years.

	December 31, 2014 EGP (000)	December 31, 2013 EGP (000)
Capital		
(Tier 1 capital) basic capital		
Paid-up capital	600 000	500 000
Other reserves	55 194	126 027
Retained earnings	13 194	29 003
<b>Total qualifying Tier 1 capital</b>	<b>668 388</b>	<b>655 030</b>
(Tier 2 capital) backup capital		
General Risk Provision for advances & contingent liabilities	52 670	50 526
45% of the increase in fair value over the book value for financial investments liabilities excluding trading portfolio	98 569	53 880
<b>Total syndicated capital</b>	<b>151 239</b>	<b>104 406</b>
<b>Total paid up capital</b>	<b>819 627</b>	<b>759 436</b>
Risk-weighted assets:		
In-balance sheet	3 534 091	3 447 874
Off-balance sheet	679 488	594 231
<b>Total risk-weighted assets</b>	<b>4 213 579</b>	<b>4 042 105</b>
<b>Capital Adequacy ratio (%)</b>	<b>% 19.45</b>	<b>% 18.79</b>

According to the Central Bank of Egypt requirements, the improvement of banking organization situation related to capital adequacy of Basel II.

The following table summarizes of capital base in 31/12/2014 according to Basel II :

	December 31,2014 EGP (000)	December 31,2013 EGP (000)
Capital		
(Tier 1 capital) basic capital		
Paid-up capital	600 000	500 000
Other reserves	54 943	125 776
Retained earnings	13 194	29 003
(Tier 1 capital) after deduction	668 137	654 779
(Tier 2 capital) syndicated capital		
General Risk Provision		
Impairment provisions for loans and regular contingent	55 282	46 892
45% of the increase in fair value than the book value of the Investments	98 569	53 880
<b>Total capital</b>	<b>153 851</b>	<b>100 772</b>
<b>Tier 2 after deduction</b>	<b>821 988</b>	<b>755 551</b>
<b>Total risk-weighted assets and contingent liabilities</b>	<b>4 839 316</b>	<b>4 091 616</b>
<b>Capital Adequacy ratio (%)</b>	<b>% 16.99</b>	<b>% 18.47</b>

#### 4. Critical accounting estimates and judgments

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances and available info.

##### A) Impairment losses on loans and advances

Based on personal basis The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis in determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Bank, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment

similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

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

### **C) Fair value of derivatives**

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

### **D) Financial Investments Held to Maturity**

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

### **E) Income taxes**

The bank is subject to income taxes in relation with the operation of its branches abroad. This requires the use of significant estimations in order to determine the total provision for income tax. There are several operations and accounts for which the final tax cannot be determined with certainty. The bank created provisions for the expected results of the tax inspection that is being conducted and to account for probable additional tax. When there is a difference between the final results of the tax and the pre recorded amounts, these differences will be adjusted against the income tax and the deferred income tax provision at the period in which the difference has been determined.

## 5. Segment Analysis

### Analysis of geographical Segments

31 December 2014

EGP (000)

	Cairo	Alexandria and the Delta	Total
<b>Income and expenditure in accordance with the geographical Segment</b>			
Revenues	821 259	40 066	861 325
Expenses	(696 177)	(51 930)	(748 107)
Sector profit results	125 082	(11 864)	113 218
Net income for the year before taxes	125 082	(11 864)	113 218
Taxes			(57 185)
Net income for the year			56 033
<b>Assets and liabilities according to the geographical Segment</b>			
Assets of geographic Segment	7 242 862	653 883	7 896 745
Unclassified Assets	61 123	-	61 123
<b>Total Assets</b>	<b>7 303 985</b>	<b>653 883</b>	<b>7 957 868</b>
Liabilities' of geographic Segment	6 524 192	653 883	7 178 075
Unclassified Liabilities	37 907	-	37 907
<b>Total Liabilities</b>	<b>6 562 099</b>	<b>653 883</b>	<b>7 215 982</b>

## 6. Net interest income

Interest from loans & similar income:

	December 31, 2014 EGP (000)	December 31, 2013 EGP (000)
Loans & advances to customers	329 648	300 924
Treasury bills	66 045	90 520
Deposits and current accounts	11 876	13 628
Investments in debt instruments held to maturity and available for sale	256 356	128 795
	<b>663 925</b>	<b>533 867</b>
<b>Interest on deposits &amp; similar expenses:</b>		

