

ai | بنك الاستثمار العربي
BANK | ARAB INVESTMENT BANK



Annual Report

Annual Report for 2017

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Overview of The Bank

- The Arab Investment Bank (aiBank) was established in 1974 as an investment & business bank under the supervision of the Central Bank of Egypt. Its activity started in 1978 with a capital of US\$ 40 million which was increased to EGP 1 billion in 2016 in which the National Investment Bank contributes by 91.42% and the Federation of Arab Republics by 8.58%.
- The Bank offers all retail banking services through various retail banking products, in addition to investment and treasury services, as well as offering Islamic services to which a strong Islamic Legitimate Body has been assigned acting in line with the Islamic banking criteria. The Bank also offers services to companies and institutions by participating in the financing of mega national projects through syndicated loans that benefit both the national economy and the Bank at the same time thus linking the national projects with small & medium enterprises, which are currently considered a socio-economic development shield.
- The Bank offers its services to all customers through 27 nationwide branches, meanwhile expanding geographically and opening new branches including mini branches and Islamic branches, in addition to expanding the ATM network to cover most vital locations.
- The bank is keen on satisfying its customers by providing distinguished and competitive services, while providing the latest Information Technology systems to develop performance and improve the level of banking services in addition to directing attention to enhance the skills of the employees through the most advanced training programs.

Board of Directors

Mr. Mohamed Hany Seif El Nasr

Chairman and Managing Director

Ms. Rafahya El Sayed Hussein

Board Member - Expert

Mr. Ramadan Ahmed Ibrahim

Board Member Representing
The National Investment Bank

Mr. Hesham Lotfy Eissa

Board Member Representing
The National Investment Bank

Dr. Ashraf Bahie El Din AbdelHakim

Board Member Representing
The Central Bank of Egypt

Mr. Hisham Abd El-Aal

Board Member Representing
The Executive Department

Board Secretary

Ms. Mona Ahmed Ramadan

General Secretary to The Board

**Attainment Of Perfection
In Leadership & Excellence**



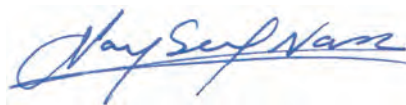
Chairman's Statement

We are honored to present the annual report for the financial year ended 31 December 2017, which reflects the results and indicators of aiBANK during the year. aiBANK managed over the past six consecutive years to continue its success owing to its management's stable, informed and clear strategic vision, which resulted in the restructuring and development of the systems and policies at the bank level, in order to meet the needs and aspirations of the Bank's customers, revealed by the following:



- The results showed an improvement in the financial statements, achieving EGP 36.6 billion as at 31 December 2017 compared to EGP 23.8 billion on 31 December 2016, showing a growth rate of 53%, with an improvement in the financial indicators of the Assets & Liabilities reflecting the Bank's strong financial position.
- The Bank also realized net profits after provisions and impairment and before taxes as at 31 December 2017, amounting to approx. EGP 349.2 million compared to EGP 305.2 million in 2016 , while the net profits after provisions and taxes amounted to EGP 154.1 million as at 31 December 2017 compared to EGP 122.2 million on 31 December 2016 , with a growth rate of 26%, in spite of the formation of the required provisions and impairment according to the regulatory policies and standards, as well as the expenses related to the development and opening of new branches and the upgrading of the information systems.
- The customer deposits reached EGP 30.7 billion as at 31 December 2017 compared to EGP 20.4 billion on 31 December 2016, with a growth rate of 51% coupled with improved cost, type and maturity dates of deposits.
- The loans and facilities granted to the customers amounted to EGP 9.5 billion (including contingent liabilities) as at 31 December 2017 compared to EGP 9.4 billion on 31 December 2016, after deducting the provisions required for the portfolio, in addition to an improvement in the type, degree, creditworthiness and rating of the customers and diversification of activities, while reducing the portfolio risks to avoid any future credit risks.
- The capital adequacy ratio amounted to approx. 12.05% at the end of 2017 compared to 12.8% in 2016 under the optimal application of the credit policies.

- Based on the belief of the Arab Investment Bank in the importance of social responsibility in promoting equal development opportunities in the society, , through the “aiBANK Foundation for Development” which is the Bank’s development tool, contributed to developing slums and focused on education, health, infrastructure and community development. It also donated and contributed to the implementation of the infrastructure in the poorest villages and border villages, with all the related social development programs, in addition to cooperating with “Misr El Kheir” Foundation to provide material support to the debtors to release them from prison, as such ending their agony. The role of the aiBANK Foundation is not limited to supporting the debtors and releasing them from prison but also providing them with job opportunities at the factories established to employ them.
- Eventually, the Bank managed to sustainably continue its progress and success and to achieve consistent and continuous growth indicators over consecutive years, by stressing its commitment to providing the best financing solutions and the best services that meet all the needs and wishes of customers according to international banking standards and norms. Our Bank is targeting in the coming period to raise its growth rates, reflecting its optimistic vision towards the Egyptian economy, especially within the scope of the success of the state’s economic reform plan and the future strategy of the bank.
- In the end of my statement, I would like to extend our sincere gratitude and appreciation to our valued customers for their confidence in our Bank. I would also wish to express our thanks to our colleagues for their efforts to achieve these results. We would also wish to assure our determination to continue the Bank’s achievements during 2018, God Willing, in order to materialize the anticipated targets and the ambitious strategy that would rank the Bank among the best Egyptian banks in terms of growth and efficiency.



Mr. Mohamed Hany Seif El Nasr
Chairman and Managing Director

Plans For Continuous Success



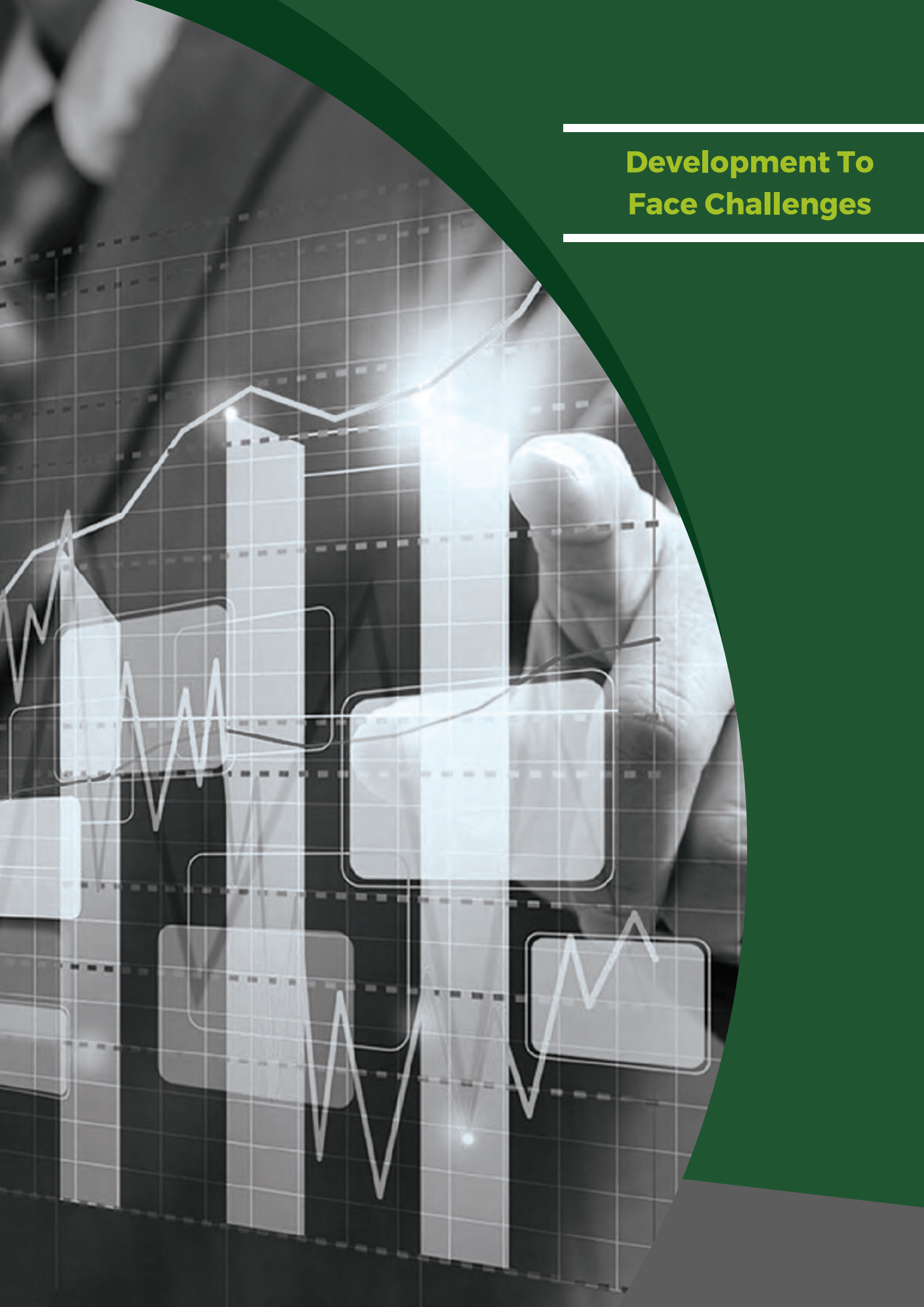
aibank's Strategy

The Strategy reflects the Board of Directors, top management as well as the employees' willingness to complete the success achieved and have the Bank reach a distinctive place among the best ten banks in the Egyptian banking market in terms of growth and efficiency, owing to the key determinants of the strategic goals that can be summarized as follows:

- Continuing to achieve distinctive growth rates with special focus on reaching the best efficiency rates (operation - cost - productivity - profitability) in the Egyptian banking market.
- Expand the Bank's market share according to an ambitious plan to have branches all over Egypt, besides the diversity and inclusion of the banking products and services, to cover all customer demands.
- The Bank's effective contribution to the ambitious development plan to the Egyptian economy, through contributing to financing national mega projects and to have presence, with its banking and financial services, in targeted development areas (Suez Canal Axis, Sinai development, Golden Triangle, the 1.5 Million Feddans Project, North Coast development, Upper Egypt development...etc.)
- To effectively contribute to providing funds and all types of banking services to SMEs and to have a pioneering role in this field.
- To focus on the concepts of development and inclusive quality when it comes to providing banking products and services and concerning operations, manuals/directives, work systems and IT infrastructure, in addition to capacity building and enhancing the performance of employees, besides fostering a suitable climate that stimulates innovation and creativity among them.