	December 31, 2014 EGP (000)	December 31, 2013 EGP (000)
<b>Deposits and current accounts</b>		
Banks	(8 911)	(12 814)
Customers	(378 422)	(316 611)
	<b>(387 333)</b>	<b>(329 425)</b>
<b>Net</b>	<b>276 592</b>	<b>204 442</b>

## 7. Fees and commissions income

	December 31, 2014 EGP (000)	December 31, 2013 EGP (000)
Fees and commissions related to credit	101 629	77 817
Other Fees	14 826	11 932
<b>Total</b>	<b><u>116 455</u></b>	<b><u>89 749</u></b>

## 8. Dividends income

	December 31, 2014 EGP (000)	December 31, 2013 EGP (000)
Financial securities Available for sale	2 602	2 167
	<b><u>2 602</u></b>	<b><u>2 167</u></b>

## 9. Net trading income

	December 31, 2014 EGP (000)	December 31, 2013 EGP (000)
Profits (losses) from dealing in foreign currencies	56 224	4 246
Fund investment documents revaluation differences	3 813	-
	<b><u>60 037</u></b>	<b><u>4 246</u></b>

## 10. Administrative Expenses

	December 31, 2014 EGP (000)	December 31, 2013 EGP (000)
<b>staff cost</b>		
Wages and salaries	179 849	179 536
Social insurances	5 623	5 050
Specific contributions systems	18 636	17 091
	<u>204 108</u>	<u>201 677</u>
<b>Other Administrative Expenses</b>	<u>58 199</u>	<u>37 023</u>
	<u>262 307</u>	<u>238 700</u>

## 11. Other operating Expenses

	December 31, 2014 EGP (000)	December 31, 2013 EGP (000)
(losses) Gains from revaluation of monetary assets & liabilities determined in foreign currency other than those classified for trading	(48 048)	26 955
loss of selling assets reverted to the bank	(3)	(241)
Gain from sale of fixed assets	13 382	94
Other Provision	(9 847)	(5 384)
Exchange difference of available for sale debt instrument	94	745
	<u>(44 422)</u>	<u>22 169</u>

## 12. Impairment of loan loss

	December 31, 2014 EGP (000)	December 31, 2013 EGP (000)
Loans & advances to customers ( Note 18)	(54 045)	(16 166)
	<u>(54 045)</u>	<u>(16 166)</u>



### 13. Income tax expenses

	December 31,2014 EGP (000)	December 31,2013 EGP (000)
Deferred taxes	1000	506
Current income taxes	(58 185)	(37 521)
	<u>(57 185)</u>	<u>(37 015)</u>

### 14. Earnings per share

The earnings per share is calculated by dividing the profit for the year by the number of shares outstanding.

	December 31,2014 EGP (000)	December 31,2013 EGP (000)
Net profit for the year	56 033	51 935
Weighted average number of shares	60 000	50 000
Earning per share	<u>0.93</u>	<u>1.04</u>

### 15. Cash and balances with Central Bank of Egypt

	December 31,2014 EGP (000)	December 31, 2013 EGP (000)
Cash	68 979	49 772
Due from central Bank within the required reserve percentage	461 002	206 634
	<u>529 981</u>	<u>256 406</u>

## 16. Due from banks

	December 31, 2014 EGP (000)	December 31, 2013 EGP (000)
Current accounts	72 792	82 284
Deposits	422 445	708 532
	<u>495 237</u>	<u>790 816</u>
Central Bank	333 892	569 280
Local Banks	3 226	20 764
Foreign Banks	158 119	200 772
	<u>495 237</u>	<u>790 816</u>
Balances with no return	72 788	209 792
Balances with fixed return	422 449	581 024
	<u>495 237</u>	<u>790 816</u>
Current balances	<u>314 330</u>	<u>783 060</u>
Noncurrent balances	<u>180 907</u>	<u>7 756</u>
	<u>495 237</u>	<u>790 816</u>

## 17. Treasury bills

	December 31, 2013 EGP (000)	December 31, 2012 EGP (000)
Treasury bills, maturity 91 days	98 750	-
Treasury bills, maturity 182 days	60 000	-
Treasury bills, maturity 272 days	128 725	133 200
Treasury bills, maturity 364 days	756 663	629 398
Unearned interest	(34 525)	(25 741)
	<u>1 009 613</u>	<u>736 857</u>