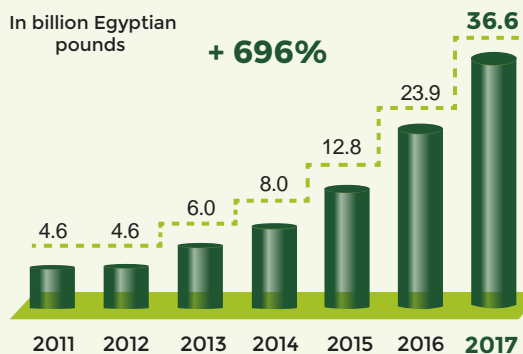


Development To Face Challenges

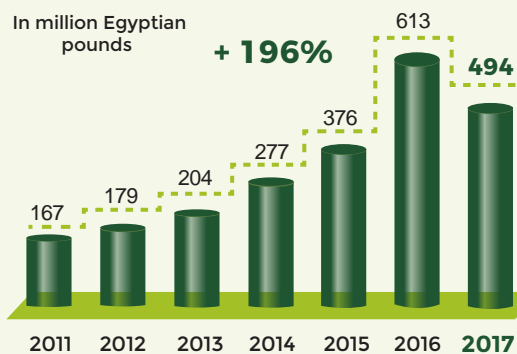


Most Significant Financial Indicators up to December 2017

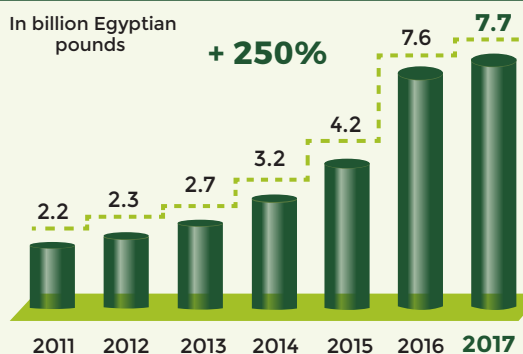
Total budget development



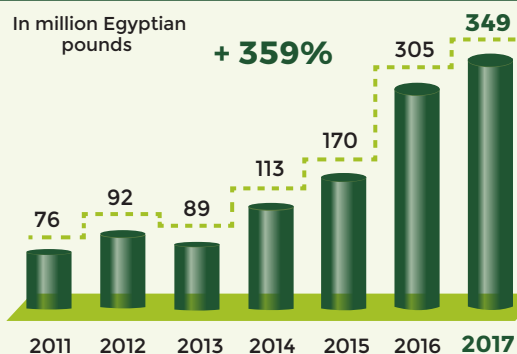
Net interest income development



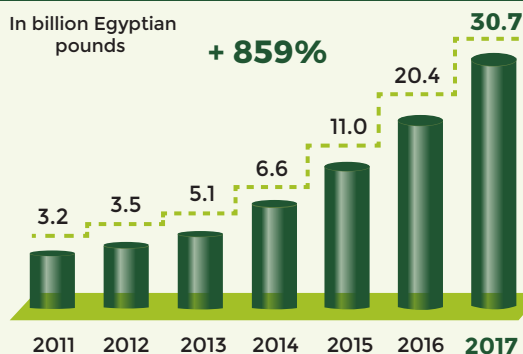
Net loans & advances to customers development



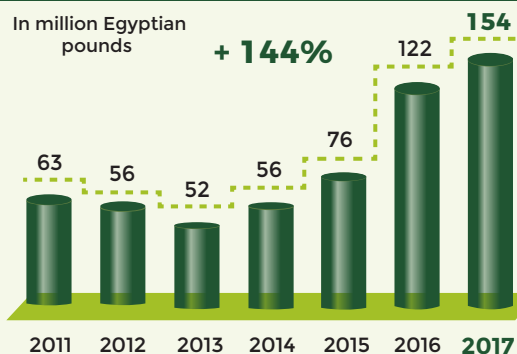
Net profits before taxes development



Customers' deposits development



Net profits development



Overview Of The Bank's Sectors Activities

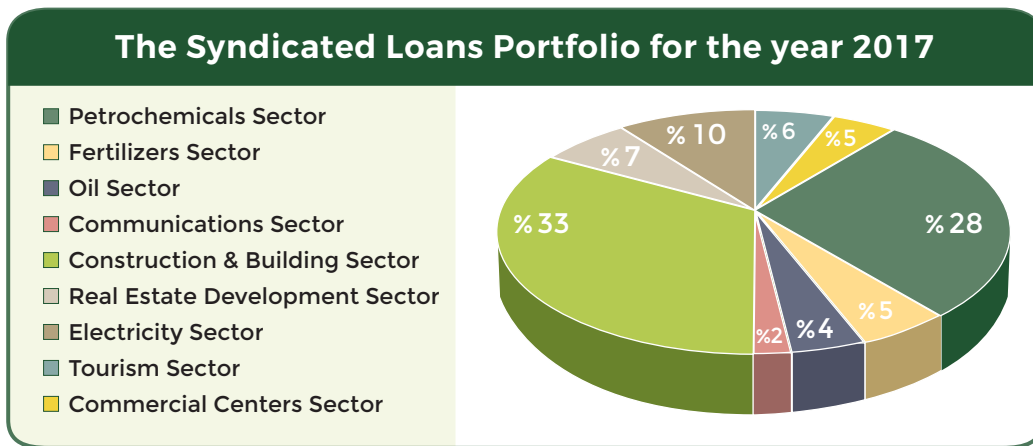


Customers' Satisfaction Is Our First Priority

Corporate Finance Sector

In view of the Bank's strategic trends, the Sector contributes to financing national projects that aim at serving the community and its economic development, as well as offering a wide range of financing and credit facilities aligned with customer needs. The Sector's strategy also aims at diversifying the credit portfolio, evidenced in the following:

- **Credit facilities:** The Sector succeeded in adding 46 new customers during the year, with an increase in utilization of EGP of EGP 1.131 billion from EGP 5.440 billion to EGP 6.571 billion, and a growth rate of 21%, in addition to Medium Enterprises portfolio, the growth in utilization includes an amount of EGP 651 million for new customers.
- **Syndicated loans:** The Electricity Sector achieved 33% of the total increase in the syndicated loans portfolio, as follows



The Remedial Sector

The Remedial Sector is responsible for Customer facilities Portfolio Management, whose monitoring procedures require special attention and intensive control, in case the credit facilities granted by the Bank are exposed to any banking risks. The Remedial Sector aims to protect the Bank's capital base and rationalize the classified debts through intensive monitoring of the customer portfolio which requires special attention that classified as Watch-list (ORR 7), as a proactive measure to reduce default, form provisions as well as manage Non-Performing portfolio (ORR 8, 9 & 10) with the aim of increasing the receipts from the classified debts and redeeming the provisions formerly formed for them, as soon as possible.

Small and Medium Enterprises (SMEs) Sector

In line with the Bank's vision and strategy to effectively contribute to achieving development in all national economy sectors, and in order to accomplish sustainable success, continuous advancement and development of the Bank's products, especially with respect to the SMEs Sector which is considered the engine of economic growth and the gateway to economic prosperity, the Bank continues its constant support to small and medium enterprises through offering appropriate financial services to those projects in order to achieve growth.

The following are among the most important achievements:

- Increasing the Bank's SME financing portfolio to reach EGP 2 billion.
- The SME's portfolio reached 23% of the Bank's facilities portfolio on 31/12/2017, which is higher than the minimum percentage set by the Central Bank of Egypt, which determined a credit portfolio limit of not less than 20% of the total portfolio of facilities for each bank, with respect to companies and small and medium enterprises during four years from the instructions issuance date in 2016.
- Modifying and updating Partner Programs to finance small projects in order to streamline the terms of grants and observe the latest amendments issued by the Central Bank of Egypt in order to compete in the field of financing small and medium enterprises with interest rates amounting to 5%.
- Signing a cooperation protocol with Damietta Furniture City (DFC) Company to provide the necessary financing facilities to enable small craftsmen to own units and equip them with the latest equipment with the aim of developing and modernizing the furniture industry in Egypt and encouraging export.
- Signing a cooperation protocol with Information Technology Industry Development Agency (ITIDA) with the aim of providing financing services to companies and enterprises operating in the Information and Communication Technology (ICT) industry.
- Signing a cooperation protocol with the Egyptian Pharmacists' Syndicate in Cairo with the aim of providing small pharmacists with banking and financing services.
- Signing two new contracts with The Micro, Small & Medium Enterprise (MSME) Development Agency with total value of EGP 80 million to finance new and existing small projects in all governorates. The two contracts are allocated to the financing of various types of financing needs of small projects operating in all economic sectors through the Bank's branch network.
- Preparation of a program to finance companies, associations and institutions licensed to undertake microfinance activity in the light of the Central Bank's encouragement to banks to actively participate in the financing and establishment of microfinance companies.
- Participation in the "Nilepreneurs" initiative in cooperation with Nile University, which aims to create an effective system for the development of small and medium enterprises throughout their business growth stages; idea, growth and maturity, as such, attracting the youth and entrepreneurs, encouraging them to adopt a culture of entrepreneurship and to start up new successful small projects.
- Cooperation protocol with TEDA Egypt to develop the special economic zone with the aim of providing banking services to investors in the region.

The Bank continues to communicate with various business categories to learn about new tools and services in order to offer them to our customers for the sake of achieving growth and prosperity.

Mortgage Finance Department

- Since the Bank's involvement in the Central Bank's Mortgage Finance Initiative since its launch in February 2014, the Bank has been keen on participating therein; by understanding the importance of the Initiative in providing financing to the residents of the new urban communities; hence meeting the needs of all categories of the people, in addition to offering financing in the existing cities, as such, affirming the achievements of Mortgage Finance, reflected in its positive socio-economic impact on all State sectors.
- Our Bank sought to double the number of beneficiaries from the grants under the Initiative, and achieved 60% growth rate in its mortgage portfolio. As a result, the Bank covered many regions; such as Suez, Badr, Sherouk, 10th of Ramadan, Dahshur, Hada'ek October and El Khanka, in addition to financing the units of average and above average income groups in different areas of Greater Cairo and Minia.

Premier Department

- Premier Department Primer is a unique, highly personalized banking services tailor made to meet banking needs for customers with LE500K and above.
- Segment witnessed incremental growth in 2017, 10 Premier Relationship managers were assigned in 10 branches where customers can enjoy an exclusive premier service area to conduct banking transactions quickly, discretely and in complete comfort, besides investing in tailor-made certificate of deposits, fixed term deposits, money market funds, in addition to preferential rates on loans, free issuance of Platinum debit and credit cards with wide access
- Moreover, our dedicated Premier Business Development team assists our Premier customers in lifestyle benefits through a partnership with Les Concierges, the personal assistant to enjoy daily non - financial services suitable for your life style like traveling, restaurant and hotel bookings and others.

Products Department

Retail Product development direction was focused during 2017 on the following pillars:

- Introduce diversified product ranges across all segments.
- Introduce new liability products focusing on Mass segment.
- Grow retail assets portfolio.
- Support growth on the insurance business and create bundle opportunities to customers.
- Build customer loyalty through enhancing features on cards products.

Marketing and Communications Department

The role of marketing communications role is to effectively communicate with customers the new product and services and ensures the customer attains information and ideas which are important to the customer's decision about the product/services Marketing and communication are also responsible for branding scope across the bank as well retail banking business lines & customer segment and the customer journey in all aiBANK branches

Marketing & communication department accomplished the following during the last year:

- Developing New Branding guidelines to guide the communication internally & externally.
- Increased aiBANK brand awareness in the market
 - Launching the summer activation
 - Ramadan campaign on TV, social media, radio and outdoor
- Finalized the exterior branding of ATM
- Developed consistent look and feel of aiBANK Branches network internally & externally i.e.
 - Direction signs in branches
 - Branch working hours in all branches
 - Branches marketing collaterals
 - Window displays , mega posters , digital signage
- Developed new website with attractive design including
 - Lead generation form
 - Branches and ATM locator with map
 - Loan calculator
 - Consistent brand identity
 - Increase in the number of visitors to reach + 6K monthly visitor vs. 35 Visitors monthly
- Launched social media platforms and having a strong digital marketing presence (Facebook, YouTube, Instagram & LinkedIn etc..)
 - Facebook fan base increased by almost 200%
 - Instagram followers increased by 592%
 - You tube videos viewed more than 700K times
 - Developed the Short code SMS service launched
 - Added new SMS Gateway

Digital Banking Department

- Digital Banking Department takes the responsibility to set the digital banking vision, strategies and priorities to digitize the organization and achieve its vision.
- We are responsible to create a coordinated digital ecosystem that delivers aiBANK customer / prospect experience driving engagement, and contributing to the Digital Sales targets for the bank. The Ultimate short term goal is to drive robust digital channels, and medium -term goal is to deliver a combination of revenue, all with high customer satisfaction, and to be delivered at a low servicing cost through digital channels.
- We are building unique and digitized banking experience and maximize the aiBANK digital capabilities across the channels of ATM - Internet & Mobile Banking - Call Center - Mobile Wallet, and other touch points.