## 18. Loans & advances to customers

	December 31, 2014 EGP (000)	December 31, 2013 EGP (000)
<b>Retail</b>		
Overdrafts	111 924	84 699
Personal loans	86 730	76 720
<b>Total</b>	<b><u>198 654</u></b>	<b><u>161 419</u></b>
<b>Institutions including small loans for economic activities</b>		
Overdrafts	2 436 031	2 061 092
Direct loans	408 428	404 922
Syndicated loans	920 479	735 524
Other loans	86	96
<b>Total</b>	<b><u>3 765 024</u></b>	<b><u>3 201 634</u></b>
Total Loans & advances to customers	3 963 678	3 363 053
<u>Less:</u> Loan impairment loss provision	( 600 452)	( 540 645)
Interest in suspense	(129 370)	(124 596)
Deferred revenues of Islamic operations	(14 036)	(11 435)
<b>Total</b>	<b><u>3 219 820</u></b>	<b><u>2 686 377</u></b>

### Total is allocated to

	December 31, 2013 EGP (000)	December 31, 2012 EGP (000)
Current Balances	2 634 685	2 155 720
Non Current Balances	1 328 993	1 207 333
	<b><u>3 963 678</u></b>	<b><u>3 363 053</u></b>

## Impairment loss provision

	December 31, 2014 EGP (000)	December 31, 2013 EGP (000)
<b>Balance at the beginning of the year</b>	540 645	571 573
Impairment loss during the year	54 045	16 166
Amounts written off during the year	(2 376)	(67 212)
Foreign currency valuation difference	6 536	20 005
Collection from bad debt previously written off	1 602	113
<b>Provision at year end</b>	<b><u>600 452</u></b>	<b><u>540 645</u></b>

## 19. Financial assets held for trading

	ICS Number	Book Value	ICS Market value	EGP (000)
Arab Investment Bank First Fund (Monetary )	258 134	1	10	2 581
Arab Investment Bank Second Fund (HELAL)	7 166	1	146	1 046
Arab Investment Bank Third Fund (SANDY)	18 747	1	10	186
				<b><u>3 813</u></b>

## 20. Financial Investments

	December 31,2014 EGP (000)	December 31, 2013 EGP (000)
<u>Financial Investments available for sale</u>		
Debt instruments at fair value		
Debt instrument listed	856 021	270 782
Equity instruments at fair value		
Equity instrument listed	26 312	18 019
Equity instrument unlisted	37 900	35 873
<b>Total Financial Investments available for sale</b>	<b><u>920 233</u></b>	<b><u>324 674</u></b>

	December 31, 2014 EGP (000)	December 31, 2013 EGP (000)
Financial Investments Held to maturity		
Debt Instruments – amortization cost method:		
Debit instrument listed	1 426 755	814 256
Debit instrument unlisted	25 688	91 327
Mutual fund's instruments established according to the issued rates	15 000	15 000
<b>Total Financial Investments Held to maturity</b>	<b><u>1 467 443</u></b>	<b><u>920 583</u></b>
<b>Total Financial Investments</b>	<b><u>2 387 676</u></b>	<b><u>1 245 257</u></b>
Current Balances	398 957	113 230
Non Current Balances	1 988 719	1 132 027
	<b><u>2 387 676</u></b>	<b><u>1 245 257</u></b>
Debt Instruments - with fixed return	2 282 776	1 147 870
Debt Instruments - Variable return	25 688	28 495
	<b><u>2 308 464</u></b>	<b><u>1 176 365</u></b>

	Financial Investments available for sale EGP (000)	Financial Investments Held to maturity EGP (000)	Total EGP (000)
<b>Balance as of Jan 1, 2014</b>	<b><u>324 674</u></b>	<b><u>920 583</u></b>	<b><u>1 245 257</u></b>
Additions	768 035	663 883	1 431 918
Disposals (Sales/Redemption)	(184 880)	(140 083)	(324 963)
Revaluation differences of Monetary assets in foreign currency	429	588	1 017
Profit from the change of fair value	7 847	-	7 847
Amortization of (premium)/ discount	5 010	22 472	27 482
Impairment loss	(882)	-	(882)
<b>Balance as of December 31, 2014</b>	<b><u>920 233</u></b>	<b><u>1 467 443</u></b>	<b><u>2 387 676</u></b>
<b>Balance as of Jan 1, 2013</b>	<b><u>382 801</u></b>	<b><u>640 086</u></b>	<b><u>1 022 887</u></b>
Additions	89 321	380 204	469 525
Amortization of (premium)/ discount	(5 286)	288	(4 998)