Finally, we are responsible for the design and execution of a holistic digital model to enable digital acquisition, onboarding, engagement and cross-sell in order to deliver a world-class digital performance operational across all bank's sectors.

Intelligence and Analytics Department

The Intelligence and analytics department takes the responsibility to set clear Performance measurements, creating a monitoring MIS report, aligned with bank strategies and achieve the top management vision, on the other hand align with all stakeholders to enhance & improve the performance.

- Establish extensive solid & professional Performance department with a clear evaluation stander.
- Developing a success oriented evaluation culture emphasizing learning and growth at the bank level.
- Establish extensive solid & professional Performance department with a clear evaluation standers.
- Setting creative Scorecard or newsletter to cover all bank products with a clear structure align with the channel KPI's and bank strategic objectives.
- Establish a weekly / monthly monitoring reports for all stakeholders to meet the required budgets.

Branches and Distribution Channels Sector

The Branches and Distribution Channels Sector is one of the Bank's most important sectors, representing the key communication line with the Bank customers. During 2017, an ambitious plan was developed to raise the standard of customer service offered by the Bank as follows:

- 1- Classification of the branches according to the universal banking system serving the diverse banking activities; such as retail and corporate banking.
- 2- A geographic outreach plan was developed nationwide in the Arab Republic of Egypt, accordingly the number of branches increased by 42% reaching 27 operating branches at the end of 2017, compared to 19 branches.
- 3- Coordination with the Training Department under the Human Resources Sector in order to organize intensive training courses for the branch employees starting from the branch manager till the tellers and fresh graduates newly hired by the Bank.
- 4- Upgrading the distribution channels with the aim of attracting new customers who wish to obtain retail banking products also new companies concerned with the electronic payroll transfer system.

The Treasury and Dealing Sector

- The exceptional performance of the Bank during 2017 despite the overall economic challenges and the new rules and regulations, is due to the successful management of assets and liabilities. Through the distinguished performance of the Treasury and Financial Markets Sector, the budget has been restructured rendering it more dynamic and more efficient towards interest rate fluctuations also stronger and more tolerant to future liquidity pressures whenever they occur.
- The Sector was able to substantially increase the return on its investments in order to absorb the high cost of deposits to efficiently compete with the high interest rates which obligated all banks to raise the cost of deposits to be able to compete with the percentages offered by the public sector banks.
- Through the professional management of foreign currency, the Treasury Sector was able to strengthen the bank's resources represented in foreign currencies after the decision to float the Egyptian pound, as such, the total Bank resources reached the equivalent of US\$ 753 million, which significantly led to the increase of the Bank's non-interest income, driven significantly by business growth.
- The Sector not only succeeded in achieving significant growth through its revenue lines under the current circumstances, but also in improving efficiency as evidenced by increased revenue/income and profits from the sale of securities which reached EGP 29 million and the profits achieved from foreign exchange operations reaching EGP 45 million, in spite of the massive fluctuations in the foreign exchange markets during 2017 after the decision to float the Egyptian pound against foreign currencies.

The Banking Operations Sector

In line with the Bank's development strategy, the Operations Sector has continuously played a pivotal role in providing diverse banking services, including but not limited to:

- Opening letters of credit for importing customers, advising and confirming letters of credit for exporting customers, executing documentary collection for import and export, in addition to the issuance of local and external letters of guarantee for all customers centrally through the Trade Finance Center.
- Supervising the settlement of State employees' payroll and pension payments.
- Executing incoming and outgoing transfer transactions centrally in local and foreign currencies using SWIFT network and the Electronic Transactions Chamber.
- Supervising the government's electronic payments system (taxes and customs) carried out through all the branches of the Bank.
- Collection of cheques and drafts centrally.
- Issuing all types of credit and debit cards.

The Investment Sector

The Bank is concerned with developing and supporting the Investment Sector by all available investment potentials in all economic sectors through the following investment areas:

First: Direct Investments

The Bank contributes in the capital of several companies active in different economic sectors as follows:

Economic sectors	Percentage of sector contribution to the total portfolio
Real estate sector	51.81%
Industrial sector	0.26%
Services sector	11.02%
Financial & business sector	30.66%
Tourism sector	5.90%
Trade sector	0.10%
Food security sector	0.25%

Second: Financial Investments and Mutual Funds

1- The Bank offers several mutual funds meeting the customers' investment needs as follows:

The aiBANK's first mutual fund: Money market fund with periodic interest, offering daily subscription and redemption of investment certificates, where the assets are allocated to short-term saving accounts.

The aiBANK's second mutual fund: Helal where the assets are invested in equity shares on the Egyptian Stock Exchange Market that comply with the Islamic Shari'a.

The aiBANK's third mutual fund: Sanadi balanced fund where the assets are invested in high-risk financial instruments such as equity shares and low-risk instruments such as bonds and treasury bills.

2- The Bank also invests in several corporate bonds.

Third: Securities Department

The Bank offers the following services:

- Securities custody services.
- Security-guaranteed lending.
- Financing DVP processes.
- The Bank is in the process of obtaining a license to finance Buying-On-Margin processes.

The Risk Sector

- The Sector aims to develop and consolidate the risk management culture at the Bank, in addition to acting as one of the key tools for the successful achievement of the Bank's objectives.
- The Bank's Risk Sector is responsible for identifying, measuring, controlling and monitoring risks of all types (credit, operation, market and liquidity, execution and follow-up of credit, enquiry/information, etc...), while undertaking the necessary procedures to address and manage them in order to minimize their impact as much as possible also participating in assessing the portfolio strategy and preparing the necessary reports, by using a professional approach that includes policies, working procedures and controls aligned with the nature and volume of the Bank's various activities.

Financial Institutions & Correspondent Banking Sector

- Within the context of the comprehensive economic development and reform that the Egyptian economy has been witnessing since 2014, particularly in the business and investment environment, which is clearly reflected in the increase in the annual GDP growth rates and in the foreign currency reserves in the amount of US\$ 37.02 billion, reaching record levels at the end of 2017, also the increase in investments and decrease in trade deficit, and other positive indicators, however, several operational challenges in 2017 were met, particularly the impacts of exchange rate liberalization and the consequent increase in the interest and inflation rates.
- During 2017, the FI & CB Sector was able, through the cooperation of its two specialized departments; namely the Financial Institutions and Banking Relations departments in achieving a distinguished performance level by managing the banking operations with a selected network of correspondents and offering a set of distinct solutions aligned with its customers' needs, also opening several new bank accounts for the Bank in different currencies in distinguished banks in addition to concluding further Master Risk Participation Agreements (MRPA) with leading banks, as well as several agreements that enhance the Bank's position.
- The Sector also developed the local banks classification policy, also updated and raised the applied quantitative and qualitative evaluation criteria for bank evaluation.
- It is worthwhile to mention that the aiBANK was granted the Trade Award 2017 for excellence from Commerzbank; our key correspondent in Euro.
- The Sector continues its efforts in enhancing the Bank's profitability and position through building and reinforcing high-quality banking relations, also mediating to solve problems with the management for having the needed fund for trade financing to meet the trading purposes and satisfying all our customers' needs with high efficiency and excellence.

The Governance and Compliance Sector

Our Bank has always been keen on complying with all control regulations and on developing the internal control systems in order to keep pace with its best control practices in this respect, through the application of three axes:

▪ **Axis I: Governance**

Developing the governance systems and their application according to the business volume and the ability of the bank to accommodate the risks, as such ensuring the absence of conflict of interests and establishing a culture of governance, transparency, integrity, fairness and accountability. It is from this standpoint that the governance policy has been developed and implemented in all the branches of the Bank. Additionally, the Sector is keen on having all the staff members aware of the Bank's Code of Ethics.

▪ **Axis II: Compliance**

Establishing the concept of comprehensive banking compliance in its broad sense; which includes all the laws, instructions and recommendations at the local and global levels, while ensuring the extent of applicability of the control standards and regulations issued by the Central Bank of Egypt or any other regulatory bodies and the existing laws. The Compliance Policy has been developed to familiarize the Bank staff with the meaning and importance of compliance in banks as one of their most important success factors, as it plays a key role in maintaining the reputation and credibility of the bank as well as the interests of shareholders and depositors, providing a protection from sanctions. The policy has been implemented in all the branches of the Bank.

▪ **Axis III: Anti-Money Laundering and terrorism finance**

Our Bank complies with Anti-Money Laundering and Terrorism Finance (AML/CFT) laws at local and global levels through the application of the Central Bank of Egypt's Law in this regard and the Customer Identification rules issued by the Anti-Money Laundering Unit, in addition to complying with the recommendations issued by the Financial Action Task Force (FATF) as well as updating the process and procedures according to the latest developments, by directing attention to the necessity of having all Bank employees attend the training courses in this regard.

The Sector also undertakes all the necessary procedures and measures related to the Foreign Account Tax Compliance Act (FATCA), where periodic reports are sent to the Internal Revenue Service (IRS) on our customers who are subject to the Act, in line with the law compliance requirements.

HR Sector:

- aiBANK has been taking gradual steps in developing its HR Sector and the services it offers. This direction has been materializing since 2012 with regards to restructuring the Sector to include a dedicated Talent Acquisition department and growing the Learning & development practices. We realize that the HR Sector is currently equipped with the foundation essential to support the bank aspirations for business and organizational sustainability.
- With a deep sense of commitment and passion, the HR sector thrives to mature its capabilities to cater for people development. This includes taking care of staff performance and exposure, staff learning and growth potential, staff reward and recognition. In addition to staff sense of belonging and engagement.
- As part of a culture that endorses the focus on customers, In HR we acknowledge aiBANK staff as our internal customers whom we value and commit to improving their experience.

Year 2017 witnessed significant development on the following fronts:

- The Learning and development practice catered for all position levels with diverse programs; we introduced the Foundation program for fresh grads and new hires, we introduced Functional Management academies like the Branch Managers Academy. We introduced experiential learning for Customer Service and Sales staff which had significant improvement on the business performance. We awarded Technical certificates to critical position holders with the aim of nurturing their experience and capabilities.
- On the Reward Management side, the Bank approached renowned organizations to benchmark the compensation and benefits schemes aiming to grow its potential to become the employer of choice.
- Our presence in public and private universities as well as employment forums grew, aiming to enrich our hiring pipelines with potential calibers.
- In order to cope with the business changes and serve them well, in the sector we focus on improving the HR staff capabilities, being the business advisors on matters related to organization development such as, restructuring, staff mobility & career progression.

AIBK's Social Responsibility

Out of AIBK's belief in its social responsibility, which is no longer confined to the concept of philanthropic activities, but has come to include securing effective mechanisms to face current challenges and find solutions to problems that impede economic growth, and contribute to the development of the society.

AIBK has donated to several social projects and has provided governmental hospitals with some of their requirements, as outlined hereinafter:

- Provision of cardiac catheterization equipment to Ain Shams University hospitals, which would help improve the quality of therapeutic services to Egyptian citizens, in terms of accurate diagnoses of cases and reducing waiting lists.
- Provision of anesthetic apparatuses for ophthalmology diagnoses and treatment at Cairo University hospitals.
- Donations to Hospital 57357 for Children's Cancer.
- Donations to the Breast Cancer Foundation of Egypt.
- Donations to develop informal settlements.
- Donations to the Egyptian Food Bank and sponsoring its fundraising campaigns.



« Recognizing the importance of social responsibility, AIBK's Board of Directors approved to establish AIBK Foundation for Development, a non-profit organization that will provide donations received from AIBK and other external sources to contribute to community development in various fields to realize social solidarity, sustainable development and foster the values of human rights and good for mankind among members of the society. »

الآن يمكنك التبرع من خلال البنك لصالح الجهات التالية



بيت الزكاة والصدقات أموال الزكاة
وأموال الصدقات والتبرعات
حساب 8888 - 7777
بالعملة المحلية والأجنبية



مؤسسة معاً لتطوير العشوائيات
حساب 333 / 444
بالعملة المحلية والأجنبية



مدينة زويل للعلوم والتكنولوجيا
Zewail City of Science and Technology
حساب 1000 / 1000
بالعملة المحلية والأجنبية



المعهد القومي للأورام - جامعة القاهرة
حساب 777

حملة دعم بيت العائلة المصرية
لترميم دور العبادة
حساب 111111
بالعملة المحلية والأجنبية



صندوق إيفاء التراث المصري
حساب 7000/7000
بالعملة المحلية والأجنبية

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 statement of the Arab Investment Bank "Federal Joint Stock Company" which comprise the statement of balance sheet as at December 31, 2017, 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, 2017 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, 2017, 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, as far as such information is recorded therein.

Dr. Mohamed Abd Aziz Hegazy

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

Public Accountants & Consultants

Cairo: May 16, 2018



Auditors

Sahar Mohamed Zidan

Sahar Zidan

Accountability State Authority

Arab Investment Bank
(Federal Joint Stock Company)

Statement of Balance Sheet As at December 31, 2017

	Note (no.)	December 31, 2017 EGP (000)	December 31, 2016 EGP (000)
Assets			
Cash & balances with central Bank of Egypt	(15)	3193808	542890
Due from banks	(16)	16333855	6436226
Treasury bills	(17)	1021165	2523178
Loans and advances to customers	(18)	7713899	7608779
Financial Investments			
Available for sale	(19)	996040	319561
Held to maturity	(19)	6342097	5678951
Investment in associates	(20)	209470	182742
Intangible assets	(21)	27376	746
Other assets	(22)	501115	482331
Fixed assets	(23)	224494	74800
Deferred tax assets	(24)	6641	3514
Total assets		36569960	23853718
Liabilities and equity			
Liabilities			
Due to banks	(25)	3533497	1255635
Customers' deposits	(26)	30724023	20357559
Other loans	(27)	186263	397705
Other liabilities	(28)	634301	391491
Other Provisions	(29)	38640	119345
Total liabilities		35116724	22521735
Equity			
Paid-up capital	(30)	1000000	1000000
Reserves	(31)	329050	163072
Retained earnings (including net profit of the year)	(32)	124186	168911
Total equity		1453236	1331983
Total Liabilities and Equity		36569960	23853718

The accompanying notes from Page (32) to page (85) form an integral part of these financial statements and to be read therewith.

Independent Auditors' Report "attached".

Amr Tawfik
G.M Financial & Plan Divison

Auditors
Dr. Mohamed Abd El-Aziz Hegazi
(Crowe Dr. A.M. Hegazy & Co.)

Mohamed Hany Seif El-Nasr
Chairman and Managing Director

Sahar Mohamed Zidan
Accounting State Authority

Arab Investment Bank
(Federal Joint Stock Company)

Income Statement
For the Financial year Ended December 31, 2017

	Note (no.)	Financial year ended December 31, 2017 EGP (000)	Financial year ended December 31, 2016 EGP (000)
Interest from loans & similar income	(6)	3657118	1722189
Interest on deposits & similar expenses	(6)	(3162772)	(1108754)
Net interest income		494346	613435
Fees and commissions income	(7)	282495	310814
Dividends income	(8)	4872	4196
Net trading income	(9)	34737	23596
Profits on financial investments	(19)	95144	85503
Impairment losses of loans	(12)	(46467)	(154138)
Administrative expenses	(10)	(605652)	(421710)
Other operating expenses	(11)	89770	(156473)
Net profit of the year before taxes		349245	305223
Income tax expenses	(13)	(195141)	(183061)
Net profit for the year		154104	122162
Earnings Per Share	(14)	1.34	1.31

**Arab Investment Bank
(Federal Joint Stock Company)**

**Statement of cash flows
For the financial year ended December 31, 2017**

	Note (no.)	Financial year ended December 31, 2017	Financial year ended December 31, 2016
Cash flows from operating activities		EGP (000)	EGP (000)
Net Profit before taxes		349245	305223
Adjustments to reconcile net profit to net cash flows from operating activities			
Depreciation and amortization		30446	15098
Intangible assets amortization		8480	810
Impairment losses of loans		46467	154138
Other provisions		(78420)	36546
(Gain) from sale of financial investments		(55238)	(48536)
Undistributed gains from investments in associated companies		(33092)	(38786)
Amortization of (discount) premium of available for sale and held to maturity investments		(35008)	(28329)
Used provisions excluding loans provision		(25)	(19598)
(Gains) on sale of fixed assets		(2)	(655)
(Gains) on sale of Assets owned by the bank for debts		(500)	(343)
Impairment losses of Assets owned by the bank for debts		-	9794
Impairment losses of available for sale investment		(6814)	1818
Proceeds from bad debt previously written off		1876	120
Revaluation differences of trading financial investment		-	(40)
Revaluation differences of financial investment		(88823)	-
Revaluation differences for provisions other than loans provision in foreign currency		(2260)	43212
Operating income before changes in assets and liabilities from operating activities		136332	430472
Net decrease (increase) in assets			
Due from banks		(82266)	(1398986)
Treasury bills		(1406313)	(1823778)
Loans and advances to customers		(149200)	(3595471)
Other assets		(30546)	(302794)
Net (decrease) increase in liabilities			
Due to banks		2277862	870265
Trading financial investments		-	46823
Customers' deposits		10366464	9349459
Other Liabilities		270000	81290
Income tax paid		(222333)	(104061)
Net cash flows provided from operating activities		13972626	3553219
Cash flows from investing activities			
Payments for purchase of fixed assets & branches preparation		(180175)	(33527)
Proceeds from sale of fixed assets		37	682
Payments for purchase of intangible assets		(35110)	(405)
Proceeds from selling of financial investment other than trading financial assets		924352	7596239
Dividends received		27259	16865
Payments for purchase financial investment other than trading financial assets		(2111967)	(10860226)
Net cash flows used in investing activities		(1375604)	(3280372)
Cash flows from financing activities			
Dividends paid		(15000)	(37500)
Proceeds from capital increase		-	200000
Other loans		211442	267982
Net cash flows provided from financing activities		(226442)	430482
Net decrease in cash and cash equivalents during the year		12370580	703329
Cash and cash equivalents at beginning of the year		4344825	3641496
Cash and cash equivalents at end of the year	(33)	16715405	4344825
Cash and cash equivalents are represented in:			
Cash and balances with Central Bank of Egypt		3193808	542890
Due from banks		16333855	6436227
Treasury bills		1029245	2573778
Obligatory reserve balance with CBE		(2944250)	(365167)
Bank Deposits		(53183)	(2550000)
Treasury bills due in more than 3 months		(844070)	(2292903)
Cash and cash equivalents at end of the year		16715405	4344825

Arab Investment Bank
(Federal Joint Stock Company)

Statement of Changes in Shareholders' Equity
For the financial year ended December 31, 2017

Statement	Capital	Special Reserve	Capital Reserve	Legal Reserve	General Reserve	IFRS 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)	EGP (000)
Balances as of January 1, 2016	800000	251	24931	21833	31828	-	19376	15041	96480	1009740
Net Profit for the year 2016	-	-	-	-	-	-	-	-	122162	122162
Proceeds from capital increase	200000	-	-	-	-	-	-	-	-	200000
Transferred to general bank risk reserve	-	-	-	-	-	-	-	721	(721)	-
Transferred to Legal Reserve	-	-	-	3803	-	-	-	-	(3803)	-
Transferred to General Reserve	-	-	-	-	7052	-	-	-	(7052)	-
Dividends	-	-	-	-	-	-	-	-	(37500)	(37500)
Transferred to Capital Reserve	-	-	655	-	-	-	-	-	(655)	-
Net change in fair value for AFS Investments	-	-	-	-	-	-	37581	-	-	37581
Balance as of December 31, 2016	1000000	251	25586	25636	38880	-	56957	15762	168911	1331983
Balances as of January 1, 2017	1000000	251	25586	25636	38880	-	56957	15762	168911	1331983
Transferred to Legal Reserve	-	-	-	6074	-	-	-	-	(6074)	-
Transferred to General Reserve	-	-	-	-	73918	-	-	-	(73918)	-
Dividends	-	-	-	-	-	-	-	-	(15000)	(15000)
Proceeds from capital increase	-	-	-	-	-	-	-	-	-	-
Net Profit for the year 2017	-	-	-	-	-	-	-	-	154104	154104
Transferred to general bank risk reserve	-	-	-	-	-	-	-	(3333)	3333	-
Transferred to IFRS9 Reserve	-	-	-	-	-	107168	-	-	(107168)	-
Transferred to Capital Reserve	-	-	2	-	-	-	-	-	(2)	-
Net change in fair value for AFS Investments	-	-	-	-	-	-	(17851)	-	-	(17851)
Balance as of December 31, 2017	1000000	251	25588	31710	112798	107168	39106	12429	124186	1453236

Notes to the financial statements

For the financial year ended 31 December 2017

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 (8th Abd Elkhalek Tharwat st.) and 27 branches and the bank employs (964) employees at the balance sheet date.

Arab Investment Bank (Previously- The Federal Arab Bank for Development and Investment) as investment and commercial bank 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 Egyptian accounting standards issued at 2006 and its amendments and Central bank of Egypt regulations approved by its board of directors on December 16, 2008 in addition to the historical cost convention basis, modified by the revaluation of financial assets and liabilities held for trading, financial 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 and/or equity instruments issued and/or commitments incurred by the bank and/or 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 initially classified at fair value through profit and loss for assets / liabilities held for trading or those initially classified at fair value through profit and loss through initial recognition.
- 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 income 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 classified 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 classified 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 Investments 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 income statement, 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 income statement 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 income statement.
- 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 income statement. Dividends related to available for sale equity instruments are recognized in the income statement 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 income statement.

- 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 income statement.

- If the Bank changes its estimates regarding payments or proceeds, the book value of a financial asset (or group of financial assets) has to be adjusted to reflect the actual cash inflows and the change in this estimate through calculating the present value of estimated future cash flows using the effective interest rate for the financial instrument. This adjustment is recognized as either income or expense in income statement.

- 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, or recent market transactions, or 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.

- Embedded derivatives in other financial instruments, such as conversion option in a convertible bond, are considered as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, provided that the host contract is not classified as at fair value through profit and loss. These embedded derivatives are measured at fair value with changes in fair value recognized in income statement through net trading income.

■ 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 installments and when these installments 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, 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 customer, 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 customers 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. 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 purchase and 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 into bankruptcy or liquidation or finance restructure.
- 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.
- 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 is 12 months.

- The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial

assets that are not individually significant 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 when there is an objective evidence on the asset's impairment. 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 from the financial asset that may originate from the execution 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 & assumptions used for estimating future cash flows are reviewed regularly by the Bank.

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. In case, of investments in equity instruments classified as available for sale to be taken into consideration a significant or prolonged decline in the fair value of the instrument below its book value when there 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) Property investment:

Property 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 asset will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance expenses are recognized in income statement 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
■ Fixtures and Fitting	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 income statement 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 lessor 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, including cash and non-restricted balances with central banks, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and other government securities.

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 guarantees contracts:

Financial guarantees 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) Employees 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 balance sheet. In addition to, tax adjustments for previous years.