	Financial Investments available for sale EGP (000)	Financial Investments Held to maturity EGP (000)	Total EGP (000)
Disposals (Sales/Redemption)	(163 922)	(99 995)	(263 917)
Revaluation differences of Monetary assets in foreign currency	1 347	-	1 347
Profit from the change of fair value	21 162	-	21 162
Impairment loss provision	(749)	-	(749)
<b>Balance as of December 31, 2013</b>	<b><u>324 674</u></b>	<b><u>920 583</u></b>	<b><u>1 245 257</u></b>

### Financial investments revenues:

	December 31, 2014 EGP (000)	December 31, 2013 EGP (000)
Gain on sale of available for sale investments	2 814	3 162
Impairment loss of equity instruments available for sale	(882)	(918)
Unallocated profits of investments in associates	16 374	18 799
	<b><u>18 306</u></b>	<b><u>21 043</u></b>

## 21. Investments in associates

The percentage contribution of the Bank in associates companies

EGP (000)							
December 31, 2014	Company's headquarters	Company's asset	Liabilities (less owners 'equity)	Net profit (loss) activity	Profit / (losses) Company	Percentage of contribution	Value of contribution
Pipes Industries & Plastic Products Co.	Cairo	60 205	25 718	(8 556)	(1 759)	%39.95	13 778
Designing & Manufacturing Investment Equipment	Cairo	5 747	2 689	(1 129)	576	%35	1 070
Zahraa El Maadi Co.	Cairo	1 529 507	1 074 780	112 486	68 365	%20.30	92 464
Free trade Company for manufacturing and trade	Port said	2 498	9 395	(885)	(872)	%31.90	-

December 31, 2014	Company's headquarters	Company's asset	Liabilities (less owners 'equity)	Net profit (loss) activity	Profit / (losses) Company	Percentage of contribution	Value of contribution
Middle East company for land reclamation	Cairo	47 974	192 215	(24 763)	(14 755)	%24.47	-
Festia Co. for Ready Made Clothes	Alex	47 702	26 750	222	20	%20	-
<b>Praim services managements</b>	<b>Cairo</b>	<b><u>2 405</u></b>	<b><u>173</u></b>	<b><u>240</u></b>	<b><u>(314)</u></b>	<b><u>%20</u></b>	<b><u>445</u></b>
							<b><u>107 757</u></b>

\* The market value of financial investment in associates resisted in the security exchange market amounted L.E 268 917 thousands Egyptian pounds at 31/12/2014 against 146 649 thousands Egyptian pounds at 31/12/2013

EGP (000)

December 31, 2013	Company's headquarters	Company's asset	Liabilities (less owners 'equity)	Net profit (loss) activity	Profit / (losses) Company	Percentage of contribution	Value Of contribution
Pipes Industries & Plastic Products Co.	Cairo	66 780	23 737	212	(7 846)	%39.95	17 196
Designing & Manufacturing Investment Equipment	Cairo	4 615	428	(741)	(1 998)	%35	1 465
Zahraa El Maadi Co.	Cairo	1 006 671	585 979	44 755	112 362	%20.30	85 544
Free trade Company for manufacturing and trade	Port said	2 498	9 395	(885)	(872)	%31.90	-
Middle East company for land reclamation	Cairo	47 974	192 215	(24 763)	(14 755)	%24.47	-
Festia Co. for Ready Made Clothes	Alex	47 702	26 750	222	20	%20	-
<b>Praim services managements</b>	<b>Cairo</b>	<b><u>2 095</u></b>	<b><u>105</u></b>	<b><u>(439)</u></b>	<b><u>208</u></b>	<b><u>%20</u></b>	<b><u>398</u></b>
							<b><u>104 603</u></b>



## 22. Intangible assets

	December 31, 2014 EGP (000)	December 31, 2013 EGP (000)
Cost	882	882
Additions	3 549	-
	<u>4 431</u>	<u>882</u>
Accumulated amortization as of 1/1/2014	(55)	-
Amortization	(2 154)	(55)
Accumulated amortization as of 31/12/2014	<u>(2 209)</u>	<u>(55)</u>
Net book value as of December 31, 2014	<u>2 222</u>	<u>827</u>

## 23. Other assets

	December 31, 2014 EGP (000)	December 31, 2013 EGP (000)
Accrued revenues	71 834	42 488
Prepaid expenses	769	2 785
Assets owned by the bank for debts(after deducting impairment)	15 317	15 244
Insurance and consignments	2 409	1 071
Purchase under settlement	-	918
Advances to purchase of fixed assets	2 729	27 987
Other	49 790	20 975
	<u>142 848</u>	<u>111 468</u>

## 24. Fixed assets

EGP (000)					
As of January 1, 2013	Land & building	Lease hold improvement	Machines and equipment	Others	Total
Cost	21 369	5 421	6 689	26 406	59 885
Accumulated Depreciation	(18 227)	(5 216)	(4 981)	(12 897)	(41 321)
Net book value as of January 1, 2013	<u>3 142</u>	<u>205</u>	<u>1 708</u>	<u>13 509</u>	<u>18 564</u>

As of January 1, 2013	Land & building	Lease hold improvement	Machines and equipment	Others	Total
Additions	21 046	10 090	1 807	3 922	36 865
Disposals cost of Assets	(356)	-	-	-	(356)
Disposals cost of Depreciation	66	-	-	-	66
<b>Cost of Depreciation</b>	<b>(997)</b>	<b>(2 569)</b>	<b>(475)</b>	<b>(3 673)</b>	<b>(7 714)</b>
<b>Net book value as of January 1, 2013</b>	<b><u>22 901</u></b>	<b><u>7 726</u></b>	<b><u>3 040</u></b>	<b><u>13 758</u></b>	<b><u>47 425</u></b>
As of December 31, 2013					
Cost	42 059	15 511	8 496	30328	96 394
Accumulated Depreciation	(19 158)	(7 785)	(5 456)	(16570)	(48 969)
<b>Net book value as of January 1, 2014</b>	<b><u>22 901</u></b>	<b><u>7 726</u></b>	<b><u>3 040</u></b>	<b><u>13 758</u></b>	<b><u>47 425</u></b>
Additions	10 256	7018	1056	4786	23116
Disposals cost of Assets	-	-	-	(7)	(7)
Disposals cost of Depreciation	-	-	-	7	7
Cost of Depreciation	(1 749)	(4 993)	(596)	(4 302)	(11 640)
<b>Net book value as of December 31, 2013</b>	<b><u>31 408</u></b>	<b><u>9 751</u></b>	<b><u>3 500</u></b>	<b><u>14 242</u></b>	<b><u>58 901</u></b>
As of December 31, 2014					
Cost	52 315	22 529	9 552	35 107	119 503
Accumulated Depreciation	(20 907)	(12 778)	(6 052)	(20 865)	(60 602)
<b>Net book value as of December 31, 2014</b>	<b><u>31 408</u></b>	<b><u>9 751</u></b>	<b><u>3 500</u></b>	<b><u>14 242</u></b>	<b><u>58 901</u></b>

Fixed asset include amount of 7 408 thousand pounds representing assets not registered yet in the bank as follows:

- Giza branch building value 463 Thousand L.E
- Nasr City branch building (Nasr building centre Abass El-Akaad st.) value 200 Thousand L.E
- Alexandria Islamic branch building value 238 Thousand L.E
- Alexandria branch building value 275 Thousand L.E
- 10th of Ramadan land value 596 Thousand L.E
- 5th settlement building value 5 636 Thousand L.E

The legal procedures needed are currently performed to register those real-estates by the bank's name.

## 25. Due to banks

	December 31, 2014 EGP (000)	December 31, 2013 EGP (000)
Current accounts	139	2
Deposits	464 381	27 754
	<u>464 520</u>	<u>27 756</u>
local banks	3	27 756
Foreign banks	464 517	-
	<u>464 520</u>	<u>27 756</u>
Non-interest bearing balances	139	2
Fixed interest bearing balances	464 381	27 754
	<u>464 520</u>	<u>27 756</u>
<b>Current balances</b>	<u>464 520</u>	<u>27 756</u>

## 26. Customer deposits

	December 31, 2014 EGP (000)	December 31, 2013 EGP (000)
Demand deposit	500 536	833 851
Time & call deposits	1 691 868	1 538 212
Savings and deposits certificates	2 948 534	1 848 991
Saving deposits	203 874	130 883
Other deposits	1 205 267	738 948
	<u>6 550 079</u>	<u>5 090 885</u>
Institutions deposits	2 710 045	2 616 680
Individual deposits	3 840 034	2 474 205
	<u>6 550 079</u>	<u>5 090 885</u>
balances with no return	1 478 264	1 365 533
Variable return balances	2 186 320	1 961 710
Fixed return balances	2 885 495	1 763 642