Deferred taxes is recognized on temporary time differences between the book value of assets and liabilities according to accounting principles and the corresponding tax bases used in the computation of taxable profit. Deferred tax is measured based on expected method applied in which the asset is realized or liability is settled, based on tax rates that have been enacted at the date of the balance sheet preparation.

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 income statement 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, as 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 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 through risk management department 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 to manage risk as whole and 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 customer 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 loan commitments. 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.

A/1 Measuring the Credit Risk

- Loans and advances to customers

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 customer 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, are embedded in bank daily operation 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. Customers 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	
Bank's Rating	Description of the grade
1	Performing Debts
2	Regular Watching
3	Watch List
4	Nonperforming Debts

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, 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, 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 controls 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 for credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages.
- Mortgage business assets such as premises, inventory.
- 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 or equities or other securities is made in the expectation of a corresponding receipt in cash or equities or other securities. Cash or equities or other securities 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 & 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 last 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	Loans and Advances %	Impairment losses provision %	Loans and Advances %	Impairment losses provision %
	December 31, 2017		December 31, 2016	
Performing loans	69.85	5.36	69.76	4.3
Regular loans	10.93	12.55	9.23	1.49
watch-list	3.89	1.91	5.62	17.54
Non-performing loans	15.33	80.18	15.39	76.67
	100	100	100	100

Subsequent events: During the first quarter of 2018, a customer debt of 287 million Egyptian pounds was executed, which affects positively the ratio of non-performing debt as it changes from 15.33% to 12.60%

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 facing credit risk in addition to credit regulations according to special percentages determined by CBE. In the case of increase of impairment loss provision needed according to Impairment Losses as per Credit Worthiness Rules than that for purposes of making the financial statements according 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, 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	December 31, 2017	December 31, 2016
Treasury Bills	1021165	2523178
trading financial assets:		
Debt instrument	-	-
Loans and advances to customers		
Retail loans:		
Overdrafts	892014	833929
personal loans	134144	110216
Corporate loans:		
Overdrafts	5550724	5939391
Direct loans	872092	631021
Syndicated loans	1746844	1660730
other loans	-	-
Financial investments		
Investment in affiliated companies	209470	182742
debt instruments	7248199	5880002
Other assets - Accrued Revenue	356156	231600
Total	18030808	17992809
Off Balance sheet Items exposed to credit risk	December 31, 2017	December 31, 2016
Accepted discounted bills	178867	101780
Letter of Credit	647935	582855
Letter of guarantee	1587376	1691127
Total	2414178	2375762

The above table represents the Maximum bank exposure to credit risk at December 31, 2017 and at December 31, 2016, 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, 51 % of the total maximum exposure is derived from loans and advances to banks and customers at December 31, 2017 against 51 % at December 31,2016; while 40.20 % at December 31,2017 represents investments in debt instruments against 32.68% as at December 31,2016.

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:

■ 80.68 % 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 31/12/2017 against 81.62% at 31/12/2016

- 86.06% of the loans and advances without accruals or impairment indicators at 31/12/2017 against 84.57% at 31/12/2016.
- 99 % at December 31, 2017 against 98.92% in 31/12/2016 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 Customers and Banks in terms of credit solvency:

EGP (000)

Statement	Loans and advances to customers	Loans and advances to customers
	December 31, 2017	December 31, 2016
Neither past due nor impaired	7259670	7489075
Past due but not impaired	526757	270466
Subject to impairment	1409391	1415746
Total	9195818	9175287
Less		
Interest In Suspense	(1164652)	(1259879)
Deferred Profits of foreign Islamic operations	(17361)	(16174)
Provision for impairment losses	(299906)	(290455)
Net	7713899	7608779

Provision of impairment losses represents as at December 31, 2017 an amount of 1,164,652 thousands Egyptian pound against 1,259,879 thousand pounds at December 31, 2016 including 1,072,236 thousands Egyptian pound as at December 31, 2017 against 1,160,784 thousands Egyptian pound as of December 31, 2016 represents impairment of individual loans and the rest amounted 92,416 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, 2017

EGP (000)

Valuation	Retail			Corporate			Total loans & advances to customers
	Overdrafts	Personal loans	Overdrafts	Direct loans	Syndicated loans	Other loans	
Performing loans	889276	130212	3361544	448207	1294719	-	6123958
Regular watching	-	-	577094	7596	364548	-	949238
Watch list	-	-	158755	27719	-	-	186474
Total	889276	130212	4097393	483522	1659267	-	7259670

Loans and advances to Customers and Banks in net as of December 31, 2016

EGP (000)

Valuation	Retail			Corporate			Total loans & advances to customers
	Overdrafts	Personal loans	Overdrafts	Direct loans	Syndicated loans	Other loans	
Performing loans	830115	104583	3894955	314193	1142026	-	6285872
Regular watching	-	-	405102	17778	351505	-	774385
Watch list	-	-	265882	30602	132334	-	428818
Total	830115	104583	4565939	362573	1625865	-	7489075

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, 2017

EGP (000)

Statement	Retail			Total
	Overdrafts	Personal loans		
Past due 30 days	306	190		496
	Corporate			
	Overdrafts	Direct loans	Syndicated loans	Total
Past due more than 90 until 120 days	511154	15107	-	526261
Fair value of collaterals	-	513589	-	513589

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, 2016

EGP (000)

Statement	Retail			Total
	Overdrafts	Personal loans		
Past due 30 days	88	135		223
	Corporate			
	Overdrafts	Direct loans	Syndicated loans	Total
Past due more than 90 until 120 days	234634	27304	8305	270243
Fair value of collaterals	-	983770	-	983770

■ Customers' loans and advances subject to impairment

Loans and advances assessed on an individual basis before cash flows from collaterals are amounted 1,409,391 thousands Egyptian Pound as at December 31, 2017 against 1,415,746 thousands Egyptian Pound as at December 31, 2016

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, 2017

EGP (000)

Statement	Retail		Corporate				Total loans & advances to customers
	Overdrafts	Personal loans	Overdrafts	Direct loans	Syndicated loans	Other loans	
Subject to impairment individually	2432	3742	942177	373463	87577	-	1409391
Fair value of collaterals	-	-	-	42072	-	-	42072

December 31, 2016

EGP (000)

Statement	Retail		Corporate				Total loans & advances to customers
	Overdrafts	Personal loans	Overdrafts	Direct loans	Syndicated loans	Other loans	
Subject to impairment individually	3726	5498	1138818	241144	26560	-	1415746
Fair value of collaterals	-	-	-	35193	-	-	35193

■ Restructuring Loans and Advances:

Restructuring activities include extended payment arrangements; execute obligatory management programs, modification and deferral of payments. Restructuring policies 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. Loans that were being renegotiated amounted 293,706 thousands Egyptian Pound against 97,049 thousands Egyptian Pound as at December 31, 2016.

EGP (000)

loans & advances to customers	December 31, 2017	December 31, 2016
Corporate		
Overdrafts	9208	3642
Direct Loans	283901	93282
Individuals		
Overdrafts	406	125
Personal loans	191	-
Total	293706	97049

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 31/12/2017, based on Standard & Poor's evaluation and equivalents:

EGP (000)

Statement	Treasury bills	Financial investments in securities	Total
BBB	-	-	-
BB- to BB+	-	18322	18322
B- to B+	-	22962	22962
Less B-	1021165	7206915	8228080
Total	1021165	7248199	8269364

A/8 Acquisition of collaterals:

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

A/9 The concentration of financial assets risks exposed to credit risks: Geographical Segments

The following table represents the analysis of the most important bank's credit risk measured at the book value, allocated according to the geographical segment at 31/12/2017. While preparing this table, risks were allocated to the geographical segments according to the areas related to the bank's customers.

December 31, 2017

EGP (000)

Statement	Arab Republic of Egypt		
	Cairo	Alexandria & the Delta & Sinai	Total
Treasury bills	1021165	-	1021165
Loans & advances to customers			
Retail			
overdrafts	764916	127098	892014
Personal loans	131380	2764	134144
Corporate			
overdrafts	4612933	937791	5550724
Direct loans	861714	10378	872092
Syndicated loans	1746844	-	1746844
Other loans	-	-	-
Interest In Suspense	(299906)	-	(299906)
Deferred Profits of Islamic operations	(17361)	-	(17361)
Provision for impairment losses	(1164652)	-	(1164652)
Financial Investments			
Investment in associated companies	209470	-	209470
Debt instruments	7248199	-	7248199
Other Assets	501115	-	501115
Total as of December 31, 2017	15615817	1078031	16693848
Total as of December 31, 2016	15291822	1385210	16677032

Activity Segments

The following table represent the analysis of the banks main credit exposure at book value categorized by the bank's customers' activities.

December 31, 2017

EGP (000)

Statement	Arab Republic of Egypt							Total
	Financial Institutions	Industrial Institutions	Real estate activity	Wholesale & retail trade	Governmental sector	Other Activity	Individuals	
Treasury bills	-	-	-	-	1021165	-	-	1021165
Loans & Customers Advances								
Retail								
overdrafts	-	-	-	-	-	-	892014	892014
Personal loans	-	-	-	-	-	-	134144	134144
Corporate								
overdrafts	-	1133367	1305098	2193213	-	919046	-	5550724
Direct loans	-	61661	163049	166485	-	480897	-	872092
Syndicated loans	-	883859	179505	11233	-	672247	-	1746844
Other loans	-	-	-	-	-	-	-	-
Financial Investments								
Affiliated companies	449	-	150066	-	-	58955	-	209470
Debt instruments	-	-	-	-	7206915	-	-	7206915
Other Assets	-	-	-	-	-	501115	-	501115
Total as of Dec. 31, 2017	449	2078887	1797718	2370931	8228080	2632260	1026158	18134483
Total as of Dec. 31, 2016	237	2253474	1346310	2479567	8366811	2852996	944145	18243540

B) Market Risk

The bank exposed 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 sensitivity of market rates or prices such as interest rates, foreign exchange rates and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios. The market risk management arising from trading and non-trading activities in Assets and Liabilities Committee and monitored by two teams separately. Periodic reports on market risks 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 non-trading portfolios according to risk type:

EGP (000)

Statement	December 31, 2017			December 31, 2016		
	Average	Higher	Lower	Average	Higher	Lower
Interest rate risk	32143	41819	26090	21508	32695	6013
Total value at risk	32143	41819	26090	21508	32695	6013

- The increase of VAR especially the interest rate risk, mainly relates to the increased sensitivity 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 expresses 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 exposed 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.

Concentration of Foreign currency risk on the financial instruments:

December 31, 2017

EGP (000)

Statement	EGY Pound	US Dollar	Euro	Jap. Yen	Sterling Pound	Other Currencies
Financial Assets:						
Cash & Due From Central Bank	16910856	46380	1393	113	255	51
Due from banks	219	86583	1754	656	7215	16
Treasury bills	408775	35000	-	-	-	-
Loans & Advances to customers	6189469	152551	11811	764	1003	-
Financial investments:						
Available for sale	94223	51449	-	-	-	-
Held to maturity	5517327	46524	-	-	-	-
Associates	209470	-	-	-	-	-
Other assets	738362	1077	16	956	28	2
Total financial assets as of December 31, 2017	30068701	419564	14974	2489	8501	69
Financial liabilities:						
Balances due to banks	3367593	-	7800	-	-	-
Customers' deposits	23874992	361113	7908	1328	8462	2
Other Loans	186263	-	-	-	-	-
Other provisions	550843	36804	-	-	-	-
Other liabilities	704425	23394	946	-	14	-
Total financial liabilities as of December 31, 2017	28684116	421311	16654	1328	8476	2
Net financial position of the balance sheet as of December 31, 2017	1384585	(1747)	(1680)	1161	25	67
Total financial assets as of December 31, 2016	16727826	369639	21242	100877	7510	93
Total financial liabilities as of December 31, 2016	15722946	376362	22747	104324	7511	23
Net financial position of the balance sheet as of December 31, 2016	1004880	(6723)	(1505)	(3447)	(1)	70

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.