	December 31, 2014 EGP (000)	December 31, 2013 EGP (000)
	<u>6 550 079</u>	<u>5 090 885</u>
Current balances	3 600 943	3 241 893
Non-current balances	2 949 136	1 848 992
	<u>6 550 079</u>	<u>5 090 885</u>

## 27. Other liabilities

	December 31, 2014 EGP (000)	December 31, 2013 EGP (000)
Accrual interests	87 722	77 705
Prepaid revenue	4 565	2 756
Accrual expenses	25 481	2 865
Creditors	8 724	5 486
Other credit balance	36 984	37 383
	<u>163 476</u>	<u>126 195</u>

## 28. Provisions

	December 31, 2014 EGP (000)	December 31, 2013 EGP (000)
Beginning balance	27 875	34 617
Foreign currency valuation difference	93	240
Transferred to income statement	9 847	5 385
Provisions used during the financial year	-	(12 367)
Ending balance	<u>37 815</u>	<u>27 875</u>

## 29. Deferred tax assets

The deferred tax during the year either assets or liabilities as follows :

	December 31, 2014 EGP (000)	December 31, 2013 EGP (000)
Beginning balances	1 093	1599
Disposals	(1001)	(506)
<b>Ending balance</b>	<b><u>92</u></b>	<b><u>1 093</u></b>

Unrecognized deferred tax liabilities:

The deferred tax assets were unrecognized as to the following items:

	December 31, 2014 EGP (000)	December 31, 2013 EGP (000)
Loans impairment provision excluding the 80% during the year	9 074	6 912
	<b><u>9 074</u></b>	<b><u>6 912</u></b>

The deferred tax assets related to items previously mentioned were not recognized, and this is due to that there is not a reasonable assurance to benefit from it, or the existence of an appropriate level to ensure the existence of sufficient future tax returns through which it is possible to benefit from these assets.

## 30. Paid up capital

	No of shares (in millions)	Common shares EGP (000)	Total EGP (000)
	60	600 000	600 000
<b>Balance at 31/12/2014</b>	<b><u>60</u></b>	<b><u>600 000</u></b>	<b><u>600 000</u></b>

- According to the Extraordinary General Assembly decision on 7/7/2014, the issued and paid in capital increased from 500 million L.E. divided on 50 million shares with 10 L.E face value for each share to 1 billion L.E. divided on 100 million shares with face value 10 L.E., 100 million by distributing one share for every outstanding share by capitalizing on the general reserve
- The rest of the raise amounted 400 million L.E. will be paid during 2015, 2016 and that upon the extraordinary general assembly decision mentioned above.

### 31. Reserves

	December 31, 2014 EGP (000)	December 31, 2013 EGP (000)
Banking risks reserve	13 962	12 885
Legal reserve	19 701	17 109
Reserves for AFS investments revaluation difference	17 962	8 741
Special reserve	251	251
Capital reserve	24 931	11 549
General reserve	10 311	97 117
<b>Total reserves</b>	<b><u>87 118</u></b>	<b><u>147 652</u></b>

Reserves are presented as follows:

#### A) Banking risks reserve

	December 31, 2014 EGP (000)	December 31, 2013 EGP (000)
Beginning balance	12 885	3 234
Transferred from retained earning	1 077	9 651
<b>Ending balance</b>	<b><u>13 962</u></b>	<b><u>12 885</u></b>

#### B) Legal reserve

	December 31, 2014 EGP (000)	December 31, 2013 EGP (000)
Beginning balance	17 109	13 663
Transferred from retained earning	2 592	3 446
<b>Ending balance</b>	<b><u>19 701</u></b>	<b><u>17 109</u></b>

### C) Unrealized gain of AFS evaluation

	December 31, 2014 EGP (000)	December 31, 2013 EGP (000)
Beginning balance	8 741	(13 677)
Net profit of fair value change	9 044	21 762
Net profit transferred to income statement after disposals	177	656
<b>Ending balance</b>	<b><u>17 962</u></b>	<b><u>8 741</u></b>

### D) Special reserve

	December 31, 2014 EGP (000)	December 31, 2013 EGP (000)
Beginning balance	251	251
<b>Ending balance</b>	<b><u>251</u></b>	<b><u>251</u></b>

### E) Capital reserve

	December 31, 2014 EGP (000)	December 31, 2013 EGP (000)
Beginning balance	11 549	11 455
Transferred from retained earnings	13 382	94
<b>Ending balance</b>	<b><u>24 931</u></b>	<b><u>11 549</u></b>

### F) General reserve

	December 31, 2014 EGP (000)	December 31, 2013 EGP (000)
Beginning balance	97 117	68 113
Transferred from retained earnings	13 194	29 004
Transferred to Capital	(100 000)	-
<b>Ending balance</b>	<b><u>10 311</u></b>	<b><u>97 117</u></b>



### 32. Retained earnings

	December 31, 2014 EGP (000)	December 31, 2013 EGP (000)
Beginning balance	58 580	85 840
Transferred to legal reserve	(2 592)	(3 446)
Transferred to general reserve	(13 194)	(29 004)
Shareholders share in profit	(20 000)	(25 000)
The share of employees and members of the Board of Directors in profit	(9 600)	(12 000)
Net profit for the year	56 033	51 935
Transferred to Banking risks reserve	(1 077)	(9 651)
Transferred to capital reserve	(13 382)	(94)
<b>Ending balance</b>	<b><u>54 768</u></b>	<b><u>58 580</u></b>

### 33. Cash and cash equivalents

For presenting cash flow statement, cash and cash equivalents include the following balances that they do not mature within 3 months from the acquisition date:

	December 31, 2014 EGP (000)	December 31, 2013 EGP (000)
Due from central bank	68 979	49 772
Due from banks	72 792	82 284
Treasury bills, maturity 91 days	98 750	-
	<b><u>240 521</u></b>	<b><u>132 056</u></b>

### 34. Contingent liabilities

#### A) Capital obligations:

#### A) Financial investments:

The obligations related to the financial investments that were not due till the balance sheet date 31/12/2014 according to the following:

EGP (000)

	Share value	Amount	Remaining
African bank for trade	\$300	\$120	\$180

## B) Loans, collaterals and advances

Loans, collaterals and advances are represented in the following:

EGP (000)

	December 31, 2014	December 31, 2013
Letters of guarantees	1 123 141	966 831
Letters of credit (import & export)	257 973	407 052
Accepted notes of suppliers advances	71 539	32 204
<b>Total</b>	<b><u>1 452 653</u></b>	<b><u>1 406 087</u></b>

## 35. Transactions with related parties

The transactions and balances of related parties at the end of the fiscal year are represented in the following:

### A) Loans & advances to related parties

EGP (000)

	Associated companies		Interest income	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
<u>Loans and advances to customer</u>				
Loans at the year end	11 495	18 475	1 966	1 053

\*The loans granted to associates conditions are the same as the outstanding loans in the bank

## B) Deposits from related parties

(Values in thousands)

EGP (000)

	Deposits		Cost of deposits	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
<u>Due to contributors</u> (National Investment Bank)				
Deposits at the year end	101 568	148 705	2 100	2 731
<u>Due to customers</u>				
Deposits at the year end	14 068	109 758	1 007	9 127
<b>Total</b>	<b><u>115 636</u></b>	<b><u>258 463</u></b>	<b><u>3 107</u></b>	<b><u>11 858</u></b>

\*The deposits granted to associate condition are the same as the outstanding in the bank

**C)** The average net monthly salary paid to the top 20 employees in the bank for the financial year ended December 31, 2014 amounted to 1 511 724 EGP against 1 295 028 EGP for the financial ended December 31, 2013.

## 36. Mutual Funds

Fund is one of the bank activities licensed to the bank by the virtue of capital market law no. 95 of year 1992 and its executive regulation.

### 1. The monetary investment fund of Arab Investment Bank (with the daily accumulated return in Egyptian Pound)

- The fund is managed by EFG Hermes for Investments' Funds Management.
- The number of investment documents of this fund is 1 195 916 amounted L.E 119 591 610 from which 500 000 documents were allocated to carry out the fund's activities (face value LE 5 million).
- The document's recoverable value at 31/12/2014 reached LE 10 while the number of fund's documents standing at the same date was 28 851 377 documents.
- According to the fund's management contract and shares subscription issue the Arab Investment Bank get the fees and commissions for its supervision as well as the other administrative services. The total commission amounted LE 993 thousand for the financial year ended 31/12/2014 listed at the fees & commissions in the revenue item/ other fees in the income statements.