December 31, 2017

EGP (000)

Statement	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
Financial Assets:							
Cash and Due From Central Bank	-	596481	-	2347769	-	249558	3193808
Due from banks	1511415	14630431	53183	-	-	138826	16333855
Treasury Bills	-	185175	844070	-	-	-	1029245
Loans & Advances to customers	384613	32522	2100968	393305	1255128	5029282	9195818
Financial investments:							
Available for sale	-	-	24131	896971	74938	-	996040
Held to maturity	-	-	84481	39883	6217733	-	6342097
Associated Company	-	-	-	-	209470	-	209470
Other financial assets	-	-	-	-	501115	-	501115
Deferred tax	-	-	-	-	-	6641	6641
Total financial assets	1896028	15444609	3106833	3677928	8258384	5424307	37808089
Financial liabilities:							
Balances due to banks	3533497	-	-	-	-	-	3533497
Customer's deposits	3209637	4872832	32893	5784566	10476131	6347964	30724023
Other loans	-	-	-	186263	-	-	186263
Other financial liabilities	-	-	-	-	-	634301	634301
Other provisions	-	-	-	-	-	38640	38640
Total financial liabilities	6743134	4872832	32893	5970829	10476131	7020905	35116724
Re-pricing gap	(4847106)	10571777	3073940	(2292901)	(2217747)	(1596598)	2691365
December 31, 2016							
Total financial assets	3309837	4833842	4445198	7003692	1679651	4123060	25395280
Total financial liabilities	2384994	1405733	4520461	9511040	384442	4315065	22521735
Re-pricing gap	924842	3428109	(75263)	(2507348)	1295209	(192005)	2873545

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 fulfill commitments to lend.

Liquidity Risk Management

The Bank's liquidity management process, as carried out within the Bank and monitored by Assets & Liabilities Committee, 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 customer - 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.
- Asset Liability Committee. also monitors unmatched medium-term assets, the level and type of undrawn 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 Assets and Liabilities Department in bank , to maintain a wide diversification by currencies and geographical areas providers, products and terms.

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

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 assets and contingent liabilities of the Bank (credit risk, market risk and operational risk) equal or above the agreed minimum of 10%.

According to Central bank of Egypt's requirements in updating the financial sector's situation of relevance with capital adequacy standard in accordance to Basel II requirements.

The nominator of capital adequacy standard consists of two tiers:

■ Tier One:

Tier one, Basic capital 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 general 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 / subordinated deposits 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 and associates.

When calculating the total dominator of capital adequacy, it shall not exceed the capital cushions (Qualifying subordinated loan capital) for Basic capital and loans not to increase (deposits) support for half of the common equity. 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 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

EGP (000)

Capital	December 31, 2017	December 31, 2016
(Tier 1 capital) basic capital		
Paid-up capital	1000000	1000000
Other reserves	170094	90102
Retained earnings	186563	142208
Total deduction from common equity	(74772)	(23041)
Total Tier 1 capital after exclusion	1281885	1209269
(Tier 2 capital) backup capital		
General Risk Provision for advances & contingent liabilities	133961	110686
45% of the Foreign currencies translation reserve	113	113
45% of the increase in fair value over the book value for financial investments if it's positive	57571	70972
Total Tier 2 capital after exclusion	191645	181771
Total paid up capital	1473530	1391040
Total risk-weighted assets & contingent liabilities	12229199	10855722
Capital Adequacy ratio (%)	12.05%	12.81%

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

- Total capital adequacy ratio without capital conservation buffer/ total credit, market and operational risks weighted assets and contingent liabilities (taking into consideration the effect of biggest fifty customer). **10.80%**
- Total capital adequacy ratio with capital conservation buffer/ total credit, market and operational risks weighted assets and contingent liabilities (taking into consideration the effect of biggest fifty customer). **12.05%**
- Total capital adequacy ratio with capital conservation buffer/ total credit, market and operational risks weighted assets and contingent liabilities (without taking into consideration the effect of biggest fifty customer). **12.38%**

Financial leverage ratio

Central Bank of Egypt Board of Directors had approved in its meeting held on 7 July, 2015 special supervisory instructions related to leverage ratio which maintain a minimum level of leverage ratio of 3% to be reported on quarterly basis as following:

- Guidance ratio starting from reporting period September 2015 till December 2017.
- Obligatory ratio to start from year 2018.

This ratio will be included in Basel requirement tier 1 (minimum level of capital adequacy ratio) in order to maintain the Egyptian Banking System strong and safe, as long as to keep up with the best international regulatory treatments. Financial leverage ratio reflects relation between tier 1 for capital that is used in capital adequacy ratio (After Exclusions) and bank assets (on balance sheet and off-balance sheet) that are not risk weighted assets.

Ratio Elements

A- The numerator elements:

The numerator consists of tier 1 for capital that is used in capital adequacy numerator (After deduction) in accordance with the requirements of the regulatory authority represented by the Central Bank of Egypt (CBE).

B- The denominator elements:

The denominator consists of all bank assets (on balance sheet and off-balance sheet) as per the financial statements "Bank exposure" which include the total of the following:

- 1- On balance sheet exposure items after deducting some of tier 1 exclusions for capital base
- 2- Exposures resulting from Derivatives contracts.
- 3- Exposures resulting from Financing the financial notes operations.
- 4- Exposures resulting from Off-balance sheet items (weighted by credit conversion factor).

The following table summarizes the Financial leverage ratio in 31/12/2017:

EGP (000)

Capital	December 31, 2017	December 31, 2016
(Tier 1 capital) after exclusions (1)	1281885	1209269
Cash and due from Central Bank of Egypt (CBE)	3193808	542890
Due from banks	16333855	6436226
Treasury bills and Government notes	1021165	2523178
Financial assets held for trading	-	-
Financial investments available-for-sale	996040	319561
Financial investments held to maturity	6342097	5678951
Investments in subsidiaries and associates	209470	182742
Loans and credit facilities to customers	9195818	9175287
Provision for impairment loss (non performing)	(954978)	(1173273)
Interest in suspense	(299906)	(290455)
Profits from Islamic operations	(17361)	(16174)
Fixed assets (Net of Accumulated depreciation & impairment loss Provisions)	224494	74800
Other assets	535132	486591
Deducted amounts from exposures (some of tier 1 exclusions for capital base)	(74772)	(23041)
Total on-balance sheet exposures	36704862	23917283
export L/Cs	26614	37396
Import L/Cs	30289	27099
L/Gs	663680	698241
L/Gs according to foreign banks request	6671	24790
Bank acceptance	175876	66778
Capital requirements	132349	156884
Contingent liabilities for general collaterals for financing facilities and similar collaterals. Can be cancelled without any conditions at any time by the bank without prior notice or that included cancellation or includes auto cancelation terms because customer's credit worthiness deterioration.	163806	143888
Off-balance sheet items	1199285	1155076
Total exposures	37904147	25072359
Financial leverage ratio (%)	3.38%	4.82%

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 information.

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.

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 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:

EGP (000)

December 31, 2017	Analysis of geographical Segments		
	Cairo	Alex. & the Delta	Total
Income and expenditure in accordance with the geographical Segment			
Revenues	3868820	295316	4164136
Expenses	(3544355)	(270536)	(3814891)
Sector profit results	324465	24780	349245
Net income for the year before taxes	324465	24780	349245
Taxes	-	-	(195141)
Net income for the year	-	-	154104
Assets and liabilities according to the geographical Segment			
Assets of geographic Segment	33668013	2643436	36311449
Unclassified Assets	258511	-	258511
Total Assets	33926524	263436	36569960
Liabilities' of geographic Segment	35037829	40255	35078084
Unclassified Liabilities	38640	-	38640
Total Liabilities	35076469	40255	35116724

Segment Analysis:

EGP (000)

December 31, 2016	Analysis of geographical Segments		
	Cairo	Alex. & the Delta	Total
Income and expenditure in accordance with the geographical Segment			
Revenues	1952287	194011	2146298
Expenses	(1680627)	(160448)	(1841075)
Sector profit results	271660	33563	305223
Net income for the year before taxes	271660	33563	305223
Taxes	-	-	(183061)
Net income for the year	-	-	122162
Assets and liabilities according to the geographical Segment			
Assets of geographic Segment	21865318	1909341	23774659
Unclassified Assets	79059	-	79059
Total Assets	21944377	1909341	23853718
Liabilities' of geographic Segment	20493049	1909341	22402390
Unclassified Liabilities	119345	-	119345
Total Liabilities	20612394	1909341	22521735

6 Net interest income:

EGP (000)

	December 31, 2017	December 31, 2016
Interest from loans & similar income		
Loans & advances to customers	1061391	537270
Treasury bills	214139	182240
Deposits and current accounts	1469798	217959
Investments in debt instruments held to maturity & available for sale	911790	784720
	3657118	1722189
Interest on deposits & similar expenses: Deposits and current accounts		
Banks	(385517)	(36094)
Customers	(2777255)	(1072660)
	(3162772)	(1108754)
Net	494346	613435

7 Fees and commissions income:

EGP (000)

	December 31, 2017	December 31, 2016
Fees & commissions related to credit	215426	178478
Other Fees	67069	132336
Total	282495	310814

8 Dividends income:

EGP (000)

	December 31, 2017	December 31, 2016
Financial securities Available for sale	4872	4196
Total	4872	4196

9 Net trading income:

EGP (000)

	December 31, 2017	December 31, 2016
Financial Assets held for trading revaluation differences	-	40
Profits from dealing in foreign currencies	34737	23548
Profits from the sale Financial Assets held for trading	-	8
Total	34737	23596

10 Administrative Expenses:

EGP (000)

	December 31, 2017	December 31, 2016
Staff cost		
Wages and salaries	373920	291577
Social insurances	9426	7619
Specific contributions systems	24618	23648
	407964	322844
Other Administrative Expenses	197688	98866
Total	605652	421710

11 Other operating (expenses) income:

EGP (000)

	December 31, 2017	December 31, 2016
(losses) Gains from revaluation of monetary assets & liabilities determined in foreign currency other than those classified for trading	10994	(111045)
Other expenses	(84)	(86)
loss of selling assets reverted to the bank	500	343
Gain from sale of fixed assets	2	655
Release (charges) of other provisions	78358	(36546)
Impairment of assets reverted to the bank	-	(9794)
Total	89770	(156473)

12 Impairment of loan loss:

EGP (000)

	December 31, 2017	December 31, 2016
Loans & advances to customers (Note 18)	(46467)	(154138)
Total	(46467)	(154138)

13 Income tax expenses:

EGP (000)

	December 31, 2017	December 31, 2016
Deferred taxes	3127	1643
Current income taxes	(198268)	(184704)
Total	(195141)	(183061)

14 Earnings per share:

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

EGP (000)

	December 31, 2017	December 31, 2016
Net profit for the year	154104	122162
Deduct :		
profit share of employees (proposed)	(16000)	(12000)
profit share of Board members (proposed)	(4000)	(3000)
Net	134104	107162
Weighted average number of shares	100000	81667
Earning per share	1.34	1.31

15 Cash and balances with Central Bank of Egypt:

EGP (000)

	December 31, 2017	December 31, 2016
Cash	249558	177723
Due from central Bank within the required reserve percentage	2944250	365167
Total	3193808	542890
Non- interest Bearing balances	3193808	542890

16 Due from banks:

EGP (000)