## **2. AIB Second Fund (HELAL):**

- The fund is managed by Cairo for Investments' Funds Management.
- The number of investment documents of this fund is 269 549 amounted L.E 26 954 900 from which 50 000 documents were allocated to carry out the fund's activities (face value LE 5 million).
- The document's recoverable value at 31/12/2014 reached LE 145.6941 while the number of fund's documents standing at the same date was 84 860 documents.
- According to the fund's management contract and shares subscription issue the Arab Investment Bank get the fees and commissions for its supervision as well as the other administrative services. The total commission amounted LE 57 thousand for the financial year ended 31/12/2014 listed at the fees & commissions in the revenue item/ other fees in the income statements.

## **3. AIB Third Fund for fixed returns instruments (SANDY):**

- The fund is managed by HC Securities and Investment.
- The number of investment documents of this fund is 5 206 672 amounted L.E 52 066 720 from which 500 thousand documents were allocated to carry out the fund's activities (face value LE 5 million).
- The document's recoverable value at 31/12/2014 reached LE 10 while the number of fund's documents standing at the same date was 2 984 719 documents.
- According to the fund's management contract and shares subscription issue the Arab Investment Bank get the fees and commissions for its supervision as well as the other administrative services. The total commission amounted LE 167 thousand for the financial year ended 31/12/2014 listed at the fees & commissions in the revenue item/ other fees in the income statements.



[www.aibegypt.com](http://www.aibegypt.com)

## Branches Addresses

### Head Office

Address: 8 Abdel Khalek Tharwat - Cairo's sky building.  
Phone: 25760031 - 25770376

### Commercial Branches

#### Cairo Branch

Address: 8 Abdel Khalek Tharwat - Cairo's sky building.  
Phone: 25759249 - 25765020

#### Zamalek Club Branch

Address: Zamalek Fence - No 26 beside Zamalek Club Gate.  
Phone: 33467646 - 33467645

#### Fesal Branch

Address: 48 King Faisal St. - Giza  
Phone: 33832354 - 33837751

#### Maadi Branch

Address: 206 Salah Salem St. - Degla El Maadi  
Phone: 25201170 - 25201072

#### El Mohandseen Branch

Address: 59 Mosadak St - Dokki  
Phone: 33381547 - 33381546

#### Nasr City Branch

Address: Nasr Center - Abbas El Akkad - Nasr City  
Phone: 22749680 - 22722967

#### Masr El Gedidah Branch

Address: 29 Assmaa Fahmy - Heliopolis.  
Phone: 24141053 - 24186209

#### Shobra Branch

Address: Aga Khan Towers - The Nile Cornich - Shobra  
Phone: 22034464 - 22044467

#### Giza Branch

Address: 28 Mourad St. - Sky Center  
Phone: 35734234 - 35736420

#### Obour Branch

Address: 17/18 Commercial Mall - Golf City Mall  
Phone: 46102589 - 46105290

### Mall of Arabia Branch

Address: Unit No. 142/143 Ground Floor - Gate 17 H  
Phone: 38260202 - 38260203

### Al Tagamoa Al Khames Branch

Address: Plot No. 44 Concord Mall - 90th Street  
Phone: 29296170

### Tenth of Ramadan Branch:

Address: Down Town - Banks Compound  
Phone: 015371332

### Alexandria Branch

Address: 68 Freedom Road- Alexandria  
Phone: (03)4807451 - (03)4807452

### Port Said Branch

Address: Freebour building El nahdah Street. Port Said  
Phone: (066) 3327565 - (066) 3333788

### Nehru Branch

40 Nehru Road - Behind Merryland - Heliopolis

### Al Menia Branch

Address: 236 Cornish El Nile  
Phone: (086) 2317658

### Islamic Branches

#### Zamalek Islamic Branch

Address: 8 Mansour Mohamed St., - Zamalek - Cairo  
Phone: 27373105 - 27352012

#### Alexandria Islamic Branch

Address: 68 Alhorria Street- Alexandria  
Phone: (03) 4875677 - (03) 4878062

### Opening Soon

#### Lebanon Branch

56 Lebanon St. - El Mohandseen

#### Khalefa El Mamoun Branch

27 Khalefa El Mamoun St. - Heliopolis

**Smouha Branch** 107 Albert St. first - Fawzi Maaz intersection - Ali Ibn Abi Taleb Square - Smouha