	December 31, 2017	December 31, 2016
Current accounts	139046	289060
Deposits	16194809	6147166
	16333855	6436226
Central Bank	14584803	5509640
Local Banks	1311297	594945
Foreign Banks	437755	331641
	16333855	6436226
Non-interest Bearing balances	139046	289060
Fixed interest Bearing balances	16194809	6147166
	16333855	6436226
Current balances	139046	289060
Non-current balances	16194809	6147166
	16333855	6436226

17 Treasury bills:

EGP (000)

	December 31, 2017	December 31, 2016
Treasury bills, maturity 91 days	185175	280875
Treasury bills, maturity 182 days	415916	340875
Treasury bills, maturity 272 days	357243	1287429
Treasury bills, maturity 364 days	70911	664599
	1029245	2573778
Unearned interest	(8080)	(50600)
Total	1021165	2523178

18 Loans & advances to customers:

EGP (000)

	December 31, 2017	December 31, 2016
Retail		
Overdrafts	892014	833929
Personal loans	134144	110216
Total	1026158	944145
Institutions including small loans for economic activities		
Overdrafts	5550724	5939391
Direct loans	872092	631021
Syndicated loans	1746844	1660730
Total	8169660	8231142
Total Loans & advances to customers	915818	9175287
<u>Less: Loan impairment loss provision</u>	(1164652)	(1259879)
Interest in suspense	(299906)	(290455)
Deferred revenues of Islamic operations	(17361)	(16174)
Total	7713899	7608779
Total is allocated to		
Current Balances	6576882	6883536
Non-Current Balances	2618936	2291751
Total	9195818	9175287

Impairment loss provision

EGP (000)

	December 31, 2017	December 31, 2016
Balance at the beginning of the year	1259879	693234
Impairment loss during the year	46467	154138
Amounts written off during the year	(123119)	(5820)
Foreign currency valuation difference	(20451)	418207
Collection from bad debt previously written off	1876	120
Provision at year end	1164652	1259879

19 Financial Investments:

EGP (000)

	December 31, 2017	December 31, 2016
Financial Investments available for sale (Debt instruments at fair value)		
Debt instrument listed	921102	216051
Debt instrument unlisted	-	-
Financial Investments available for sale (Equity instruments at fair value)		
Equity instrument listed	29076	57648
Equity instrument unlisted	45862	45862
Total Financial Investments available for sale	996040	319561
Financial Investments Held to maturity (Debt Instruments - amortization cost method)		
Debt instrument listed	6285813	5627582
Debt instrument unlisted	41284	36369
Mutual funds instruments established according prospectus rates	15000	15000
Total Financial Investments Held to maturity	6342097	5678951
Total Financial Investments	7338137	5998512
Current Balances	174815	172038
Non-Current Balances	7163322	5826474
Total Balances	7338137	5998512
Debt Instruments - fixed interest bearing	7206915	5843633
Debt Instruments - variable interest bearing	41284	36369
Total Debt Instruments	7248199	5880002

Financial Investments

EGP (000)

	Financial Investments available for sale	Financial Investments Held to maturity	Total
Balance as of Jan 1, 2017	319561	5,678951	5998512
Additions	1178326	908499	2086825
Disposals (Sales / Redemption)	(614750)	(238430)	(853180)
Revaluation differences of Monetary assets in foreign currency	85673	(17057)	68616
Profit from the change of fair value	2356	-	2356
Amortization of (premium) / discount	24874	10134	35008
Balance as of December 31, 2017	996040	6342097	7338137
Balance as of Jan 1, 2016	1552921	1078699	2631620
Additions	6108477	4751750	10860227
Disposals (Sales / Redemption)	(7381211)	(153079)	(7534290)
Revaluation differences of Monetary assets in foreign currency	46359	-	46359
Profit from the change of fair value	(33459)	-	(33459)
Amortization of (premium) / discount	27387	1581	28968
Impairment loss	(913)	-	(913)
Balance as of December 31, 2016	319561	5678951	5998512

Financial investments revenues

EGP (000)

	December 31, 2017	December 31, 2016
Gains on sale of available for sale investments	55238	48535
Undistributed dividends from investments in associates	33092	38786
Released (Impairment) charges of investments in associates	6814	(905)
Impairment loss of equity instruments available for sale	-	(913)
Total	95144	85503

20 Investments in associates:

The percentage contribution of the Bank in associates companies:

EGP (000)

	Company's headquarters	Company's asset	Liabilities (less owners' equity)	Net profit (loss) activity	Profit/ (losses) Company	Percentage of contribution	Value of contribution
December 31, 2017							
Zahraa El Maadi Co.*	Cairo	1577982	387703	160005	218344	20.30%	149249
Free trade Company for manufacturing and trade	Port said	2498	9395	(885)	(872)	31.90%	-
Middle East company for land reclamation	Cairo	47974	192215	(24763)	-	24.47%	-
Festia Co. for Ready Made Clothes	Alex	47702	26750	222	20	20.00%	-
Prime services managements	Cairo	2382	96	124	(95)	20.00%	457
Enmaa Company for leasing	Cairo	636527	446376	16462	25473	31.40%	59764
Total							209470
December 31, 2016							
Pipes Industries & Plastic Products Co.	Cairo	58268	69611	(37234)	1780	39.95%	9120
Designing & Manufacturing Investment Equipment	Cairo	1940	1655	(1224)	(751)	35.00%	-
Zahraa El Maadi Co.	Cairo	1627222	920400	177835	233179	20.30%	143724
Free trade Company for manufacturing and trade	Port said	2498	9395	(885)	(872)	31.90%	-
Middle East company for land reclamation	Cairo	47974	192215	(24763)	-	24.47%	-
Festia Co. for Ready Made Clothes	Alex	47702	26750	222	20	20.00%	-
Prime services managements	Cairo	2307	68	102	(341)	20.00%	447
Enmaa Company for leasing	Cairo	294411	200723	6663	8209	31.40%	29451
Total							182742

* The market value of financial investment in associates registered in the security exchange market amounted L.E 238,079 thousands Egyptian pounds at 31/12/2017 against 246,041 thousands Egyptian pounds at 31/12/2016.

21 Intangible assets:

EGP (000)

	December 31, 2017	December 31, 2016
Cost	5412	5007
Additions	35110	405
Total	40522	5412
Accumulated amortization as of 1/1/2017	(4666)	(3856)
Amortization	(8480)	(810)
Accumulated amortization as of 31/12/2017	(13146)	(4666)
Net book value as of December 31, 2017	27376	746

22 Other assets:

EGP (000)

	December 31, 2017	December 31, 2016
Accrued revenues	356156	231600
Paid accrued revenues	-	70436
Prepaid expenses	6542	3853
Assets acquired as settlements of debts(after deducting impairment)	2144	6407
Insurance and petty cash	9471	1598
Advances to purchase of fixed assets	123840	159746
Other	2962	8691
Total	501115	482331

23 Fixed assets:

EGP (000)

	Land & building	Lease hold Improvement	Machines & equipment	Others	Total
As of January 1, 2016					
Cost	52315	28583	10686	40079	131663
Accumulated Depreciation	(22873)	(20133)	(6737)	(25522)	(75265)
Net book value as of January 1, 2016	29442	8450	3949	14557	56398
Additions	24800	4024	2517	2186	33527
Disposals	-	(21)	(604)	(2747)	(3372)
Disposals cost of Depreciation	-	-	602	2743	3345
Cost of Depreciation	(2192)	(6064)	(875)	(5967)	(15098)
Net book value as of December 31, 2016	52050	6389	5589	10772	74800
Cost	77115	32586	12599	39518	161818
Accumulated Depreciation	(25065)	(26197)	(7010)	(28746)	(87018)
Net book value as of January 1, 2017	52050	6389	5589	10772	74800
Additions	102089	56677	3881	17528	180175
Disposals	-	(1013)	-	(21)	(1034)
Disposals cost from acc Depreciation	-	992	-	7	999
Cost of Depreciation	(6605)	(15762)	(1290)	(6789)	(30446)
Net book value as of December 31, 2017	147534	47283	8180	21497	224494
As of December 31, 2016					
Cost	179204	88250	16480	57025	340959
Accumulated Depreciation	(31670)	(40967)	(8300)	(35528)	(116465)
Net book value as of December 31, 2017	147534	47283	8180	21497	224494

Fixed asset include amount of 58,011 thousand pounds representing assets not registered yet in the bank The legal procedures needed are currently performed to register those real-estates by the bank's name.

24 Deferred income tax:

EGP (000)

	December 31, 2017	December 31, 2016
Beginning balance	3514	1871
Additions	3127	1643
Ending balance	6641	3514

Deferred income tax not recognized for the following items:

EGP (000)

	December 31, 2017	December 31, 2016
Provision for impairment losses excluding the 80% from charged within the year:	21040	19401
Ending balance	21040	19401

25 Due to banks:

EGP (000)

	December 31, 2017	December 31, 2016
Current accounts	353	45267
Deposits	3533144	1210368
Total	3533497	1255635
local banks	3533144	1037356
Foreign banks	353	218279
Total	3533497	1255635
Non-interest bearing balances	353	45267
Fixed interest bearing balances	3533144	1210368
Total	3533497	1255635
Current balances	3533497	1255635

26 Customers' deposits:

EGP (000)

	December 31, 2017	December 31, 2016
Demand deposit	4705893	2569344
Time & call deposits	15016058	6224471
Savings and deposits certificates	8673925	8599764
Saving deposits	503629	212673
Other deposits	1824518	2751307
Total	30724023	20357559
Institutions deposits	19455612	10249404
Individual deposits	11268411	10108155
Total	30724023	20357559
Non-interest bearing balances	5996815	4315065
Variable interest bearing balances	16079524	7498963
Fixed interest bearing balances	8647684	8543531
Total	30724023	20357559
Current balances	22050098	11757813
Non-current balances	8673925	8599746
Total	30724023	20357559

27 Other Loans:

EGP (000)

	Interest Rate %	December 31, 2017	December 31, 2016
Social fund for development	7	110162	60330
Housing low/middle-income loan	2.5-4.5-7-0.5	76101	37390
Banca UBAE	-	-	295891
Arab trading finance programme	-	-	4094
Total		186263	397705

28 Other liabilities:

EGP (000)

	December 31, 2017	December 31, 2016
Accrual interests	522155	255711
Unearned revenue	9320	6753
Accrual expenses	77224	85773
Creditors	21554	13295
Other credit balance	4048	29959
Total	634301	391491

29 Other Provisions:

EGP (000)

	Beg Balance	Charged amounts	FX revaluation differences	Refunded During the year	Utilized amounts	Ending Balance
December 31, 2017						
Claims	6603	2275	-	(860)	(25)	7993
Contingent	112742	87	(2260)	(79922)	-	30647
Ending balance	119345	2362	(2260)	(80782)	(25)	38640

EGP (000)

	Beg Balance	Charged amounts	FX revaluation differences	Refunded During the year	Utilized amounts	Ending Balance
December 31, 2016						
Claims	14051	12150	-	-	(19598)	6603
Contingent	45134	24396	43212	-	-	112742
Ending balance	59185	36546	43212	-	(19598)	119345

30 Paid up capital:

	No. of shares (in millions)	Common shares EGP (000)	Total EGP (000)
	100	1000000	1000000
Balance at 31/12/2017	100	1000000	1000000

- 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., at 2014, payment of 100 million L.E from the bank reserves in the form of distributing one share for every outstanding share by capitalizing on the general reserve.
- According to the extraordinary general assembly decision on 07/07/2015, An amount of LE 200 million of the second tranche of the bank capital increase was called up for payment.
- Moreover the remaining amount of the capital increase amounting to LE 200 million to be paid up during 2016 according to the decision of the extraordinary general meeting above mentioned.
- At 30/11/2016 the shareholders has paid the remaining amount of the capital increase amounting of LE 200 million.

31 Reserves:

EGP (000)

	December 31, 2017	December 31, 2016
Banking risks reserve	12429	15762
Legal reserve	31710	25636
Reserves for AFS investments revaluation difference	39106	56957
Special reserve	251	251
Capital reserve	25588	25586
General reserve	112798	38880
IFRS 9 reserve	107168	-
Total reserves	329050	163072

Reserves are presented as follows:

EGP (000)

A) Banking risks reserve	December 31, 2017	December 31, 2016
Beginning balance	15762	15041
Transferred from retained earning	(3769)	721
Transferred (to) / from retained earnings	436	-
Ending balance	12429	15762

EGP (000)

B) Legal reserve	December 31, 2017	December 31, 2016
Beginning balance	25636	21833
Transferred from retained earning	6074	3803
Ending balance	31710	25636

EGP (000)

C) Unrealized gain of AFS evaluation	December 31, 2017	December 31, 2016
Beginning balance	56957	19376
Net profit of fair value change	528	9023
Reserve for transfer of AFS to HTM	(1302)	15144
Net profit transferred to income statement after disposals	(17077)	13414
Ending balance	39106	56957

EGP (000)

D) Special reserve	December 31, 2017	December 31, 2016
Beginning balance	251	251
Ending balance	251	251

EGP (000)

E) Capital reserve	December 31, 2017	December 31, 2016
Beginning balance	25586	24931
Transferred from retained earnings	2	655
Ending balance	25588	25586

EGP (000)

F) General reserve	December 31, 2017	December 31, 2016
Beginning balance	38880	31828
Transferred from retained earnings	73918	7052
Ending balance	112798	38880

EGP (000)

G) IFRS 9 reserve	December 31, 2017	December 31, 2016
Beginning balance	-	-
Transferred from retained earnings	107168	-
Ending balance	107168	-

32 Retained earnings:

EGP (000)

	December 31, 2017	December 31, 2016
Beginning balance	168911	96480
Transferred to legal reserve	(6074)	(3803)
Transferred to general reserve	(73918)	(7052)
Transferred to IFRS 9 reserve	(107168)	-
Shareholders share in profit	-	(25000)
The share of employees & members of the Board of Directors in profit	(15000)	(12500)
Net profit for the year	154104	122162
Transferred to (from) Banking risks reserve	3333	(721)
Transferred to capital reserve	(2)	(655)
Ending balance	124186	168911

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:

EGP (000)

	December 31, 2017	December 31, 2016
Cash and Due from central bank	249558	177723
Due from banks	16280672	3886227
Treasury bills, maturity 91 days	185175	280875
Total	16715405	4344825

34 Contingent liabilities and commitments:

A) Capital commitments (Financial investments)

The commitments related to the financial investments that were not due till the balance sheet date 31/12/2017 according to the following:

	Share value USD (000)	Amount USD (000)	Remaining USD (000)
AFREXIM Bank	\$1066	\$586	\$480

B) Loans, collaterals, advances and commitments:

Loans, collaterals, advances and commitments are represented in the following:

EGP (000)

	December 31, 2017	December 31, 2016
Letters of guarantees	1340702	1446061
Letters of credit (import & export)	284521	322475
Accepted notes of suppliers advances	175876	66778
Total	1801099	1835314

35 Transactions with related parties:

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

A) Loans & advances to related parties

EGP (000)

	Associated companies		Interest income	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Loans and advances to customer				
Loans at the year end	287351	380226	-	3165

B) deposits from related parties

EGP (000)

	Deposits		Cost of deposits	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Due to shareholders (National Investment Bank and Federation of Republic)				
Deposits at the year end	578743	527676	34801	14442
Due to customers				
Deposits at the year end	15575	50152	236	8177
Total	594318	577828	35037	22619

C) The average gross monthly salary paid to the top 20 employees in the bank for the financial year ended December 31, 2017 amounted to 1,386,536 EGP against 1,569,639 EGP for the financial ended December 31, 2016.

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 certificates of this fund is 11,959,161 amounted L.E 119,591,610 from which 500,000 certificates were allocated to carry out the fund's activities (face value LE 5 million).
- The certificate's redeemed value at 31/12/2017 reached LE 11,51 while the number of fund's certificates standing at the same date was 30,439,107 certificates.
- 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 760 thousand for the financial year ended 31/12/2017 listed at the fees and commissions in the revenue item / other fees in the income statements.

2- AIBK Second Fund (HELAL):

- The fund is managed by Cairo for Investments' Funds Management.
- The number of investment certificates of this fund is 26,954 amounted L.E 26,954,900 from which 50,000 certificates were allocated to carry out the fund's activities (face value LE 5 million).
- The certificate's redeemed value at 31/12/2017 reached LE 193,99 while the number of fund's certificates standing at the same date was 54,227 certificates.
- 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 42 thousand for the financial year ended 31/12/2017 listed at the fees & commissions in the revenue item / other fees in the income statements.

3- AIBK Third Fund for fixed returns instruments (SANADY):

- The fund is managed by HC Securities and Investment.
- The number of investment certificates of this fund is 5,206,672 amounted L.E 52,066,720 from which 50,000 certificates were allocated to carry out the fund's activities (face value LE 5 million).
- The The certificate's redeemed value at 31/12/2017 reached LE 12,57 while the number of fund's certificates standing at the same date was 565,938 certificates.
- 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 26 thousand for the financial year ended 31/12/2017 listed at the fees & commissions in the revenue item / other fees in the income statements.

37 Tax position:

■ Income tax:

The period at the beginning of business activity 2000 Tax inspections have been fully completed and all due taxes have been.

paid and the internal committee was set and no due taxes were reported.

The Bank's corporate income tax has been examined and paid for the period 2001 - 2014. The period from 2015-2017 The due taxes are paid on time and the examination has not yet been completed.

■ Stamp duty tax:

According to the protocol between tax authority and Egypt banks union about the basis for Banks's accountancy regarding the stamp tax for the period form 01/08/2006 till 31/12/2007 The examination resulted in a credit balance of the bank.

The period from 1/1/2009 to 31/3/2013 examination has been started and is in the process of being completed.

The period from 2014 to 2017, the Bank pays the first quarterly consolidated tax and has not been examined.

■ Corporate Tax:

- periods from 1980 till 2004 has been inspected and finalized and all taxes due were paid.

- periods from 2005-2006-2007, The Bank submitted its endorsement in light of the provisions of Law 91 of 2005 and these years were examined and notify for model 19 were contested and resulted in the tax of LE 5113 thousand and the disagreement was resolved by the Internal Committee.

- periods from 2008-2009-2010 ,The Bank submitted its endorsement with the payment of the tax for these years and was contested and settled the dispute with the Internal Committee and the tax was canceled permanently for these years .

- periods from 2011 till 2014, The Bank submitted its endorsement and the taxes were paid and the tax administration examined and notify for model 19 were contested and there is an internal committee to resolve the disagreement.

- periods from 2015 till 2017, The bank pays the bank's obligations according to the tax declaration prepared by the bank. Payment is paid on time and the examination is not done.

■ Real estate Tax:

enforce the maturity of tax from July 2013 till 2017 that the estimated Real estate Tax on the bank's branches the bank objected on all of those estimations. And paid 25% from all of those claims form the tax authorities till the settlements on the objections proposed by the bank.

38 Subsequent evidence:

On 28 January 2018, the Central Bank of Egypt issued instructions on the following:

IFRS 9 will be applied starting from 1st of January 2019. The bank will issue audited financial statements under the current CBE regulations as at 31 March 2018, in addition to issuing a drafted financial statements in compliance with the new instructions received from CBE regarding IFRS 9.

IFRS 9 risk reserve has been created (1% of the total weighted credit risk) of 2017 net profit after tax, to be used after obtaining the CBE's consent.

39 Comparative Numbers:

The comparative numbers has been reclassified to suit current year's numbers.

Translation

These financial statements are a translation into English from the original Arabic statements.

The original Arabic statements are the official financial statements.

Branches Addresses

Head Office

Cairo Sky Building - 8 Abdel Khalek Tharwat St.
- Cairo.

Phone: 25760031 - 25770376

Commercial branches

Cairo Branch

Cairo Sky Building - 8 Abdel Khalek Tharwat St.
- Cairo.

Phone: 25759249 - 25765020

Mosadak Branch

59 Mosadak St. - Dokki.

Phone: 33381547 - 33381546

Zamalek Club Branch

No.26 - 26 July St. - beside Zamalek Club
Gate - El Mohandseen.

Phone: 33467646 - 33467645

Lebanon square Branch

56 Lebanon St. - El Mohandseen

Phone: 33020156 - 33020162

Giza Branch

Sky Center Building - 28 Mourad St. - Giza.

Phone: 35734234 - 35736420

Faisal Branch

48 King Faisal St. - Giza.

Phone: 33832354 - 33837751

Mall of Arabia Branch

Unit No. 142 / 143 Ground Floor - Gate 17 H

- Mall of Arabia - 6th of October.

Phone: 38260202 - 38260203

Shobra Branch

AghaKhan Towers - Cornich ElNile - Shobra.

Phone: 22034464 - 24301673

Maadi Branch - Degla

206 St., Salah Salem - Degla El Maadi - Cairo.

Phone: 25201170 - 25201174

Nasr City Branch

Nasr Center Building - Abass El Akaad St.

- Nasr City - Cairo.

Phone: 22749680 - 22722967

City Stars Branch

Unit no. 110 - City Stars Mall - Nasr City.

Phone: 24803992 - 24803993

Heliopolis Branch

29 Asmaa Fahmy St. - Heliopolis.

Phone: 24141053 - 24159385

Nehru Branch

40 Nehru St. - Behind Merryland - Heliopolis.

Phone: 24527827 - 24527122

El Khalefa El Mamoun Branch

27 El Khalefa El Mamoun St. - Heliopolis.

Phone: 24157003 - 24157073

Al Tagamoa Al Khamis Branch

Plot No. 44 Concord Mall - 90th St. - New Cairo.

Phone: 29296173 - 29296158

Tenth of Ramadan Branch

Plot No. 1/4/D the second phase - Tenth of
Ramadan city.

Phone: 015371332 - 015371355

Obour Branch

Unit No. 17/18 Commercial Mall - Golf City Mall.

Phone : 46105290 - 46105291

Alexandria Branch

68 El Horeya Road - Alexandria.

Phone: (03) 4807451 - 4807452

Smouha Branch

107 Albert Al Awal St. - Ali Ibn Abi Taleb square

Smouha - Alexandria.

Phone: (03) 4298452 - 4298455

Port Said Branch

23rd of July & Qaitbay St., Joly Ville Building

- Port Said. Phone: (066) 3227524 - 3227525

Ismailia Branch

Green Plaza Mall - Ismailia Channel St. - Ismailia

Phone: (064) 3914704 - 3914703

Suez Branch

45/45A elshohadaa - City Mall - Suez City.

Phone: (062) 3350638 - 3350637

Al Menia Branch

236 Cornish El Nile St.

Phone: (086) 2317658 - 2317657

Islamic Branches

Zamalek Islamic Branch

8 El Mansour Mohamed St. - Zamalek - Cairo.

Phone : 27373105 - 27352012

Alexandria Sporting Islamic Branch

303 El Horeya Road Sporting- Alexandria.

Phone : (03) 4243467 - 4243459

Opening soon

Arena Mall Branch

Arena Mall - Bank Center - 5th Settlement.

Obour Building Branch

7 Obour Building - Salah Salem St.

Maadi Branch El Nasr

Nasr St. - Tqseem Laselky - Maadi.

Damietta Branch

Al sayed Plaza Building - Nile Corniche.

Strip Mall Branch

Unit 3J - Strip Mall - Beverly health.